

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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from _____ to _____

Commission File No. 001-14817

PACCAR Inc

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-0351110
(I.R.S. Employer Identification No.)

777 - 106th Ave. N.E., Bellevue, WA
(Address of principal executive offices)

98004
(Zip Code)

(425) 468-7400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, \$1 par value	PCAR	The NASDAQ Global Select Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Common Stock, \$1 par value — 346,439,802 shares as of October 29, 2020

PACCAR Inc – Form 10-Q

INDEX

	<u>Page</u>	
PART I.	FINANCIAL INFORMATION:	
ITEM 1.	FINANCIAL STATEMENTS:	
	Consolidated Statements of Comprehensive Income –	
	Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited).....	3
	Consolidated Balance Sheets –	
	September 30, 2020 (Unaudited) and December 31, 2019.....	4
	Condensed Consolidated Statements of Cash Flows –	
	Nine Months Ended September 30, 2020 and 2019 (Unaudited).....	6
	Consolidated Statements of Stockholders' Equity –	
	Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited).....	7
	Notes to Consolidated Financial Statements (Unaudited).....	8
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	31
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	47
ITEM 4.	CONTROLS AND PROCEDURES.....	47
PART II.	OTHER INFORMATION:	
ITEM 1.	LEGAL PROCEEDINGS.....	48
ITEM 1A.	RISK FACTORS.....	48
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.....	49
ITEM 6.	EXHIBITS.....	50
INDEX TO EXHIBITS.....		50
SIGNATURE.....		53

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income (Unaudited)

(Millions Except Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
TRUCK, PARTS AND OTHER:				
Net sales and revenues	\$ 4,538.4	\$ 6,004.2	\$ 12,018.3	\$ 18,408.8
Cost of sales and revenues	3,958.3	5,106.8	10,589.4	15,665.6
Research and development	64.7	82.2	202.2	243.0
Selling, general and administrative	100.4	136.8	325.7	413.5
Interest and other (income), net	(13.0)	(11.6)	(45.6)	(31.7)
	<u>4,110.4</u>	<u>5,314.2</u>	<u>11,071.7</u>	<u>16,290.4</u>
<i>Truck, Parts and Other Income Before Income Taxes</i>	428.0	690.0	946.6	2,118.4
FINANCIAL SERVICES:				
Interest and fees	127.7	148.3	396.0	433.2
Operating lease, rental and other revenues	269.9	214.5	745.6	640.5
Revenues	<u>397.6</u>	<u>362.8</u>	<u>1,141.6</u>	<u>1,073.7</u>
Interest and other borrowing expenses	45.2	59.6	148.5	173.0
Depreciation and other expenses	262.5	195.3	716.0	556.3
Selling, general and administrative	31.3	35.8	90.2	101.8
Provision for losses on receivables	3.1	5.6	27.6	11.8
	<u>342.1</u>	<u>296.3</u>	<u>982.3</u>	<u>842.9</u>
<i>Financial Services Income Before Income Taxes</i>	55.5	66.5	159.3	230.8
Investment income	6.4	21.1	30.2	62.2
<i>Total Income Before Income Taxes</i>	489.9	777.6	1,136.1	2,411.4
Income taxes	104.4	169.7	243.5	554.8
<i>Net Income</i>	<u>\$ 385.5</u>	<u>\$ 607.9</u>	<u>\$ 892.6</u>	<u>\$ 1,856.6</u>
Net Income Per Share				
Basic	\$ 1.11	\$ 1.75	\$ 2.57	\$ 5.35
Diluted	<u>\$ 1.11</u>	<u>\$ 1.75</u>	<u>\$ 2.57</u>	<u>\$ 5.34</u>
Weighted Average Number of Common Shares Outstanding				
Basic	346.8	346.6	346.7	346.9
Diluted	<u>347.6</u>	<u>347.2</u>	<u>347.3</u>	<u>347.6</u>
<i>Comprehensive Income</i>	<u>\$ 486.4</u>	<u>\$ 480.1</u>	<u>\$ 803.7</u>	<u>\$ 1,765.1</u>

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2020 (Unaudited)	December 31 2019*
ASSETS		
TRUCK, PARTS AND OTHER:		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 3,218.9	\$ 4,007.3
Trade and other receivables, net (allowance for losses: 2020 - \$.5, 2019 - \$.6)	1,364.7	1,306.1
Marketable debt securities (amortized cost: 2020 - \$1,173.8, 2019 - \$1,154.0; allowance for credit losses: none)	1,194.3	1,162.1
Inventories, net	1,124.5	1,153.2
Other current assets	541.5	388.0
<i>Total Truck, Parts and Other Current Assets</i>	<u>7,443.9</u>	<u>8,016.7</u>
Equipment on operating leases, net	452.3	545.5
Property, plant and equipment, net	3,137.8	2,883.8
Other noncurrent assets, net	922.2	843.7
<i>Total Truck, Parts and Other Assets</i>	<u>11,956.2</u>	<u>12,289.7</u>
FINANCIAL SERVICES:		
Cash and cash equivalents	125.4	167.8
Finance and other receivables, net (allowance for losses: 2020 - \$124.7, 2019 - \$112.4)	11,324.5	12,086.0
Equipment on operating leases, net	2,982.7	3,102.6
Other assets	844.9	715.0
<i>Total Financial Services Assets</i>	<u>15,277.5</u>	<u>16,071.4</u>
	<u>\$ 27,233.7</u>	<u>\$ 28,361.1</u>

* The December 31, 2019 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets (Millions)

	September 30 2020 (Unaudited)	December 31 2019*
LIABILITIES AND STOCKHOLDERS' EQUITY		
TRUCK, PARTS AND OTHER:		
<i>Current Liabilities</i>		
Accounts payable, accrued expenses and other	\$ 3,399.3	\$ 3,194.2
Dividend payable		796.5
<i>Total Truck, Parts and Other Current Liabilities</i>	<u>3,399.3</u>	<u>3,990.7</u>
Residual value guarantees and deferred revenues	487.9	587.3
Other liabilities	1,384.1	1,435.1
<i>Total Truck, Parts and Other Liabilities</i>	<u>5,271.3</u>	<u>6,013.1</u>
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	594.3	629.0
Commercial paper and bank loans	2,615.9	4,110.2
Term notes	7,776.5	7,112.5
Deferred taxes and other liabilities	791.3	790.2
<i>Total Financial Services Liabilities</i>	<u>11,778.0</u>	<u>12,641.9</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - authorized 1.0 million shares, none issued		
Common stock, \$1 par value - authorized 1.2 billion shares, issued 347.0 and 346.3 million shares	347.0	346.3
Additional paid-in capital	114.4	61.4
Treasury stock, at cost - .7 million and nil shares	(41.6)	
Retained earnings	10,953.6	10,398.5
Accumulated other comprehensive loss	(1,189.0)	(1,100.1)
<i>Total Stockholders' Equity</i>	<u>10,184.4</u>	<u>9,706.1</u>
	<u>\$ 27,233.7</u>	<u>\$ 28,361.1</u>

* The December 31, 2019 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Millions)

	Nine Months Ended September 30	
	2020	2019
OPERATING ACTIVITIES:		
<i>Net Income</i>	\$ 892.6	\$ 1,856.6
<i>Adjustments to reconcile net income to cash provided by operations:</i>		
<i>Depreciation and amortization:</i>		
Property, plant and equipment	186.0	243.1
Equipment on operating leases and other	593.5	549.3
Provision for losses on financial services receivables	27.6	11.8
Other, net	34.7	53.0
Pension contributions	(126.6)	(16.5)
<i>Change in operating assets and liabilities:</i>		
Trade and other receivables	(67.2)	(503.4)
Wholesale receivables on new trucks	785.7	(472.8)
Inventories	11.9	(135.2)
Accounts payable and accrued expenses	143.0	468.3
Income taxes, warranty and other	(288.7)	(137.6)
<i>Net Cash Provided by Operating Activities</i>	2,192.5	1,916.6
INVESTING ACTIVITIES:		
Originations of retail loans and finance leases	(2,611.4)	(2,973.6)
Collections on retail loans and finance leases	2,276.5	2,484.5
Net decrease (increase) in wholesale receivables on used equipment	22.4	(29.9)
Purchases of marketable debt securities	(499.6)	(678.0)
Proceeds from sales and maturities of marketable debt securities	474.1	587.4
Payments for property, plant and equipment	(426.2)	(387.2)
Acquisitions of equipment for operating leases	(706.7)	(1,038.4)
Proceeds from asset disposals	419.3	477.6
Other, net	17.3	1.1
<i>Net Cash Used in Investing Activities</i>	(1,034.3)	(1,556.5)
FINANCING ACTIVITIES:		
Payments of cash dividends	(1,128.9)	(1,027.8)
Purchases of treasury stock	(41.6)	(110.2)
Proceeds from stock compensation transactions	41.3	33.8
Net (decrease) increase in commercial paper and short-term bank loans and other	(1,471.0)	636.5
Proceeds from term debt	2,031.3	2,056.2
Payments on term debt	(1,419.1)	(1,677.2)
<i>Net Cash Used in Financing Activities</i>	(1,988.0)	(88.7)
Effect of exchange rate changes on cash	(1.0)	(37.8)
<i>Net (decrease) increase in Cash and Cash Equivalents</i>	(830.8)	233.6
Cash and cash equivalents at beginning of period	4,175.1	3,435.9
Cash and cash equivalents at end of period	\$ 3,344.3	\$ 3,669.5

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity (Unaudited)

(Millions Except Per Share Amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
COMMON STOCK, \$1 PAR VALUE:				
Balance at beginning of period	\$ 346.5	\$ 347.2	\$ 346.3	\$ 346.6
Stock compensation	.5	.2	.7	.8
Balance at end of period	<u>347.0</u>	<u>347.4</u>	<u>347.0</u>	<u>347.4</u>
ADDITIONAL PAID-IN CAPITAL:				
Balance at beginning of period	82.7	105.1	61.4	69.4
Stock compensation	31.7	11.7	53.0	47.4
Balance at end of period	<u>114.4</u>	<u>116.8</u>	<u>114.4</u>	<u>116.8</u>
TREASURY STOCK, AT COST:				
Balance at beginning of period	(41.6)	(56.5)		
Purchases		(53.7)	(41.6)	(110.2)
Balance at end of period	<u>(41.6)</u>	<u>(110.2)</u>	<u>(41.6)</u>	<u>(110.2)</u>
RETAINED EARNINGS:				
Balance at beginning of period	10,679.1	10,301.8	10,398.5	9,275.4
Net income	385.5	607.9	892.6	1,856.6
Cash dividends declared on common stock	(111.0)	(111.0)	(332.9)	(333.3)
Cumulative effect of change in accounting principle			(4.6)	
Balance at end of period	<u>10,953.6</u>	<u>10,798.7</u>	<u>10,953.6</u>	<u>10,798.7</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS:				
Balance at beginning of period	(1,289.9)	(1,062.2)	(1,100.1)	(1,098.5)
Other comprehensive income (loss)	100.9	(127.8)	(88.9)	(91.5)
Balance at end of period	<u>(1,189.0)</u>	<u>(1,190.0)</u>	<u>(1,189.0)</u>	<u>(1,190.0)</u>
<i>Total Stockholders' Equity</i>	<u>\$ 10,184.4</u>	<u>\$ 9,962.7</u>	<u>\$ 10,184.4</u>	<u>\$ 9,962.7</u>
Cash dividends declared on common stock, per share	\$.32	\$.32	\$.96	\$.96

See Notes to Consolidated Financial Statements.

NOTE A - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. For further information, refer to the consolidated financial statements and footnotes included in PACCAR Inc's (PACCAR or the Company) Annual Report on Form 10-K for the year ended December 31, 2019.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Additional shares	758,500	592,700	545,300	617,900
Antidilutive options	646,500	1,842,200	679,000	2,030,100

New Accounting Pronouncements***New Credit Loss Standard***

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, including subsequently issued ASUs to clarify the implementation guidance in ASU 2016-13. The amendment introduces new guidance for credit losses on financial assets measured at amortized cost, including finance receivables, trade receivables and available-for-sale debt securities. Under this new model, expected credit losses are based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect collectability, replacing the previous incurred loss model. This ASU also updates the methodology for recording credit losses on available-for-sale debt securities from the write-down for other-than-temporary impairment to the allowance approach. The ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The Company adopted this ASU on January 1, 2020 on a modified retrospective basis as required, with a cumulative effect adjustment to Retained earnings as of the beginning of the period of adoption. The standard requires the application of the new credit impairment model for debt securities prospectively.

The cumulative effect of the changes made to the Company's Consolidated Balance Sheet on January 1, 2020 for the adoption of ASU 2016-13 was as follows:

	BALANCE AT DECEMBER 31, 2019	CHANGE DUE TO NEW STANDARD	BALANCE AT JANUARY 1, 2020
Consolidated Balance Sheets			
FINANCIAL SERVICES:			
ASSETS			
Finance and other receivables, net	\$ 12,086.0	\$ (6.2)	\$ 12,079.8
Other assets	715.0	.1	715.1
LIABILITIES			
Deferred taxes and other liabilities	790.2	(1.5)	788.7
STOCKHOLDERS' EQUITY			
Retained earnings	10,398.5	(4.6)	10,393.9

Other New Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period and will be in effect for a limited time through December 31, 2022. Adoption is permitted at any time. The Company is currently evaluating the impact on its consolidated financial statements.

In addition to adopting the ASU disclosed above, the Company adopted the following standards on January 1, 2020, which had no material impact on the Company's consolidated financial statements.

STANDARD	DESCRIPTION
2018-13	<i>Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.</i>
2018-15	<i>Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.</i>
2019-12	<i>Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.</i>

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

STANDARD	DESCRIPTION	EFFECTIVE DATE
2018-14 *	<i>Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans.</i>	January 1, 2021

* The Company will adopt on the effective date.

NOTE B – Sales and Revenues*Truck, Parts and Other*

The Company enters into sales contracts with customers associated with purchases of the Company's products and services including trucks, parts, product support, and other related services. Generally, the Company recognizes revenue for the amount of consideration it will receive for delivering a product or service to a customer. Revenue is recognized when the customer obtains control of the product or receives benefits of the service. The Company excludes sales taxes, value added taxes and other related taxes assessed by government agencies from revenue. There are no significant financing components included in product or service revenue since generally customers pay shortly after the products or services are transferred. In the Truck and Parts segment, when the Company grants extended payment terms on selected receivables and charges interest, interest income is recognized when earned.

The following table disaggregates Truck, Parts and Other revenues by major sources:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
<i>Truck</i>				
Truck sales	\$ 3,324.0	\$ 4,784.6	\$ 8,615.7	\$ 14,714.6
Revenues from extended warranties, operating leases and other	180.0	192.8	504.3	582.0
	3,504.0	4,977.4	9,120.0	15,296.6
<i>Parts</i>				
Parts sales	987.2	973.2	2,756.6	2,946.0
Revenues from dealer services and other	29.0	27.7	81.9	85.0
	1,016.2	1,000.9	2,838.5	3,031.0
<i>Winch sales and other</i>				
	18.2	25.9	59.8	81.2
Truck, Parts and Other sales and revenues	\$ 4,538.4	\$ 6,004.2	\$ 12,018.3	\$ 18,408.8

The Company recognizes truck and parts sales as revenues when control of the products is transferred to customers which generally occurs upon shipment, except for certain truck sales which are subject to a residual value guarantee (RVG) by the Company. The

standard payment term for trucks and aftermarket parts is typically within 30 days, but the Company may grant extended payment terms on selected receivables. The Company recognizes revenue for the invoice amount adjusted for estimated sales incentives and returns. Sales incentives and returns are estimated based on historical experience and are adjusted to current period revenues when the most likely amount of consideration the Company expects to receive changes or becomes fixed. Truck and part sales include a standard product warranty which is included in cost of sales. The Company has elected to treat delivery services as a fulfillment activity with revenues recognized when the customer obtains control of the product. Delivery revenue is included in revenues and the related costs are included in cost of sales. As a practical expedient, the Company is not disclosing truck order backlog, as a significant majority of the backlog has a duration of less than one year.

Truck sales with RVGs that allow customers the option to return their truck are accounted for as a sale when the customer does not have an economic incentive to return the truck to the Company, or as an operating lease when the customer does have an economic incentive to return the truck. The estimate of customers' economic incentive to return the trucks is based on an analysis of historical guaranteed buyback value and estimated market value. When truck sales with RVGs are accounted for as a sale, revenue is recognized when the truck is transferred to the customer less an amount for expected returns. Expected return rates are estimated by using a historical weighted average return rate over a five-year period. The estimated value of the truck assets to be returned and the related return liabilities at September 30, 2020 were \$558.8 and \$588.7, respectively, compared to \$473.0 and \$503.4 at December 31, 2019, respectively. The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a sale was \$1,117.6 at September 30, 2020.

Revenues from extended warranties, operating leases and other include optional extended warranty and repair and maintenance (R&M) service contracts which can be purchased for periods generally ranging up to five years. The Company defers revenue based on stand-alone observable selling prices when it receives payments in advance and generally recognizes the revenue on a straight-line basis over the warranty or R&M contract periods. See Note F, Product Support Liabilities, in the Notes to the Consolidated Financial Statements for further information. Also included are truck sales with an RVG accounted for as an operating lease. A liability is created for the residual value obligation with the remainder of the proceeds recorded as deferred revenue. The deferred revenue is recognized on a straight-line basis over the guarantee period, which typically ranges from three to five years. Deferred revenue related to trucks sold with an RVG was \$103.8 at September 30, 2020. The Company expects to recognize approximately \$18.8 of the remaining deferred revenue in 2020, \$48.8 in 2021, \$21.4 in 2022, \$9.6 in 2023, \$5.0 in 2024 and \$.2 thereafter. For the three and nine months ended September 30, 2020, total operating lease income from truck sales with RVGs was \$26.3 and \$76.6, respectively, compared to \$43.7 and \$133.5 for the three and nine months ended September 30, 2019, respectively. The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a lease was \$384.1 at September 30, 2020.

Aftermarket parts sales allow for returns which are estimated at the time of sale based on historical data. At September 30, 2020, the estimated value of the returned goods asset and the related return liability were \$63.8 and \$145.3, respectively, compared to \$56.3 and \$126.3 at December 31, 2019, respectively. Parts dealer services and other revenues are recognized as services are performed.

Revenue from winch sales and other is primarily derived from the industrial winch business. Winch sales are recognized when the product is transferred to a customer, which generally occurs upon shipment. Also within this category are other revenues not attributable to a reportable segment.

Financial Services

The Company's Financial Services segment products include loans to customers collateralized by the vehicles being financed, finance leases to lease equipment to retail customers and dealers, dealer wholesale financing which includes floating-rate wholesale loans to PACCAR dealers for new and used trucks, and operating leases which include rentals on Company owned equipment. Interest income from finance and other receivables is recognized using the interest method. Certain loan origination costs are deferred and amortized to interest income over the expected life of the contracts using the straight-line method which approximates the interest method.

Operating lease rental revenue is recognized on a straight-line basis over the term of the lease. Customer contracts may include additional services such as excess mileage, repair and maintenance and other services on which revenue is recognized when earned. The Company's full-service lease arrangements bundle these additional services. Rents for full-service lease contracts are allocated between lease and non-lease components based on the relative stand-alone price of each component. Taxes, such as sales and use and value added, which are collected by the Company from a customer, are excluded from the measurement of lease income and expenses.

Recognition of interest income and rental revenue is suspended (put on non-accrual status) when the receivable becomes more than 90 days past the contractual due date or earlier if some other event causes the Company to determine that collection is not probable. Accordingly, no finance receivables more than 90 days past due were accruing interest at September 30, 2020 or December 31, 2019. Recognition is resumed if the receivable becomes current by the payment of all amounts due under the terms of the existing contract and collection of remaining amounts is considered probable (if not contractually modified) or if the customer makes scheduled

payments for three months and collection of remaining amounts is considered probable (if contractually modified). Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms.

Finance leases are secured by the trucks and related equipment being leased and the lease terms generally range from three to five years depending on the type and use of the equipment. The lessee is required to either purchase the equipment or guarantee to the Company a stated residual value upon the disposition of the equipment at the end of the finance lease term.

Operating lease terms generally range from three to five years. At the end of the operating lease term, the lessee has the option to return the equipment to the Company or purchase the equipment at its fair market value.

The Company determines its estimate of the residual value of leased vehicles by considering the length of the lease term, the truck model, the expected usage of the truck and anticipated market demand. If the sales price of the truck at the end of the agreement differs from the Company's estimated residual value, a gain or loss will result. Future market conditions, changes in government regulations and other factors outside the Company's control could impact the ultimate sales price of trucks returned under these contracts. Residual values are reviewed regularly and adjusted if market conditions warrant.

The Company recognized lease income as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2020		September 30, 2020	
	2020	2019	2020	2019
Finance lease income	\$ 45.9	\$ 35.0	\$ 138.3	\$ 107.8
Operating lease income	198.8	194.4	593.3	599.3
Total lease income	\$ 244.7	\$ 229.4	\$ 731.6	\$ 707.1

NOTE C - Investments in Marketable Debt Securities

The Company's investments in marketable debt securities are classified as available-for-sale. These investments are stated at fair value and may include an allowance for credit losses. Changes in the allowance for credit losses are recognized in the current period earnings and any unrealized gains or losses, net of tax, are included as a component of accumulated other comprehensive income (loss) (AOCI).

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

The Company evaluates its investment in marketable debt securities at the end of each reporting period to determine if a decline in fair value is the result of credit losses or unrealized losses. In assessing credit losses, the Company considers the collectability of principal and interest payments by monitoring changes to issuers' credit ratings, specific credit events associated with individual issuers as well as the credit ratings of any financial guarantor. The Company considers its intent for selling the security and whether it is more likely than not the Company will be able to hold the security until the recovery of any credit losses and unrealized losses. Charges against the allowance for credit losses occur when a security with credit losses is sold or the Company no longer intends to hold that security.

Marketable debt securities at September 30, 2020 and December 31, 2019 consisted of the following:

<i>At September 30, 2020</i>	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. tax-exempt securities	\$ 294.2	\$ 4.8	\$	\$ 299.0
U.S. corporate securities	180.7	3.7		184.4
U.S. government and agency securities	102.9	2.8		105.7
Non-U.S. corporate securities	348.2	5.5	.1	353.6
Non-U.S. government securities	78.8	.5		79.3
Other debt securities	169.0	3.3		172.3
	\$ 1,173.8	\$ 20.6	\$.1	\$ 1,194.3

Notes to Consolidated Financial Statements (Unaudited)

(Millions, Except Share Amounts)

<i>At December 31, 2019</i>	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. tax-exempt securities	\$ 318.1	\$ 2.2	\$.1	\$ 320.2
U.S. corporate securities	163.8	1.9		165.7
U.S. government and agency securities	128.4	.9		129.3
Non-U.S. corporate securities	347.7	2.3	.2	349.8
Non-U.S. government securities	72.3	.2	.1	72.4
Other debt securities	123.7	1.1	.1	124.7
	<u>\$ 1,154.0</u>	<u>\$ 8.6</u>	<u>\$.5</u>	<u>\$ 1,162.1</u>

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. Gross realized gains were \$1.9 and \$1.0 and gross realized losses were \$.3 and \$.4 for the nine months periods ended September 30, 2020 and 2019, respectively.

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

	September 30, 2020		December 31, 2019	
	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Fair value	\$ 61.9		\$ 177.0	\$ 31.4
Unrealized losses	.1		.4	.1

The unrealized losses on the investments above were due to higher yields on certain securities. The Company did not identify any indicators of a credit loss in its assessments. Accordingly, no allowance for credit losses was recorded at September 30, 2020 and December 31, 2019. The Company does not currently intend, and it is more likely than not that it will not be required to sell the investment securities before recovery of the unrealized losses. The Company expects that the contractual principal and interest will be received on the investment securities.

Contractual maturities of marketable debt securities at September 30, 2020 were as follows:

Maturities:	AMORTIZED COST	FAIR VALUE
Within one year	\$ 316.5	\$ 319.1
One to five years	851.9	869.8
Six to ten years	5.2	5.2
More than ten years	.2	.2
	<u>\$ 1,173.8</u>	<u>\$ 1,194.3</u>

Marketable debt securities included nil and \$49.7 of variable rate demand obligations (VRDOs) at September 30, 2020 and December 31, 2019, respectively. VRDOs are debt instruments with long-term scheduled maturities which have interest rates that reset periodically. Actual maturities of VRDOs may differ from contractual maturities because these securities may be sold when interest rates are reset.

NOTE D - Inventories

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

Inventories include the following:

	September 30 2020	December 31 2019
Finished products	\$ 627.6	\$ 584.6
Work in process and raw materials	685.5	754.9
	<u>1,313.1</u>	<u>1,339.5</u>
Less LIFO reserve	(188.6)	(186.3)
	<u>\$ 1,124.5</u>	<u>\$ 1,153.2</u>

Under the LIFO method of accounting (used for approximately 42% of September 30, 2020 inventories), an actual valuation can be made only at the end of each year based on year-end inventory levels and costs. Accordingly, interim valuations are based on management's estimates of those year-end amounts.

NOTE E - Finance and Other Receivables

Finance and other receivables include the following:

	September 30 2020	December 31 2019
Loans	\$ 5,518.6	\$ 5,241.7
Finance leases	3,695.0	3,906.7
Dealer wholesale financing	2,079.7	2,907.4
Operating lease receivables and other	155.9	142.6
	11,449.2	12,198.4
Less allowance for losses:		
Loans and leases	(117.8)	(104.4)
Dealer wholesale financing	(3.2)	(4.3)
Operating lease receivables and other	(3.7)	(3.7)
	\$ 11,324.5	\$ 12,086.0

Included in Finance and other receivables, net on the Consolidated Balance Sheets is accrued interest receivable (net of allowance for credit losses) of \$23.3 and \$29.5 as of September 30, 2020 and December 31, 2019, respectively. The net activity of dealer direct loans and dealer wholesale financing on new trucks is shown in the operating section of the Consolidated Statements of Cash Flows since those receivables finance the sale of Company inventory.

Allowance for Credit Losses

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

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

When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. When the Company modifies a loan or finance lease for credit reasons and grants a concession, the modification is classified as a troubled debt restructuring (TDR). The Company does not typically grant credit modifications for customers that do not meet minimum underwriting standards since the Company normally repossesses the financed equipment in these circumstances. When such modifications do occur, they are considered TDRs. In accordance with FASB statement, *Prudential Regulator Guidance Concerning Troubled Debt Restructurings*, issued on March 22, 2020, short-term modifications granted to customers were not considered TDRs if they were not past-due and were seeking to manage their liquidity needs because of the effects of the COVID-19 pandemic.

On average, modifications extended contractual terms by approximately three months in 2020 and five months in 2019 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at September 30, 2020 and December 31, 2019.

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

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

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

The Company evaluates finance receivables that are not individually impaired and share similar risk characteristics on a collective basis and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data, current market conditions, and expected changes in future macroeconomic conditions that affect collectability. Historical credit loss information provides relevant information of expected credit losses. The historical information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse.

The Company has developed a range of loss estimates for each of its country portfolios based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. Adjustments to historical loss information are made for changes in forecasted economic conditions that are specific to the industry and markets in which the Company conducts business. The Company utilizes economic forecasts from third party sources and determines expected losses based on historical experience under similar market conditions. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of expected credit losses, net of recoveries, inherent in the portfolio.

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

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

For the following credit quality disclosures, finance receivables are classified into two portfolio segments, wholesale and retail. The retail portfolio is further segmented into dealer retail and customer retail. The dealer wholesale segment consists of truck inventory financing to PACCAR dealers. The dealer retail segment consists of loans and leases to participating dealers and franchises that use the proceeds to fund customers' acquisition of commercial vehicles and related equipment. The customer retail segment consists of loans and leases directly to customers for the acquisition of commercial vehicles and related equipment. Customer retail receivables are further segregated between fleet and owner/operator classes. The fleet class consists of customer retail accounts operating more

than five trucks. All other customer retail accounts are considered owner/operator. These two classes have similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk.

The allowance for credit losses is summarized as follows:

	2020				
	DEALER		CUSTOMER		TOTAL**
	WHOLESALE	RETAIL	RETAIL	OTHER*	
Balance at January 1	\$ 4.3	\$ 9.2	\$ 101.4	\$ 3.7	\$ 118.6
Provision for losses	(1.1)	(.8)	28.5	1.0	27.6
Charge-offs			(22.3)	(1.2)	(23.5)
Recoveries			3.6	.4	4.0
Currency translation and other			(1.8)	(.2)	(2.0)
Balance at September 30	\$ 3.2	\$ 8.4	\$ 109.4	\$ 3.7	\$ 124.7

	2019				
	DEALER		CUSTOMER		TOTAL
	WHOLESALE	RETAIL	RETAIL	OTHER*	
Balance at January 1	\$ 6.8	\$ 10.0	\$ 93.8	\$ 3.2	\$ 113.8
Provision for losses		(.9)	9.7	3.0	11.8
Charge-offs	(.2)		(15.6)	(2.7)	(18.5)
Recoveries			8.8	.1	8.9
Currency translation and other	(.2)	.2	(1.0)	(.1)	(1.1)
Balance at September 30	\$ 6.4	\$ 9.3	\$ 95.7	\$ 3.5	\$ 114.9

* Operating leases and other trade receivables.

** The beginning balance has been adjusted for the adoption of ASU 2016-13.

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

	DEALER		CUSTOMER	TOTAL
	WHOLESALE	RETAIL	RETAIL	
<i>At September 30, 2020</i>				
Amortized cost basis for impaired finance receivables evaluated individually		\$ 1.5	\$ 72.9	\$ 74.4
Allowance for impaired finance receivables determined individually			6.0	6.0
Amortized cost basis for finance receivables evaluated collectively	\$ 2,079.7	1,648.7	7,490.5	11,218.9
Allowance for finance receivables determined collectively	3.2	8.4	103.4	115.0
<i>At December 31, 2019</i>				
Amortized cost basis for impaired finance receivables evaluated individually		\$ 2.3	\$ 47.6	\$ 49.9
Allowance for impaired finance receivables determined individually			6.5	6.5
Amortized cost basis for finance receivables evaluated collectively	\$ 2,907.4	1,643.3	7,455.2	12,005.9
Allowance for finance receivables determined collectively	4.3	9.2	88.7	102.2

The amortized cost basis of finance receivables that are on non-accrual status is as follows:

	September 30 2020	December 31 2019
Dealer:		
Retail	\$ 1.5	\$ 2.3
Customer retail:		
Fleet	62.8	40.2
Owner/operator	10.1	7.2
	<u>\$ 74.4</u>	<u>\$ 49.7</u>

Impaired Loans

Impaired loans are summarized below. The impaired loans with a specific reserve represent the unpaid principal balance. The amortized cost basis of impaired loans as of September 30, 2020 and December 31, 2019 was not significantly different than the unpaid principal balance.

	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At September 30, 2020</i>					
Impaired loans with a specific reserve			\$ 27.4	\$ 1.9	\$ 29.3
Associated allowance			(1.7)	(.2)	(1.9)
			25.7	1.7	27.4
Impaired loans with no specific reserve		\$ 1.5	1.0	.1	2.6
Net carrying amount of impaired loans		<u>\$ 1.5</u>	<u>\$ 26.7</u>	<u>\$ 1.8</u>	<u>\$ 30.0</u>
Average recorded investment*	<u>\$ 4.9</u>	<u>\$ 1.9</u>	<u>\$ 24.5</u>	<u>\$ 3.0</u>	<u>\$ 34.3</u>

* Represents the average during the 12 months ended September 30, 2020.

	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At December 31, 2019</i>					
Impaired loans with a specific reserve			\$ 10.9	\$ 3.1	\$ 14.0
Associated allowance			(2.1)	(.6)	(2.7)
			8.8	2.5	11.3
Impaired loans with no specific reserve		\$ 2.3	6.7	.4	9.4
Net carrying amount of impaired loans		<u>\$ 2.3</u>	<u>\$ 15.5</u>	<u>\$ 2.9</u>	<u>\$ 20.7</u>
Average recorded investment*	<u>\$ 4.9</u>	<u>\$ 2.4</u>	<u>\$ 18.1</u>	<u>\$ 3.4</u>	<u>\$ 28.8</u>

* Represents the average during the 12 months ended September 30, 2019.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Dealer:				
Retail		\$.1	\$.1	\$.1
Customer Retail:				
Fleet	\$.4	.4	1.2	1.0
Owner/operator	.1	.1	.2	.2
	<u>\$.5</u>	<u>\$.6</u>	<u>\$ 1.5</u>	<u>\$ 1.3</u>

Credit Quality

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

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

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

The table below summarizes the amortized cost basis of the Company's finance receivables within each credit quality indicator by year of origination and portfolio class.

<i>At September 30, 2020</i>	Revolving Loans	2020	2019	2018	2017	2016	Prior	Total
Dealer:								
Wholesale:								
Performing	\$ 2,066.3							\$ 2,066.3
Watch	13.4							13.4
At-risk								
	<u>\$ 2,079.7</u>							<u>\$ 2,079.7</u>
Retail:								
Performing	\$ 23.6	\$ 345.1	\$ 508.8	\$ 285.0	\$ 192.4	\$ 110.1	\$ 162.7	\$ 1,627.7
Watch		2.8	11.0	5.7	1.5			21.0
At-risk						1.5		1.5
	<u>\$ 23.6</u>	<u>\$ 347.9</u>	<u>\$ 519.8</u>	<u>\$ 290.7</u>	<u>\$ 193.9</u>	<u>\$ 111.6</u>	<u>\$ 162.7</u>	<u>\$ 1,650.2</u>
Total Dealer	<u>\$ 2,103.3</u>	<u>\$ 347.9</u>	<u>\$ 519.8</u>	<u>\$ 290.7</u>	<u>\$ 193.9</u>	<u>\$ 111.6</u>	<u>\$ 162.7</u>	<u>\$ 3,729.9</u>
Customer Retail:								
Fleet:								
Performing		\$ 1,787.1	\$ 2,058.4	\$ 1,306.4	\$ 632.2	\$ 283.7	\$ 100.1	\$ 6,167.9
Watch		12.2	31.2	22.5	18.4	3.0	1.8	89.1
At-risk		17.4	19.9	14.4	8.2	1.8	1.1	62.8
		<u>\$ 1,816.7</u>	<u>\$ 2,109.5</u>	<u>\$ 1,343.3</u>	<u>\$ 658.8</u>	<u>\$ 288.5</u>	<u>\$ 103.0</u>	<u>\$ 6,319.8</u>
Owner/Operator:								
Performing		\$ 390.2	\$ 389.0	\$ 248.9	\$ 124.4	\$ 55.5	\$ 15.7	\$ 1,223.7
Watch		1.6	3.8	2.4	1.4	.5	.1	9.8
At-risk		.7	2.8	3.8	1.7	.6	.5	10.1
		<u>\$ 392.5</u>	<u>\$ 395.6</u>	<u>\$ 255.1</u>	<u>\$ 127.5</u>	<u>\$ 56.6</u>	<u>\$ 16.3</u>	<u>\$ 1,243.6</u>
Total Customer Retail		<u>\$ 2,209.2</u>	<u>\$ 2,505.1</u>	<u>\$ 1,598.4</u>	<u>\$ 786.3</u>	<u>\$ 345.1</u>	<u>\$ 119.3</u>	<u>\$ 7,563.4</u>
Total	<u>\$ 2,103.3</u>	<u>\$ 2,557.1</u>	<u>\$ 3,024.9</u>	<u>\$ 1,889.1</u>	<u>\$ 980.2</u>	<u>\$ 456.7</u>	<u>\$ 282.0</u>	<u>\$ 11,293.3</u>

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

	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At September 30, 2020</i>					
Current and up to 30 days past due	\$ 2,079.7	\$ 1,650.2	\$ 6,277.4	\$ 1,227.4	\$ 11,234.7
31 – 60 days past due			18.1	7.4	25.5
Greater than 60 days past due			24.3	8.8	33.1
	<u>\$ 2,079.7</u>	<u>\$ 1,650.2</u>	<u>\$ 6,319.8</u>	<u>\$ 1,243.6</u>	<u>\$ 11,293.3</u>

	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At December 31, 2019</i>					
Current and up to 30 days past due	\$ 2,907.4	\$ 1,645.6	\$ 6,297.1	\$ 1,140.7	\$ 11,990.8
31 – 60 days past due			23.0	8.7	31.7
Greater than 60 days past due			27.6	5.7	33.3
	<u>\$ 2,907.4</u>	<u>\$ 1,645.6</u>	<u>\$ 6,347.7</u>	<u>\$ 1,155.1</u>	<u>\$ 12,055.8</u>

Troubled Debt Restructurings

The balance of TDRs was \$48.2 and \$14.1 at September 30, 2020 and December 31, 2019, respectively. At modification date, the pre-modification and post-modification amortized cost basis balances for finance receivables modified during the period by portfolio class are as follows:

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	AMORTIZED COST BASIS		AMORTIZED COST BASIS	
	PRE-MODIFICATION	POST-MODIFICATION	PRE-MODIFICATION	POST-MODIFICATION
Fleet	\$ 7.5	\$ 7.5	\$ 46.5	\$ 46.5
Owner/operator	1.1	1.1	2.2	2.2
	<u>\$ 8.6</u>	<u>\$ 8.6</u>	<u>\$ 48.7</u>	<u>\$ 48.7</u>

	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	AMORTIZED COST BASIS		AMORTIZED COST BASIS	
	PRE-MODIFICATION	POST-MODIFICATION	PRE-MODIFICATION	POST-MODIFICATION
Fleet	\$ 1.6	\$ 1.6	\$ 2.2	\$ 2.2
Owner/operator	.1	.1	.3	.3
	<u>\$ 1.7</u>	<u>\$ 1.7</u>	<u>\$ 2.5</u>	<u>\$ 2.5</u>

The effect on the allowance for credit losses from such modifications was not significant at September 30, 2020 and 2019.

There were \$2.0 and nil finance receivables modified as TDRs during the previous twelve months that subsequently defaulted (i.e., became more than 30 days past due) in the nine months ended September 30, 2020 and 2019, respectively. The \$2.0 was charged off in the nine months ended September 30, 2020.

Repossessions

When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating leases. The Company records the vehicles as used truck inventory included in Financial Services Other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at September 30, 2020 and December 31, 2019 was \$24.7 and \$25.6, respectively. Proceeds from the sales of repossessed assets were \$61.7 and \$41.2 for the nine months ended September 30, 2020 and 2019, respectively. These amounts are included in Proceeds from asset disposals in the Condensed Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services Depreciation and other expenses on the Consolidated Statements of Comprehensive Income.

NOTE F - Product Support Liabilities

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

Changes in product support liabilities are summarized as follows:

<u>WARRANTY RESERVES</u>	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 440.0	\$ 380.2
Cost accruals	217.8	288.7
Payments	(328.1)	(263.6)
Change in estimates for pre-existing warranties	65.1	14.4
Currency translation and other	.1	(7.0)
Balance at September 30	<u>\$ 394.9</u>	<u>\$ 412.7</u>
<u>DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS</u>	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 801.4	\$ 699.9
Deferred revenues	293.1	378.3
Revenues recognized	(322.1)	(293.5)
Currency translation	6.0	(16.0)
Balance at September 30	<u>\$ 778.4</u>	<u>\$ 768.7</u>

The Company expects to recognize approximately \$67.5 of the remaining deferred revenue on extended warranties and R&M contracts in 2020, \$266.5 in 2021, \$230.5 in 2022, \$131.4 in 2023, \$57.8 in 2024 and \$24.7 thereafter.

NOTE G - Stockholders' Equity**Comprehensive Income**

The components of comprehensive income are as follow:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Net income	\$ 385.5	\$ 607.9	\$ 892.6	\$ 1,856.6
Other comprehensive (loss) income (OCI):				
Unrealized (losses) gains on derivative contracts	(17.9)	(13.6)	1.3	(30.0)
Tax effect	3.4	3.8	.6	8.2
	(14.5)	(9.8)	1.9	(21.8)
Unrealized gains on marketable debt securities		.1	12.4	11.6
Tax effect		.1	(3.0)	(2.8)
		.2	9.4	8.8
Pension plans	3.4	11.0	45.7	21.1
Tax effect	(.6)	(2.7)	(10.8)	(5.0)
	2.8	8.3	34.9	16.1
Foreign currency translation gains (losses)	112.6	(126.5)	(135.1)	(94.6)
Net other comprehensive income (loss)	100.9	(127.8)	(88.9)	(91.5)
Comprehensive income	\$ 486.4	\$ 480.1	\$ 803.7	\$ 1,765.1

Accumulated Other Comprehensive Income (Loss)

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

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
<i>Three Months Ended September 30, 2020</i>					
Balance at July 1, 2020	\$ 1.1	\$ 15.5	\$ (485.6)	\$ (820.9)	\$ (1,289.9)
Recorded into AOCI	(46.9)	.4	(6.4)	112.6	59.7
Reclassified out of AOCI	32.4	(.4)	9.2		41.2
Net other comprehensive (loss) income	(14.5)		2.8	112.6	100.9
Balance at September 30, 2020	\$ (13.4)	\$ 15.5	\$ (482.8)	\$ (708.3)	\$ (1,189.0)

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
<i>Three Months Ended September 30, 2019</i>					
Balance at July 1, 2019	\$ (10.0)	\$ 6.3	\$ (470.0)	\$ (588.5)	\$ (1,062.2)
Recorded into AOCI	20.0	.3	4.2	(126.5)	(102.0)
Reclassified out of AOCI	(29.8)	(.1)	4.1		(25.8)
Net other comprehensive (loss) income	(9.8)	.2	8.3	(126.5)	(127.8)
Balance at September 30, 2019	\$ (19.8)	\$ 6.5	\$ (461.7)	\$ (715.0)	\$ (1,190.0)

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
<i>Nine Months Ended September 30, 2020</i>					
Balance at January 1, 2020	\$ (15.3)	\$ 6.1	\$ (517.7)	\$ (573.2)	\$ (1,100.1)
Recorded into AOCI	14.5	10.6	2.4	(135.1)	(107.6)
Reclassified out of AOCI	(12.6)	(1.2)	32.5		18.7
Net other comprehensive income (loss)	1.9	9.4	34.9	(135.1)	(88.9)
Balance at September 30, 2020	\$ (13.4)	\$ 15.5	\$ (482.8)	\$ (708.3)	\$ (1,189.0)

Notes to Consolidated Financial Statements (Unaudited)

(Millions, Except Share Amounts)

<i>Nine Months Ended September 30, 2019</i>	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at January 1, 2019	\$ 2.0	\$ (2.3)	\$ (477.8)	\$ (620.4)	\$ (1,098.5)
Recorded into AOCI	(10.9)	9.0	3.5	(94.6)	(93.0)
Reclassified out of AOCI	(10.9)	(.2)	12.6		1.5
Net other comprehensive (loss) income	(21.8)	8.8	16.1	(94.6)	(91.5)
Balance at September 30, 2019	<u>\$ (19.8)</u>	<u>\$ 6.5</u>	<u>\$ (461.7)</u>	<u>\$ (715.0)</u>	<u>\$ (1,190.0)</u>

Reclassifications out of AOCI were as follows:

<u>AOCI COMPONENTS</u>	<u>LINE ITEM IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	<u>Three Months Ended September 30</u>	
		<u>2020</u>	<u>2019</u>
Unrealized (gains) and losses on derivative contracts:			
<i>Truck, Parts and Other</i>			
Foreign-exchange contracts	Net sales and revenues	\$ (10.6)	\$ (3.2)
	Cost of sales and revenues	2.5	(.3)
	Interest and other (income), net	(.4)	(.1)
<i>Financial Services</i>			
Interest-rate contracts	Interest and other borrowing expenses	50.5	(35.0)
	Pre-tax expense increase (reduction)	42.0	(38.6)
	Tax (benefit) expense	(9.6)	8.8
	After-tax expense increase (reduction)	32.4	(29.8)
Unrealized gains on marketable debt securities:			
Marketable debt securities	Investment income	(.6)	(.2)
	Tax expense	.2	.1
	After-tax income reduction	(.4)	(.1)
Pension plans:			
<i>Truck, Parts and Other</i>			
Actuarial loss	Interest and other (income), net	11.1	5.0
Prior service costs	Interest and other (income), net	.4	.4
Settlement loss	Interest and other (income), net	.5	.5
	Pre-tax expense increase	12.0	5.4
	Tax benefit	(2.8)	(1.3)
	After-tax expense increase	9.2	4.1
Total reclassifications out of AOCI		\$ 41.2	\$ (25.8)

AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Nine Months Ended	
		September 30	
		2020	2019
Unrealized (gains) and losses on derivative contracts:			
<i>Truck, Parts and Other</i>			
Foreign-exchange contracts	Net sales and revenues	\$ (22.2)	\$ 13.9
	Cost of sales and revenues	.2	(4.0)
	Interest and other (income), net	(5.2)	.6
<i>Financial Services</i>			
Interest-rate contracts	Interest and other borrowing expenses	13.2	(23.3)
	Pre-tax expense reduction	(14.0)	(12.8)
	Tax expense	1.4	1.9
	After-tax expense reduction	(12.6)	(10.9)
Unrealized gains on marketable debt securities:			
Marketable debt securities	Investment income	(1.6)	(.3)
	Tax expense	.4	.1
	After-tax income reduction	(1.2)	(.2)
Pension plans:			
<i>Truck, Parts and Other</i>			
Actuarial loss	Interest and other (income), net	33.1	15.3
Prior service costs	Interest and other (income), net	1.1	1.1
Settlement loss	Interest and other (income), net	8.5	
	Pre-tax expense increase	42.7	16.4
	Tax benefit	(10.2)	(3.8)
	After-tax expense increase	32.5	12.6
Total reclassifications out of AOCI		\$ 18.7	\$ 1.5

Stock Compensation Plans

Stock-based compensation expense was \$2.3 and \$10.5 for the three and nine months ended September 30, 2020, respectively, and \$2.0 and \$12.8 for the three and nine months ended September 30, 2019, respectively.

During the first nine months of 2020, the Company issued 762,960 common shares under deferred and stock compensation arrangements.

Other Capital Stock Changes

During the first nine months of 2020, the Company purchased 701,555 treasury shares, of which 686,008 shares were repurchased pursuant to the Company's common stock repurchase plans. The Company also acquired 15,547 shares under the Company's Long-Term Incentive Plan. Stock repurchases of \$390.0 million remain authorized under the current \$500.0 million program approved by the PACCAR Board of Directors on December 4, 2018.

NOTE H - Income Taxes

The effective tax rate for the third quarter of 2020 was 21.3% compared to 21.8% for the third quarter of 2019. The effective tax rate for the first nine months of 2020 was 21.4% compared to 23.0% for the first nine months of 2019. The lower effective tax rate in the third quarter and first nine month of 2020 was primarily due to the change in mix of income generated in jurisdictions with lower tax rates in 2020 as compared to 2019.

NOTE I - Segment Information

PACCAR operates in three principal segments: Truck, Parts and Financial Services. The Company evaluates the performance of its Truck and Parts segments based on operating profits, which excludes investment income, other income and expense and income taxes. The Financial Services segment's performance is evaluated based on income before income taxes. The accounting policies of the reportable segments are the same as those applied in the consolidated financial statements as described in Note A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Truck and Parts

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

Financial Services

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

In Europe, the Financial Services and Truck segments centralized the marketing of used trucks, including those units sold by the Truck segment subject to an RVG. Beginning in the fourth quarter of 2019, when a customer returns the truck at the end of the RVG contract, the Company's Truck segment records a reduction in an RVG liability and the Company's Financial Services segment records a used truck asset and revenue from the subsequent sale. Certain gains and losses from the sale of these used trucks are shared with the Truck segment. Revenue from the sale of used trucks from the Truck segment in Europe in prior periods are immaterial.

Other

Included in Other is the Company's industrial winch manufacturing business as well as sales, income and expense not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expenses.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Net sales and revenues:				
Truck	\$ 3,675.8	\$ 5,102.6	\$ 9,469.9	\$ 15,638.5
Less intersegment	(171.8)	(125.2)	(349.9)	(341.9)
External customers	3,504.0	4,977.4	9,120.0	15,296.6
Parts	1,029.4	1,012.8	2,874.7	3,066.6
Less intersegment	(13.2)	(11.9)	(36.2)	(35.6)
External customers	1,016.2	1,000.9	2,838.5	3,031.0
Other	18.2	25.9	59.8	81.2
	<u>4,538.4</u>	<u>6,004.2</u>	<u>12,018.3</u>	<u>18,408.8</u>
Financial Services	397.6	362.8	1,141.6	1,073.7
	<u>\$ 4,936.0</u>	<u>\$ 6,367.0</u>	<u>\$ 13,159.9</u>	<u>\$ 19,482.5</u>
Income (loss) before income taxes:				
Truck	\$ 210.1	\$ 481.5	\$ 347.0	\$ 1,509.2
Parts	210.2	207.4	576.8	625.6
Other	7.7	1.1	22.8	(16.4)
	<u>428.0</u>	<u>690.0</u>	<u>946.6</u>	<u>2,118.4</u>
Financial Services	55.5	66.5	159.3	230.8
Investment income	6.4	21.1	30.2	62.2
	<u>\$ 489.9</u>	<u>\$ 777.6</u>	<u>\$ 1,136.1</u>	<u>\$ 2,411.4</u>
Depreciation and amortization:				
Truck	\$ 73.3	\$ 95.8	\$ 218.8	\$ 290.5
Parts	3.0	2.5	8.0	7.8
Other	5.5	4.1	15.8	12.7
	<u>81.8</u>	<u>102.4</u>	<u>242.6</u>	<u>311.0</u>
Financial Services	184.4	169.7	536.9	481.4
	<u>\$ 266.2</u>	<u>\$ 272.1</u>	<u>\$ 779.5</u>	<u>\$ 792.4</u>

NOTE J - Derivative Financial Instruments

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

Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company's maximum exposure to potential default of its derivative counterparties is limited to the asset position of its derivative portfolio. The asset position of the Company's derivative portfolio was \$70.5 at September 30, 2020.

The Company uses regression analysis to assess effectiveness of interest-rate contracts and net investment hedges at inception and uses quantitative or qualitative analysis to assess subsequent effectiveness on a quarterly basis. For foreign-exchange contracts, the Company performs quarterly assessments to ensure that critical terms continue to match. All components of the derivative instrument's gain or loss are included in the assessment of hedge effectiveness. Hedge accounting is discontinued prospectively when the Company determines that a derivative financial instrument has ceased to be a highly effective hedge. Cash flows from derivative instruments are included in Operating activities in the Condensed Consolidated Statements of Cash Flows.

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

At September 30, 2020, the notional amount of the Company's interest-rate contracts was \$3,336.9. Notional maturities for all interest-rate contracts are \$250.5 for the remainder of 2020, \$1,188.5 for 2021, \$903.7 for 2022, \$724.6 for 2023, \$152.4 for 2024, \$36.1 for 2025 and \$81.1 thereafter.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. The Company enters into foreign-exchange contracts as net investment hedges to reduce the foreign currency exposure from its investments in foreign subsidiaries. At September 30, 2020, the notional amount of the outstanding foreign-exchange contracts was \$1,151.3. Foreign-exchange contracts mature within one year.

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

	September 30, 2020		December 31, 2019	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
<i>Interest-rate contracts:</i>				
Financial Services:				
Other assets	\$ 39.9		\$ 45.8	
Deferred taxes and other liabilities		\$ 62.1		\$ 31.0
<i>Foreign-exchange contracts:</i>				
Truck, Parts and Other:				
Other current assets	9.5		10.1	
Accounts payable, accrued expenses and other		10.8		9.2
	\$ 49.4	\$ 72.9	\$ 55.9	\$ 40.2
Derivatives not designated as hedging instruments:				
<i>Foreign-exchange contracts:</i>				
Truck, Parts and Other:				
Other current assets	\$ 15.9		\$.4	
Accounts payable, accrued expenses and other		\$ 1.1		\$ 1.8
Financial Services:				
Other assets	5.2			
Deferred taxes and other liabilities		.1		2.3
	\$ 21.1	\$ 1.2	\$.4	\$ 4.1
Gross amounts recognized in Balance Sheets	\$ 70.5	\$ 74.1	\$ 56.3	\$ 44.3
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	(2.7)	(2.7)	(.4)	(.4)
Financial Services:				
Interest-rate contracts	(7.7)	(7.7)	(8.6)	(8.6)
Pro forma net amount	\$ 60.1	\$ 63.7	\$ 47.3	\$ 35.3

The following table presents the amount of (gain) loss from derivative financial instruments reclassified from AOCI into the Consolidated Statements of Comprehensive Income:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Truck, Parts and Other:				
Cash flow hedges	\$ (8.5)	\$ (3.6)	\$ (27.2)	\$ 10.5
Net investment hedges	(1.0)	(2.3)	(4.5)	(2.3)
Total	\$ (9.5)	\$ (5.9)	\$ (31.7)	\$ 8.2
Financial Services:				
Fair value hedges	.2	.3	.7	1.2
Cash flow hedges	50.5	(35.0)	13.2	(23.3)
Total	\$ 50.7	\$ (34.7)	\$ 13.9	\$ (22.1)

Fair Value Hedges

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. The following table presents the amounts recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

	September 30 2020	December 31 2019
Financial Services		
Term notes:		
Carrying amount of the hedged liabilities	\$ 91.3	\$ 90.5
Cumulative basis adjustment included in the carrying amount	(1.3)	(.5)

The above table excludes the cumulative basis adjustments on discontinued hedge relationships of \$(.7) and \$(1.5) as of September 30, 2020 and December 31, 2019, respectively.

Cash Flow Hedges

Substantially all of the Company's interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI. Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 7.8 years.

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

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS
(Loss) gain recognized in OCI:				
Truck, Parts and Other		\$ (10.8)		\$ 42.6
Financial Services	\$ (49.1)		\$ (27.3)	
	\$ (49.1)	\$ (10.8)	\$ (27.3)	\$ 42.6
	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS
Gain (loss) recognized in OCI:				
Truck, Parts and Other		\$ (1.0)		\$ (17.2)
Financial Services	\$ 26.0			
	\$ 26.0	\$ (1.0)		\$ (17.2)

The amount of gain recorded in AOCI at September 30, 2020 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately \$3.9, net of taxes. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's risk management strategy.

The amount of gains or losses reclassified out of AOCI into net income based on the probability that the original forecasted transactions would not occur was nil for the three and nine months ended September 30, 2020 and 2019.

Net Investment Hedges

Changes in the fair value of derivatives designated as net investment hedges are recorded in AOCI as an adjustment to the Cumulative Translation Adjustment (CTA). At September 30, 2020, the notional amount of the outstanding net investment hedges was \$344.8. For the three and nine months ended September 30, 2020, the pre-tax loss recognized in OCI for the net investment hedges was \$(14.9) and \$(5.3), respectively.

Derivatives Not Designated As Hedging Instruments

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

The (gain) loss recognized in earnings related to derivatives not designated as hedging instruments was as follows:

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS
Truck, Parts and Other:				
Cost of sales and revenues		\$ (.8)		\$.4
Interest and other (income), net				(19.3)
Financial Services:				
Interest and other borrowing expenses		6.9		(1.9)
Selling, general and administrative		.1		
Total		\$ 6.2		\$ (20.8)
	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS	INTEREST- RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS
Truck, Parts and Other:				
Cost of sales and revenues		\$.8		\$.8
Interest and other (income), net		2.0		4.6
Financial Services:				
Interest and other borrowing expenses		(8.3)		(13.0)
Total		\$ (5.5)		\$ (7.6)

NOTE K - Fair Value Measurements

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

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

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

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

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

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

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

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

Assets and Liabilities Subject to Recurring Fair Value Measurement

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

<i>At September 30, 2020</i>	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		\$ 299.0	\$ 299.0
U.S. corporate securities		184.4	184.4
U.S. government and agency securities	\$ 99.2	6.5	105.7
Non-U.S. corporate securities		353.6	353.6
Non-U.S. government securities		79.3	79.3
Other debt securities		172.3	172.3
Total marketable debt securities	\$ 99.2	\$ 1,095.1	\$ 1,194.3
Derivatives			
Cross currency swaps		\$ 38.3	\$ 38.3
Interest-rate swaps		1.6	1.6
Foreign-exchange contracts		30.6	30.6
Total derivative assets		\$ 70.5	\$ 70.5
Liabilities:			
Derivatives			
Cross currency swaps		\$ 19.2	\$ 19.2
Interest-rate swaps		42.9	42.9
Foreign-exchange contracts		12.0	12.0
Total derivative liabilities		\$ 74.1	\$ 74.1
<i>At December 31, 2019</i>			
	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		\$ 320.2	\$ 320.2
U.S. corporate securities		165.7	165.7
U.S. government and agency securities	\$ 128.4	.9	129.3
Non-U.S. corporate securities		349.8	349.8
Non-U.S. government securities		72.4	72.4
Other debt securities		124.7	124.7
Total marketable debt securities	\$ 128.4	\$ 1,033.7	\$ 1,162.1
Derivatives			
Cross currency swaps		\$ 43.8	\$ 43.8
Interest-rate swaps		2.0	2.0
Foreign-exchange contracts		10.5	10.5
Total derivative assets		\$ 56.3	\$ 56.3
Liabilities:			
Derivatives			
Cross currency swaps		\$ 13.5	\$ 13.5
Interest-rate swaps		17.5	17.5
Foreign-exchange contracts		13.3	13.3
Total derivative liabilities		\$ 44.3	\$ 44.3

Fair Value Disclosure of Other Financial Instruments

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

Cash and Cash Equivalents: Carrying amounts approximate fair value.

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

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

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

	September 30, 2020		December 31, 2019	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<i>Assets:</i>				
Financial Services fixed rate loans	\$ 5,007.5	\$ 5,160.8	\$ 4,914.4	\$ 4,992.2
<i>Liabilities:</i>				
Financial Services fixed rate debt	6,623.5	6,805.7	5,925.9	5,990.7

NOTE L - Employee Benefit Plans

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Service cost	\$ 32.8	\$ 25.3	\$ 98.0	\$ 77.1
Interest on projected benefit obligation	20.8	23.7	62.1	71.7
Expected return on assets	(47.6)	(43.8)	(142.3)	(132.3)
Amortization of prior service costs	.4	.4	1.1	1.1
Recognized actuarial loss	11.1	5.0	33.1	15.3
Settlement loss	.5		8.5	
Net pension expense	\$ 18.0	\$ 10.6	\$ 60.5	\$ 32.9

The components of net pension expense other than service cost are included in Interest and other (income), net on the Consolidated Statements of Comprehensive Income.

During the three and nine months ended September 30, 2020, the Company contributed \$86.7 and \$126.6 to its pension plans, respectively, and \$5.3 and \$16.5 for the three and nine months ended September 30, 2019, respectively.

NOTE M – Commitments and Contingencies

On July 19, 2016, the European Commission (EC) concluded its investigation of all major European truck manufacturers and reached a settlement with DAF. Following the settlement, claims and lawsuits have been filed against the Company, DAF and certain DAF subsidiaries and other truck manufacturers in various European jurisdictions. These claims and lawsuits include a number of collective proceedings, including proposed class actions in the United Kingdom, alleging EC-related claims and seeking unspecified damages. Others may bring EC-related claims and lawsuits against the Company or its subsidiaries. While the Company believes it has meritorious defenses, such claims and lawsuits will likely take a significant period of time to resolve. The Company cannot reasonably estimate a range of loss, if any, that may result given the early stage of these claims and lawsuits. An adverse outcome of such proceedings could have a material impact on the Company's results of operations.

PACCAR is also a defendant in various other legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these various other proceedings and contingent liabilities will have a material effect on the consolidated financial statements.

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

OVERVIEW:

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

PACCAR's financial results for the three and nine months ended September 30, 2020 were impacted by the COVID-19 pandemic, with the most significant impact in the quarter ended June 30, 2020. The Company's truck and engine production was suspended at its factories worldwide starting March 24, 2020. Truck and engine production restarted in Europe and Australia on April 20, 2020, and factories gradually resumed operations in North America and Brasil in early May. In the third quarter the Company resumed production at rates sufficient to accommodate demand while maintaining appropriate health and safety protocols. Effects of the pandemic in the first nine months included reduced truck deliveries, increased costs associated with suspension of production, lower aftermarket parts sales and higher provision for losses on Financial Services receivables. Increased costs related to suspension of production primarily included reduced labor efficiency, costs to prepare factories for safe re-opening and reduced factory utilization. The Company implemented cost saving measures in the first nine months to partially offset the increased costs. During the pandemic, the Company's Parts segment has continued to provide aftermarket support through its parts distribution centers, and the Financial Services segment has continued to provide financing, leasing services and related support to customers.

Third Quarter Financial Highlights:

- Worldwide net sales and revenues were \$4.94 billion in 2020 compared to \$6.37 billion in 2019, primarily due to lower truck revenues.
- Truck revenues were \$3.50 billion in 2020 compared to \$4.98 billion in 2019 primarily due to lower truck deliveries in the U.S. and Canada and Europe.
- Parts sales were \$1.02 billion in 2020 compared to \$1.00 billion in 2019.
- Financial Services revenues were \$397.6 million in 2020 compared to \$362.8 million in 2019 primarily due to higher used truck sales in Europe, partially offset by lower portfolio yields.
- Net income was \$385.5 million (\$1.11 per diluted share) in 2020 compared to \$607.9 million (\$1.75 per diluted share) in 2019 reflecting lower Truck operating results.
- Capital investments were \$130.0 million in 2020 compared to \$196.0 million in 2019.
- Research and development (R&D) expenses were \$64.7 million in 2020 compared to \$82.2 million in 2019.

First Nine Months Financial Highlights:

- Worldwide net sales and revenues were \$13.16 billion in 2020 compared to \$19.48 billion in 2019, primarily due to lower truck revenues.
- Truck revenues were \$9.12 billion in 2020 compared to \$15.30 billion in 2019 due to lower truck deliveries in all markets, though primarily in the U.S. and Canada and Europe.
- Parts sales were \$2.84 billion in 2020 compared to \$3.03 billion in 2019 primarily due to lower demand in the U.S. and Canada and Europe.
- Financial Services revenues were \$1.14 billion in 2020 compared to \$1.07 billion in 2019. The increase was primarily the result of higher used truck sales in Europe.
- Net income was \$892.6 million (\$2.57 per diluted share) in 2020 compared to \$1.86 billion (\$5.34 per diluted share) in 2019 primarily reflecting lower Truck operating results.
- Capital investments were \$438.8 million in 2020 compared to \$504.3 million in 2019.
- R&D expenses were \$202.2 million in 2020 compared to \$243.0 million in 2019.

Kenworth K270E and T680E, Peterbilt models 579EV, 220EV and 520EV, and DAF CF Electric zero emissions trucks are now available for customers to order, with plans to begin production in 2021.

PACCAR is partnering with Faith Technologies and Schneider Electric to provide charging infrastructure solutions for dealers and customers who purchase battery electric Kenworth and Peterbilt trucks in the U.S. and Canada. Chargers will be available to order from PACCAR Parts. PACCAR Financial will offer flexible financing options and PacLease will bundle the cost of charging systems with full service lease offerings.

PACCAR Financial Services recently opened used truck centers in Lyon, France, Denton, Texas, and Prague, Czech Republic, and plans to open a used truck facility in Madrid, Spain next year.

PACCAR Inc, Kenworth, Peterbilt, PACCAR Parts and Dynacraft were each honored by the Women in Trucking Association (WIT) as a 2020 “*Top Company for Women to Work for in Transportation*”. The recognition was for fostering gender diversity, flexible hours, competitive compensation and benefits, training, professional development and career advancement opportunities.

The PACCAR Financial Services (PFS) group of companies has operations covering four continents and 26 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of loans and leases with total assets of \$15.28 billion. PFS issued \$1.89 billion in medium-term notes during the first nine months of 2020 to support new business volume and repay maturing debt.

Truck Outlook

The Company suspended truck production worldwide on March 24, 2020, due to the COVID-19 pandemic. The Company began truck production at selected factories in Europe and Australia on April 20, 2020. Resumption of North America and Brasil truck production occurred in early May. The Company adjusted its manufacturing facilities for social distancing and implemented deep cleaning procedures. Initial truck production rates at all facilities were lower than those in effect at the time of the worldwide closure. In the third quarter, production rates had almost returned to pre-pandemic levels. Future production volumes will depend on market demand for trucks, parts availability from the Company’s suppliers and further government directives related to the COVID-19 pandemic.

Assuming no significant impacts from a resurgence of the COVID-19 pandemic, truck industry retail sales in the U.S. and Canada in 2020 are expected to be 190,000 to 210,000 units compared to 308,800 in 2019. Estimates for the U.S. and Canada truck industry retail sales in 2021 are in the range of 210,000 to 250,000 units. In Europe, the 2020 truck industry registrations for over 16-tonne vehicles are expected to be 210,000 to 230,000 units compared to 320,200 in 2019. The 2021 European truck industry registrations in the above 16-tonne truck market are projected to be in a range 230,000 to 270,000 units. In South America, heavy-duty truck industry registrations in 2020 are estimated at 75,000 to 85,000 as compared to 105,100 in 2019. The 2021 heavy-duty truck industry sales in South America are projected to be in a range of 95,000 to 105,000 units.

Parts Outlook

The Company continues to provide strong aftermarket support to enable the shipment of essential goods and services to communities around the world while following social distancing and hygiene protocols. Strengthening economies and higher truck traffic in the third quarter resulted in increased demand for aftermarket parts as compared to the prior quarter. In 2020, PACCAR Parts sales are expected to decrease 4-5% compared to 2019 sales. In 2021, PACCAR Parts sales are expected to increase 4-7% from 2020 levels. If general economic weakness persists, lower freight volumes could reduce the demand for replacement parts, resulting in lower parts revenues and operating results.

Financial Services Outlook

PACCAR Financial Services continues to provide financing and leasing services and related support to customers during the COVID-19 pandemic. The size of the portfolio will be affected by the amount of new truck financing volume. Depending on the length and depth of the economic weakness associated with the pandemic, lower truck sales volume would result in lower volumes of new business. The lower level of economic activity is affecting some industries more than others. The Company does not have a concentration of exposure in any one segment or industry. Although past-dues and credit losses are at low levels, continued economic weakness could result in lower freight volumes which could adversely impact customers’ operating results and cash flows. If economic conditions further worsen, it would likely lead to more credit modification requests, higher past due accounts, increased provisions for credit losses, and lower used truck values. Based on the truck market outlook, average earning assets in 2020 and 2021 are expected to remain similar to 2019 levels.

Capital Investments and R&D Outlook

Capital investments in 2020 are expected to be \$570 to \$600 million and R&D is expected to be \$270 to \$280 million. In 2021, capital investments are projected to be \$575 to \$625 million and R&D is expected to be \$330 to \$360 million. The Company is investing for long-term growth in aerodynamic truck models, diesel and zero emissions powertrain technologies, advanced driver assistance systems, connected vehicle services and next-generation manufacturing and distribution capabilities.

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

RESULTS OF OPERATIONS:

The Company's results of operations for the three and nine months ended September 30, 2020 and 2019 are presented below.

(\$ in millions, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Net sales and revenues:				
Truck	\$ 3,504.0	\$ 4,977.4	\$ 9,120.0	\$ 15,296.6
Parts	1,016.2	1,000.9	2,838.5	3,031.0
Other	18.2	25.9	59.8	81.2
Truck, Parts and Other	4,538.4	6,004.2	12,018.3	18,408.8
Financial Services	397.6	362.8	1,141.6	1,073.7
	<u>\$ 4,936.0</u>	<u>\$ 6,367.0</u>	<u>\$ 13,159.9</u>	<u>\$ 19,482.5</u>
Income (loss) before income taxes:				
Truck	\$ 210.1	\$ 481.5	\$ 347.0	\$ 1,509.2
Parts	210.2	207.4	576.8	625.6
Other	7.7	1.1	22.8	(16.4)
Truck, Parts and Other	428.0	690.0	946.6	2,118.4
Financial Services	55.5	66.5	159.3	230.8
Investment income	6.4	21.1	30.2	62.2
Income taxes	(104.4)	(169.7)	(243.5)	(554.8)
Net income	\$ 385.5	\$ 607.9	\$ 892.6	\$ 1,856.6
Diluted earnings per share	<u>\$ 1.11</u>	<u>\$ 1.75</u>	<u>\$ 2.57</u>	<u>\$ 5.34</u>
After-tax return on revenues	7.8%	9.5%	6.8%	9.5%

The following provides an analysis of the results of operations for the Company's three reportable segments - Truck, Parts and Financial Services. Where possible, the Company has quantified the impact of factors identified in the following discussion and analysis. In cases where it is not possible to quantify the impact of factors, the Company lists them in estimated order of importance. Factors for which the Company is unable to specifically quantify the impact include COVID-19 related factors, market demand, fuel prices, freight tonnage and economic conditions affecting the Company's results of operations.

2020 Compared to 2019:

Truck

The Company's Truck segment accounted for 71% and 69% of revenues in the third quarter and first nine months of 2020, respectively, compared to 78% and 79% of revenues in the third quarter and first nine months of 2019, respectively.

The Company's new truck deliveries are summarized below:

	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% CHANGE	2020	2019	% CHANGE
U.S. and Canada	20,700	31,700	(35)	52,200	90,600	(42)
Europe	10,500	12,700	(17)	28,500	45,300	(37)
Mexico, South America, Australia and other	4,800	4,900	(2)	11,800	17,200	(31)
Total units	<u>36,000</u>	<u>49,300</u>	<u>(27)</u>	<u>92,500</u>	<u>153,100</u>	<u>(40)</u>

The decrease in new truck deliveries worldwide in the third quarter and first nine months of 2020 compared to the same period of 2019 is driven primarily by lower build rates caused by lower demand partially as a result of the COVID-19 pandemic.

Market share data discussed below is provided by third party sources and is measured by either registrations or retail sales for the Company's dealer network as a percentage of total registrations or retail sales depending on the geographic market. In the U.S. and Canada, market share is based on retail sales. In Europe, market share is based primarily on registrations.

In the first nine months of 2020, industry retail sales in the heavy-duty market in the U.S. and Canada decreased to 151,600 units from 236,800 units in the same period of 2019. The Company's heavy-duty truck retail market share was 29.7% in the first nine months of 2020 compared to 29.2% in the first nine months of 2019. The medium-duty market was 53,200 units in the first nine months of 2020 compared to 87,700 units in the same period of 2019. The Company's medium-duty market share was 23.3% in the first nine months of 2020 compared to 16.0% in the first nine months of 2019.

The over 16-tonne truck market in Europe in the first nine months of 2020 was 161,000 units compared to 250,300 units in the first nine months of 2019. DAF EU over 16-tonne market share was 16.2% in the first nine months of 2020 compared to 16.4% in the same period of 2019. The 6 to 16-tonne market in the first nine months of 2020 was 29,800 units compared to 40,300 units in the first nine months of 2019. DAF market share in the 6 to 16-tonne market in the first nine months of 2020 was 9.4% compared to 9.3% in the same period of 2019.

The Company's worldwide truck net sales and revenues are summarized below:

(\$ in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% CHANGE	2020	2019	% CHANGE
Truck net sales and revenues:						
U.S. and Canada	\$ 2,251.8	\$ 3,489.9	(35)	\$ 5,724.8	\$ 10,060.6	(43)
Europe	771.1	1,000.4	(23)	2,252.2	3,604.3	(38)
Mexico, South America, Australia and other	481.1	487.1	(1)	1,143.0	1,631.7	(30)
	\$ 3,504.0	\$ 4,977.4	(30)	\$ 9,120.0	\$ 15,296.6	(40)
Truck income before income taxes	\$ 210.1	\$ 481.5	(56)	\$ 347.0	\$ 1,509.2	(77)
Pre-tax return on revenues	6.0%	9.7%		3.8%	9.9%	

The Company's worldwide truck net sales and revenues in the third quarter decreased to \$3.50 billion in 2020 from \$4.98 billion in 2019, primarily due to lower truck deliveries in the U.S. and Canada and Europe. In the first nine months, worldwide truck net sales and revenues decreased to \$9.12 billion in 2020 compared to \$15.30 billion in 2019 due to lower truck unit deliveries in all markets, though primarily the U.S. and Canada and Europe.

For the third quarter and first nine months of 2020, Truck segment income before taxes and pretax return on revenues reflect the impact of lower truck unit deliveries and lower margins, driven primarily by reduced demand and the worldwide truck plant closures as a result of the COVID-19 pandemic.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between the three months ended September 30, 2020 and 2019 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Three Months Ended September 30, 2019	\$ 4,977.4	\$ 4,365.2	\$ 612.2
(Decrease) increase			
Truck sales volume	(1,451.5)	(1,178.7)	(272.8)
Average truck sales prices	(31.5)		(31.5)
Average per truck material, labor and other direct costs		57.4	(57.4)
Factory overhead and other indirect costs		(55.2)	55.2
Extended warranties, operating leases and other	(19.6)	(3.5)	(16.1)
Currency translation	29.2	23.2	6.0
Total decrease	(1,473.4)	(1,156.8)	(316.6)
Three Months Ended September 30, 2020	\$ 3,504.0	\$ 3,208.4	\$ 295.6

- Truck sales volume reflects lower unit deliveries, primarily in the U.S. and Canada (\$1,198.3 million sales and \$954.4 million cost of sales) and Europe (\$259.7 million sales and \$224.8 million cost of sales) due to reduced demand and reduced build rates.
- Average truck sales prices decreased sales by \$31.5 million primarily due to lower price realization in the U.S and Canada.
- Average cost per truck increased cost of sales by \$57.4 million, primarily reflecting increased labor costs from lower volumes and inefficiencies related to the COVID-19 pandemic, and higher accruals for product support costs.

- Factory overhead and other indirect costs decreased \$55.2 million primarily due to lower costs for labor, repair and maintenance and depreciation.
- Extended warranties, operating leases and other revenues decreased by \$19.6 million primarily due to lower revenues from operating leases as a result of a decreasing portfolio and lower revenues from dealer support services, partially offset by higher revenues from extended warranty contracts. Cost of sales decreased by \$3.5 million primarily due to lower costs from operating leases, partially offset by higher costs on extended warranty contracts in the U.S. and Europe and higher losses on used trucks in Europe.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro and the Australian dollar relative to the U.S. dollar, partially offset by a decline in the value of the Brazilian real.
- Truck gross margin was 8.4% in the third quarter of 2020 compared to 12.3% in the same period of 2019 due to the factors noted above.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between the nine months ended September 30, 2020 and 2019 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Nine Months Ended September 30, 2019	\$ 15,296.6	\$ 13,410.5	\$ 1,886.1
(Decrease) increase			
Truck sales volume	(6,030.7)	(4,935.9)	(1,094.8)
Average truck sales prices	(15.1)		(15.1)
Average per truck material, labor and other direct costs		229.0	(229.0)
Factory overhead and other indirect costs		(178.9)	178.9
Extended warranties, operating leases and other	(79.1)	7.7	(86.8)
Currency translation	(51.7)	(55.8)	4.1
Total decrease	(6,176.6)	(4,933.9)	(1,242.7)
Nine Months Ended September 30, 2020	\$ 9,120.0	\$ 8,476.6	\$ 643.4

- Truck sales volume reflects lower unit deliveries, primarily in the U.S. and Canada (\$4.30 billion sales and \$3.49 billion cost of sales), Europe (\$1.32 billion sales and \$1.11 billion cost of sales) and Mexico (\$296.1 million sales and \$243.9 million cost of sales), due to reduced retail demand and the impact of the worldwide production suspension due to the COVID-19 pandemic.
- Average truck sales prices decreased sales by \$15.1 million primarily due to lower price realization in the U.S and Canada.
- Average cost per truck increased cost of sales by \$229.0 million, primarily reflecting higher accruals for product support costs and increased labor costs from lower volumes and inefficiencies related to the COVID-19 pandemic.
- Factory overhead and other indirect costs decreased \$178.9 million primarily due to lower costs for labor, repair and maintenance and depreciation.
- Extended warranties, operating leases and other revenues decreased by \$79.1 million primarily due to lower revenues from operating leases as a result of a decreasing portfolio and lower revenues from dealer support services, partially offset by higher revenues from extended warranty contracts. Cost of sales increased by \$7.7 million primarily due to higher impairments and losses on used trucks in Europe and the U.S. and higher costs on extended warranty contracts in the U.S., partially offset by lower costs from operating leases and dealer support services.
- The currency translation effect on sales and cost of sales primarily reflects a decline in the value of the Brazilian real, the Canadian and the Australian dollar relative to the U.S. dollar.
- Truck gross margin was 7.1% in the first nine months of 2020 compared to 12.3% in the same period of 2019 due to the factors noted above.

Truck SG&A expense decreased in the third quarter of 2020 to \$40.0 million from \$66.3 million in 2019, and for the first nine months of 2020, Truck SG&A decreased to \$144.7 million from \$192.5 million in 2019. The decrease in both periods was primarily due to lower sales and marketing costs, salaries and related expenses, and travel expenses.

As a percentage of sales, Truck SG&A decreased to 1.1% in the third quarter of 2020 from 1.3% in the same period of 2019. For the first nine months, Truck SG&A increased to 1.6% in 2020 from 1.3% in the same period of 2019 due to lower net sales, partially offset by lower spending.

Parts

The Company's Parts segment accounted for 21% and 22% of revenues in the third quarter and first nine months of 2020, respectively, compared to 16% in the third quarter and first nine months of 2019.

(\$ in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% CHANGE	2020	2019	% CHANGE
Parts net sales and revenues:						
U.S. and Canada	\$ 692.4	\$ 684.6	1	\$ 1,956.6	\$ 2,068.3	(5)
Europe	228.6	214.0	7	630.4	675.3	(7)
Mexico, South America, Australia and other	95.2	102.3	(7)	251.5	287.4	(12)
	<u>\$ 1,016.2</u>	<u>\$ 1,000.9</u>	<u>2</u>	<u>\$ 2,838.5</u>	<u>\$ 3,031.0</u>	<u>(6)</u>
Parts income before income taxes	<u>\$ 210.2</u>	<u>\$ 207.4</u>	<u>1</u>	<u>\$ 576.8</u>	<u>\$ 625.6</u>	<u>(8)</u>
Pre-tax return on revenues	20.7%	20.7%		20.3%	20.6%	

The Company's worldwide parts net sales and revenues for the third quarter increased to \$1.02 billion in 2020 from \$1.00 billion in 2019, driven by improved price realization and favorable currency translation effects, partially offset by lower volumes. For the first nine months, worldwide parts net sales and revenues decreased to \$2.84 billion in 2020 from \$3.03 billion in 2019, primarily due to lower sales volume, partially offset by higher prices.

For the third quarter, Parts segment income before income taxes improved slightly as compared to 2019, while pre-tax return on revenues in 2020 was comparable to 2019. For the first nine months of 2020, the decrease in Parts segment income before income taxes and pre-tax return on revenues was primarily due to lower volume and margins. Parts income before taxes for the first nine months of 2020 included a \$10.2 million gain on the sale of the prior Las Vegas parts distribution facility which was replaced by a new larger facility. The gain was recorded in the second quarter in Interest and other (income), net on the Consolidated Statements of Comprehensive Income.

The major factors for the changes in Parts segment net sales and revenues, cost of sales and revenues and gross margin between the three months ended September 30, 2020 and 2019 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Three Months Ended September 30, 2019	\$ 1,000.9	\$ 720.9	\$ 280.0
(Decrease) increase			
Aftermarket parts volume	(15.3)	(11.8)	(3.5)
Average aftermarket parts sales prices	18.7		18.7
Average aftermarket parts direct costs		15.9	(15.9)
Warehouse and other indirect costs		3.1	(3.1)
Currency translation	11.9	7.0	4.9
Total increase	<u>15.3</u>	<u>14.2</u>	<u>1.1</u>
Three Months Ended September 30, 2020	<u>\$ 1,016.2</u>	<u>\$ 735.1</u>	<u>\$ 281.1</u>

- Aftermarket parts sales volume decreased by \$15.3 million and related cost of sales decreased by \$11.8 million primarily due to lower demand in North America.
- Average aftermarket parts sales prices increased sales by \$18.7 million primarily due to higher price realization in North America.
- Average aftermarket parts direct costs increased \$15.9 million due to higher material costs.
- Warehouse and other indirect costs increased \$3.1 million primarily due to higher depreciation and salaries and related expenses.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of euro relative to the U.S. dollar.
- Parts gross margins in the third quarter of 2020 decreased to 27.7% from 28.0% in the third quarter of 2019 due to the factors noted above.

The major factors for the changes in Parts segment net sales and revenues, cost of sales and revenues and gross margin between the nine months ended September 30, 2020 and 2019 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
Nine Months Ended September 30, 2019	\$ 3,031.0	\$ 2,189.0	\$ 842.0
(Decrease) increase			
Aftermarket parts volume	(251.1)	(167.5)	(83.6)
Average aftermarket parts sales prices	65.0		65.0
Average aftermarket parts direct costs		35.5	(35.5)
Warehouse and other indirect costs		12.9	(12.9)
Currency translation	(6.4)	(5.0)	(1.4)
Total decrease	(192.5)	(124.1)	(68.4)
Nine Months Ended September 30, 2020	\$ 2,838.5	\$ 2,064.9	\$ 773.6

- Aftermarket parts sales volume decreased by \$251.1 million and related cost of sales decreased by \$167.5 million primarily due to lower demand in North America and Europe.
- Average aftermarket parts sales prices increased sales by \$65.0 million primarily due to higher price realization in North America.
- Average aftermarket parts direct costs increased \$35.5 million due to higher material costs.
- Warehouse and other indirect costs increased \$12.9 million primarily due to higher salaries and related expenses.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the Australian dollar and the Brazilian real.
- Parts gross margins in the first nine months of 2020 decreased to 27.3% from 27.8% in the first nine months of 2019 due to the factors noted above.

Parts SG&A expense decreased in the third quarter of 2020 to \$48.5 million from \$52.1 million in 2019 primarily due to lower salaries and related expenses and lower travel expenses, partially offset by unfavorable currency translation effects. For the first nine months, Parts SG&A decreased to \$142.5 million in 2020 from \$156.7 million in 2019 primarily due to lower salaries and related expenses, travel expenses, sales and marketing costs and favorable currency translation effects.

As a percentage of sales, Parts SG&A was 4.8% and 5.0% in the third quarter and first nine months of 2020, respectively, compared to 5.2% in the third quarter and first nine months of 2019.

Financial Services

The Company's Financial Services segment accounted for 8% and 9% of revenues in the third quarter and first nine months of 2020, respectively, compared to 6% in the third quarter and first nine months of 2019.

(\$ in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% CHANGE	2020	2019	% CHANGE
New loan and lease volume:						
U.S. and Canada	\$ 857.8	\$ 920.7	(7)	\$ 2,101.6	\$ 2,497.3	(16)
Europe	269.5	285.3	(6)	741.7	964.2	(23)
Mexico, Australia and other	206.8	211.8	(2)	514.7	645.8	(20)
	<u>\$ 1,334.1</u>	<u>\$ 1,417.8</u>	<u>(6)</u>	<u>\$ 3,358.0</u>	<u>\$ 4,107.3</u>	<u>(18)</u>
New loan and lease volume by product:						
Loans and finance leases	\$ 1,076.6	\$ 1,059.5	2	\$ 2,687.6	\$ 3,122.9	(14)
Equipment on operating lease	257.5	358.3	(28)	670.4	984.4	(32)
	<u>\$ 1,334.1</u>	<u>\$ 1,417.8</u>	<u>(6)</u>	<u>\$ 3,358.0</u>	<u>\$ 4,107.3</u>	<u>(18)</u>
New loan and lease unit volume:						
Loans and finance leases	9,490	9,270	2	24,260	27,760	(13)
Equipment on operating lease	2,620	3,560	(26)	6,930	9,860	(30)
	<u>12,110</u>	<u>12,830</u>	<u>(6)</u>	<u>31,190</u>	<u>37,620</u>	<u>(17)</u>
Average earning assets:						
U.S. and Canada	\$ 8,838.0	\$ 9,016.2	(2)	\$ 9,082.1	\$ 8,689.0	5
Europe	3,549.8	3,394.3	5	3,492.5	3,539.0	(1)
Mexico, Australia and other	1,741.3	1,936.8	(10)	1,730.6	1,884.2	(8)
	<u>\$ 14,129.1</u>	<u>\$ 14,347.3</u>	<u>(2)</u>	<u>\$ 14,305.2</u>	<u>\$ 14,112.2</u>	<u>1</u>
Average earning assets by product:						
Loans and finance leases	\$ 9,134.7	\$ 8,841.4	3	\$ 8,998.8	\$ 8,697.6	3
Dealer wholesale financing	1,894.3	2,389.1	(21)	2,191.4	2,360.0	(7)
Equipment on lease and other	3,100.1	3,116.8	(1)	3,115.0	3,054.6	2
	<u>\$ 14,129.1</u>	<u>\$ 14,347.3</u>	<u>(2)</u>	<u>\$ 14,305.2</u>	<u>\$ 14,112.2</u>	<u>1</u>
Revenues:						
U.S. and Canada	\$ 197.6	\$ 204.3	(3)	\$ 591.7	\$ 601.3	(2)
Europe	145.6	92.6	57	383.2	278.6	38
Mexico, Australia and other	54.4	65.9	(17)	166.7	193.8	(14)
	<u>\$ 397.6</u>	<u>\$ 362.8</u>	<u>10</u>	<u>\$ 1,141.6</u>	<u>\$ 1,073.7</u>	<u>6</u>
Revenue by product:						
Loans and finance leases	\$ 113.4	\$ 121.2	(6)	\$ 340.0	\$ 350.8	(3)
Dealer wholesale financing	14.3	27.1	(47)	56.0	82.4	(32)
Equipment on lease and other	269.9	214.5	26	745.6	640.5	16
	<u>\$ 397.6</u>	<u>\$ 362.8</u>	<u>10</u>	<u>\$ 1,141.6</u>	<u>\$ 1,073.7</u>	<u>6</u>
Income before income taxes	<u>\$ 55.5</u>	<u>\$ 66.5</u>	<u>(17)</u>	<u>\$ 159.3</u>	<u>\$ 230.8</u>	<u>(31)</u>

For the third quarter, new loan and lease volume was \$1,334.1 million in 2020 compared to \$1,417.8 million in 2019 and for the first nine months was \$3,358.0 million in 2020 compared to \$4,107.3 million in 2019, primarily reflecting lower truck deliveries worldwide, partially offset by higher finance market share.

In the third quarter of 2020, PFS finance market share on new PACCAR truck sales increased to 28.9% from 25.8% in the third quarter of 2019. In the first nine months of 2020, PFS finance market share on new PACCAR truck sales increased to 26.8% from 23.6% in the first nine months of 2019.

In the third quarter of 2020, PFS revenues increased to \$397.6 million from \$362.8 million in 2019, and in the first nine months of 2020, PFS revenues increased to \$1,141.6 million from \$1,073.7 million in 2019. The increase in both periods was primarily due to higher used truck sales in Europe, partially offset by lower portfolio yields reflecting lower U.S. market interest rates. The effects of currency translation increased PFS revenues by \$1.4 million in the third quarter of 2020 primarily due to a stronger euro, partially offset by a weaker Mexican peso. In the first nine months of 2020, the effects of currency translation decreased PFS revenues by \$16.5 million primarily due to a weaker Mexican peso and Brazilian real.

PFS income before income taxes decreased to \$55.5 million in the third quarter of 2020 from \$66.5 million in the third quarter of 2019 primarily due to lower used truck results. In the first nine months of 2020, PFS income before income taxes decreased to \$159.3 from \$230.8 million in 2019 primarily due to lower used truck results, lower yields and a higher provision for credit losses. The effects of translating weaker foreign currencies to the U.S. dollar decreased PFS income before income taxes by \$2.3 million and \$7.7 million for the third quarter and first nine months of 2020, respectively.

Included in Financial Services “Other assets” on the Company’s Consolidated Balance Sheets are used trucks held for sale, net of impairments, of \$454.1 million at September 30, 2020 and \$391.4 million at December 31, 2019. These trucks are primarily units returned from matured operating leases in the ordinary course of business, and also include trucks acquired from repossessions or through acquisitions of used trucks in trades related to new truck sales and trucks returned from residual value guarantees (RVGs).

The Company recognized losses on used trucks, excluding repossessions, of \$24.0 million in the third quarter of 2020 compared to \$16.2 million in the third quarter of 2019, including losses on multiple unit transactions of \$12.0 million in the third quarter of 2020 compared to \$3.6 million in the third quarter of 2019. Used truck losses related to repossessions, which are recognized as credit losses, and used truck gains, which are recognized as credit recoveries, were not significant for either the third quarter of 2020 or 2019.

The Company recognized losses on used trucks, excluding repossessions, of \$75.2 million in the first nine months of 2020 compared to \$34.5 million in the first nine months of 2019, including losses on multiple unit transactions of \$26.5 million in the first nine months of 2020 compared to \$10.5 million in the first nine months of 2019. Used truck losses related to repossessions, which are recognized as credit losses, and used truck gains, which are recognized as credit recoveries, were not significant for either the first nine months of 2020 or 2019.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between the three months ended September 30, 2020 and 2019 are outlined below:

(\$ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
Three Months Ended September 30, 2019	\$ 148.3	\$ 59.6	\$ 88.7
(Decrease) increase			
Average finance receivables	(3.4)		(3.4)
Average debt balances		(2.1)	2.1
Yields	(14.7)		(14.7)
Borrowing rates		(11.9)	11.9
Currency translation and other	(2.5)	(.4)	(2.1)
Total decrease	(20.6)	(14.4)	(6.2)
Three Months Ended September 30, 2020	\$ 127.7	\$ 45.2	\$ 82.5

- Average finance receivables decreased \$281.7 million (excluding foreign exchange effects) in the third quarter of 2020 primarily due to lower dealer wholesale balances.
- Average debt balances decreased \$467.8 million (excluding foreign exchange effects) in the third quarter of 2020. The lower average debt balances reflect funding for a lower average earning assets portfolio.
- Lower portfolio yields (4.6% in 2020 compared to 5.2% in 2019) decreased interest and fees by \$14.7 million. The lower portfolio yields were primarily due to lower market rates in North America.
- Lower borrowing rates (1.7% in 2020 compared to 2.2% in 2019) were primarily due to lower debt market rates in North America.
- The currency translation effects reflect a decrease in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and the Brazilian real.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between the nine months ended September 30, 2020 and 2019 are outlined below:

(\$ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
Nine Months Ended September 30, 2019	\$ 433.2	\$ 173.0	\$ 260.2
Increase (decrease)			
Average finance receivables	8.1		8.1
Average debt balances		3.7	(3.7)
Yields	(34.6)		(34.6)
Borrowing rates		(24.6)	24.6
Currency translation and other	(10.7)	(3.6)	(7.1)
Total decrease	(37.2)	(24.5)	(12.7)
Nine Months Ended September 30, 2020	\$ 396.0	\$ 148.5	\$ 247.5

- Average finance receivables increased \$209.5 million (excluding foreign exchange effects) in the first nine months of 2020 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased \$222.4 million (excluding foreign exchange effects) in the first nine months of 2020. The higher average debt balances reflect funding for a higher average earning assets portfolio.
- Lower portfolio yields (4.7% in 2020 compared to 5.2% in 2019) decreased interest and fees by \$34.6 million. The lower portfolio yields were primarily due to lower market rates in North America.
- Lower borrowing rates (1.9% in 2020 compared to 2.2% in 2019) were primarily due to lower debt market rates in North America.
- The currency translation effects reflect a decrease in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso, the Brazilian real and the Australian dollar.

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

(\$ in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Operating lease and rental revenues	\$ 206.1	\$ 205.9	\$ 615.4	\$ 617.9
Used truck sales and other	63.8	8.6	130.2	22.6
Operating lease, rental and other revenues	<u>\$ 269.9</u>	<u>\$ 214.5</u>	<u>\$ 745.6</u>	<u>\$ 640.5</u>
Depreciation of operating lease equipment	\$ 163.8	\$ 155.7	\$ 484.1	\$ 444.6
Vehicle operating expenses	37.2	35.5	109.3	102.1
Cost of used truck sales and other	61.5	4.1	122.6	9.6
Depreciation and other expenses	<u>\$ 262.5</u>	<u>\$ 195.3</u>	<u>\$ 716.0</u>	<u>\$ 556.3</u>

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the three months ended September 30, 2020 and 2019 are outlined below:

(\$ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
Three Months Ended September 30, 2019	\$ 214.5	\$ 195.3	\$ 19.2
Increase (decrease)			
Used truck sales	56.2	56.7	(.5)
Results on returned lease assets		4.7	(4.7)
Average operating lease assets	(1.9)	(1.2)	(.7)
Revenue and cost per asset	(2.0)	.7	(2.7)
Currency translation and other	3.1	6.3	(3.2)
Total increase (decrease)	55.4	67.2	(11.8)
Three Months Ended September 30, 2020	\$ 269.9	\$ 262.5	\$ 7.4

- A higher sales volume of used trucks received on trade and upon RVG contract expiration increased operating lease, rental and other revenues by \$56.2 million and increased depreciation and other expenses by \$56.7 million.
- Results on returned lease assets increased depreciation and other expenses by \$4.7 million primarily due to higher losses on sales of returned lease units in the U.S. and higher impairments in Europe.
- Average operating lease assets decreased \$86.0 million (excluding foreign exchange effects), which decreased revenues by \$1.9 million and related depreciation and other expenses by \$1.2 million.
- Revenue per asset decreased \$2.0 million primarily due to lower rental income and lower fleet utilization. Cost per asset increased \$.7 million due to higher depreciation expense and higher vehicle operating expenses.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the euro, partially offset by a decline in the value of the Mexican peso.

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between the nine months ended September 30, 2020 and 2019 are outlined below:

(\$ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
Nine Months Ended September 30, 2019	\$ 640.5	\$ 556.3	\$ 84.2
Increase (decrease)			
Used truck sales	109.1	112.1	(3.0)
Results on returned lease assets		32.0	(32.0)
Average operating lease assets	3.6	3.9	(.3)
Revenue and cost per asset	(.5)	13.7	(14.2)
Currency translation and other	(7.1)	(2.0)	(5.1)
Total increase (decrease)	105.1	159.7	(54.6)
Nine Months Ended September 30, 2020	\$ 745.6	\$ 716.0	\$ 29.6

- A higher sales volume of used trucks received on trade and upon RVG contract expiration increased operating lease, rental and other revenues by \$109.1 million and increased depreciation and other expenses by \$112.1 million.
- Results on returned lease assets increased depreciation and other expenses by \$32.0 million primarily due to higher impairments in the U.S. and Europe and higher losses on sales of returned lease units in the U.S.
- Average operating lease assets increased \$61.2 million (excluding foreign exchange effects), which increased revenues by \$3.6 million and related depreciation and other expenses by \$3.9 million.
- Revenue per asset decreased \$.5 million primarily due to lower fleet utilization. Cost per asset increased \$13.7 million due to higher depreciation expense and higher vehicle operating expenses.
- The currency translation effects reflect a decrease in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso.

Financial Services SG&A expense was \$31.3 million in the third quarter of 2020 compared to \$35.8 million in 2019, and for the first nine months was \$90.2 million in 2020 compared to \$101.8 million in 2019. The decrease in both periods was due to lower salaries and related expenses as a result of cost controls and lower travel expenses.

As a percentage of revenues, Financial Services SG&A decreased to 7.9% in the third quarter of 2020 from 9.9% in the same period of 2019, and in the first nine months, decreased to 7.9% in 2020 from 9.5% in 2019. The decrease in both periods was driven primarily by lower salaries and related expenses.

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

(\$ in millions)	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS
U.S. and Canada	\$ 1.1	\$ 1.8	\$ 15.5	\$ 13.2
Europe	.1	.4	5.8	2.3
Mexico, Australia and other	1.9	1.3	6.3	4.0
	<u>\$ 3.1</u>	<u>\$ 3.5</u>	<u>\$ 27.6</u>	<u>\$ 19.5</u>

(\$ in millions)	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE- OFFS
U.S. and Canada	\$ 5.0	\$ 5.6	\$ 10.1	\$ 7.8
Europe	(.6)	.8	(2.1)	(.9)
Mexico, Australia and other	1.2	1.1	3.8	2.7
	<u>\$ 5.6</u>	<u>\$ 7.5</u>	<u>\$ 11.8</u>	<u>\$ 9.6</u>

The provision for losses on receivables was \$3.1 million for the third quarter of 2020 compared to \$5.6 million in 2019, reflecting continued good portfolio performance. In the first nine months, the provision for losses on receivables increased to \$27.6 million in 2020 from \$11.8 million in 2019, primarily driven by challenging economic conditions related to the COVID-19 pandemic. In addition, the provision for losses in the first nine months of 2020 reflects the credit loss on a large fleet in the U.S. The provision for losses in 2019 also included recoveries on charged-off accounts in Europe.

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

The post-modification balance of accounts modified during the nine months ended September 30, 2020 and 2019 are summarized below:

(\$ in millions)	2020		2019	
	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	\$ 185.6	2.7%	\$ 227.5	3.5%
Insignificant delay	2,505.7	36.2%	69.5	1.1%
Credit – no concession	80.1	1.2%	22.0	.3%
Credit – TDR	48.7	.7%	2.5	
	<u>\$ 2,820.1</u>	<u>40.8%</u>	<u>\$ 321.5</u>	<u>4.9%</u>

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

During the first nine months of 2020, total modification activity significantly increased compared to the first nine months of 2019. The decrease in modifications for Commercial reasons primarily reflects lower volumes of refinancing. The increase in modifications for Insignificant delay reflects fleet customers requesting payment relief for up to three months related to COVID-19. The increase in modifications for Credit – no concession is primarily due to higher volumes of refinancing and requests for payment relief in Europe, the U.S. and Mexico. The increase in modifications for Credit – TDR is primarily due to two fleet customers in the U.S. and four fleet customers in Mexico.

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

	September 30 2020	December 31 2019	September 30 2019
Percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	.1%	.4%	.4%
Europe	1.8%	.7%	1.0%
Mexico, Australia and other	1.7%	2.0%	2.1%
Worldwide	<u>.6%</u>	<u>.7%</u>	<u>.7%</u>

Accounts 30+ days past due decreased to .6% at September 30, 2020 from .7% at December 31, 2019. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified \$13.5 million of accounts worldwide during the third quarter of 2020, \$1.7 million during the fourth quarter of 2019 and \$7.7 million during the third quarter of 2019 that were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

	September 30 2020	December 31 2019	September 30 2019
Pro forma percentage of retail loan and lease accounts 30+ days past due:			
U.S. and Canada	.1%	.4%	.4%
Europe	1.9%	.7%	1.0%
Mexico, Australia and other	2.4%	2.1%	2.6%
Worldwide	<u>.8%</u>	<u>.7%</u>	<u>.8%</u>

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at September 30, 2020, December 31, 2019 and September 30, 2019. The effect on the allowance for credit losses from such modifications was not significant at September 30, 2020, December 31, 2019 and September 30, 2019.

The Company's annualized pre-tax return on average assets for Financial Services decreased to 1.4% in the third quarter of 2020 from 1.7% in the same period of 2019, primarily driven by lower used truck results. In the first nine months, annualized pre-tax return on average assets for Financial Services decreased to 1.4% in 2020 from 2.0% in 2019, primarily driven by lower used truck results, lower yields and increased provision for losses.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for both the third quarter and first nine months of 2020 and 2019. Other SG&A decreased to \$11.9 million for the third quarter of 2020 from \$18.4 million for the third quarter of 2019 and decreased to \$38.5 million for the first nine months of 2020 from \$64.3 million for the first nine month of 2019. The decrease in both periods was primarily due to lower compensation costs reflecting stringent cost controls.

For the third quarter, Other income before tax increased to \$7.7 million from \$1.1 million in 2019 primarily due to lower salaries and related expenses and lower travel expenses, partially offset by lower results from the winch business. For the first nine months, Other income (loss) before tax was \$22.8 million compared to \$(16.4) million in 2019. The income in the first nine months of 2020 compared to loss in the same period of 2019 was primarily due to lower salaries and related expenses, lower expected costs to resolve certain environmental matters and lower travel expenses, partially offset by lower results from the winch business.

Investment income for the third quarter decreased to \$6.4 million in 2020 from \$21.1 million in 2019. For the first nine months, investment income decreased to \$30.2 million in 2020 from \$62.2 million in 2019. The lower investment income in the third quarter and first nine months of 2020 was primarily due to lower yields on U.S. investments due to lower market interest rates.

Income Taxes

The effective tax rate for the third quarter of 2020 was 21.3% compared to 21.8% for the third quarter of 2019. The effective tax rate for the first nine months of 2020 was 21.4% compared to 23.0% for the first nine months of 2019. The lower effective tax rate in the third quarter and first nine months of 2020 was primarily due to the change in mix of income generated in jurisdictions with lower tax rates in 2020 as compared to 2019.

(\$ in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Domestic income before taxes	\$ 322.8	\$ 579.8	\$ 792.5	\$ 1,695.5
Foreign income before taxes	167.1	197.8	343.6	715.9
Total income before taxes	\$ 489.9	\$ 777.6	\$ 1,136.1	\$ 2,411.4
Domestic pre-tax return on revenues	11.2%	14.5%	10.7%	14.7%
Foreign pre-tax return on revenues	8.1%	8.3%	6.0%	9.0%
Total pre-tax return on revenues	9.9%	12.2%	8.6%	12.4%

For the third quarter and first nine months of 2020, both domestic and foreign income before income taxes and pre-tax return on revenues decreased primarily due to lower revenues and lower margins from truck operations.

LIQUIDITY AND CAPITAL RESOURCES:

(\$ in millions)	September 30 2020	December 31 2019
Cash and cash equivalents	\$ 3,344.3	\$ 4,175.1
Marketable debt securities	1,194.3	1,162.1
	\$ 4,538.6	\$ 5,337.2

The Company's total cash and marketable debt securities at September 30, 2020 decreased \$798.6 million from the balances at December 31, 2019, primarily due to a decrease in cash and cash equivalents, primarily reflecting \$1,128.9 million of dividends paid during the first nine months of 2020.

The change in cash and cash equivalents is summarized below:

(\$ in millions)	2020	2019
<i>Nine Months Ended September 30.</i>		
Operating activities:		
Net income	\$ 892.6	\$ 1,856.6
Net income items not affecting cash	841.8	857.2
Changes in operating assets and liabilities, net	458.1	(797.2)
Net cash provided by operating activities	2,192.5	1,916.6
Net cash used in investing activities	(1,034.3)	(1,556.5)
Net cash used in financing activities	(1,988.0)	(88.7)
Effect of exchange rate changes on cash	(1.0)	(37.8)
Net (decrease) increase in cash and cash equivalents	(830.8)	233.6
Cash and cash equivalents at beginning of period	4,175.1	3,435.9
Cash and cash equivalents at end of period	\$ 3,344.3	\$ 3,669.5

Operating activities: Cash provided by operations increased by \$275.9 million to \$2,192.5 million in the first nine months of 2020 from \$1,916.6 million in 2019. Higher operating cash flows reflect \$1,258.5 million from wholesale receivables as the first nine months of 2020 was a cash inflow of \$785.7 million versus a cash outflow of \$472.8 million in 2019. There was a \$436.2 million increase from accounts receivables as sales of goods and services exceeding collections were lower in 2020 compared to 2019. In addition, higher operating cash flows reflect lower net purchases of inventories of \$147.1 million as there was \$11.9 million in net inventory reductions in 2020 versus \$135.2 million in net purchases in 2019. The higher operating cash inflows were partially offset by lower net income of \$964.0 million and lower cash inflows of \$325.3 million from accounts payable and accrued expenses as purchases of goods and services exceeding payments were lower in 2020 compared to 2019. The higher cash inflows were also offset by higher outflows from product support liabilities of \$204.9 million as payments exceeded accruals by \$79.2 million in 2020 and accruals exceeded payments by \$125.7 million in 2019. Additionally, there were higher cash outflows for pension contributions of \$110.1 million.

Investing activities: Cash used in investing activities decreased by \$522.2 million to \$1,034.3 million in the first nine months of 2020 from \$1,556.5 million in 2019. Lower net cash used in investing activities reflects lower net originations from retail loans and finance leases of \$154.2 million and lower cash used in the acquisition of equipment for operating leases of \$331.7 million. In addition, lower net cash used reflects \$65.1 million in lower net purchases of marketable securities in the first nine months of 2020 compared to 2019. The lower cash usage was partially offset by lower proceeds from asset disposals of \$58.3 million.

Financing activities: Cash used in financing activities was \$1,988.0 million for the first nine months of 2020, \$1,899.3 million higher than the \$88.7 million in 2019. In the first nine months of 2020, the Company issued \$2,031.3 million of term debt, repaid term debt of \$1,419.1 million and decreased its outstanding commercial paper and short-term bank loans by \$1,471.0 million. In the first nine months of 2019, the Company issued \$2,056.2 million of term debt, repaid term debt of \$1,677.2 million and increased its outstanding commercial paper and short-term bank loans by \$636.5 million. This resulted in cash used by borrowing activities of \$858.8 million in the first nine months of 2020, \$1,874.3 million lower than the cash provided by borrowing activities of \$1,015.5 million in 2019. The Company paid \$1,128.9 million in dividends in the first nine months of 2020 compared to \$1,027.8 million in 2019 due to a higher extra dividend paid in January 2020. In addition, the Company repurchased .7 million shares of common stock for \$41.6 million in the first nine months of 2020 compared to the purchase of 1.7 million shares for \$110.2 million in the same period last year.

Credit Lines and Other

The Company has line of credit arrangements of \$3.52 billion, of which \$3.30 billion were unused at September 30, 2020. Included in these arrangements are \$3.00 billion of committed bank facilities, of which \$1.00 billion expires in June 2021, \$1.00 billion expires in June 2023 and \$1.00 billion expires in June 2024. The Company intends to extend or replace these credit facilities on or before expiration to maintain facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the committed bank facilities for the nine months ended September 30, 2020.

On December 4, 2018, PACCAR's Board of Directors approved the repurchase of up to \$500.0 million of the Company's outstanding common stock. As of September 30, 2020, the Company has repurchased \$110.0 million of shares under the December 4, 2018 authorization. The Company has temporarily suspended its repurchases as a result of the economic uncertainty related to the COVID-19 pandemic.

Truck, Parts and Other

The Company provides funding for working capital, capital expenditures, R&D, dividends, stock repurchases and other business initiatives and commitments primarily from cash provided by operations. Management expects this method of funding to continue in the future.

Investments for manufacturing property, plant and equipment in the first nine months of 2020 were \$431.1 million compared to \$498.0 million for the same period of 2019. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled \$7.12 billion and have significantly increased the operating capacity and efficiency of its facilities and enhanced the quality and operating efficiency of the Company's premium products.

In 2020, total capital investments for PACCAR are expected to be \$570 to \$600 million and R&D is expected to be \$270 to \$280 million. In 2021, capital investments are projected to be \$575 to \$625 million and R&D is expected to be \$330 to \$360 million. The Company is investing for long-term growth in aerodynamic truck models, diesel and zero emissions powertrain technologies, advanced driver assistance systems, connected vehicle services and next-generation manufacturing and distribution capabilities.

Financial Services

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

In November 2018, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of September 30, 2020 was \$6.35 billion. In October 2020, PFC issued an additional \$100.0 million of medium-term notes under this registration. The registration expires in November 2021 and does not limit the principal amount of debt securities that may be issued during that period.

As of September 30, 2020, the Company's European finance subsidiary, PACCAR Financial Europe, had €1.60 billion available for issuance under a €2.50 billion medium-term note program listed on the Euro MTF Market of the Luxembourg Stock Exchange. This program replaced an expiring program in the second quarter of 2020 and is renewed annually through the filing of a new listing.

In April 2016, PACCAR Financial Mexico registered a 10.00 billion peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in April 2021 and limits the amount of commercial paper (up to one year) to 5.00 billion pesos. At September 30, 2020, 8.10 billion pesos were available for issuance.

In August 2018, the Company's Australian subsidiary, PACCAR Financial Pty. Ltd. (PFPL), registered a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFPL as of September 30, 2020 was 450.0 million Australian dollars.

The Company believes its cash balances and investments, collections on existing finance receivables, committed bank facilities and current investment-grade credit ratings of A+/A1 will continue to provide it with sufficient resources and access to capital markets at competitive interest rates and therefore contribute to the Company maintaining its liquidity and financial stability. In the event of a decrease in the Company's credit ratings or a disruption in the financial markets, the Company may not be able to refinance its maturing debt in the financial markets. In such circumstances, the Company would be exposed to liquidity risk to the degree that the timing of debt maturities differs from the timing of receivable collections from customers. The Company believes its various sources of liquidity, including committed bank facilities, would continue to provide it with sufficient funding resources to service its maturing debt obligations.

FORWARD-LOOKING STATEMENTS:

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions or other regulations or tariffs resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient liquidity in the capital markets; fluctuations in interest rates; changes in the levels of the Financial Services segment new business volume due to unit fluctuations in new PACCAR truck sales or reduced market shares; changes affecting the profitability of truck owners and operators; price changes impacting truck sales prices and residual values; insufficient supplier capacity or access to raw materials; labor disruptions; shortages of commercial truck drivers; increased warranty costs; pandemics; litigation, including EC settlement-related claims; or legislative and governmental regulations. A more detailed description of these and other risks is included under the headings Part 1, Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and in Part II, Item 1, "Legal Proceedings" and Part II, Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's market risk during the nine months ended September 30, 2020. For additional information, refer to Item 7A as presented in the 2019 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II – OTHER INFORMATION

For Items 3, 4 and 5, there was no reportable information for the nine months ended September 30, 2020.

ITEM 1. LEGAL PROCEEDINGS

On July 19, 2016, the European Commission (EC) concluded its investigation of all major European truck manufacturers and reached a settlement with DAF. Following the settlement, claims and lawsuits have been filed against the Company, DAF and certain DAF subsidiaries and other truck manufacturers in various European jurisdictions. These claims and lawsuits include a number of collective proceedings, including proposed class actions in the United Kingdom, alleging EC-related claims and seeking unspecified damages. Others may bring EC-related claims and lawsuits against the Company or its subsidiaries. While the Company believes it has meritorious defenses, such claims and lawsuits will likely take a significant period of time to resolve. The Company cannot reasonably estimate a range of loss, if any, that may result given the early stage of these claims and lawsuits. An adverse outcome of such proceedings could have a material impact on the Company's results of operations.

PACCAR is also a defendant in various other legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these various other proceedings and contingent liabilities will have a material effect on the consolidated financial statements.

ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as presented in the 2019 Annual Report on Form 10-K. There have been no material changes in the Company's risk factors during the nine months ended September 30, 2020, except for the following:

COVID-19 Pandemic. The COVID-19 pandemic and various governmental responses to contain the outbreak have resulted in a significant reduction in global economic activity. National and local governments have issued various stay-at-home orders, travel restrictions and border closures affecting consumers and businesses. These restrictions have been lifted to various degrees in different locations, but are subject to being re-imposed. The Company's operations have been designated as essential businesses in many jurisdictions as they support the transport of food, medical supplies and other essential materials which means the Company may operate under certain conditions including ensuring employee health and safety is maintained. The Company's workforce at a given location could be affected by a localized outbreak of COVID-19, necessitating facility shutdowns. If the Company suspends production at one or more of its factories as a result of the pandemic or related impacts, or if one or more of the Company's suppliers could not produce needed parts or not produce at sufficient volumes to support the Company's production plans or aftermarket requirements, revenues and operating results could be adversely affected.

The full extent and duration of the adverse effect on the Company's business is uncertain and depends on the severity of the pandemic and how quickly and to what extent global and local economies are able to recover from the effects of the pandemic. Prolonged unemployment, changes in consumer behavior as a result of COVID-19, as well as other pandemic related economic factors such as business failures, lower housing and construction starts, lower automobile sales and disruptions in financial markets could have further adverse effects on the Company's truck and parts revenues and operating results and may result in higher finance portfolio past dues, credit losses and used truck losses. Other unforeseen impacts of the COVID-19 pandemic could also impact the Company's business and results of operations.

U.K. Exit from the European Union (EU). The U.K. formally exited the EU on January 31, 2020. Under the withdrawal agreement between the U.K. and the EU, there is a transition period that will last until December 31, 2020. During the transition period, all EU rules and regulations continue to apply to the U.K. During 2020, the U.K. and the EU intend to conclude new agreements concerning their future relationship. If no agreement is reached or there is no mutually agreed extension of the transition period, the standard trade protocols of the World Trade Organization (WTO) would become effective for imports into the EU from the U.K., and the U.K. Global Tariff Table would apply for imports into the U.K. from the EU.

The Company manufactures medium- and heavy-duty DAF trucks in the U.K. which are sold primarily in the U.K. and to a lesser extent in Europe and other world markets. In 2019, approximately 10% of the Company's worldwide truck production was manufactured in the U.K. In the event the U.K. Global Tariff Table becomes effective, it is anticipated there would be an increase in tariffs on truck components and parts from the EU which would increase the cost of all trucks and parts in the U.K. For exports from the U.K. into the EU, there would be an increase in costs of trucks and parts as a result of the standard trade protocols of the WTO. The higher cost of trucks and parts may impact truck and parts sales and margins which could have an adverse impact on the Company's results of operations. The Company's results could also be impacted by the uncertainty regarding timing and terms of the final agreement, which could impact capital investment decisions.

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

For Items 2(a) and (b), there was no reportable information for the nine months ended September 30, 2020.

(c) Issuer purchases of equity securities.

On December 4, 2018, PACCAR's Board of Directors approved the repurchase of up to \$500.0 million of the Company's outstanding common stock. As of September 30, 2020, the Company has repurchased \$110.0 million of shares under this plan. There were no repurchases made under this plan during the third quarter of 2020.

ITEM 6. EXHIBITS

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

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(3) (i)	Articles of Incorporation:				
	Amended and Restated Certificate of Incorporation of PACCAR Inc	8-K	May 4, 2018	3(i)	001-14817
	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of PACCAR Inc	8-K	April 24, 2020	3(i)	001-14817
(ii)	Bylaws:				
	Sixth Amended and Restated Bylaws of PACCAR Inc	8-K	December 7, 2018	3(ii)	001-14817
(4)	Instruments defining the rights of security holders, including indentures**:				
(a)	Indenture for Senior Debt Securities dated as of November 20, 2009 between PACCAR Financial Corp. and The Bank of New York Mellon Trust Company, N.A.	S-3	November 20, 2009	4.1	333-163273
(b)	Forms of Medium-Term Note, Series O (PACCAR Financial Corp.)	S-3	November 5, 2015	4.2 and 4.3	333-207838
(c)	Forms of Medium-Term Note, Series P (PACCAR Financial Corp.)	S-3	November 2, 2018	4.2 and 4.3	333-228141
(d)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Listing Particulars dated May 9, 2018	10-Q	August 3, 2018	4(h)	001-14817
(e)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Listing Particulars dated July 4, 2019	10-Q	October 30, 2019	4(i)	001-14817
(f)	Terms and Conditions of the Notes applicable to the €2,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Information Memorandum dated May 29, 2020	10-Q	August 3, 2020	4(h)	001-14817
(g)	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	February 19, 2020	4(j)	001-14817
**	Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the Company and its wholly owned subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the Company's total assets. The Company will file copies of such instruments upon request of the Commission.				
(10)	Material Contracts:				
(a)	PACCAR Inc Amended and Restated Supplemental Retirement Plan	10-K	February 27, 2009	10(a)	001-14817
(b)	Amended and Restated Deferred Compensation Plan	10-Q	May 10, 2012	10(b)	001-14817
(c)	Deferred Incentive Compensation Plan (Amended and Restated as of December 31, 2004)	10-K	February 27, 2006	10(b)	001-14817
(d)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors	DEF14A	March 14, 2014	Appendix A	001-14817

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(e)	PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Deferred Restricted Stock Unit Agreement for Non-Employee Directors	8-K	December 10, 2007	99.3	001-14817
(f)	Amendment to Compensatory Arrangement with Non-Employee Directors	10-K	February 26, 2015	10(g)	001-14817
(g)	PACCAR Inc Senior Executive Yearly Incentive Compensation Plan	10-K	February 19, 2020	10(g)	001-14817
(h)	PACCAR Inc Long Term Incentive Plan	10-K	February 19, 2020	10(h)	001-14817
(i)	Amendment One to PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement	10-Q	August 7, 2013	10(k)	001-14817
(j)	PACCAR Inc Long Term Incentive Plan, 2014 Form of Nonstatutory Stock Option Agreement	10-Q	August 7, 2013	10(l)	001-14817
(k)	PACCAR Inc Long Term Incentive Plan, 2016 Restricted Stock Award Agreement	10-Q	August 6, 2015	10(q)	001-14817
(l)	PACCAR Inc Long Term Incentive Plan, 2018 Form of Restricted Stock Award Agreement	10-K	February 21, 2019	10(m)	001-14817
(m)	PACCAR Inc Long Term Incentive Plan, Form of Restricted Stock Unit Agreement	10-K	February 21, 2019	10(n)	001-14817
(n)	PACCAR Inc Savings Investment Plan, Amendment and Restatement effective September 1, 2016	10-Q	November 4, 2016	10(q)	001-14817
(o)	Memorandum of Understanding, dated as of May 11, 2007, by and among PACCAR Engine Company, the State of Mississippi and certain state and local supporting governmental entities	8-K	May 16, 2007	10.1	001-14817
(p)	Letter Waiver Dated as of July 22, 2008 amending the Memorandum of Understanding, dated as of May 11, 2007, by and among PACCAR Engine Company, the State of Mississippi and certain state and local supporting governmental entities	10-Q	October 27, 2008	10(o)	001-14817
(q)	Second Amendment to Memorandum of Understanding dated as of September 26, 2013, by and among PACCAR Engine Company, the Mississippi Development Authority and the Mississippi Major Economic Impact Authority	10-Q	November 7, 2013	10(u)	001-14817
(r)	Third Amendment to Memorandum of Understanding dated as of November 12, 2019, by and among PACCAR Engine Company, the Mississippi Development Authority and the Mississippi Major Economic Impact Authority	10-K	February 19, 2020	10(r)	001-14817
(s)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Deferred Restricted Stock Unit Grant Agreement	10-K	February 26, 2015	10(t)	001-14817
(t)	Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Restricted Stock Grant Agreement	10-K	February 26, 2015	10(u)	001-14817

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
(31)	Rule 13a-14(a)/15d-14(a) Certifications:				
	(a) Certification of Principal Executive Officer*				
	(b) Certification of Principal Financial Officer*				
(32)	Section 1350 Certifications:				
	Certification pursuant to rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350)*				
(101.INS)	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
(101.SCH)	Inline XBRL Taxonomy Extension Schema Document*				
(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document*				
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document*				
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document*				
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document*				
(104)	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)*				

* filed herewith

SIGNATURE

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

PACCAR Inc
(Registrant)

Date November 2, 2020

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

CERTIFICATION

I, R. Preston Feight, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 2, 2020

/s/ R. Preston Feight
R. Preston Feight
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Harrie C.A.M. Schippers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 2, 2020

/s/ Harrie C.A.M. Schippers
Harrie C.A.M. Schippers
President and Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of PACCAR Inc (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that to the best of our knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date November 2, 2020

By /s/ R. Preston Feight
R. Preston Feight
Chief Executive Officer
PACCAR Inc
(Principal Executive Officer)

By /s/ Harrie C.A.M. Schippers
Harrie C.A.M. Schippers
President and Chief Financial Officer
PACCAR Inc
(Principal Financial Officer)

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