THOR INDUSTRIES INC
Form 10-K
October 01, 2007

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year ended July 31, 2007, Commission File Number 1-9235
THOR INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	93-0768752
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
419 W. Pike Street, Jackson Center, Ohio	45334-0629
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (937) 596-6849
Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class:	Name of each exchange on which registered:
Common Stock (par value $.10 per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
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 the filing requirements for the past 90 days. Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act.) Yes o No þ
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of January 31, 2007 was $1,528,332,097, based on the closing price of the registrant s common shares on January 31, 2007, the last business day of the registrant s most recently completed second fiscal quarter. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant (ii) executive officers of the registrant who are identified as named executive officers pursuant to Item 11 of the registrant s Form 10-K and (iii) any shareholder that beneficially owns

10% or more of the registrant s common stock. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant. The number of common shares of registrant s stock outstanding as of September 14, 2007 was 55,801,554. Documents incorporated by reference:
Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on December 4, 2007 are incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I

Unless otherwise indicated, all amounts presented in thousands except units, square feet, share and per share data.

ITEM 1. BUSINESS

General Development of Business

Our company was founded in 1980 and produces and sells a wide range of recreation vehicles and small and mid-size buses in the United States and Canada. We are incorporated in Delaware and are the successor to a corporation of the same name which was incorporated in Nevada on July 29, 1980. Our principal executive office is located at 419 West Pike Street, Jackson Center, Ohio 45334 and our telephone number is (937) 596-6849. Our Internet address is *www.thorindustries.com.* We maintain current reports, available free of charge, on our web site.

Our principal recreation vehicle operating subsidiaries are Airstream, Inc. (*Airstream*), CrossRoads RV *(CrossRoads)*, Dutchmen Manufacturing, Inc. (*Dutchmen*), Four Winds International, Inc. (*Four Winds*), Keystone RV Company (*Keystone*), Komfort Corp. (*Komfort*), Citair, Inc. (*Citair*), Thor California, Inc. (*Thor California*), and Damon Corporation *(Damon)*. Our principal bus operating subsidiaries are Champion Bus, Inc. (*Champion*), ElDorado National California, Inc. (*ElDorado California*), ElDorado National Kansas, Inc. (*ElDorado Kansas*) and Goshen Coach, Inc. *(Goshen Coach)*.

On November 1, 2004 we completed our acquisition of the stock of DS Corp. dba CrossRoads RV, an Indiana corporation (CrossRoads), pursuant to an Agreement and Plan of Merger (the Merger Agreement), dated as of October 28, 2004, by and among our Company, Thor Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of our Company (Acquisition Subsidiary), CrossRoads and the securityholders of CrossRoads. CrossRoads is engaged in the business of manufacturing towable recreation vehicles. Under the terms of the Merger Agreement, Acquisition Subsidiary merged with and into CrossRoads, and CrossRoads continued as the surviving corporation (the Merger). In addition, as part of the Merger, certain members of management of CrossRoads entered into non-competition agreements with our Company.

The purchase price paid by us for the acquisition of the stock of CrossRoads was $28,030, which was payable in cash and was funded from our cash on hand. The fair value of assets acquired and liabilities assumed was $32,958 and $4,928 respectively. The purchase price allocation includes $1,176 of non-compete agreements, which will be amortized over two to seven years, $20,485 of goodwill and $794 for trademarks that are not currently subject to amortization.

On May 27, 2005, we completed our acquisition of the Goshen Coach Division of Veritrans Specialty Vehicles, Inc. pursuant to an asset purchase agreement dated May 26, 2005 for cash of $10,083. The fair value of assets acquired and liabilities assumed was $10,354 and $271 respectively.

Recreation Vehicles

We believe that we are the largest unit and revenue manufacturer of recreation vehicles in North America based on retail statistics published by Statistical Surveys, Inc. and publicly reported results.

Airstream

Our Airstream subsidiary manufactures and sells premium and medium-high priced travel trailers and motorhomes under the trade name *Airstream Classic*. Airstream Classic vehicles are distinguished by their rounded shape and bright aluminum finish and, in our opinion, constitute the most recognized product in the recreation vehicle industry. Airstream, responding to the demands of the market for a lighter, lower-cost product, also manufactures and sells the Airstream *Safari*, *International, Bambi* and *Base Camp* travel trailers. Airstream also sells the *Interstate* Class B motorhome.

Dutchmen

Our Dutchmen subsidiary manufactures and sells conventional travel trailers and fifth wheels primarily under the trade names *Dutchmen*, *Four Winds, Aero, T@b*, *Grand Junction* and *Colorado*.

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Four Winds

Our Four Winds subsidiary manufactures and sells gasoline and diesel Class C and Class A motorhomes. Its products are sold under trade names such as *Four Winds*, *Hurricane*, *Windsport, Mandalay, Presidio, Dutchmen*, *Chateau* and *Fun Mover*.

CrossRoads

Our CrossRoads subsidiary manufactures and sells conventional travel trailers and fifth wheels under the trade names *Cross Terrain, Cruiser, Zinger and Sunset Trail.*

Citair

Our Citair subsidiary manufactures moderately-priced travel trailers, fifth wheels, Class C motorhomes and truck campers. It operates under the name *General Coach* and sells recreation vehicles under the trade names *Citation* and *Corsair*.

Keystone

Our Keystone subsidiary manufactures and sells travel trailers and fifth wheels under trade names such as *Montana*, *Springdale*, *Hornet*, *Sprinter*, *Outback*, *Laredo*, *Everest*, *Mountaineer*, *Challenger*, and *Cougar*.

Komfort

Our Komfort subsidiary manufactures and sells travel trailers and fifth wheels under the trade names *Komfort* and *Trailblazer* primarily in the western United States and western Canada.

Thor California

Our Thor California subsidiary manufactures and sells travel trailers and fifth wheels under the trade names *Tahoe, Summit, Wave* and *Jazz* primarily in the western United States.

Damon Motor Coach

Damon Motor Coach manufactures and sells gasoline and diesel Class A motor homes under the names *Daybreak, Challenger, Astoria, Tuscany* and *Outlaw*.

Breckenridge

Breckenridge is the park model division of Damon Corporation. Park models are factory built second homes designed for recreational living. They are towed to a destination site such as a lake, woods or park and are considered a country cottage.

Buses

We believe that our bus segment is the largest unit manufacturer of small and mid-size commercial buses in North America based on statistics published by the Mid-Size Bus Manufacturers Association.

ElDorado National

ElDorado National, comprised of our ElDorado Kansas and ElDorado California subsidiaries, manufactures and sells buses for transit, airport car rental and hotel/motel shuttles, paramedical transit for hospitals and nursing homes, tour and charter operations and other uses.

ElDorado National manufactures and sells buses under trade names such as *Aerolite*, *AeroElite*, *Aerotech*, *Escort*, *MST*, *Transmark*, *EZ Rider,* and *Axess,* its 40 foot bus. ElDorado National s plants are located in Salina, Kansas and Riverside, California.

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Champion Bus
Champion manufactures and sells small and mid-size buses under trade names such as *Challenger*, *Defender*, and *Crusader*.
Goshen Coach
Goshen Coach manufactures and sells small and mid-size buses under trade names such as *GC II* and *Pacer*.
Product Line Sales and Segment Information
The Company has three reportable segments: 1.) towable recreation vehicles, 2.) motorized recreation vehicles, and 3.) buses. The towable recreation vehicle segment consists of product lines from the following operating companies that have been aggregated: Airstream, Breckenridge, CrossRoads, Dutchmen, General Coach Hensall & Oliver, Keystone, Komfort, and Thor California. The motorized recreation vehicle segment consists of product lines from the following operating companies that have been aggregated: Airstream, Damon, Four Winds and Oliver. The bus segment consists of the following operating companies that have been aggregated: Champion Bus, ElDorado California, ElDorado Kansas, and Goshen Coach.
The table below sets forth the contribution of each of the Company s product lines to net sales in each of the last three fiscal years.

	2007		2006		2005	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Recreation Vehicles:						
Towables	$ 1,890,100	66	$ 2,173,483	71	$ 1,742,108	68
Motorized	565,523	20	577,025	19	566,138	22
Total Recreation Vehicles	2,455,623	86	2,750,508	90	2,308,246	90
Buses	400,685	14	315,768	10	249,895	10
Total Net Sales	$ 2,856,308	100	$ 3,066,276	100	$ 2,558,141	100

Additional information concerning business segments is included in Note L of the Notes to the Company s Consolidated Financial Statements.
Recreation Vehicles
Overview
We manufacture and sell a wide variety of recreation vehicles throughout the United States and Canada, as well as related parts and accessories. Recreation vehicle classifications are based upon standards established by the Recreation Vehicle Industry Association (RVIA). The principal types of recreation vehicles that we produce include conventional travel trailers, fifth wheels, Class A and Class C motorhomes and park models.
Travel trailers are non-motorized vehicles which are designed to be towed by passenger automobiles, pickup trucks, SUV s or vans. Travel trailers provide comfortable, self-contained living facilities for short periods of time. We produce conventional, and fifth wheel travel trailers. Conventional trailers are towed by means of a frame hitch attached to the towing vehicle. Fifth wheel trailers, designed to be towed by pickup trucks, are constructed with a raised forward section that is attached to the bed area of the pickup truck.
Park models are recreational dwellings towed to a permanent site such as a lake, woods or park. The maximum size of park models is 400 square feet. They provide comfortable self contained living and are second homes for their owners, according to *The Recreational Park Trailer Association.*
A motorhome is a self-powered vehicle built on a motor vehicle chassis. Motorhomes are self-contained with their own lighting, heating, cooking, refrigeration, sewage holding and water storage facilities, so that they can be lived in without being attached to utilities.
Class A motorhomes, constructed on medium-duty truck chassis, are supplied complete with engine and drive train components by motor vehicle manufacturers such as Workhorse Custom Chassis, Spartan, Ford and Freightliner. We

design, manufacture and install the living area and driver s compartment of Class A motorhomes. Class C motorhomes are built on a Ford, General Motors or Daimler

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Chrysler small truck or van chassis which includes an engine, drive train components, and a finished cab section. We construct a living area which has access to the driver s compartment and attaches to the cab section. Although they are not designed for permanent or semi-permanent living, motorhomes can provide comfortable living facilities for short periods of time.

Production

In order to minimize finished inventory, our recreation vehicles generally are produced to order. Our facilities are designed to provide efficient assembly line manufacturing of products. Capacity increases can be achieved at relatively low cost, largely by increasing the number of production employees or by acquiring or leasing additional facilities and equipment.

We purchase in finished form many of the components used in the production of our recreation vehicles. The principal raw materials used in the manufacturing processes for motorhomes and travel trailers are aluminum, lumber, plywood, plastic, fiberglass, and steel purchased from numerous suppliers. We believe that, except for chassis, substitute sources for raw materials and components are available with no material impact on our operations. We are able to obtain the benefit of volume price discounts for many of our purchases of raw materials and components by centralized purchasing.

Our relationship with our chassis suppliers is similar to all buyer/vendor relationships and no special contractual commitment is engaged in by either party. Historically, Ford and General Motors resort to an industry-wide allocation basis during restriction of supply. These allocations would be based on the volume of chassis previously purchased. Sales of motor homes and small buses rely on these chassis and are affected accordingly.

Generally, all of our operating subsidiaries introduce new or improved lines or models of recreation vehicles each year. Changes typically include new sizes and floorplans, different decors or design features, and engineering improvements.

Seasonality

Since recreation vehicles are used primarily by vacationers and campers, our recreation vehicle sales are seasonal and, in most geographical areas, tend to be significantly lower during the winter months than in other periods. As a result, recreation vehicle sales are historically lowest during the second fiscal quarter, which ends on January 31 of each year.

Marketing and Distribution

We market our recreation vehicles through independent dealers located throughout the United States and Canada. Each of our recreation vehicle operating subsidiaries maintains its own dealer organization, with some dealers carrying more than one of our product lines. As of July 31, 2007, there were approximately 1,532 dealers carrying our products in the U.S. and Canada. We believe that close working relationships between our management and sales personnel and the many independent dealers provide us with valuable information on customer preferences and the quality and marketability of our products. Additionally, by maintaining substantially separate dealer networks for each of our subsidiaries, our products are more likely to be competing against competitor s products in similar price ranges rather than against our other products. Park models are typically sold by park model dealers as well as by some travel trailer dealers.

Each of our recreation vehicle operating subsidiaries has an independent sales force to call on their dealers. Our most important sales promotions occur at the major recreation vehicle shows for dealers which take place throughout the year at different locations across the country. We benefit from the recreation vehicle awareness advertising and major marketing programs sponsored by the RVIA in national print media and television. We engage in a limited amount of consumer-oriented advertising for our recreation vehicles, primarily through industry magazines, the distribution of product brochures, direct mail advertising campaigns and the internet.

In our selection of individual dealers, we emphasize the dealer s financial strength to maintain a sufficient inventory of our products, as well as their reputation, experience, and ability to provide service. Many of our dealers carry the recreation vehicle lines of one or more of our competitors. Each of our operating subsidiaries has sales agreements with their dealers and these agreements are subject to annual review. No single recreation vehicle dealer accounted for more than 10% of our consolidated net sales of recreation vehicles during fiscal 2007.

Substantially all of our sales to dealers are made on terms requiring cash on delivery or within 10 days thereafter. We generally do not finance dealer purchases. Most dealers are financed on a floorplan basis by an unrelated bank or financing company which lends the dealer all or substantially all of the wholesale purchase price and retains a security interest in the vehicles purchased. As is customary

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in the recreation vehicle industry, we will execute a repurchase agreement with a lending institution financing a dealer s purchase of our products upon the lending institution s request and after completion of a credit investigation of the dealer involved. Repurchase agreements provide that for up to 12 months after a unit is financed and in the event of default by the dealer we will repurchase the unit repossessed by the lending institution for the amount then due, which is often less than 100% of the dealer s cost. The risk of loss under repurchase agreements is spread over numerous dealers and is further reduced by the resale value of the units which we would be required to repurchase. In our experience, losses under repurchase agreements have not been significant and we believe that any future losses under these agreements would not have a material adverse effect on our company.

The losses incurred due to repurchase were approximately $1,017, $648 and $1,865 in fiscal 2007, 2006 and 2005, respectively.

Joint Ventures

In March 1996, our Company and Cruise America, Inc. formed a 50/50 ownership joint venture, CAT Joint Venture LLC, to make short-term rentals of motorized recreation vehicles to the public. As of July 31, 2007 we were contingently liable for repurchase obligations of CAT Joint Venture inventory in the amount of approximately $14,498.

Thor Credit Corporation, a 50/50 ownership joint venture with GE Consumer Finance and operated by GE Consumer Finance, provides retail credit to ultimate purchasers of any recreation vehicle purchased from a Thor dealer. This retail credit program is not limited to Thor products.

Backlog

As of July 31, 2007, the backlog for towable and motorized recreation vehicle orders was $276,136 and $84,718, respectively, compared to $229,823 and $103,214, respectively, at July 31, 2006. Backlog represents unfilled dealer orders on a particular day which can and do fluctuate on a seasonal basis. In the recreation vehicle business our manufacturing time is quite short.

Historically, the amount of our current backlog compared to our backlog in previous periods reflects general economic and industry conditions and, together with other relevant factors such as continued acceptance of our products by the consumer, may be an indicator of our revenues in the near term.

Warranties

We currently provide purchasers of our recreation vehicles with a standard one or two-year limited warranty against defects in materials and workmanship and a standard two year limited warranty on certain major components separately warranted by the suppliers of these components. The chassis and engines of our motorhomes are warranted for three years or 36,000 miles by their manufacturers. A wholly owned captive insurance company provides coverage for product warranties.

Buses

Overview

Our line of buses are sold under the names ElDorado National, Champion Bus and Goshen Coach. Our line of small and mid-size buses consists of airport shuttle buses, intra-urban and inter-urban mass transportation buses, and buses for tourist uses. Our *Axess* 40 foot bus is designed for transit and airport shuttle uses.

Production

Our bus production facilities in Salina, Kansas; Riverside, California; Imlay City, Michigan; and Elkhart, Indiana are designed to provide efficient assembly line manufacturing of our buses. The vehicles are produced according to specific orders which are normally obtained by dealers.

Some of the chassis, all of the engines and auxiliary units, and some of the seating and other components used in the production of our small and mid-size buses are purchased in finished form. Our Riverside, California, facility assembles chassis for our rear engine buses from industry standard components and assembles these buses directly on the chassis.

The principal raw materials used in the manufacturing of our buses are fiberglass, steel, aluminum, plywood, and plastic. We purchase most of the raw materials and components from numerous suppliers. We purchase most of our bus chassis from Ford, Freightliner and General Motors and engines from Cummins, Caterpillar, and John Deere. We believe that, except for chassis, raw materials and components could be purchased from other sources, if necessary, with no material impact on our operations.

Marketing and Distribution

We market our small and mid-size buses through a network of 65 independent dealers in the United States and Canada. We select dealers using criteria similar to those used in selecting recreation vehicle dealers. During fiscal 2007, one of our dealers accounted for 22% of the Company s bus net sales and another accounted for 12%. We also sell our small and mid-size buses directly to certain national accounts such as major rental car companies, hotel chains, and transit authorities. Most of our bus sales are derived from contracts with state and local transportation authorities, in some cases with partial funding from federal agencies.

Terms of sale are typically cash on delivery or through national floorplan financing institutions. Sales to some state transportation agencies and other government agencies may be on longer terms.

Backlog

As of July 31, 2007 the backlog for bus orders was $228,862 compared to $216,454 at July 31, 2006. The time for fulfillment of bus orders is substantially longer than in the recreation vehicle industry because generally buses are made to customer specification. The existing backlog of bus orders is expected to be filled in fiscal 2008. Historically, the amount of our current backlog compared to our backlog in previous periods reflects general economic and industry conditions and, together with other relevant factors such as continued acceptance of our products by the consumer, may be an indicator of our revenues in the near term.

Warranties

We currently provide purchasers of our buses with a limited warranty for one year or 12,000 miles against defects in materials and workmanship, excluding only certain specified components which are separately warranted by suppliers. We provide body structure warranty on buses ranging from 2 years 50,000 miles to 5 years 75,000 miles. The chassis and engines of our small and mid-size buses are warranted for three years or 36,000 miles by their manufacturers. A wholly owned captive insurance company provides coverage for product warranties.

Regulation

We are subject to the provisions of the National Traffic and Motor Vehicle Safety Act and the safety standards for recreation vehicles, buses and recreation vehicle and bus components which have been promulgated thereunder by the U.S. Department of Transportation. Because of our sales in Canada, we are also governed by similar laws and regulations issued by the Canadian government.

We are a member of the RVIA, a voluntary association of recreation vehicle manufacturers which promulgates recreation vehicle safety standards. We place an RVIA seal on each of our recreation vehicles to certify that the RVIA s standards have been met.

Both federal and state authorities have various environmental control standards relating to air, water, and noise pollution which affect our business and operations. For example, these standards, which are generally applicable to all companies, control our choice of paints, discharge of air compressor waste water and noise emitted by factories. We rely upon certifications obtained by chassis manufacturers with respect to compliance by our vehicles with all applicable emission control standards.

We are also subject to the regulations promulgated by the Occupational Safety and Health Administration, or OSHA. Our plants are periodically inspected by federal agencies concerned with health and safety in the work place, and by the RVIA, to ensure that our products comply with applicable governmental and industry standards.

We believe that our products and facilities comply in all material respects with applicable vehicle safety, environmental, RVIA, and OSHA regulations.

We do not believe that compliance with the regulations discussed above will have any material effect on our capital expenditures, earnings or competitive position.

Competition

Recreation Vehicles

The recreation vehicle industry is characterized by relative ease of entry, although the codes, standards, and safety requirements introduced in recent years are a deterrent to new competitors. The need to develop an effective dealer network also acts as a barrier to entry. The recreation vehicle market is intensely competitive with a number of other manufacturers selling products which compete directly with our products. Competition in the recreation vehicle industry is based upon price, design, value, quality, and service. We believe that the quality, design, and price of our products and the warranty coverage and service that we provide allow us to compete favorably for retail purchasers of recreation vehicles. We estimate that we are the largest recreation vehicle manufacturer in terms of units produced and revenue. According to Statistical Surveys, for the 7 months ending July 31, 2007, our market share for travel trailers and fifth wheels was 31% and our market share for motorhomes was 14%.

Small and Mid-Size Buses

We estimate that we have a 38% market share of the U.S. and Canadian small and mid-size bus market. Our competitors offer lines of buses which compete with all of our products. Price, quality, and delivery are the primary competitive factors. As with recreation vehicles, we believe that the quality, design, and price of small and mid-size buses, the warranty coverage and service that we provide, and the loyalty of our customers allow us to compete favorably with similar products of our competitors.

Trademarks and Patents

We have registered United States and Canadian trademarks or licenses covering the principal trade names and model lines under which our products are marketed. We are not dependent upon any patents or technology licenses for the conduct of our business.

Employee Relations

At July 31, 2007, we had approximately 8,462 employees in the United States and 227 employees in Canada. Of these 8,689 employees, 1,108 are salaried. Citair s approximately 189 Canadian hourly employees are currently represented by certified labor organizations. Our Citair Hensall division labor contract was ratified on August 18, 2006 and will expire on August 18, 2009. Citair Oliver s labor contract was ratified on October 17, 2003 and will expire on October 16, 2008. Employees of our other subsidiaries are not represented by certified labor organizations. We believe that we maintain a good working relationship with our employees.

Information About Foreign and Domestic Operations and Export Sales

Sales from our Canadian operations and export sales to Canada from our U.S. operations amounted to approximately 1.2% and 12.7% in fiscal 2007, 1.3% and 10.0% in fiscal 2006 and 1.5% and 9.8% in fiscal 2005, respectively, of our total net sales to unaffiliated customers.

Forward Looking Statements

This Annual Report on Form 10-K includes certain statements that are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 as amended. These forward looking statements involve uncertainties and risks. There can be no assurance that actual results will not differ from the Company s expectations. Factors which could cause materially different results include, among others, additional issues that may arise in connection with the findings of the Audit Committee s investigation and the SEC s requests for additional information, the success of new product introductions, the pace of acquisitions and cost structure improvements, competition and general economic conditions and other risks and uncertainties discussed more fully in Item 1A. Risk Factors below. We disclaim any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained in this Annual Report on Form 10-K or to reflect any change in our expectations after the date of this Annual Report on Form 10-K or any change in events, conditions or circumstances on which any statement is based, except as required by law.

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Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports and the Proxy Statement for our Annual Meeting of Shareholders are made available, free of charge, on our web site, http://www.thorindustries.com, as soon as reasonably practicable after such reports have been filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

The following risk factors should be considered carefully in addition to the other information contained in this filing. The risks and uncertainties described below are not the only ones we face and represent some of the risks that our management believes are material to our company and our business. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed.

Risks Relating to Our Investigation

The SEC is reviewing the facts and circumstances giving rise to the restatement of our previously issued financial statements and related matters.

As previously announced, in connection with an internal review of our Dutchmen Manufacturing, Inc. operating subsidiary, we promptly and voluntarily informed the SEC of the Audit Committee s independent investigation, and have been responding to SEC staff requests for additional information in connection with the staff s investigation. We continue to be in discussions with the SEC and intend to cooperate fully with the SEC. The investigation by the SEC staff could result in the SEC seeking various penalties and relief, including, without limitation, civil injunctive relief and/or civil monetary penalties or administrative relief. The nature of the relief or remedies the SEC may seek, if any, cannot be predicted at this time.

Risks Relating To Our Business

The recreation vehicle and small and mid-size bus industries are highly competitive.

The recreation vehicle and bus industries that we are currently engaged in are highly competitive and we have numerous competitors and potential competitors. Competition in these industries is based upon price, design, value, quality and service. Competitive pressures, especially in the entry-level segment of the recreation vehicle market for travel trailers, have, from time to time, resulted in a reduction of our profit margins. Sustained increases in these competitive pressures could have a material adverse effect on our results of operations. There can be no assurance that existing or new competitors will not develop products that are superior to our recreation vehicles or small or mid-size buses or that achieve better consumer acceptance, thereby adversely affecting our market share, sales volume and profit margins.

Our businesses are cyclical and this can lead to fluctuations in our operating results.

The industries in which we operate are cyclical and there can be substantial fluctuations in our manufacturing, shipments and operating results. Consequently, the results for any prior period may not be indicative of results for any future period.

External factors affecting our business.

Companies within the recreation vehicle and bus industries are subject to volatility in operating results due to external factors such as general economic conditions, including consumer confidence, employment rates, prevailing interest rates, inflation, and other economic conditions affecting consumer attitudes and disposable consumer income generally, demographic changes and political changes. Specific factors affecting the recreation vehicle and bus industries include:

- overall consumer confidence and the level of discretionary consumer spending;
- inventory levels, including the level of retail sales by our dealers;
- general economic conditions;
- demographics, such as the retirement of baby boomers ;

- interest rates;
- employment trends;
- the amount of backlog, which may be a predictor of near-term future revenues;
- fuel availability and prices;
- the adverse impact of terrorism on consumer spending and travel related activities; and
- adverse impact on our margins of increases in raw material costs which we are unable to pass on to customers without negatively affecting sales.

Two dealers accounted for an aggregate of 34% of our bus sales for fiscal year 2007. The loss of either dealer could have a significant effect on our bus business.

A significant portion of our sales of small and mid-size buses are derived from state and local transportation authorities.

Approximately 60% of our bus sales for fiscal year 2007 were derived from contracts with state and local transportation authorities, in most cases with partial funding from federal agencies. There can be no assurance that these authorities will not reduce their expenditures for our buses in the future as a result of budgetary constraints or otherwise. A reduction in the purchase of our buses by these authorities could have an adverse effect on our business and results of operations.

Our recreation vehicle business is seasonal, and this leads to fluctuations in sales, production and net income.

We have experienced, and expect to continue to experience, significant variability in sales, production and net income as a result of seasonality in our businesses. Demand in the recreation vehicle industry generally declines during the winter season, while sales and profits are generally highest during the spring and summer months. In addition, unusually severe weather conditions in some markets may delay the timing of shipments from one quarter to another.

Our business is affected by the availability and terms of financing to dealers and retail purchasers.

Our business is affected by the availability and terms of financing to dealers and retail purchasers. Substantial increases in interest rates and decreases in the general availability of credit have had an adverse impact upon our business and results of operations in the past and may continue to do so in the future.

Changes in consumer preferences for our products or our failure to gauge those preferences could lead to reduced sales and additional costs.

We cannot be certain that historical consumer preferences for our products in general, and recreation vehicles in particular, will remain unchanged. We believe that the introduction of new features, designs and models will be critical to the future success of our recreation vehicle operations. Delays in the introduction of new models, designs or product features, or a lack of market acceptance of new models, designs or product features could have a material adverse effect on our business. Products may not be accepted for a number of reasons, including changes in consumer preferences or our failure to properly gauge consumer preferences. Further, we cannot be certain that new product introductions will not reduce revenues from existing models and adversely affect our results of operations. In addition, there can be no assurance that any of these new models or products will be introduced to the market on time or that they will be successful when introduced.

If the frequency and size of product liability and other claims against us rises, our business, results of operations and financial condition may be harmed.

We are subject, in the ordinary course of business, to litigation involving product liability and other claims against us, including wrongful death, related to personal injury and warranties. We partially self-insure our product liability claims and also purchase product liability insurance in the commercial insurance market. We cannot be certain that our insurance coverage will be sufficient to cover all future claims against us. Any increase in the frequency and size of these claims, as compared to our experience in prior years,

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may cause the premium that we are required to pay for insurance to rise significantly. It may also increase the amounts we pay in punitive damages, not all of which are covered by our insurance.

When we introduce new products into the marketplace we may incur expenses that we did not anticipate, which, in turn, can result in reduced earnings.

The introduction of new models of recreation vehicles and buses is critical to our future success. We may incur unexpected expenses, however, when we introduce new models of recreation vehicles and buses. For example, we may experience unexpected engineering or design flaws that will force a recall of a new product. The costs resulting from these types of problems could be substantial, and could have a significant adverse effect on our earnings.

Fuel shortages, or continuing high prices for fuel, could have a negative effect on sales of our recreation vehicles.

Gasoline or diesel fuel is required for the operation of recreation vehicles. There can be no assurance that the supply of these petroleum products will continue uninterrupted, that rationing will not be imposed or that the price of or tax on these petroleum products will not significantly increase in the future. Shortages of gasoline and substantial increases in the price of gasoline have had a material adverse effect on the recreation vehicle industry as a whole in the past and could have a material adverse effect on our business in the future.

Our repurchase agreements with floor plan lenders could result in increased costs.

In accordance with customary practice in the recreation vehicle industry, upon the request of a lending institution financing a dealer s purchase of our products and after completion of a credit investigation of the dealer involved, we will execute a repurchase agreement with the lending institution. Repurchase agreements provide that, for up to 12 months after a recreation vehicle is financed and in the event of default by the dealer, we will repurchase the recreation vehicle repossessed by the lending institution for the amount then due, which is usually less than 100% of the dealer s cost. The difference between the gross repurchase price and the price at which the repurchased product can then be resold, which is typically at a discount to the original sale price, is an expense to us. Thus, if we were obligated to repurchase a substantially greater number of recreation vehicles in the future, this would increase our costs.

For some of our components, we depend on a small group of suppliers, and the loss of any of these suppliers could affect our ability to obtain components at competitive prices, which would decrease our margins.

Most recreation vehicle and bus components are readily available from a variety of sources. However, a few components are produced by only a small group of quality suppliers that have the capacity to supply large quantities on a national basis. Primarily, this occurs in the case of chassis for our motor homes and buses, where Ford Motor Company and General Motors are the dominant suppliers. The recreation vehicle industry as a whole has from time to time experienced shortages of chassis due to the concentration or allocation of available resources by suppliers of chassis to the manufacturers of vehicles other than recreation vehicles or for other causes. Historically, in the event of an industry-wide restriction of supply, Ford Motor Company and General Motors have allocated chassis among us and our competitors based on the volume of chassis previously purchased. If Ford Motor Company or General Motors were to discontinue the manufacturing of motor home or bus chassis, or if as a group all of our chassis suppliers significantly reduced the availability of chassis to the industry, our business could be adversely effected. Similarly, shortages at, or production delays or work stoppages by the employees of Ford Motor Company, General Motors or other chassis suppliers could have a material adverse effect on our sales. Finally, as is standard in the industry, arrangements with chassis suppliers are terminable at any time by either our company or the chassis supplier. If we cannot obtain an adequate chassis supply, this could result in a decrease in our sales and earnings.

Our business is subject to numerous federal, state and local regulations.

We are subject to numerous federal, state and local regulations governing the manufacture and sale of our products, including the provisions of the National Traffic and Motor Vehicle Safety Act, or NTMVSA, and the safety standards for recreation vehicles and components which have been promulgated under the NTMVSA by the Department of Transportation. The NTMVSA authorizes the National Highway Traffic Safety Administration to require a manufacturer to recall and repair vehicles which contain certain hazards or defects. Any recalls of our vehicles, voluntary or involuntary, could have a material adverse effect on our company.

We are also subject to federal and numerous state consumer protection and unfair trade practice laws and regulations relating to the sale, transportation and marketing of motor vehicles, including so-called Lemon Laws . Federal and state laws and regulations also impose upon vehicle operators various restrictions on the weight, length and width of motor vehicles, including buses and motor homes, that may be operated in certain jurisdictions or on certain roadways. Certain jurisdictions also prohibit the sale of vehicles exceeding length restrictions. Finally, federal and state authorities also have various environmental control standards relating to air, water, noise pollution and hazardous waste generation and disposal which affect our business and operations. Failure to comply with any of the foregoing laws or regulations could have an adverse impact on our business.

Risks Relating To Our Company

Provisions in our charter documents and of Delaware law may make it difficult for a third party to acquire our company and could depress the price of our common stock.

Our Restated Certificate of Incorporation contains certain supermajority voting provisions that could delay, defer or prevent a change in control of our company. These provisions could also make it more difficult for you and other shareholders to elect directors, amend our Restated Certificate of Incorporation and take other corporate actions.

We are also subject to certain provisions of the Delaware General Corporation Law that could delay, deter or prevent us from entering into an acquisition, including provisions which prohibit a Delaware corporation from engaging in a business combination with an interested stockholder unless specific conditions are met. The existence of these provisions could limit the price that investors are willing to pay in the future for shares of our common stock and may deprive you of an opportunity to sell your shares at a premium over prevailing prices.

We will continue to be effectively controlled by one of our shareholders.

Wade F. B. Thompson, our President and Chief Executive Officer and Chairman of our Board of Directors, owns directly or indirectly voting control over an aggregate of 16,420,470 shares of our common stock, representing 29.4% of our issued and outstanding voting stock as of September 14, 2007. As a result, Mr. Thompson will be able to significantly influence most matters requiring approval by our shareholders, including the election of board members and the approval of mergers or other business combination transactions.

Our operations may be adversely affected if our Chief Executive Officer is unable to continue in his present roles.

Wade F. B. Thompson continues as our Chairman, President, and Chief Executive Officer, but has relinquished most of his day to day operating responsibilities to H. Coleman Davis, III, the Chief Operating Officer, while Mr. Thompson undergoes medical treatment for cancer. If Mr. Thompson is unable to continue in these roles, the search for and appointment of a Chief Executive Officer will result in a transition period for our management team and our Board of Directors, which may adversely impact the Company s operations. Peter B. Orthwein, a co-founder of our company, continues in his role as Vice Chairman of our company and has undertaken additional responsibilities and an enhanced executive role.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease approximately 6,133,000 square feet of plant and office space. We believe that our present facilities, consisting primarily of steel clad, steel or wood frame, and masonry construction, and the machinery and equipment contained in these facilities, are well maintained and in good condition. We believe that these facilities, together with facilities planned for fiscal 2008, are adequate for our current and foreseeable purposes and that we would be able to obtain replacement for our leased premises at acceptable costs should our leases not be renewed.

The following table describes the location, number and size of our facilities as of July 31, 2007.

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Locations	Owned or Leased	No. of Buildings	Approximate Building Area Square Feet
RVs:			
Jackson Center, OH (Airstream)	Owned	9	299,000
Hensall, Ontario, Canada (Citair)	Owned	1	97,000
Oliver, B.C., Canada (Citair)	Owned	1	55,000
Middlebury, IN (Dutchmen)	Owned	1	90,000
Burley, ID (Dutchmen)	Owned	5	162,000
Goshen, IN (Dutchmen)	Owned	12	513,000
Bristol, IN (Dutchmen)	Owned	1	54,000
Bristol, IN (Aero-Dutchmen) (2)	Leased	1	40,000
Goshen, IN (Aero-Dutchmen) (2)	Leased	1	23,000
Syracuse, IN (Aero-Dutchmen)	Owned	3	133,000
Syracuse, IN (Aero-Dutchmen) (1)	Leased	1	49,000
Elkhart, IN (Four Winds)	Owned	9	707,000
Elkhart, IN (Four Winds) (3)	Leased	2	67,000
Elkhart, IN (Damon)	Owned	7	239,000
Elkhart, IN (Damon) (4)	Leased	3	41,000
Nappanee, IN (Breckenridge)	Owned	2	144,000
Topeka, IN (CrossRoads)	Owned	5	250,000
Clackamas, OR (Komfort)	Owned	1	107,000
Moreno Valley, CA (Thor California) (5)	Leased	3	166,000
Moreno Valley, CA (Thor California) (6)	Leased	1	49,000
Moreno Valley, CA (Thor California)	Owned	1	63,000
Goshen, IN (Keystone) (7)	Leased	6	396,000
Goshen, IN (Keystone)	Owned	14	1,206,000
Howe, IN (Keystone) (9)	Leased	1	168,000
Pendleton, OR (Keystone)	Owned	1	146,000
Pendleton, OR (Keystone) (8)	Leased	1	63,000
Buses:			
Salina, KS (ElDorado Kansas)	Owned	2	252,000
Riverside, CA (ElDorado California)	Owned	1	227,000
Imlay City, Michigan (Champion Bus)	Owned	5	201,000
Elkhart, IN (Goshen Coach)	Owned	3	126,000
Total		104	6,133,000

(1) This location is occupied under a net lease which expires in 2010 with option to purchase.

(2) This location is occupied under a net lease which expires in 2008.

(3) These locations are occupied under net leases expiring at various times starting in 2008.

(4) These locations are occupied under net leases expiring at various times starting in 2006 thru 2013.

(5) This location is occupied under a net lease which expires in 2008.

(6) This location is occupied under a net lease which expires October 2010.

(7) These locations are occupied under net leases, expiring at various periods starting in 2007 thru 2012. Leases have extensions and or options to purchase.

(8) This location is occupied under a net lease expiring in November 2011

with an option to renew for 7 years.

(9) This location is occupied under a net lease expiring in 2010.

ITEM 3. LEGAL PROCEEDINGS

The SEC is reviewing the facts and circumstances giving rise to the restatement of our previously issued financial statements as of July 31, 2006 and 2005, and for each of the years in the three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, and our financial statements as of and for the three months ended October 31, 2006 and related matters. We intend to cooperate fully with the SEC. The investigation by the SEC staff could result in the SEC seeking various

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penalties and relief, including, without limitation, civil injunctive relief and/or civil monetary penalties or administrative relief. The nature of the relief or remedies the SEC may seek, if any, cannot be predicted at this time. In addition, we are involved in certain litigation arising out of our operations in the normal course of our business most of which are based upon state lemon laws, warranty claims, other claims and accidents (for which we carry insurance above a specified deductible amount). We do not believe that any one of these claims is material.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters submitted.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Market Information

The Company s Common Stock is traded on the New York Stock Exchange. Set forth below is the range of high and low prices for the common stock for each quarter during the Company s two most recent fiscal years, as quoted in the New York Stock Exchange Monthly Market Statistics and Trading Reports.

	Fiscal 2007		Fiscal 2006	
	High	Low	High	Low
First Quarter	$48.32	$39.16	$36.39	$30.63
Second Quarter	48.02	41.11	43.46	31.66
Third Quarter	48.32	38.50	56.93	41.65
Fourth Quarter	46.82	39.65	53.28	42.00

(b) Holders

As of September 14, 2007, the number of holders of record of the Company s common stock was 149.

(c) Dividends

In fiscal 2007, we paid dividends as follows: We paid a special $1 per share dividend as well as a $.07 per share dividend in the first quarter of fiscal 2007. In each of the second, third and fourth quarters of fiscal 2007 we paid a $.07 per share dividend. We paid a special $.25 per share dividend as well as a $.05 dividend in our first quarter of fiscal 2006. For the second quarter of fiscal 2006 we paid a $.05 per share dividend. In the third and fourth quarters of fiscal 2006, we paid a $.07 per share dividend in each quarter. Any payment of cash dividends in the future will be at the discretion of the Board of Directors and will depend upon our financial condition, capital requirements, earnings and any other factors which the Board of Directors may deem relevant. There are no limitations to the Company s ability to pay dividends pursuant to any credit facility. In August 2007, we declared a special $2 per share dividend to be paid on October 8, 2007 to stockholders of record on September 27, 2007.

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ITEM 6. SELECTED FINANCIAL DATA

	Fiscal years ended July 31,				
	2007	2006	2005	2004	2003
Income statement data:					
Net sales (2) (3)	$2,856,308	$3,066,276	$2,558,141	$2,187,739	$1,571,404
Net income (2) (3)	134,731	163,405	119,143	104,513	78,631
Earnings per common share (1) (2) (3)					
Basic	2.42	2.89	2.10	1.83	1.38
Diluted	2.41	2.87	2.09	1.81	1.37
Dividends declared per common share (1)	1.28	.19	.42	.09	.025
Dividends paid per common share (1)	1.28	.49	.12	.09	.025
Balance sheet data:					
Total assets (2) (3)	$1,059,297	$1,004,725	$ 853,893	$ 762,163	$ 608,941

(1) Per share amounts were adjusted for the two-for-one stock split in January 2004.

(2) Selected financial data for 2007, 2006, 2005 and 2004 include the results of Damon Corporation, which was acquired on September 2, 2003.

(3) Selected financial data for 2007, 2006 and 2005 includes the results of CrossRoads RV, which was acquired on November 1, 2004, and

Goshen Coach, Inc. which was acquired on May 27, 2005.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

We were founded in 1980 and have grown to be the largest manufacturer of Recreation Vehicles (RVs) and a major manufacturer of commercial buses in North America. Our market share in the travel trailer and fifth wheel segment of the industry (towables), is approximately 31%. In the motorized segment of the industry we have a market share of approximately 14%. Our market share in small and mid-size buses is approximately 38%. We also manufacture and sell 40-foot buses at our facility in Southern California designed for that product as well as our existing 30-foot and 35-foot buses.

Our growth has been internal and by acquisition. Our strategy has been to increase our profitability in North America in the recreation vehicle industry and in the bus business through product innovation, service to our customers, manufacturing quality products, improving our facilities and acquisitions. We have not entered unrelated businesses and have no plans to do so in the future.

We rely on internally generated cash flows from operations to finance our growth although we may borrow to make an acquisition if we believe the incremental cash flows will provide for rapid payback. We have invested significant capital to modernize and expand our plant facilities and expended $13,105 for that purpose in fiscal 2007.

Our business model includes decentralized operating units and we compensate operating management primarily with cash based upon profitability of the unit which they manage. Our corporate staff provides financial management, centralized purchasing services, insurance, legal and human resources, risk management, and internal audit functions. Senior corporate management interacts regularly with operating management to assure that corporate objectives are understood clearly and are monitored appropriately.

Our RV products are sold to dealers who, in turn, retail those products. Our buses are sold through dealers to municipalities and private purchasers such as rental car companies and hotels. We do not directly finance dealers but do provide repurchase agreements in order to facilitate the dealers obtaining floor plan financing. We have a joint venture, Thor Credit, operated by GE Consumer Finance, which provides retail credit to ultimate purchasers of any recreation vehicle purchased from a Thor dealer. This retail credit on recreation vehicles is not limited to Thor products only.

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Restatement

On January 29, 2007, we announced that the Audit Committee of our Board of Directors (the Audit Committee) initiated an independent investigation regarding certain accounting issues at our Dutchmen Manufacturing, Inc. operating subsidiary (Dutchmen), primarily involving inventory, accounts receivable, accounts payable, and cost of products sold. We promptly and voluntarily informed the SEC of the Audit Committee s investigation, and have been responding to SEC staff requests for additional information in connection with the staff s investigation. The Audit Committee, assisted by independent outside legal counsel and accounting experts, thoroughly investigated the accounting issues raised at Dutchmen. The Audit Committee and its advisors also reviewed the internal controls at Dutchmen and other subsidiaries.

On April 9, 2007, we announced that on April 4, 2007 our Board of Directors, acting upon the recommendation of the Audit Committee and management, concluded that our previously issued consolidated financial statements relating to the fiscal years 2004, 2005 and 2006 and the three months ended October 31, 2006 contained in our filings with the SEC, including related reports of our independent registered public accounting firm, Deloitte & Touche LLP, and press releases, should no longer be relied upon.

Upon completing their investigation, the Audit Committee s independent advisors presented the findings and recommendations of the investigation to the Company s Board of Directors on April 17, 2007 and April 30, 2007 and to the SEC staff on May 4, 2007. The Audit Committee s investigation confirmed the Company s determination that income before income taxes recorded by Dutchmen was overstated in the amount of approximately $26,000 in the aggregate from fiscal year 2004 to the second quarter of fiscal year 2007, as a result of misconduct by Dutchmen s former Vice President of Finance, the senior financial officer of Dutchmen in which he intentionally understated the cost of products sold. Dutchmen s Vice President of Finance manipulated accounts reflecting inventory, accounts receivable, accounts payable, and cost of products sold, by entering and approving his own inaccurate journal entries as well as reconciling the related accounts, and prepared fraudulent supporting documentation, with the net effect of overstating Dutchmen s income before income taxes by approximately $26,000 during the relevant period. The Audit Committee s investigation found no evidence to conclude that anyone else, at Dutchmen or elsewhere in the Company, knew of or participated in this misconduct or that there was theft or misappropriation of company assets. The Audit Committee s investigation also identified issues with respect to internal controls at Dutchmen, certain of the Company s other operating subsidiaries, and the Company s corporate finance and accounting office.

The Company decided to restate its previously issued financial statements as of July 31, 2006 and 2005, and for each of the years in the three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, and the financial statements as of and for the three months ended October 31, 2006, following the Company s evaluation, considering the results from the Audit Committee s investigation, of accounting practices employed at Dutchmen during these periods. The accompanying management s discussion and analysis of financial condition and results of operations gives effect to the restatement .

We have incurred expenses of $6,858 in fiscal 2007 as a direct result of the Audit Committee s investigation and the Company s review of the accounting practices at Dutchmen and certain of our other operating subsidiaries. These costs primarily relate to professional services for legal, accounting and tax guidance. In addition, we have incurred costs related to the preparation, review and audit of our restated consolidated financial statements. We expect that we will continue to incur costs associated with these matters.

Trends and Business Outlook

The most important determinant of demand for recreation vehicles is demographics. The baby boomer population is now reaching retirement age and retirees are a large market for our products. The baby boomer retiree population in the United States is expected to grow five times as fast as the total United States population. We believe a primary indicator of the strength of the recreation vehicle industry is retail RV sales, which we closely monitor to determine industry trends. Recently, the towable segment of the RV industry has been stronger than the motorized segment. For the towable segment, retail sales as reported by Statistical Surveys, Inc. were up approximately 2.9% for the seven months ended July 31, 2007 compared with the same period last year. The motorized segment was down approximately 3.6%. Higher interest rates and fuel prices appear to affect the motorized segment more severely.

Government entities are primary users of our buses. Demand in this segment is subject to fluctuations in government spending on transit. In addition, hotel and rental car companies are also major users of our small and mid-size buses and therefore airline travel is an important indicator for this market. The majority of our buses have a 5-year useful life and are being continuously replaced by operators.. According to Mid Size Bus Manufacturers Association unit sales of small and mid-sized buses are up 22% for the six months ended June 30, 2007 compared with the same period last year.

Economic or industry-wide factors affecting our recreation vehicle business include raw material costs of commodities used in the manufacture of our product. Material cost is the primary factor determining our cost of products sold. Additional increases in raw material costs would impact our profit margins negatively if we were unable to raise prices for our products by corresponding amounts.

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FISCAL 2007 VS. FISCAL 2006

	Fiscal 2007	Fiscal 2006	Change Amount	%
NET SALES				
Recreation Vehicles				
Towables	$ 1,890,100	$ 2,173,483	$ (283,383)	(13.0)
Motorized	565,523	577,025	(11,502)	(2.0)
Total Recreation Vehicles	2,455,623	2,750,508	(294,885)	(10.7)
Buses	400,685	315,768	84,917	26.9
Total	$ 2,856,308	$ 3,066,276	$ (209,968)	(6.8)
# OF UNITS				
Recreation Vehicles				
Towables	87,506	112,103	(24,597)	(21.9)
Motorized	7,634	7,860	(226)	(2.9)
Total Recreation Vehicles	95,140	119,963	(24,823)	(20.7)
Buses	6,497	5,725	772	13.5
Total	101,637	125,688	(24,051)	(19.1)

		% of Segment Net Sales		% of Segment Net Sales	Change Amount	%
GROSS PROFIT						
Recreation Vehicles						
Towables	$ 273,445	14.5	$ 350,954	16.1	$ (77,509)	(22.1)
Motorized	55,334	9.8	55,622	9.6	(288)	(0.5)
Total Recreation Vehicles	328,779	13.4	406,576	14.8	(77,797)	(19.1)
Buses	34,516	8.6	24,882	7.9	9,634	38.7
Total	$ 363,295	12.7	$ 431,458	14.1	$ (68,163)	(15.8)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES						
Recreation Vehicles						
Towables	$ 107,804	5.7	$ 121,778	5.6	$ (13,974)	(11.5)
Motorized	30,068	5.3	28,147	4.9	1,921	6.8
Total Recreation Vehicles	137,872	5.6	149,925	5.5	(12,053)	(8.0)
Buses	14,809	3.7	14,577	4.6	232	1.6

Corporate	25,016		19,424		5,592	28.8
Total	$ 177,697	6.2	$ 183,926	6.0	$ (6,229)	(3.4)
INCOME BEFORE INCOME TAXES						
Recreation Vehicles						
Towables	$ 165,259	8.7	$ 228,592	10.5	$ (63,333)	(27.7)
Motorized	25,140	4.4	27,404	4.7	(2,264)	(8.3)
Total Recreation Vehicles	190,399	7.8	255,996	9.3	(65,597)	(25.6)
Buses	18,997	4.7	9,356	3.0	9,641	103.0
Corporate	(12,536)		(9,241)		(3,295)	(35.7)
Total	$ 196,860	6.9	$ 256,111	8.4	($59,251)	(23.1)

ORDER BACKLOG

	As of July 31, 2007	**As of July 31, 2006**	**Change Amount**	**%**
Recreation Vehicles				
Towables	$ 276,136	$ 229,823	$ 46,313	20.2
Motorized	84,718	103,214	(18,496)	(17.9)
Total Recreation Vehicles	360,854	333,037	27,817	8.4
Buses	228,862	216,454	12,408	5.7
Total	$ 589,716	$ 549,491	$ 40,225	7.3

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CONSOLIDATED

Net sales and gross profit for fiscal 2007 were down 6.8% and 15.8%, respectively, compared to fiscal 2006. We estimate that in fiscal year 2006 approximately $122,258 or 5.6% of towable net sales were related to hurricane relief units sold through our dealer network. There have been no sales of hurricane relief units in fiscal 2007. Selling, general and administrative expenses for fiscal 2007 decreased 3.4% compared to fiscal 2006. Income before income taxes for fiscal 2007 was down 23.1% compared to fiscal 2006. The specifics on changes in net sales, gross profit, general and administrative expense and income before income taxes are addressed in the segment reporting below. Corporate costs in selling, general and administrative were $25,016 for fiscal 2007 compared to $19,424 for fiscal 2006. This increase of $5,592 is primarily the result of costs associated with the investigation regarding certain accounting issues at our Dutchmen Manufacturing operating subsidiary and the restatement of our financial statements. Corporate interest income and other income was $12,499 for fiscal 2007 compared to $10,194 for fiscal 2006.

The overall annual effective tax rate for fiscal 2007 was 31.6% compared to 36.2% for fiscal 2006. The primary reason for this reduction was that in fiscal 2007 the Company recorded an income tax benefit of approximately $9,300 resulting from the settlement of an Internal Revenue Service examination and a tax dispute with the State of Indiana. Of the $9,300, $7,800 was recorded in the fourth quarter of fiscal 2007.

Segment Reporting

RECREATION VEHICLES

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	**Units**	**Net Change**
Recreation Vehicles			
Towables	9.0%	(22.0)%	(13.0)%
Motorized	.9%	(2.9)%	(2.0)%

TOWABLE RECREATION VEHICLES

The decrease in towable net sales of 13% resulted primarily from a 21.9% decrease in unit shipments. We estimate that in fiscal year 2006 approximately $122,258, or 5.6%, of towable net sales were related to hurricane relief units sold through our dealer network. There have been no sales of hurricane relief units in fiscal 2007. Excluding the effect of hurricane relief units, towables net sales for fiscal year 2007 decreased 7.9% compared to fiscal year 2006. The overall industry decrease in towables shipments for August 2006 through July 2007 was 16% according to statistics provided by the Recreation Vehicle Industry Association. Increases in the average price per unit resulted from product mix and no hurricane unit sales in fiscal 2007. Hurricane unit pricing in fiscal 2006 was substantially lower than the average price per unit of other towables.

Towables gross profit percentage decreased to 14.5% of net sales for fiscal 2007 from 16.1% of net sales for fiscal 2006. The primary factor for this decrease in gross profit percentage was the decrease in net sales which included a $15,887 increase in discounts and allowances on lower volumes. Selling, general and administrative expenses were 5.7% of net sales for fiscal 2007 compared to 5.6% of net sales for fiscal 2006.

Towables income before income taxes decreased to 8.7% of net sales for fiscal 2007 from 10.5% of net sales for fiscal 2006. The primary factor for this decrease was the reduction in unit sales and corresponding margins.

MOTORIZED RECREATION VEHICLES

The decrease in motorized net sales of 2.0% resulted primarily from a 2.9% decrease in unit shipments. The decrease in units sold of approximately 2.9% compared to an overall market decrease in motorhome shipments of 1.1% for the period August 2006 through July 2007 according to statistics published by the Recreation Vehicle Industry Association.

Motorized gross profit percentage was 9.8% of net sales for fiscal 2007 and 9.6% of net sales for fiscal 2006. Selling, general and administrative expense were 5.3% of net sales for fiscal 2007 compared to 4.9% of net sales for fiscal 2006.

Motorized income before income taxes was 4.4% of net sales for fiscal 2007 and 4.7% of net sales for fiscal 2006.

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BUSES

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	Units	Net Change
Buses	13.4%	13.5%	26.9%

The increase in buses net sales of 26.9% resulted from a combination of an increase in both average price per unit and unit shipments. The overall industry increase in small and mid-sized bus unit sales for the six months ended June 30, 2007 compared to the same period in 2006 was 22%, according to the Mid-Size Bus Manufacturers Association. The increase in the average price per unit resulted primarily from product mix.

Buses gross profit percentage increased to 8.6% of net sales for fiscal 2007 from 7.9% of net sales for fiscal 2006. The primary reason for the increase in buses gross profit percentage was the increase in buses net sales. Selling, general and administrative expenses were 3.7% of net sales for fiscal 2007 and 4.6% for fiscal 2006.

Buses income before income taxes increased to 4.7% of net sales for 2007 from 3.0% of net sales for fiscal 2006 due to increased sales volume.

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FISCAL 2006 VS. FISCAL 2005

	Fiscal 2006	Fiscal 2005	Change Amount	%
NET SALES				
Recreation Vehicles				
Towables	$ 2,173,483	$ 1,742,108	$ 431,375	24.8
Motorized	577,025	566,138	10,887	1.9
Total Recreation Vehicles	2,750,508	2,308,246	442,262	19.2
Buses	315,768	249,895	65,873	26.4
Total	$ 3,066,276	$ 2,558,141	$ 508,135	19.9
# OF UNITS				
Recreation Vehicles				
Towables	112,103	88,471	23,632	26.7
Motorized	7,860	8,158	(298)	(3.7)
Total Recreation Vehicles	119,963	96,629	23,334	24.1
Buses	5,725	4,372	1,353	30.9
Total	125,688	101,001	24,687	24.4

		% of Segment Net Sales		% of Segment Net Sales	Change Amount	%
GROSS PROFIT						
Recreation Vehicles						
Towables	$ 350,954	16.1	$ 261,272	15.0	$ 89,682	34.3
Motorized	55,622	9.6	52,993	9.4	2,629	5.0
Total Recreation Vehicles	406,576	14.8	314,265	13.6	92,311	29.4
Buses	24,882	7.9	21,270	8.5	3,612	17.0
Total	$ 431,458	14.1	$ 335,535	13.1	$ 95,923	28.6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES						
Recreation Vehicles						
Towables	$ 121,778	5.6	$ 98,235	5.6	$ 23,543	24.0
Motorized	28,147	4.9	28,314	5.0	(167)	(0.6)
Total Recreation Vehicles	149,925	5.5	126,549	5.5	23,376	18.5
Buses	14,577	4.6	13,463	5.4	1,114	8.3
Corporate	19,424		12,487		6,937	55.6

Total	$ 183,926	6.0	$ 152,499	6.0	$ 31,427	20.6
INCOME BEFORE INCOME TAXES						
Recreation Vehicles						
Towables	$ 228,592	10.5	$ 164,343	9.4	$ 64,249	39.1
Motorized	27,404	4.7	24,607	4.3	2,797	11.4
Total Recreation Vehicles	255,996	9.3	188,950	8.2	67,046	35.5
Buses	9,356	3.0	7,492	3.0	1,864	24.9
Corporate	(9,241)		(7,063)		(2,178)	(30.8)
Total	$ 256,111	8.4	$ 189,379	7.4	$ 66,732	35.2

ORDER BACKLOG

	As of July 31, 2006	As of July 31, 2005	Change Amount	%
Recreation Vehicles				
Towables	$ 229,823	$ 202,177	$ 27,646	13.7
Motorized	103,214	133,924	(30,710)	(22.9)
Total Recreation Vehicles	333,037	336,101	(3,064)	(.9)
Buses	216,454	130,566	85,888	65.8
Total	$ 549,491	$ 466,667	$ 82,824	17.7

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CONSOLIDATED

Net sales and gross profit for fiscal 2006 were up 19.9% and 28.6% respectively compared to fiscal 2005. Income before income taxes for fiscal 2006 was up 35.2% compared to fiscal 2005. Selling, general and administrative expenses for fiscal 2006 increased 20.6% compared to fiscal 2005. The specifics on changes in net sales, gross profit, general and administrative expense and income before income taxes are addressed in the segment reporting below.

Corporate costs in selling, general and administrative were $19,424 for fiscal 2006 compared to $12,487 in fiscal 2005. This increase of $6,937 is primarily the result of increased insurance costs, legal expenses, and increased compensation expenses.

Other income for fiscal 2005 included a $2,037 gain from the sale of our Thor America property.

Net sales and income before income taxes for fiscal 2006 included net sales and income (loss) before income taxes of $41,510 and $(892) respectively, for Goshen Coach acquired May 27, 2005. The overall effective tax rate for fiscal 2006 was 36.2% compared to 37.1% for fiscal 2005.

Segment Reporting

RECREATION VEHICLES

Analysis of Percentage Change in Net Sales Versus Prior Year

	Impact from Acquisitions	Impact from Internal Growth: Average Price Per Unit	Impact from Internal Growth: Units	Net Change
Recreation Vehicles				
Towables	2.2%	(1.9)%	24.5%	24.8%
Motorized		5.6%	(3.7)%	1.9%

TOWABLE RECREATION VEHICLES

The increase in towable net sales of 24.8% resulted primarily from an increase in unit shipments. The overall industry increase in towables for August 2005 through July 2006 was 20.4% according to statistics provided by the Recreation Vehicle Industry Association. Decreases in the average price per unit resulted from product mix. We estimate that $122,258 or 5.6% of towable net sales were related to hurricane relief units which were sold through our dealer network. We have no comparable industry statistics for the total hurricane relief units sold.

Towables gross profit percentage increased to 16.1% of net sales for fiscal 2006 from 15.0% of net sales for fiscal 2005. The primary factors for the 34.3% increase in gross profit were the 24.8% increase in net sales, improved manufacturing cost and reduced warranty cost as a percentage of net sales. Selling, general and administrative expenses were 5.6% of net sales for fiscal 2006 and fiscal 2005.

Towables income before income taxes increased to 10.5% of net sales for fiscal 2006 from 9.4% of net sales for fiscal 2005. The primary factors for this increase were our 24.8% revenue increase and reduced manufacturing and warranty costs as a percentage of net sales.

MOTORIZED RECREATION VEHICLES

The increase in motorized net sales of 1.9% resulted primarily from an increase in average price per unit. The decrease in units sold of approximately 3.7% outperformed the overall market decrease in motorhomes of 13.7% for the period August 2005 through July 2006 according to statistics published by the Recreation Vehicle Industry Association.

Motorized gross profit percentage was 9.6% of net sales for fiscal 2006 and 9.4% of net sales for fiscal 2005. Selling, general and administrative expense were 4.9% of net sales for fiscal 2006 compared to 5.0% of net sales for fiscal 2005.

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Motorized income before income taxes was 4.7% of net sales for fiscal 2006 and 4.3% of net sales for fiscal 2005. This increase of 11.4% includes an impairment charge of $1,360 reflected in cost of goods sold in fiscal 2006 due to a decision to not produce a planned motorized product line.

BUSES

Analysis of Percentage Change in Net Sales Versus Prior Year

	Impact from Acquisition	Impact from Internal Growth: Average Price Per Unit	Impact from Internal Growth: Units	Net Change
Buses	16.6%	6.8%	3.0%	26.4%

The increase in buses net sales of 26.4% resulted from a combination of an increase in both average price per unit and unit shipments and our acquisition of Goshen Coach.

Buses gross profit percentage decreased to 7.9% of net sales for fiscal 2006 from 8.5% of net sales for fiscal 2005 due to low gross profit on bus contracts assumed in the purchase of Goshen Coach and highly competitive market conditions. Selling, general and administrative expenses were 4.6% of net sales for fiscal 2006 and 5.4% for fiscal 2005.

Buses income before income taxes was 3.0% of net sales for fiscal 2006 and fiscal 2005.

Financial Condition and Liquidity

As of July 31, 2007, we had $346,464 in cash, cash equivalents and short-term investments, compared to $264,373 on July 31, 2006. Effective August 1, 2006, the Company began classifying all short term investment purchases as available-for-sale. This change was based on the Company s decision to change its investment strategy from one of generating profits on short term differences in price to one of preserving capital.

At July 31, 2007, all investments short term are comprised of auction rate securities that are classified as available-for-sale and are reported at fair value in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company purchases its auction rate securities at par, which either mature or reset at par, and generally there are no unrealized or realized gains or losses to report. Cost is determined on the specific identification basis. Interest income is accrued as earned. All of the available-for-sale securities held at July 31, 2007 mature within one year.

As of July 31, 2006, the Company held short-term debt and equity investments classified as trading securities. These trading securities were all sold or matured during the three months ended October 31, 2006 and were recorded as trading securities activity. Realized and unrealized gains and losses on trading securities are included in earnings. Dividend and interest income were recognized when earned.

Working capital at July 31, 2007 was $428,329 compared to $360,751 at July 31, 2006. We have no long-term debt. We currently have a $30,000 revolving line of credit which bears interest at negotiated rates below prime and expires on November 30, 2007. There were no borrowings on this line of credit during the year ended July 31, 2007. The loan agreement executed in connection with the line of credit contains certain covenants, including restrictions on additional indebtedness, and requires us to maintain certain financial ratios. We believe that internally generated funds and the line of credit will be sufficient to meet our current needs and any additional capital requirements. Capital expenditures of approximately $13,105 for fiscal year ended July 31, 2007 were primarily for planned expansions and improvements of $11,738 at our recreation vehicle facilities and $1,226 for our bus operations. We paid a special $1.00 dividend in fiscal 2007 totaling $55,716. We also bought back 40,400 shares of Thor common stock in fiscal 2007 at a total cost of $1,630. On August 6, 2007 the Company s Board of Directors approved a special dividend of $2 per share. This dividend of approximately $111,669 will be paid on October 8, 2007 to stockholders of record on September 27, 2007.

The Company anticipates capital expenditures in fiscal 2008 of approximately $13,000. These expenditures will be made primarily for planned capacity expansions and for replacement of machinery and equipment to be used in the ordinary course of business and expansions primarily in our recreation vehicle segment.

Critical Accounting Principles

The consolidated financial statements of Thor are prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We believe that of our accounting policies, the following may involve a higher degree of judgments, estimates, and complexity:

Impairment of Goodwill, Trademarks and Long-Lived Assets

We at least annually review the carrying value of goodwill and other intangible assets. Long-lived assets, identifiable intangibles that are amortized, goodwill and trademarks with indefinite useful lives are also reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable; however changes in estimates of such cash flows and fair values could affect the evaluations.

Insurance Reserves

Generally, we are self-insured for workers compensation and group medical insurance. Under these plans, liabilities are recognized for claims incurred, including those incurred but not reported, and changes in the reserves. The liability for workers compensation claims is determined by the Company with the assistance of a third party administrator using various state statutes and reserve requirements and historical claims experience. Group medical reserves are funded through a trust and are estimated using historical claims experience. We have a self-insured retention for products liability and personal injury matters of $5,000 per occurrence. We have established a reserve on our balance sheet for such occurrences based on historical data and actuarial information. We maintain excess liability insurance aggregating $25,000 with outside insurance carriers to minimize our risks related to catastrophic claims in excess of all our self-insured positions. Any material change in the aforementioned factors could have an adverse impact on our operating results.

Warranty

We provide customers of our products with a warranty covering defects in material or workmanship for periods generally ranging from one to two years, with longer warranties on certain structural components. We record a liability based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors we use in estimating the warranty liability include a history of units sold, existing dealer inventory, average cost incurred and a profile of the distribution of warranty expenditures over the warranty period. A significant increase in dealer shop rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such claims or additional costs materialize. Management believes that the warranty reserve is adequate; however actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty reserves are reviewed and adjusted as necessary on a quarterly basis.

Income Taxes

The Company accounts for income taxes under the provision of SFAS No. 109 Accounting for Income Taxes . The objectives of accounting for incomes taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company s financial statements or tax returns. Judgment is required in assessing the future tax consequence of events that have been recognized in the Company s financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact the Company s financial position or its results of operations.

Revenue Recognition

Revenue from the sale of recreation vehicles and buses are recorded when all of the following conditions have been met:

1) An order for a product has been received from a dealer;
2) Written or oral approval for payment has been received from the dealer s flooring institution;
3) A common carrier signs the delivery ticket accepting responsibility for the product as agent for the dealer; and
4) The product is removed from the Company s property for delivery to the dealer who placed the order.

Certain shipments are sold to customers on credit or cash on delivery (COD) terms. The Company recognizes revenue on credit sales upon shipment and COD sales upon payment and delivery. Most sales are made by dealers financing their purchases under flooring arrangements with banks or finance companies. Products are not sold on consignment, dealers do not have the right to return products, and dealers are typically responsible for interest costs to floorplan lenders. On average, the Company receives payments from floor-plan lenders on products sold to dealers within 15 days of the invoice date.

Repurchase Commitments

It is customary practice for companies in the recreation vehicle industry to enter into repurchase agreements with financing institutions to provide financing to their dealers. Generally, these agreements provide for the repurchase of products from the financing institution in the event of a dealer s default. The risk of loss under these agreements is spread over numerous dealers and further reduced by the resale value of the units which the Company would be required to repurchase. Losses under these agreements have not been significant in the periods presented in the consolidated financial statements, and management believes that any future losses under these agreements will not have a significant effect on the Company s consolidated financial position or results of operations. The Company records repurchase and guarantee reserves based on prior experience and known current events.

Principal Contractual Obligations and Commercial Commitments

Our principal contractual obligations and commercial commitments at July 31, 2007 are summarized in the following charts. We have no other off balance sheet commitments.

Contractual Obligations	**Total**	**Payments Due By Period** Fiscal 2008	Fiscal 2009-2010	Fiscal 2011-2012	After 5 Years
Operating leases	$ 9,410	$ 3,529	$ 4,023	$ 1,654	$ 204
Total contractual cash obligations	$ 9,410	$ 3,529	$ 4,023	$ 1,654	$ 204

Other Commercial Commitments	**Total Amounts Committed**	**Amount of Commitment Expiration Per Period** Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Guarantees	$ 2,021	$ 2,021	$	$	$
Standby repurchase obligations	$ 844,673	$ 844,673	$	$	$
Total commercial commitments	$ 846,694	$ 846,654	$	$	$

Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes. FIN 48 addresses the accounting and disclosure of uncertain tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We have adopted FIN 48 effective August 1, 2007. We estimate that the adoption of FIN 48 will result in a net decrease to beginning retained earnings of less than $20,000 primarily related to the accrual of the estimated tax liabilities related to the uncertain tax positions, plus estimated interest and penalties.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 gives us the irrevocable option to carry many financial assets and liabilities at fair values, with changes in fair value recognized in earnings. SFAS No. 159 is effective for Thor s fiscal year beginning August 1, 2008, although early adoption is permitted. We are currently assessing the potential impact that adoption of SFAS No. 159 will have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Accounting, (SFAS 157) which defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 157 will be effective for Thor s fiscal year beginning August 1, 2008. We are currently assessing the potential impact that the adoption of SFAS 157 will have on our financial statements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s cash flows and earnings are exposed to market risk from changes in foreign currency related to its operations in Canada. However, because of the size of the Company s Canadian operations, a hypothetical 10% change in the Canadian dollar as compared to the U.S. dollar would not have a material impact on the Company s financial position or results of operations.

The Company s cash flows and earnings are also exposed to market risks related to interest rates because of the significant amount of cash that is invested in investments, including corporate debt securities. The vast majority of our investments are invested in institutional money market funds or securities whose interest rate is re-set every 7-14 days, minimizing the risk of interest rate fluctuations on their fair value. The Company has established an investment policy which governs its investment strategy and stipulates that it diversify investments among United States Treasury securities and other high credit quality debt instruments that it believes to be low risk. The Company is averse to principal loss and seeks to preserve its invested funds by limiting default risk and market risk. A hypothetical 10% change in interest rates would not have a material impact on the Company s financial position or results of operations. The Company has no debt and currently does not use interest rate swaps, futures contracts or options on futures, or other types of derivative financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (UNAUDITED) SEE ITEM 15

Quarterly Financial Data

	October 31	January 31	April 30	July 31
Fiscal 2007				
Net Sales	$727,716	$584,049	$789,643	$754,900
Gross profit	89,168	61,169	102,980	109,978
Net income	30,597	18,252	35,569	50,313
Earnings per common share				
Basic	.55	.33	.64	.90
Diluted	.55	.33	.64	.90
Dividends declared per common share	1.07	.07	.07	.07
Dividends paid per common share	1.07	.07	.07	.07
Market prices per common share				
High	$ 48.32	$ 48.02	$ 48.32	$ 46.82
Low	$ 39.16	$ 41.11	$ 38.50	$ 39.65

	October 31	January 31	April 30	July 31
Fiscal 2006				
Net Sales	$761,323	$642,047	$857,615	$805,291
Gross profit	108,495	86,852	124,109	112,002
Net income	41,373	29,905	48,669	43,458
Earnings per common share				
Basic	.73	.53	.86	.77
Diluted	.73	.52	.85	.77
Dividends declared per common share		.05	.07	.07
Dividends paid per common share	.30	.05	.07	.07
Market prices per common share				
High	$ 36.39	$ 43.46	$ 56.93	$ 53.28
Low	$ 30.63	$ 31.66	$ 41.65	$ 42.00

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Part A Disclosure Controls and Procedures.

Thor Industries, Inc. (the Company) maintains disclosure controls and procedures , as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, the Company s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and the Company s management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of the Company s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms.

Part B Management s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting refers to a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our Board of Directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

The Company s management conducted an assessment of the effectiveness of our internal control over financial reporting as of July 31, 2007, using the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, the Company believes that as of July 31, 2007, the Company s internal control over financial reporting is effective based on those criteria.

Management s assessment of the effectiveness of internal control over financial reporting as of July 31, 2007 has been audited by Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K. As stated in their attestation report on management s assessment of the Company s internal control over financial reporting, Deloitte has expressed an unqualified opinion on management s assessment.

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Part C Remediation of Material Weakness

As a result of the findings of the independent investigation of the Audit Committee of the Board of Directors into our Dutchmen Manufacturing, Inc. operating subsidiary and the restatement of the Company s financial statements, management identified a material weakness in the Company s internal control over financial reporting as of July 31, 2006.

During fiscal year 2007, the Company took the following actions to remediate the material weakness.

The Company terminated the employment of the former Dutchmen Vice President of Finance and hired a new Vice President of Finance at Dutchmen;

The Company eliminated the excessive accounting and information system access rights found to be available to the former Dutchmen Vice President of Finance;

Since discovery of the activities of the former Dutchmen Vice President of Finance, the Company has assigned a member of its internal audit department to Dutchmen to assist in implementing full segregation of duties in Dutchmen s accounting function;

The Company has modified the duties of accounting personnel to improve segregation of duties and modified certain information access rights at certain of its other operating subsidiaries;

The Company provided additional training on fraud risk and awareness and assisted management and other key personnel to understand the lessons learned through the Dutchmen review;

To improve the Company s oversight of internal controls at its subsidiaries, the Company s Board of Directors hired a professional services firm to lead and coordinate ongoing compliance efforts under Sarbanes-Oxley section 404 and partner with the internal audit function of the Company;

The Company has conducted more frequent and in-depth periodic, unannounced internal audits of controls at the subsidiary level;

The Company enhanced its corporate level monitoring of the operating subsidiaries accounts receivable, accounts payable and cash reconciliations, including verification that financial information submitted by the operating subsidiaries agrees with the financial information recorded in the operating subsidiaries information systems; and

The Company modified its reporting relationships so that heads of subsidiary accounting departments report directly to the Chief Financial Officer of the Company as opposed to subsidiary level presidents.

Part D Changes in Internal Control Over Financial Reporting

Other than the foregoing initiatives, during the fourth quarter of fiscal year 2007 and through the date of this report, there have been no material changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part E Attestation Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Thor Industries, Inc.:

We have audited management s assessment, included in the accompanying Management s Report on Internal Controls Over Financial Reporting that Thor Industries, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of July 31, 2007 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of July 31, 2007, is fairly stated, in all material respects, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of July 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended July 31, 2007 and our report dated September 28, 2007 expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE LLP
Dayton, Ohio
September 28, 2007.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Company has adopted a written code of ethics, the Thor Industries, Inc. Business Ethics Policy which is applicable to all directors, officers and employees of the Company, including the Company s principal executive officer, principal financial officer, principal accounting officer or controller and other executive officers identified pursuant to this Item 10 who perform similar functions (collectively, the Selected Officers). In accordance with the rules and regulations of the Securities and Exchange Commission a copy of the code has been posted on the Company s website. The Company intends to disclose any changes in or waivers from its code of ethics applicable to any Selected Officer on its website at http://www.thorindustries.com or by filing a Form 8-K.

The other information in response to this Item is included under the captions BUSINESS EXPERIENCE OF DIRECTORS AND EXECUTIVE OFFICERS, BOARD OF DIRECTORS, COMMITTEES AND ATTENDANCE AT MEETINGS and SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE, in the Company s definitive Proxy Statement, to be filed with the Commission pursuant to Regulation 14A, which portion of said Proxy Statement is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item is contained under the captions Executive Compensation and Director Compensation; in the Company s definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A, which portion of said Proxy Statement is hereby incorporated by reference.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee of the Board of Directors is or was formerly an officer or employee of the Company or any of its subsidiaries. During fiscal 2007, no executive officer of the Company or any of its subsidiaries served on the compensation committee (or equivalent), or the Board of Directors, of another entity whose executive officer(s) served on our Compensation Committee or Board of Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Equity Compensation Plan Information

The following table provides information as of July 31, 2007 about the Company s Common Stock that is authorized for issuance under the Company s equity compensation plans, including the Thor Industries, Inc. 2006 Equity Incentive Plan and the Thor Industries, Inc. 1999 Stock Option Plan.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights** (a)	**Weighted-average exercise price of outstanding options warrants and rights** (b)	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column**(a)) (c)
Equity compensation plans approved by security holders	409,420(1)	$ 21.92	1,100,000(2)
Equity compensation plans not approved by security holders (1)			
Total	409,420	$ 21.92	1,100,000

(1) Represents shares

underlying stock options granted pursuant to the Thor Industries, Inc. 1999 Stock Option Plan (the 1999 Plan). This plan was frozen in 2006 upon the adoption of the Thor Industries, Inc. 2006 Equity Incentive Plan (the 2006 Plan). As a result, no further grants may be made under the 1999 Plan.

(2) Represents shares authorized for issuance pursuant to the 2006 Plan.

The other information required in response to this Item is contained under the caption OWNERSHIP OF COMMON STOCK in the Company s definitive Proxy Statement, to be filed with the Commission pursuant to Regulation 14A, which portion of said Proxy Statement is hereby incorporated by reference.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required in response to this Item is contained under the captions CERTAIN RELATIONSHIPS AND TRANSACTIONS WITH MANAGEMENT and BOARD OF DIRECTORS, COMMITTEES AND ATTENDANCE AT MEETINGS in the Company s definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A, which portion of said Proxy Statement is hereby incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required in response to this Item is contained under the caption Independent Auditor fees in the Company s definitive Proxy Statement, to be filed with the Commission pursuant to Regulation 14A, which portion of said Proxy Statement is hereby incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

(b) Exhibits

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(a) of the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2001)
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 of the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2004)
3.3	By-laws (incorporated by reference to Exhibit 3(b) of the Company s Registration Statement No. 33-13827)
4.1	Form of Common Stock Certificate. (incorporated by reference to Exhibit 4(a) of the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 1987)
10.1	Thor Industries, Inc. 1999 Stock Option Plan (incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form S-8 dated November 5, 1999)
10.2	Thor Industries, Inc. Restricted Stock Plan (incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form S-8 dated December 3, 1997)
10.3	Thor Industries, Inc. Select Executive Incentive Plan (incorporated by reference to Exhibit 10(c) of the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2000)
10.4	Thor Industries, Inc. 2006 Equity Incentive Plan*
10.5	Thor Industries, Inc. Non-Qualified Deferred Compensation Plan*
10.6	Amendment to Thor Industries, Inc. Deferred Compensation Plan*
14.1	Thor Industries, Inc. Business Ethics Policy (Incorporated by reference to Exhibit 14.1 of the Company s Annual Report on Form 10-K/A for the fiscal year ended July 31, 2003)
21.1	Subsidiaries of the Company*
31.1	Certification of the Chief Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of the Chief Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of the Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes Oxley Act of 2002**

* Filed herewith

** Furnished herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

THOR INDUSTRIES, INC.

(Signed) /S/ Wade F.B. Thompson
Wade F. B. Thompson
Chairman, President, and Chief Executive Officer

Date: September 28, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

(Signed) /S/ Peter B. Orthwein

Peter B. Orthwein
Vice Chairman, Treasurer and Director

Date: September 28, 2007

(Signed) /S/ Walter L. Bennett

Walter L. Bennett
Chief Financial Officer
(Principal Financial Officer & Principal Accounting Officer)

Date: September 28, 2007

(Signed) /S/ Wade F.B. Thompson

Wade F. B. Thompson
Chairman, President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: September 28, 2007

(Signed) /S/ Alan Siegel

Alan Siegel
Director

Date: September 28, 2007

(Signed) /S/ William C. Tomson

William C. Tomson
Director

Date: September 28, 2007

(Signed) /S/ Neil D. Chrisman

Neil D. Chrisman
Director

Date: September 28, 2007

(Signed) /S/ H. Coleman Davis

H. Coleman Davis
Director

Date: September 28, 2007

(Signed) /S/ Jan H. Suwinski

Jan H. Suwinski
Director

Date: September 28, 2007

(Signed) /S/ Geoffrey A. Thompson

Geoffrey A. Thompson
Director

Date: September 28, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Thor Industries, Inc.

We have audited the accompanying consolidated balance sheets of Thor Industries, Inc. and subsidiaries (the Company) as of July 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended July 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Thor Industries, Inc. and subsidiaries at July 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of July 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 28, 2007, expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

DELOITTE & TOUCHE LLP

Dayton, Ohio

September 28, 2007

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Consolidated Balance Sheets, July 31, 2007 and 2006
(amounts in thousands except share data)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 171,889	$ 196,136
Investments-short term (Note A)	174,575	68,237
Accounts receivable:		
Trade, less allowance for doubtful accounts $122 in 2007 and $105 in 2006 (Note A)	171,596	188,104
Other	5,799	5,639
Inventories (Note D)	168,980	183,169
Deferred income taxes and other (Note F)	12,689	11,431
Total current assets	705,528	652,716
Property, plant and equipment:		
Land	21,795	21,323
Buildings and improvements	134,352	131,649
Machinery and equipment	64,572	55,656
Total cost	220,719	208,628
Less accumulated depreciation	63,477	51,163
Net property, plant and equipment	157,242	157,465
Investments Joint ventures (Note K)	2,671	2,737
Other assets:		
Goodwill (Note C)	165,663	165,663
Noncompete agreements Net (Note C)	1,906	2,841
Trademarks (Note C)	13,900	13,900
Other	12,387	9,403
Total other assets	193,856	191,807
Total	$ 1,059,297	$ 1,004,725

See notes to consolidated financial statements.

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	2007	2006
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 123,433	$ 145,609
Accrued liabilities:		
Compensation and related items	39,242	37,161
Product warranties (Note M)	64,310	59,795
Taxes	17,991	18,709
Promotions and rebates	11,697	12,953
Product/property liability and related liabilities	11,691	10,423
Other	8,835	7,315
Total current liabilities	277,199	291,965
Deferred income taxes and other liabilities (Note F)	15,767	12,911
Contingent liabilities and commitments (Note I)		
Stockholders equity (Note J):		
Preferred stock authorized 1,000,000 shares; none outstanding		
Common stock par value of $.10 a share; authorized, 250,000,000 shares; issued 57,222,404 shares at July 31, 2007 and 57,100,286 shares at July 31, 2006	5,722	5,710
Additional paid-in capital	90,247	86,538
Retained earnings	727,729	664,322
Accumulated other comprehensive income	2,756	1,772
Less treasury shares of 1,441,600 in 2007 and 1,401,200 in 2006, at cost	60,123	58,493
Total stockholders equity	766,331	699,849
Total	$ 1,059,297	$ 1,004,725

See notes to consolidated financial statements.

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Consolidated Statements of Income for the Years Ended July 31, 2007, 2006 and 2005
(amounts in thousands except per share data)

	2007	**2006**	**2005**
Net sales	$ 2,856,308	$ 3,066,276	$ 2,558,141
Cost of products sold	2,493,013	2,634,818	2,222,606
Gross profit	363,295	431,458	335,535
Selling, general and administrative expenses	177,697	183,926	152,499
Amortization of intangibles	935	949	967
Interest income	11,376	9,020	3,155
Interest expense	(774)	(1,248)	(580)
Other income	1,595	1,756	4,735
Income before income taxes	196,860	256,111	189,379
Income taxes (Note F)	62,129	92,706	70,236
Net income	$ 134,731	$ 163,405	$ 119,143
Earnings per common share (Note A)			
Basic	$ 2.42	$ 2.89	$ 2.10
Diluted	$ 2.41	$ 2.87	$ 2.09

See notes to consolidated financial statements.

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Consolidated Statements of Stockholders Equity and Comprehensive Income for the Years Ended July 31, 2007, 2006 and 2005
(amounts in thousands except share and per share data)

	Treasury Stock		Common Stock		Additional Paid-In	Restricted Stock	Accumulated Other Comprehensive Income	Retained	Compre-hensive
	Shares	Amount	Shares	Amount	Capital	Plan	(Loss)	Earnings	Income
July 31, 2004		$	57,146,160	$ 5,715	$ 81,019	$ (1,128)	$ 64	$ 424,362	
Net income								119,143	$ 119,143
Shares purchased	579,200	(15,521)							
Shares retired	(323,200)	8,490	(323,200)	(32)	680,320		2,659,433		
Tim Roberts	1,176,655	534,843	588,327	2,299,825					

(1) PSP 2018-2020 targets include individual adjustments for Mr. Mitchell (+10 percent), Mr. Herman (+10 percent), Ms. Johnson (+10 percent), and Mr. Roberts (+10 percent).
(2) The Compensation Committee did not approve any individual adjustments to stock option targets.
(3) RSU targets include individual adjustments for Mr. Mitchell (+10 percent), Mr. Herman (+10 percent), Ms. Johnson (+10 percent), and Mr. Roberts (+10 percent).

Peer Group Comparisons

We utilize both a compensation peer group and a performance peer group due to the size of our Company and diversification of assets. The Compensation Committee reviews these peer groups annually and adjusts as necessary. We benchmark against large companies, as measured by asset value and market capitalization, to set target compensation using the compensation peer group. We assess our relative performance against peers in the industries in which we operate using the performance peer group. While our unique portfolio of assets provides an advantage to investors, it does necessitate using two peer groups to appropriately align compensation and assess performance.

Compensation Peer Group

Relative analysis. We use the compensation peer group to evaluate and determine compensation levels for our NEOs, including base salary adjustments and targets for our annual bonus and LTI programs.

Criteria for selection. Our compensation peer group consists of companies that have similar jobs and job scope as our NEOs. The compensation peer group primarily consists of large companies with significant capital investments and complex international operations.

Our compensation peer group includes companies that are comparable to Phillips 66 based on three primary criteria assets, market capitalization, and business operations. Revenue is a secondary criteria due to the nature of our operations. The Compensation Committee believes each of these criteria is necessary to fully reflect the complex nature of our business and determine the optimal group of companies with which to compare Phillips 66.

Companies included. The table below shows the companies in our 2018 compensation peer group. At the time the compensation peer group was determined, we were 46th percentile in assets, 39th percentile in market value, and 75th percentile in revenue.

2018 Compensation Peer Group		
Anadarko Petroleum Corporation (APC)	Enterprise Products Partners L.P. (EPD)	Honeywell International Inc.(HON)
Andeavor (ANDV)	Exxon Mobil Corporation (XOM)	LyondellBasell Industries N.V. (LYB)
Archer-Daniels-Midland Company (ADM)	Ford Motor Company (F)	Marathon Petroleum Corporation (MPC)
Chevron Corporation (CVX)	General Motors Company (GM)	Schlumberger Limited (SLB)
ConocoPhillips (COP)	Halliburton Company (HAL)	Valero Energy Corporation (VLO)
DowDuPont Inc. (DWDP)		

Changes for 2019. As part of its annual review of peer group composition, the Compensation Committee determined to make no changes, other than to remove Andeavor (ANDV) following its acquisition by Marathon Petroleum Corporation (MPC). At the time of the review, we were 47th percentile in assets, 48th percentile in market value, and 75th percentile in revenue.

Performance Peer Group

Relative analysis. The performance peer group is used to evaluate relative business results in our Performance Share Program. This includes both relative TSR and relative ROCE. We also evaluate our relative TSR performance against the S&P 100 Index, which the Compensation Committee believes is an appropriate comparison for performance purposes because the index reflects the companies with which we compete for capital in the broader market.

Criteria for selection. Phillips 66 is uniquely positioned in the energy industry, with a large refining and marketing base, a growing midstream NGL business and significant petrochemical exposure. To reflect our unique portfolio of assets, we include companies operating in each of our three major businesses. We believe that our performance peer group is representative of the companies that investors use for relative performance comparisons.

COMPENSATION DISCUSSION AND ANALYSIS

Companies included. The table below shows the performance peer group that was established for evaluating both relative TSR and relative ROCE for the three-year performance period ended December 31, 2018.

Refining and Marketing	Midstream	Chemicals
Delek US Holdings, Inc. (DK)	Energy Transfer Equity, L.P. (ETE)	Celanese Corporation (CE)
HollyFrontier Corporation (HFC)	Enterprise Products Partners L.P. (EPD)	The Dow Chemical Company (DOW)
Marathon Petroleum Corporation (MPC)	ONEOK, Inc. (OKE)	Eastman Chemical Company (EMN)
PBF Energy Inc. (PBF)	Targa Resources Corp. (TRGP)	Huntsman Corporation (HUN)
Tesoro Corporation (TSO)		Westlake Chemical Corporation (WLK)
Valero Energy Corporation (VLO)		
Western Refining Inc. (WNR)		

During the performance period, the following mergers and acquisitions occurred which impacted our peer group:

In June 2017, Tesoro Corporation acquired Western Refining Inc. and the combined company changed its name to Andeavor (ANDV). Each of Tesoro and Western Refining was in our performance peer group; after the acquisition we included the combined company.

In August 2017, The Dow Chemical Company and E. I. du Pont de Nemours and Company completed their merger, forming DowDuPont (DWDP). The Dow Chemical Company was previously in our performance peer group; following the merger we included the combined company.

In October 2018, Marathon Petroleum Corporation acquired Andeavor. Each of Marathon Petroleum Corporation and Andeavor was in our performance peer group; after the acquisition we included the combined company.

Changes for 2019. For performance periods beginning in 2019, the Compensation Committee reviewed the current performance peers and determined to make no changes, with the exception of removing Andeavor (ANDV) following its acquisition by Marathon Petroleum Corporation (MPC).

OTHER BENEFITS AND PERQUISITES

Below is a summary of other compensation elements available to our NEOs:

Broad-Based Employee Benefit Programs

NEOs participate in the same basic benefits package available to our other U.S. salaried employees. This package includes qualified pension; 401(k) plan; medical, dental, vision, life, and accident insurance plans, as well as flexible spending arrangements for health care and dependent care expenses; and our matching gift program.

Additional Executive Perquisites

Consistent with our compensation philosophy to provide compensation and benefits aligned with market practice, we provide our NEOs financial planning and executive health benefits. These benefits were imputed to the executives and included in All Other Compensation in the **SUMMARY COMPENSATION TABLE**. We did not provide a gross-up for these benefits.

Comprehensive Security Program

The Board has adopted a comprehensive security program to address the increased security risks for certain senior executives. Mr. Garland was the only NEO in 2018 designated by the Board as requiring increased security under this program. The program allows for certain additional security measures in specific situations when the senior executive is traveling by car or airplane. An additional security review of the NEO s personal residences is also included. Any additional costs to the Company for these activities are reported as All Other Compensation and included in the **SUMMARY COMPENSATION TABLE**.

Executive Retirement Plans

We maintain the following supplemental retirement plans for our NEOs.

Phillips 66 Key Employee Deferred Compensation Plan (KEDCP) This voluntary deferred compensation plan provides tax-efficient retirement savings by allowing executives to voluntarily defer both the receipt and taxation of a portion of their base salary and annual bonus until a specified date or when they leave the Company. Further information is provided in the **NONQUALIFIED DEFERRED COMPENSATION** table.

Phillips 66 Defined Contribution Make-Up Plan (DCMP) This defined contribution restoration plan restores benefits capped under our qualified defined contribution plan due to Internal Revenue Code (IRC) limits. Further information is provided in the **NONQUALIFIED DEFERRED COMPENSATION** table.

Phillips 66 Key Employee Supplemental Retirement Plan (KESRP) This defined benefit restoration plan restores Company-sponsored benefits capped under the qualified defined benefit pension plan due to IRC limits. Further information is provided in the **PENSION BENEFITS AS OF DECEMBER 31, 2018** table.

Executive Life Insurance

We provide life insurance policies to all U.S.-based employees with a face value approximately equal to their annual base salary. For our NEOs, the face value of this coverage is approximately two times their annual base salary.

Executive Severance and Change in Control Plans

We do not maintain individual severance or change in control (CIC) agreements with our executives. However, we maintain the Phillips 66 Executive Severance Plan (ESP) and the Phillips 66 CICSP to accomplish several specific objectives, including:

ensuring shareholder interests are protected during business transactions by providing benefits that promote senior management stability;

providing and preserving an economic motivation for participating executives to consider a business combination that might result in an executive s job loss; and

competing effectively in attracting and retaining executives in an industry that features frequent acquisitions and divestitures.

Executives may not participate in both plans as a result of the same severance event. Among other benefits, the ESP provides a payment equal to one and one-half or two times the executive s base salary, depending on salary grade level, and the executive s current target annual bonus if he or she is involuntarily terminated without cause. The CICSP provides a payment equal to two or three times the sum of the executive s base salary and the greater of his or her target bonus or average of the last two bonus payments, depending on salary grade level. The executive must be involuntarily terminated without cause in connection with a change in control or terminate employment for good reason within two years after the change in control to be eligible for a CICSP payment. We believe this double trigger requirement is in the best interest of shareholders and is considered a best practice.

Details of potential payments under these plans are outlined in the **POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL** section. These plans do not provide any excise tax gross-up protections.

Personal Use of Company Aircraft

The primary purpose of our corporate aircraft is to facilitate Company business. In the course of conducting Company business, executives may occasionally invite a family member or other personal guest to travel with them to attend a meeting or function. When such travel is deemed taxable to the executive, we provide further payments to reimburse the costs of the inclusion of this item in his or her taxable income.

COMPENSATION DISCUSSION AND ANALYSIS

EXECUTIVE COMPENSATION GOVERNANCE

Clawback Provisions

Short- and long-term compensation, deferred compensation and nonqualified retirement benefits received by any executive are subject to clawback provisions if financial or other data is materially misstated due to negligence or misconduct on the part of the executive, as determined by the Compensation and Audit Committees.

Stock Ownership

The Compensation Committee believes requiring executives to retain shares of Phillips 66 common stock helps align executive performance with shareholder value creation and mitigates compensation risk. Our stock ownership guidelines require executives to own Phillips 66 common stock, valued as a multiple of the executive s base salary, within five years from the date the executive becomes subject to the guidelines, as shown below:

EXECUTIVE LEVEL	SALARY MULTIPLE
Chairman and CEO	6
Executive Vice President	3-5

Shares of Phillips 66 common stock owned and RSUs are included when determining whether an executive has met the required ownership levels. Compliance with the stock ownership guidelines is reviewed annually. All NEOs currently comply with these stock ownership guidelines or are on track to comply within the applicable five-year period.

Tax Considerations Internal Revenue Code Section 162(m)

IRC Section 162(m) places a $1 million limit on compensation that we may deduct for federal income tax purposes in any one year with respect to certain covered employees. Prior to the passage of the Tax Cuts and Jobs Act in December 2017, such covered employees included our chief executive officer and our three other most highly compensated executive officers (excluding our chief financial officer). The $1 million deduction limitation was subject to an exemption for performance-based compensation.

With the enactment of the Tax Cuts and Jobs Act, the Section 162(m) performance-based compensation exemption has been repealed and the $1 million deduction limit now applies to our chief financial officer, as well as our chief executive officer and our three other most highly compensated executive officers. Further, once an executive officer becomes a covered employee the $1 million deduction limit continues to apply to compensation paid to such executive officer at any time, including any future roles within the company, any termination or retirement payments, and payments occurring after their death. The new Tax Cuts and Jobs Act rules generally apply to us starting with our taxable year that commenced January 1, 2018, but the rules do not apply to compensation provided pursuant to a written binding contract in effect on November 2, 2017 that is not materially modified after that date.

We monitor the application of Section 162(m) and the associated Treasury regulations on an ongoing basis and the advisability of qualifying executive compensation for deductibility. Notwithstanding the repeal of the exemption for performance-based compensation, the Compensation Committee intends to maintain its commitment to structuring the Company s executive compensation programs in a manner designed to align pay with performance.

Trading Policies

Our insider trading policy prohibits all employees and directors from trading Company stock while in possession of material, non-public information. This policy requires executives and directors, as well as employees with regular access to insider information, to follow specific pre-clearance procedures before entering into transactions in our stock. Our policy also prohibits hedging transactions related to our stock or pledging our stock, including any stock the executive or director may hold in excess of his or her stock ownership guideline requirements.

Independent Compensation Consultant

The primary role of the independent executive compensation consultant retained by the Compensation Committee is to advise the Compensation Committee on:

- our compensation programs and processes relative to external corporate governance standards;
- the appropriateness of our executive compensation programs in comparison to those of our peers; and
- the effectiveness of the compensation programs in accomplishing the objectives set by the Compensation Committee with respect to executives.

In 2018, the Compensation Committee retained Mercer as its independent executive compensation consultant. The Compensation Committee evaluated whether Mercer s work raised any conflict of interest and determined that no such conflict existed. During 2018, fees paid to Mercer in its role as the independent compensation consultant for the Compensation Committee totaled $217,318. In addition, the Company paid fees to Mercer totaling $1,379,167 during 2018 for all other services performed for the Company. These services can be broken down as 14 percent related to administration of pension liabilities in international locations that have been sold, 32 percent related to administration of ongoing international benefit plans, 10 percent related to Human Resources consulting engagements, and 44 percent related to insurance and surety bonds.

Compensation Risk Assessment

The Compensation Committee oversees management s risk assessment of all elements of our compensation programs, policies and practices for all employees. Management has concluded that our compensation programs, policies and practices are not reasonably likely to have a material adverse effect on the Company. Relevant provisions of our programs include, but are not limited to:

- VCIP and LTI metrics are aligned with our corporate strategy to ensure continued focus on actions that drive shareholder value.
- VCIP and LTI compensation targets increase with each pay grade, emphasizing shareholder value creation over time.
- Maximum payouts under VCIP and PSP programs are appropriately limited to balance risk-taking with long-term strategic goals.

- Maintaining a level of discretion in the performance-based programs, which enables the Compensation Committee to award zero payouts to executives who perform poorly or when warranted by Company performance.

- Clawback provisions that allow for reduction in awards for executives who expose the Company to undue risk.

- LTI design that provides incentives for executive retention and Company and individual performance.

- Stock ownership guidelines, anti-pledging policies, and anti-hedging policies that align executive interests with those of shareholders.

The Compensation Committee considers senior management succession planning a core part of the Company s risk management program. The Compensation Committee regularly reviews with the CEO succession planning for senior leadership positions (other than the CEO position itself, for which succession planning is reviewed by the Nominating Committee), and the timing and development required to ensure continuity of leadership over the short- and long-terms, to manage risk in this area.

ROLE OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Authority and Responsibilities

The Compensation Committee is responsible for providing independent, objective oversight of our executive compensation programs and determining the compensation for our CEO and anyone who meets our definition of a Senior Officer. Currently, our internal guidelines define a Senior Officer as an officer of the Company who reports directly to the CEO or any other officer of the Company who is either a Senior Vice President or above or a reporting officer under Section 16(b) of the Exchange Act. As of December 31, 2018, we had 11 Senior Officers. In addition, the Compensation Committee acts as plan administrator of the compensation programs and benefit plans for our CEO and Senior Officers and as an avenue of appeal for current and former Senior Officers regarding disputes over compensation and benefits.

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee oversees the Company s executive compensation philosophy, policies, plans and programs for our CEO and Senior Officers to ensure:

- alignment of our executive compensation programs with the long-term economic interests of shareholders;
- competitiveness of compensation within the markets in which Phillips 66 competes for talent;
- retention of top talent; and,
- development of a diverse talent pool with respect to CEO and Senior Officer succession planning.

One of the Compensation Committee s responsibilities is to assist the Board in its oversight of the integrity of the Company s **COMPENSATION DISCUSSION AND ANALYSIS.** The **HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT** summarizes certain Compensation Committee activities concerning compensation earned during 2018 by our NEOs.

A complete listing of the authority and responsibilities of the Compensation Committee is set forth in its written charter adopted by the Board of Directors, which is available in the *Investors* section of our website under the caption *Corporate Governance*.

Members

The Compensation Committee consists of four members who meet all requirements for non-employee, independent and outside director status under the Exchange Act, NYSE listing standards, and the IRC, respectively. The members of the Compensation Committee and the member to be designated as Chair, like the members and Chairs of all the Board committees, are reviewed periodically by the Nominating Committee, which recommends committee appointments to the full Board. The Board of Directors has final approval of the committee structure of the Board.

Meetings

The Compensation Committee holds regularly scheduled meetings in association with regular Board meetings and meets by teleconference between such meetings as necessary to discharge its duties. The Compensation Committee reserves time at each regularly scheduled meeting to review matters in executive session without management present except as specifically requested by the Compensation Committee. In 2018, the Compensation Committee had five regularly scheduled meetings and one additional telephonic meeting. More information regarding the Compensation Committee s activities at such meetings can be found in the **COMPENSATION DISCUSSION AND ANALYSIS**.

Continuous Improvement

The Compensation Committee is committed to a process of continuous improvement in exercising its responsibilities. To that end, the Compensation Committee:

- receives ongoing training regarding best practices for executive compensation;
- regularly reviews its responsibilities and governance practices in light of ongoing changes in the legal and regulatory arena and trends in corporate governance;
- annually reviews its charter and proposes any desired changes to the Board of Directors;
- annually conducts a self-assessment of its performance that evaluates the effectiveness and seeks ideas to improve its processes and oversight;
- regularly reviews and assesses whether the Company s executive compensation programs are having the desired effects without encouraging an inappropriate level of risk; and
- regularly reviews all its activities, including its self-assessment and a compensation risk assessment, with the full Board of Directors.

HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT

Review with Management. The Compensation Committee has reviewed and discussed with management the **COMPENSATION DISCUSSION AND ANALYSIS** presented in this proxy statement.

Discussions with Independent Executive Compensation Consultant. The Compensation Committee has discussed with Mercer, an independent executive compensation consulting firm, the executive compensation programs of the Company, as well as specific compensation decisions made by the Compensation Committee for 2018. Mercer was retained directly by the Compensation Committee, independent of the management of the Company. The Compensation Committee has received written disclosure from Mercer confirming the consultant s independence, has discussed with Mercer its independence from Phillips 66, and believes Mercer to be independent of management.

Recommendation to the Phillips 66 Board of Directors. Based on its review and discussions noted above, the Compensation Committee recommended to the Board of Directors that the **COMPENSATION DISCUSSION AND ANALYSIS** be included in the Phillips 66 proxy statement on Schedule 14A and the Phillips 66 Annual Report on Form 10-K for the year ended December 31, 2018.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

Dr. Marna C. Whittington, Chairperson

Gary K. Adams

Harold W. McGraw III

Glenn F. Tilton

EXECUTIVE COMPENSATION TABLES

The following tables and accompanying narrative disclosures provide information concerning total compensation earned by our CEO and other NEOs as of December 31, 2018, for services to Phillips 66 or any of our subsidiaries during 2018, 2017 and 2016.

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation for our NEOs for fiscal years 2018, 2017 and 2016.

NAME AND POSITION	YEAR	SALARY[1] ($)	BONUS[2] ($)	STOCK AWARDS[3] ($)	OPTION AWARDS[4] ($)	NON-EQUITY INCENTIVE PLAN COMPENSATION[5] ($)	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS[6] ($)	ALL OTHER COMPENSATION[7] ($)	TOTAL ($)
Greg Garland	2018	1,675,008		9,353,917	3,041,430	4,958,024		249,956	19,278,335
	2017	1,666,676		8,785,668	2,951,040	3,733,354	6,270,030	244,128	23,650,896
Chairman and									
Chief Executive Officer	2016	1,616,816		8,677,840	2,861,166	3,751,013	7,897,187	251,272	25,055,294
Kevin Mitchell	2018	826,696		3,046,107	902,084	1,777,396	138,280	116,580	6,807,143
	2017	709,456		1,597,830	537,632	934,708	124,156	93,540	3,997,322
Executive Vice President,									
Finance and Chief Financial									
Officer	2016	688,448		1,732,942	520,212	760,735	100,918	67,857	3,871,112
Robert Herman	2018	710,820		1,819,033	537,940	1,299,024	124,871	652,145	5,143,833
	2017	689,568		1,701,495	520,672	820,586	208,340	1,572,730	5,513,391
Executive Vice President,		661,608		1,621,773	486,432	815,432	223,973	646,450	4,455,668
Refining	2016								
Paula Johnson	2018	771,544		2,093,245	618,631	1,388,779	368,541	81,585	5,322,325
	2017	742,148		1,904,666	581,728	1,035,296	1,125,884	82,714	5,472,436
Executive Vice President, Legal	2016	698,976		1,847,570	553,992	912,164	939,432	90,168	5,042,302

and Government Affairs, General Counsel and Corporate Secretary								
Tim Roberts Executive Vice President, Midstream	2018 2017 2016	710,260	1,810,213	535,871	1,298,000	107,410	75,521	4,537,275

(1) Includes any base salary amounts that were voluntarily deferred under our KEDCP.

(2) Because our annual bonus program (VCIP) has mandatory performance measures that must be achieved before any payout can be made to our NEOs, VCIP payments are shown in the Non-Equity Incentive Plan Compensation column of the table rather than the Bonus column.

(3) Amounts shown represent the aggregate grant date fair value of RSU and PSP awards determined in accordance with U.S. GAAP. Assumptions used in calculating these amounts are included in Note 20 Share-Based Compensation in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2018 (our 2018 Form 10-K).

The PSP target award included in 2016 has a performance period that ends in 2018. The PSP target award included in 2017 has a performance period that ends in 2019. The PSP target award included in 2018 has a performance period that ends in 2020.

Amounts shown relating to PSP are targets because target is the probable outcome for the applicable performance period, consistent with the accounting treatment under GAAP. If the maximum payout were used for the PSP awards, the amounts shown relating to PSP would double, although the value of the actual payout would depend on the stock price at the time of the payout. If the minimum payout were used, the amounts for PSP awards would be reduced to zero. Actual payouts with regard to the targets set for the performance period that ended in 2018 were approved by the Compensation Committee at its February 2019 meeting. Those payouts were as follows (with values shown at fair market value on the date of payout): Mr. Garland, $5,174,926; Mr. Mitchell, $1,142,456; Mr. Herman, $967,097; Ms. Johnson, $1,101,807; and Mr. Roberts, $939,473.

Earned payouts under the PSP 2016-2018 have been, and under the PSP 2017-2019 and PSP 2018-2020 are expected to be, made in cash at the end of the applicable performance period and will be forfeited if the NEO is terminated prior to the end of the performance period (other than for death or following disability or after a change in control). If the NEO retires after age 55 and with five years of service, the NEO is entitled to a prorated award for any ongoing program in which he or she participated for at least 12 months.

(4) Amounts shown represent the aggregate grant date fair value of awards determined in accordance with GAAP. Assumptions used in calculating these amounts are included in Note 20 Share-Based Compensation in the Notes to Consolidated Financial Statements in our 2018 Form 10-K.

(5) These are amounts paid under our annual bonus program (VCIP), including bonus amounts that were voluntarily deferred under our KEDCP. See note (2) above. These amounts were paid in February 2019, following the performance year.

(6) Reflects the actuarial increase in the present value of the benefits under our pension plans determined using interest rate and mortality rate assumptions consistent with those used in our financial statements. For 2018, the Change in Pension Value resulted in a negative amount for Mr. Garland ($2,162,861). There are no deferred compensation earnings reported in this column, as our nonqualified deferred compensation plans do not provide above-market or preferential earnings.

(7) We offer limited perquisites to our NEOs, which, together with Company contributions to our qualified savings and nonqualified defined contribution plans, are reflected in the All Other Compensation column as summarized below:

NAME	COMPANY CONTRIBUTIONS TO NONQUALIFIED DEFINED CONTRIBUTION PLANS[a] ($)	EXECUTIVE GROUP LIFE INSURANCE PREMIUMS[b] ($)	WELLNESS PROGRAMS AND EXECUTIVE HEALTH PHYSICAL[c] ($)	FINANCIAL COUNSELING[d] ($)	MATCHING CONTRIBUTIONS UNDER THE TAX-QUALIFIED SAVINGS PLAN[e] ($)	MATCHING GIFT PROGRAM[f] ($)	MISCELLANEOUS PERQUISITES AND TAX PROTECTION[g] ($)	PERSONAL USE OF COMPANY AIRCRAFT[h] ($)
Greg Garland	94,636	13,266	579	17,453	27,500		23,967	72,555
Kevin Mitchell	32,635	2,282	1,302	17,495	27,500	21,000	14,366	
Robert Herman	24,237	3,668	100	17,303	27,500	25,350	553,987	
Paula Johnson	28,640	3,981	1,039		27,500	12,500	7,925	
Tim Roberts	24,181	3,665			27,500	15,000	5,175	

(a) Under the terms of our nonqualified defined contribution plans, we make contributions to the accounts of all eligible employees, including the NEOs. See the **NONQUALIFIED DEFERRED COMPENSATION** table and accompanying narrative and notes for more information.

(b) We maintain life insurance policies and/or death benefits for all our U.S.-based salaried employees (at no cost to the employee) with a face value approximately equal to the employee s annual salary. We maintain group life insurance policies on each of our NEOs equal to approximately two times his or her annual salary. The amounts shown are for premiums paid by us to provide the additional group life insurance above what is provided to the broad-based employees.

(c) Costs associated with executive physicals.

(d) Costs associated with financial counseling and estate planning services with approved provider.

(e) Under the terms of our tax-qualified defined contribution plans, we make contributions to the accounts of all eligible employees, including the NEOs.

(f) We maintain a Matching Gift Program under which certain gifts by employees to qualified educational or charitable institutions are matched by the Company. The program matches up to $15,000 annually. The amounts shown reflect the actual payments made by us in 2018, which due to processing delays can include contributions in 2017 that were matched by the Company in 2018 and are therefore reported in this proxy statement.

(g) The amounts shown primarily reflect payments by us relating to certain taxes incurred by the NEOs. Mr. Herman received tax assistance after he exercised stock options that he had been granted while an expatriate employee prior to becoming an NEO ($545,675). All expatriate employees receive this tax assistance. We also provide tax assistance when we request family members or other guests to accompany an NEO to a Company function and, as a result, the NEO is deemed to make personal use of Company assets such as Company aircraft and thereby incurs imputed income. We believe this type of expense is appropriately characterized as a business expense and, if the NEO incurs imputed income in accordance with applicable tax laws, we will generally reimburse the NEO for any increased tax costs (Mr. Garland $19,989; Mr. Mitchell $14,107; Mr. Herman $8,053; Ms. Johnson $7,684; and Mr. Roberts $4,907). We also occasionally provide small gifts with tax assistance (such as duffel bags, jackets, and ornaments received as a member of the Board or the Executive Leadership Team) and companion travel expenses. The total cost of these benefits and their tax assistance are as follows: Mr. Garland $259; Mr. Herman $259; Ms. Johnson $241; Mr. Mitchell $259; and Mr. Roberts $268.

Also included are benefits required for employees covered under our Comprehensive Security Program, which currently includes only Mr. Garland. Under the Comprehensive Security Program Mr. Garland is provided with the use of a car and driver when security deems it required and home security fees that are in excess of the cost of a system typical for homes in his neighborhood ($3,719).

(h) The Phillips 66 Comprehensive Security Program requires in certain circumstances that Mr. Garland fly on Company aircraft. The amount presented above represents the approximate incremental cost to Phillips 66 for personal use of the aircraft. Approximate incremental cost has been determined by calculating the variable costs for each aircraft during the year, dividing that amount by the total number of miles flown by that aircraft, and multiplying the result by the miles flown for personal use during the year. Incremental costs for flights to the hangar or other locations without passengers, commonly referred to as deadhead flights, are included in the calculation.

EXECUTIVE COMPENSATION TABLES

GRANTS OF PLAN-BASED AWARDS

The following table provides additional information about plan-based compensation disclosed in the **SUMMARY COMPENSATION TABLE**. This table includes both equity and non-equity awards.

		ESTIMATED FUTURE PAYOUTS UNDER NON-EQUITY INCENTIVE PLAN AWARDS[2]			ESTIMATED FUTURE PAYOUTS UNDER EQUITY INCENTIVE PLAN AWARDS[3]			ALL OTHER STOCK AWARDS: NUMBER OF SHARES OF STOCK OR UNITS[4]	ALL OTHER OPTION AWARDS: NUMBER OF SECURITIES UNDERLYING OPTIONS	EXERCISE OR BASE PRICE OF OPTION AWARDS	GRANT DATE FAIR VALUE OF STOCK AND OPTION AWARDS[5]
NAME	GRANT DATE[1]	THRESHOLD ($)	TARGET ($)	MAXIMUM ($)	THRESHOLD (#)	TARGET (#)	MAXIMUM (#)	(#)	(#)	($/SH)	($)
Greg			2,680,013	6,700,033							
Garland	2/6/2018							32,052			3,040,132
	2/6/2018					66,566	133,132				6,313,785
	2/6/2018								147,000	94.850	3,041,430
Kevin			826,696	2,066,740							
Mitchell	2/6/2018							10,438			990,044
	2/6/2018					21,677	43,354				2,056,063
	2/6/2018								43,600	94.850	902,084
Robert			604,197	1,510,493							
Herman	2/6/2018							6,233			591,200
	2/6/2018					12,945	25,890				1,227,833
	2/6/2018								26,000	94.850	537,940
Paula			694,390	1,735,975							
Johnson	2/6/2018							7,173			680,359
	2/6/2018					14,896	29,792				1,412,886
	2/6/2018								29,900	94.850	618,631
Tim			603,721	1,509,303							
Roberts	2/6/2018							6,203			588,355
	2/6/2018					12,882	25,764				1,221,858
	2/6/2018								25,900	94.850	535,871

(1) The grant date shown is the date on which the Compensation Committee approved the target awards.

(2) Threshold and maximum awards are based on the provisions in the VCIP. Actual awards earned can range from 0 to 200 percent of the target awards, with a further possible adjustment of +/ 50 percent of the target award depending on individual performance. The Compensation Committee retains the authority to make awards under the program and to use its judgment in adjusting awards, including making awards greater than the amounts shown

in the table above, provided the award does not exceed amounts permitted under the 2013 Omnibus Stock and Performance Incentive Plan of Phillips 66. Actual payouts under the annual bonus program for 2018 are calculated using base salary earned in 2018 and reflected in the Non-Equity Incentive Plan Compensation column of the **SUMMARY COMPENSATION TABLE**.

(3) Threshold and maximum awards are based on the provisions of the PSP. Actual awards earned can range from 0 to 200 percent of the target awards. Performance periods under the PSP cover a three-year period, and since a new three-year period commences each year, there could be three overlapping performance periods ongoing at any time. In 2018, targets for each NEO were set with respect to an award for the three-year performance period beginning in 2018 and ending in 2020. The Compensation Committee retains the authority to make awards under the PSP using its judgment, including making awards greater than the maximum payout shown in the table above, provided the award does not exceed amounts permitted under the 2013 Omnibus Stock and Performance Incentive Plan of Phillips 66.

(4) RSUs that were granted in 2018 and will vest in 2021.

(5) For equity incentive plan awards, these amounts represent the grant date fair value at target level under the PSP as determined in accordance with GAAP. For Stock Option awards, these amounts represent the grant date fair value of the option awards using a Black-Scholes-Merton-based methodology. Actual value realized upon option exercise depends on market prices at the time of exercise. For other stock awards, these amounts represent the grant date fair value of the RSU awards determined in accordance with GAAP. See Note 20 Share-Based Compensation in the Notes to Consolidated Financial Statements in our 2018 Form 10-K, for a discussion of the relevant assumptions used in this determination.

EXECUTIVE COMPENSATION TABLES

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table lists outstanding Phillips 66 equity grants for each NEO as of December 31, 2018.

	OPTION AWARDS[1]					STOCK AWARDS			
NAME	GRANT DATE[2]	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS EXERCISABLE[3] (#)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS UNEXERCISABLE (#)	OPTION EXERCISE PRICE ($)	OPTION EXPIRATION DATE	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED[4] (#)	MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED ($)	EQUITY INCENTIVE PLAN AWARDS: NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED[5] (#)	EQUITY INCENTIVE PLAN AWARDS: MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED ($)
Greg Garland	2/9/2012	42,728		32.030	2/9/2022				
	2/7/2013	158,500		62.170	2/7/2023				
	2/6/2014	126,300		72.255	2/6/2024				
	2/3/2015	146,700		74.135	2/3/2025				
	2/2/2016	112,933	56,467	78.620	2/2/2026				
	2/7/2017	58,000	116,000	78.475	2/7/2027				
	2/6/2018		147,000	94.850	2/6/2028				
						482,722	41,586,500	281,874	24,283,445
Kevin Mitchell	2/3/2015	9,900		74.135	2/3/2025				
	2/2/2016	20,533	10,267	78.620	2/2/2026				
	2/7/2017	10,566	21,134	78.475	2/7/2027				
	2/6/2018		43,600	94.850	2/6/2028				
						24,538	2,113,949	75,908	6,539,474
Robert Herman	2/9/2012	47,433		32.030	2/9/2022				
	2/7/2013	12,300		62.170	2/7/2023				
	2/6/2014	11,400		72.255	2/6/2024				
	2/3/2015	23,500		74.135	2/3/2025				
	2/2/2016	19,200	9,600	78.620	2/2/2026				
	2/7/2017	10,233	20,467	78.475	2/7/2027				
	2/6/2018		26,000	94.850	2/6/2028				

						66,848	5,758,955	54,696	4,712,060
Paula Johnson	2/7/2013	12,000		62.170	2/7/2023				
	2/6/2014	19,600		72.255	2/6/2024				
	2/3/2015	25,100		74.135	2/3/2025				
	2/2/2016	21,866	10,934	78.620	2/2/2026				
	2/7/2017	11,433	22,867	78.475	2/7/2027				
	2/6/2018		29,900	94.850	2/6/2028				
						68,662	5,915,231	62,038	5,344,574
Tim Roberts	4/4/2016	18,933	9,467	85.973	4/4/2026				
	2/7/2017	10,233	20,467	78.475	2/7/2027				
	2/6/2018		25,900	94.850	2/6/2028				
						18,860	1,624,789	51,950	4,475,493

(1) All options shown in the table have a maximum term for exercise of ten years from the grant date. Under certain circumstances, the terms for exercise may be shorter, and in certain circumstances, the options may be forfeited and cancelled. All awards shown in the table have associated restrictions upon transferability.

EXECUTIVE COMPENSATION TABLES

(2) The dates presented in this column represent the respective dates on which the awards were granted by ConocoPhillips for grants prior to the spin-off from ConocoPhillips, and by Phillips 66 for all other awards. The awards granted prior to the spin-off were converted to Phillips 66 equity awards in connection with the spin-off and in accordance with the Employee Matters Agreement and remain subject to the same general terms and conditions.

(3) The options shown in this column vested and became exercisable in 2018 or prior years (although under certain termination circumstances, the options may still be forfeited). Options become exercisable in one-third increments on the first, second and third anniversaries of the grant date.

(4) These amounts include unvested restricted stock and RSUs awarded under the PSP for performance periods that ended on or before December 31, 2014 and awarded as annual awards. All awards for performance periods that ended on or before December 31, 2014 continue to have restrictions upon transferability. Restrictions on PSP awards for performance periods that ended on or before December 31, 2010 lapse upon separation from service. Restrictions on PSP awards for later performance periods lapse five years from the grant date unless the NEO elected prior to the beginning of the performance period to defer lapsing of the restrictions until separation from service. Awards are subject to forfeiture if, prior to lapsing, the NEO separates from service for a reason other than death, disability, layoff, retirement after reaching age 55 with five years of service, or after a change of control, although the Compensation Committee has the authority to waive forfeiture. The awards have no voting rights, but do entitle the holder to receive dividend equivalents in cash. The value of the awards reflects the closing price of our stock, as reported on the NYSE, on December 31, 2018 ($86.15).

(5) Reflects potential awards from ongoing performance periods under the PSP for performance periods ending December 31, 2019 and December 31, 2020. These awards are shown at maximum; however, there is no assurance that awards will be granted at, below or above target after the end of the relevant performance periods, as the determination to make a grant and the amount of any grant is within the judgment of the Compensation Committee. Until an actual grant is made, these unearned awards pay no dividend equivalents. The value of these unearned awards reflects the closing price of our stock, as reported on the NYSE, on December 31, 2018 ($86.15).

OPTION EXERCISES AND STOCK VESTED FOR 2018

The following table summarizes the value received from stock option exercises and stock grants vested during 2018:

	OPTION AWARDS		STOCK AWARDS[1]	
NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED UPON EXERCISE ($)	NUMBER OF SHARES ACQUIRED ON VESTING (#)	VALUE REALIZED UPON VESTING ($)

Greg Garland	197,615	18,676,452
Kevin Mitchell	15,573	1,389,325
Robert Herman	24,868	2,321,846
Paula Johnson	28,778	2,741,946
Tim Roberts	10,747	939,473

(1) Stock awards include RSUs that vested during the year, as well as the PSP 2016-2018 award that vested on December 31, 2018, and was paid out in cash in early 2019. The PSP awards were as follows: Mr. Garland 59,198 units valued at $5,174,926; Mr. Mitchell 13,071 units valued at $1,142,631; Mr. Herman 11,063 units valued at $967,097; Ms. Johnson 12,604 units valued at $1,101,807; and Mr. Roberts 10,747 units valued at $939,473.

PENSION BENEFITS AS OF DECEMBER 31, 2018

Our defined benefit pension plan covering NEOs, the Phillips 66 Retirement Plan, consists of multiple titles with different terms. NEOs are only eligible to participate in one title at any time, but may have frozen benefits under one or more other titles.

	TITLE I	TITLE II (1)	TITLE IV
Current Eligibility	Mr. Garland	Mr. Herman (4), Mr. Mitchell, Mr. Roberts	Ms. Johnson
Normal Retirement	Age 65	Age 65	Age 65
Early Retirement (2)	Age 55 with five years of service or if laid off during or after the year in which the participant reaches age 50	Executives may receive their vested benefit upon termination of employment at any age	Age 50 with ten years of service
Benefit Calculation (2)	Calculated as the product of 1.6 percent times years of credited service multiplied by the final average eligible earnings	Based on monthly pay and interest credits to a nominal cash balance account created on the first day of the month after an executive s hire date. Pay credits are equal to a percentage of total salary and annual bonus.	Calculated as the product of 1.6 percent times years of credited service multiplied by the final average eligible earnings
Final Average Earnings Calculation	Calculated using the three highest consecutive compensation years in the last ten calendar years before retirement plus the year of retirement	N/A	Calculated using the higher of the highest three years of compensation or the highest consecutive 36 months of compensation
Eligible Pension Compensation (3)	Includes salary and annual bonus	Includes salary and annual bonus	Includes salary and annual bonus
Benefit Vesting	All participants are vested in this title	Employees vest after three years of service	All participants are vested in this title
Payment Types	Allows payments in the form of several annuity types or a single lump sum		
IRS limitations	Benefits under all Titles are limited by the IRC. In 2018, the compensation limit was $275,000. The IRC also limits the annual benefit available under these Titles expressed as an annuity. In 2018, that limit was $220,000 (reduced actuarially for ages below 62).		

(1) NEOs whose combined years of age and service total less than 44 receive a six percent pay credit, those with 44 through 65 receive a seven percent pay credit and those with 66 or more receive a nine percent pay credit. Interest credits are applied to the cash balance account each month. This credit is calculated by multiplying the value of the account by the interest credit rate, based on 30-year U.S. Treasury security rates adjusted quarterly.

(2) An early benefit reduction is calculated on Title I by reducing the benefit 5% for each year before age 60 that benefits are paid. An early benefit reduction is calculated on Title III by reducing the benefit 6.67% for each year before age 60 that benefits are paid, unless the participant has at least 85 points awarded, with one point for each year of age and one point for each year of service. Title IV early benefit reduction is calculated by reducing the benefit by 5% per year for each year before age 57 that benefits are paid and 4% per year for benefits that are paid between ages 57 and 60. The benefit calculation for Titles I, III and IV is reduced by the product of 1.5% of the annual primary social security benefit multiplied by years of credited service, although a reduction limit of 50% of the primary Social Security benefit may apply.

(3) Under Title I, if an executive receives layoff benefits, then the eligible compensation calculation also includes the annualized salary for the year of layoff (rather than the actual salary for that year) and years of service are increased by any period for which layoff benefits are calculated.

(4) Mr. Herman has a frozen benefit under Title III from prior years of service with predecessor companies. Under Title III, normal retirement is age 65 and early retirement is age 55 with 10 years of service. Title III is similar to Title I, except that bonus is not eligible pension compensation and payout is made in the form of an annuity.

EXECUTIVE COMPENSATION TABLES

The following table lists the pension program participation and actuarial present value of each NEO s defined benefit pension as of December 31, 2018.

NAME	PLAN NAME	NUMBER OF YEARS CREDITED SERVICE[1] (#)	PRESENT VALUE OF ACCUMULATED BENEFIT ($)	PAYMENTS DURING LAST FISCAL YEAR ($)
Greg Garland	Phillips 66 Retirement Plan - Title I	29	1,661,813	
	Phillips 66 Key Employee Supplemental Retirement Plan [2]		35,443,804	
Kevin Mitchell	Phillips 66 Retirement Plan - Title II	5	101,447	
	Phillips 66 Key Employee Supplemental Retirement Plan [2]		318,640	
Robert Herman	Phillips 66 Retirement Plan - Title II	13	347,689	
	Phillips 66 Retirement Plan - Title III	22	550,222	
	Phillips 66 Key Employee Supplemental Retirement Plan [2]		834,918	
Paula Johnson	Phillips 66 Retirement Plan - Title IV	16	710,792	
	Phillips 66 Key Employee Supplemental Retirement Plan [2]		4,153,570	
Tim Roberts	Phillips 66 Retirement Plan - Title IV	3	51,531	
	Phillips 66 Key Employee Supplemental Retirement Plan [2]		170,722	

(1) Years of credited service include service recognized under the predecessor ConocoPhillips plans from which these plans were spun off effective May 1, 2012. Credited Service displays the number of years the NEO was in each applicable formula.

(2) The Phillips 66 Key Employee Supplemental Retirement Plan restores Company-sponsored benefits capped under the qualified defined benefit pension plan due to IRC limits. All employees, including our NEOs, are eligible to participate in the plan.

NONQUALIFIED DEFERRED COMPENSATION

Our NEOs are eligible to participate in two nonqualified deferred compensation plans, the Phillips 66 KEDCP and the Phillips 66 DCMP.

The KEDCP allows NEOs to defer up to 50 percent of their salary and up to 100 percent of their VCIP. The default distribution option is a lump sum payment paid at least six months after separation from service. NEOs may elect to defer payments from one to five years, and to receive annual, semiannual or quarterly payments for a period of up to fifteen years. NEOs may also elect to defer their VCIP to a specific date in the future.

The DCMP is a nonqualified restoration plan for employer contributions that cannot be made to our 401(k) plan either due to an NEO s salary deferral under the KEDCP or due to the IRC annual limit on compensation that may be taken into account under a qualified plan. Distributions are made as a lump sum six months after separation from service, unless the NEO elects to receive one to fifteen annual payments beginning at least one year after separation from service.

Each NEO directs investments of his or her individual accounts under the KEDCP and DCMP. Both plans provide a broad range of market-based investments, that may be changed daily. No investment provides above-market returns. The aggregate performance of these investments is reflected in the **NONQUALIFIED DEFERRED COMPENSATION** table below.

Benefits due under these plans are paid from our general assets, although we also maintain rabbi trusts that may be used to pay benefits. The trusts and the funds held in them are Company assets. In the event of our bankruptcy, NEOs would be unsecured general creditors.

The following table provides information on nonqualified deferred compensation as of December 31, 2018:

NAME	APPLICABLE PLAN[1]	BEGINNING BALANCE ($)	EXECUTIVE CONTRIBUTIONS IN LAST FISCAL YEAR ($)	COMPANY CONTRIBUTIONS IN THE LAST FISCAL YEAR[2] ($)	AGGREGATE EARNINGS IN LAST FISCAL YEAR[3] ($)	AGGREGATE WITHDRAWALS/ DISTRIBUTIONS ($)	AGGREGATE BALANCE AT LAST FISCAL YEAR END[4] ($)
Greg Garland	Phillips 66 Defined Contribution Make-Up Plan	1,261,289		94,636	(82,962)		1,272,963
	Phillips 66 Key Employee Deferred Compensation Plan	1,235,199			17,606		1,252,805
Kevin Mitchell	Phillips 66 Defined Contribution Make-Up Plan	90,329		32,635	(4,870)		118,094
	Phillips 66 Key Employee Deferred Compensation Plan						
Robert Herman	Phillips 66 Defined Contribution Make-Up Plan	394,848		24,237	(22,027)		397,058
	Phillips 66 Key Employee Deferred Compensation Plan	2,119,714			(136,985)		1,982,729
Paula Johnson	Phillips 66 Defined Contribution Make-Up Plan	262,932		28,640	(35,643)		255,929
	Phillips 66 Key Employee Deferred Compensation Plan						
Tim Roberts	Phillips 66 Defined Contribution Make-Up Plan	49,891		24,181	(4,136)		69,936
	Phillips 66 Key Employee Deferred Compensation Plan						

(1) We have two defined contribution deferred compensation programs for our executives the DCMP and the KEDCP. As of December 31, 2018, participants in these plans had 91 investment options 27 of the options were the same as those available in our 401(k) plan and the remaining options were other mutual funds approved by the

plan administrator.

(2) These amounts represent Company contributions under the DCMP. These amounts are also included in the All Other Compensation column of the **SUMMARY COMPENSATION TABLE**.

(3) These amounts represent earnings on plan balances from January 1 to December 31, 2018. These amounts are not included in the **SUMMARY COMPENSATION TABLE**.

(4) The total reflects contributions by our NEOs, contributions by us, and earnings on balances prior to 2018; plus contributions by our NEOs, and earnings from January 1, 2018 through December 31, 2018 (shown in the appropriate columns of this table, with amounts that are included in the **SUMMARY COMPENSATION TABLE**). The total includes all contributions by our NEOs and by us reported in this proxy statement and our proxy statements from prior years as follows: $812,928 for Mr. Garland; $93,038 for Mr. Mitchell; $81,370 for Mr. Herman; $211,718 for Ms. Johnson; and $24,181 for Mr. Roberts.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Each of our NEOs is expected to receive amounts earned during his or her period of employment unless he or she voluntarily resigns prior to becoming retirement-eligible or is terminated for cause. Although normal retirement age under our benefit plans is 65, early retirement provisions allow receipt of benefits at earlier ages if vesting requirements are met. For our incentive compensation programs (VCIP, RSU, Stock Options, and PSP), early retirement is generally defined as termination at or after the age of 55 with five years of service.

As of December 31, 2018, Mr. Garland, Mr. Herman, and Ms. Johnson were retirement-eligible under both our benefit plans and our compensation programs. Therefore, as of December 31, 2018, a voluntary resignation of Mr. Garland, Mr. Herman, or Ms. Johnson, would have been treated as a retirement, and each would have retained all awards earned under the current and earlier programs. As such, awards under these programs are not included in the amounts reflected in the table below. Please see the **OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END** table for more information. Our compensation programs provide for the following upon retirement:

Cash Payments. Cash payments include VCIP earned during the fiscal year, amounts contributed and vested under our defined contribution plans, and amounts accrued and vested under our pension plans.

Equity. Equity considerations include grants under the PSP for ongoing performance periods in which the executive participated for at least one year, previously granted restricted stock and RSUs, and previously granted stock option awards exercisable through the original term.

EXECUTIVE COMPENSATION TABLES

The table at the end of this section summarizes the potential additional value of the benefits to be received by each NEO as of December 31, 2018, through the Phillips 66 ESP due to an involuntary termination without cause or through the Phillips 66 CICSP due to a change in control event. Benefits that would be available generally to all or substantially all salaried employees on the U.S. payroll are not included in the amounts shown. Executives are not entitled to receive benefits under both the ESP and the CICSP as a result of the same event. These two plans have the following in common:

- amounts payable under both are offset by any payments or benefits payable under any of our other plans;
- benefits under both may also be reduced in the event of willful and bad faith conduct demonstrably injurious to the Company; and,
- both are Company plans under which awards and payments are subject to clawback provisions and to forfeiture or recoupment, in whole or in part, under applicable law, including the Sarbanes-Oxley Act and the Dodd-Frank Act.

Executive Severance Plan

The ESP provides that if an NEO separates due to an involuntary termination without cause, the executive will receive the following benefits, which may vary depending on salary grade level.

Cash Severance Payments. ESP cash severance payments include:

- a lump sum payment equal to one and one-half or two times the sum of the executive s base salary and current target annual bonus;
- a lump sum payment equal to the present value of the increase in pension benefits that would result from crediting the executive with an additional one and one-half or two years of age and service under the pension plan; and
- a lump sum payment generally equal to the Company contribution for active employees toward the cost of certain welfare benefits for an additional one and one-half or two years.

Accelerated Equity. Layoff treatment under our compensation plans generally allows the executive to retain a prorated portion of grants held less than one year and full grants held for one year or more of Restricted Stock, RSUs, and Stock Options, and maintain eligibility for PSP awards for ongoing periods in which he or she had participated for at least one year.

Change in Control Severance Plan

The CICSP provides that if, within two years of a change in control of the Company, an executive s employment is terminated by the employer other than for cause, or by the executive for good reason, the executive will receive the following benefits, which may vary depending on salary grade level. CICSP benefits include:

Cash Severance Payments. CICSP cash severance payments include:

- a lump sum payment equal to two or three times the sum of the executive s base salary and the higher of the current target annual bonus or the average of the annual bonuses paid for the previous two years;
- a lump sum payment equal to the present value of the increase in pension benefits that would result from crediting the executive with an additional two or three years of age and service under the pension plan; and,
- a lump sum payment generally equal to the Company contribution for active employees toward the cost of certain welfare benefits for an additional two or three years.

Accelerated Equity. CICSP benefits include the vesting of all equity awards and lapsing of any restrictions.

Death or Disability

For completeness, payments that would be payable to each NEO upon separation as a result of disability or to each NEO s estate as a result of death are likewise provided.

	EXECUTIVE BENEFITS AND PAYMENTS UPON TERMINATION			
	INVOLUNTARY NOT-FOR-CAUSE TERMINATION (NOT CIC) ($)	INVOLUNTARY OR GOOD REASON TERMINATION (CIC) ($)	DEATH ($)	DISABILITY ($)
Greg Garland				
Severance Payment	11,473,440	20,390,708		
Accelerated Equity (1)				
Life Insurance			3,350,016	
TOTAL	11,473,440	20,390,708	3,350,016	
Kevin Mitchell				
Severance Payment	3,661,627	5,539,509		
Accelerated Equity (1)	5,094,409	5,166,348	5,166,348	5,166,348
Life Insurance			1,664,064	
TOTAL	8,756,036	10,705,857	6,830,412	5,166,348
Robert Herman				
Severance Payment	2,908,475	4,995,305		
Accelerated Equity (1)				
Life Insurance			1,428,576	
TOTAL	2,908,475	4,995,305	1,428,576	
Paula Johnson				
Severance Payment	4,441,699	7,491,662		
Accelerated Equity (1)				
Life Insurance			1,551,840	
TOTAL	4,441,699	7,491,662	1,551,840	
Tim Roberts				
Severance Payment	2,855,858	4,648,275		
Accelerated Equity (1)	3,938,994	3,981,745	3,981,745	3,981,745
Life Insurance			1,428,576	
TOTAL	6,794,852	8,630,020	5,410,321	3,981,745

(1) For the PSP, amounts for PSP 2016-2018 are shown based on the cash amount received in February 2019, while amounts for other periods are prorated to reflect the portion of the performance period completed by the end of 2018 and shown at target payout levels. These amounts reflect the closing price of our stock as reported on the NYSE on December 31, 2018 ($86.15).

Restricted Stock and RSU amounts reflect the closing price of our stock as reported on the NYSE on December 31, 2018 ($86.15).

Stock Option amounts reflect the intrinsic value as if the options had been exercised on December 31, 2018, but only for options the NEO would have retained for the specific termination event.

EXECUTIVE COMPENSATION TABLES

CEO PAY RATIO

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the ratio of the annual total compensation, calculated in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, of our median employee and the annual total compensation of our CEO.

For 2018, the annual total compensation of our CEO was 98 times that of the median of the annual total compensation of all employees, based on annual total compensation of $19,304,673 for the CEO and $196,407 for the median employee.

This ratio is based on an October 1, 2017 employee population of 14,316, which excluded 412 non-U.S. employees in Germany (270), Singapore (71), Austria (39), Canada (30), and the United Arab Emirates (2). In 2017, the median employee was identified using annual base pay, overtime pay, annual bonus, and target LTI compensation using data as of September 30, 2017. Given that there was no material change to our employee population, the median employee s compensation programs, or the median employee s compensation, we are reporting the same employee as first reported in 2018. The annual total compensation for our CEO includes both the amount reported in the Total column of the **SUMMARY COMPENSATION TABLE** of $19,278,335 and the estimated value of our CEO s health and welfare benefits of $26,338.

The SEC s rules for identifying the median compensated employee and calculating the pay ratio based on that employee s annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices. As a result, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

NON-EMPLOYEE DIRECTOR COMPENSATION

The primary elements of our non-employee director compensation program are equity compensation and cash compensation, the current levels of which have been in place since January 1, 2016.

OBJECTIVES AND PRINCIPLES

Compensation for non-employee directors is reviewed annually by the Nominating Committee, with the assistance of such third-party consultants as the Nominating Committee deems advisable, and set by action of the Board of Directors. The Board s goal in designing such compensation is to provide a competitive package that will enable it to attract and retain highly skilled individuals with relevant experience and reflects the time and talent required to serve on the board of a complex, multinational corporation. The Board seeks to provide sufficient flexibility in the form of payment to meet individual needs while ensuring that a substantial portion of director compensation is linked to the long-term success of the Company. In furtherance of our commitment to be a socially responsible member of the communities in which we participate, the Board believes that it is appropriate to extend the Phillips 66 matching gift program to charitable contributions made by individual directors.

Equity Compensation

In 2018, each non-employee director received a grant of RSUs with an aggregate value of $200,000 on the date of grant. Restrictions on the units issued to a non-employee director will lapse in the event of retirement, disability, death, or a change of control, unless the director has elected to receive the underlying shares after a stated period of time. Directors forfeit the units if, prior to the lapse of restrictions, the Board finds sufficient cause for forfeiture (although no such finding can be made after a change in control). Before the restrictions lapse, directors cannot sell or otherwise transfer the units, but the units are credited with dividend equivalents in the form of additional RSUs. When restrictions lapse, directors will receive unrestricted shares of Company stock as settlement of the RSUs.

Cash Compensation

In 2018, each non-employee director received $125,000 in cash compensation for service as a director. Non-employee directors serving in specified committee or leadership positions also received the following additional cash compensation:

	LEAD / CHAIR	MEMBER
Lead Director	$ 50,000	N/A
Audit and Finance Committee	$ 25,000	$ 10,000
Human Resources and Compensation Committee	$ 25,000	$ 10,000
All Other Committees	$ 10,000	N/A

The total annual cash compensation is payable in monthly cash installments. Directors may elect, on an annual basis, to receive all or part of their cash compensation in unrestricted stock or in RSUs (such unrestricted stock or RSUs are issued on the last business day of the month valued using the average of the high and low prices of Phillips 66 common stock as reported on the NYSE on such date), or to have the amount credited to the director s deferred compensation account as described below. The RSUs issued in lieu of cash compensation are subject to the same restrictions as the annual RSUs described above under **Equity Compensation**.

Deferral of Compensation

Non-employee directors can elect to defer their cash compensation under the Phillips 66 Deferred Compensation Program for non-Employee Directors (the Director Deferral Plan). Deferred amounts are deemed to be invested in various mutual funds and similar investment choices (including Phillips 66 common stock) selected by the director from a list of investment choices available under the Director Deferral Plan.

The future payment of any compensation deferred by non-employee directors of Phillips 66 may be funded in a grantor trust designed for this purpose.

NON-EMPLOYEE DIRECTOR COMPENSATION

Directors Matching Gift Program

All active and retired non-employee directors are eligible to participate in the Directors Annual Matching Gift Program. This provides a dollar-for-dollar match of gifts of cash or securities, up to a maximum during any one calendar year of $15,000 per donor for active directors and $7,500 per donor for retired directors, to charities and educational institutions (excluding certain religious, political, fraternal, or collegiate athletic organizations) that are tax-exempt under Section 501(c)(3) of the IRC or meet similar requirements under the applicable law of other countries. Amounts representing these matching contributions are contained in the All Other Compensation column of the **NON-EMPLOYEE DIRECTOR COMPENSATION TABLE**.

Other Compensation

The Board believes that it is important for significant others of directors and executives to attend certain meetings to enhance the collegiality of the Board. The cost of such attendance is treated by the Internal Revenue Service as income and is taxable to the recipient. The Company reimburses directors for the cost of resulting income taxes. Amounts representing this reimbursement are contained in the All Other Compensation column of the **NON-EMPLOYEE DIRECTOR COMPENSATION TABLE**.

Stock Ownership

Each director is expected to own an amount of Company stock equal to at least the aggregate value of the annual equity grants during the director s first five years on the Board. Directors are expected to reach this level of target ownership within five years of joining the Board. Actual shares of stock, Restricted Stock, or RSUs, including deferred stock units, may be counted in satisfying the stock ownership guidelines. All current directors are in compliance, or on track to comply, with the guidelines.

NON-EMPLOYEE DIRECTOR COMPENSATION TABLE

Phillips 66 benchmarks its non-employee director compensation design and pay levels against a group of peer companies. The Company targets the median of this peer group for all elements of non-employee director compensation.

The following table summarizes the compensation for our non-employee directors for 2018 (for compensation paid to our sole employee director, Mr. Garland, please see **EXECUTIVE COMPENSATION TABLES**).

NAME	FEES EARNED OR PAID IN CASH[1] ($)	STOCK AWARDS[2] ($)	OPTION AWARDS ($)	NON-EQUITY INCENTIVE PLAN COMPENSATION ($)	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED	ALL OTHER COMPENSATION[3] ($)	TOTAL ($)

			COMPENSATION EARNINGS ($)		
Gary K. Adams	135,000	200,050		5,082	340,132
J. Brian Ferguson	150,000	200,050		1,400	351,450
William R. Loomis, Jr. (4)	51,841	200,050		16,637	268,528
John E. Lowe	145,000	200,050		1,921	346,971
Harold W. McGraw III	135,000	200,050		130	335,180
Denise L. Ramos	135,000	200,050		2,571	337,621
Glenn F. Tilton	191,425	200,050		16,857	408,332
Victoria J. Tschinkel	135,000	200,050		15,967	351,017
Marna C. Whittington	150,000	200,050		54,606	404,656

(1) Reflects 2018 base cash compensation of $125,000 payable to each non-employee director. In 2018, non-employee directors serving in specified committee positions also received the additional cash compensation described previously. Compensation amounts reflect adjustments related to various changes in committee assignments by Board members throughout the year, if any. Amounts shown include any amounts that were voluntarily deferred to the Director Deferral Plan, received in Phillips 66 common stock, or received in RSUs.

(2) Amounts represent the grant date fair market value of RSUs. Under our non-employee director compensation program, non-employee directors received a 2018 grant of RSUs with an aggregate value of $200,000 on the date of grant, based on the average of the high and low prices for Phillips 66 common stock, as reported on the NYSE, on such date. These grants are made in whole shares with fractional share amounts rounded up, resulting in shares with a value of $200,050 being granted on January 16, 2018.

(3) All Other Compensation consists primarily of certain gifts by directors to charities and educational institutions (excluding certain religious, political, fraternal, or athletic organizations) that are tax-exempt under Section 501(c)(3) of the IRC or meet similar requirements under the applicable law of other countries that we match under our Matching Gifts Program (Mr. Loomis $15,000; Mr. Lowe $1,000; Mr. Tilton $15,000; Ms. Tschinkel $15,000; and Dr. Whittington $15,000). For active directors, the program matches up to $15,000 with regard to each program year. The amounts shown reflect the actual payments made by us in 2018. All Other Compensation also includes any personal flights, automobile transportation expenses, smaller gifts (such as books, ornaments, and jackets) as well as associated tax protection, and tax assistance when we request family members or other guests to accompany a director to a Company function and, as a result, the director is deemed to make personal use of Company assets such as Company aircraft and thereby incurs imputed income.

(4) Amounts shown represent compensation paid to Mr. Loomis before his retirement from the Board in May 2018.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information about Phillips 66 common stock that may be issued under all existing equity compensation plans as of December 31, 2018:

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS[1][2] (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS[3] (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))[4] (c)
Equity compensation plans approved by security holders	9,461,338	63.11	33,284,692
Equity compensation plans not approved by security holders			
Total	9,461,338	63.11	33,284,692

(1) Includes awards issued under the Omnibus Stock and Performance Incentive Plan of Phillips 66 and awards issued under the 2013 Omnibus Stock and Performance Incentive Plan of Phillips 66.

(2) Includes an aggregate of 4,752,808 Incentive Stock Options and Nonqualified Stock Options issued to employees, 7,192 Restricted Stock Awards granted under historical LTI plans, and 1,902,502 PSUs. The number of securities to be issued includes 2,798,836 RSUs, of which 176,643 were issued to non-employee directors. Some awards held by ConocoPhillips employees at our spin-off were adjusted or substituted with a combination of ConocoPhillips and Phillips 66 equity. Awards representing a total of 13,071,435 shares were issued to ConocoPhillips employees, of which 2,287,585 remain outstanding as of December 31, 2018. The awards issued to ConocoPhillips employees are included in the outstanding awards listed above.

(3) The weighted-average exercise price reflects the weighted-average price for outstanding Incentive Stock Options and Nonqualified Stock Options only. It does not include stock awards outstanding.

(4) Total includes forfeited shares under the Omnibus Stock and Performance Incentive Plan of Phillips 66 that are now available for grant under the 2013 Omnibus Stock and Performance Incentive Plan of Phillips 66.

STOCK OWNERSHIP

HOLDINGS OF MAJOR SHAREHOLDERS

The following table sets forth information regarding persons who we know to be the beneficial owners of more than five percent of our issued and outstanding common stock (as of the date of such shareholder s most recent ownership filing with the SEC):

	COMMON STOCK	
NAME AND ADDRESS	NUMBER OF SHARES	PERCENT OF CLASS
The Vanguard Group[1] 100 Vanguard Blvd. Malvern, PA 19335	34,907,647	7.57%
BlackRock, Inc.[2] 55 East 52nd Street New York, NY 10055	31,606,617	6.90%

(1) Based solely on an Amendment to Schedule 13G filed with the SEC on February 11, 2019, by The Vanguard Group on behalf of itself, Vanguard Fiduciary Trust Company, and Vanguard Investments Australia, Ltd. The Amendment to Schedule 13G reports sole voting power for 495,352 shares of common stock, shared voting power for 114,711 shares of common stock, sole dispositive power for 34,307,340 shares of common stock and shared dispositive power for 600,307 shares of common stock.

(2) Based solely on an Amendment to Schedule 13G filed with the SEC on February 6, 2019, by BlackRock, Inc. on behalf of itself, BlackRock Advisors, LLC, BlackRock Financial Management, Inc., BlackRock Investment Management, LLC, BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Limited, BlackRock (Luxembourg) S.A., BlackRock (Netherlands) B.V., BlackRock Fund Managers Ltd, BlackRock Life Limited, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management Schweiz AG, BlackRock (Singapore) Limited, BlackRock Advisors (UK) Limited, BlackRock Fund Advisors, BlackRock International Limited, BlackRock Institutional Trust Company, National Association, BlackRock Japan Co. Ltd., BlackRock Asset Management Canada Limited, FutureAdvisor, Inc., and BlackRock Asset Management North Asia Limited. The Amendment to Schedule 13G reports sole voting power for 26,018,324 shares of common stock, no shared voting power for shares of common stock, sole dispositive power for 31,606,617 shares of common stock and no shared dispositive power for shares of common stock.

SECURITIES OWNERSHIP OF OFFICERS AND DIRECTORS

The following table sets forth the number of shares of our common stock beneficially owned as of March 11, 2019, by each Phillips 66 director, by each NEO and by all of our directors and executive officers as a group. Together these individuals beneficially own less than one percent of our common stock. The table also includes information about stock options, restricted stock, RSUs and Deferred Stock Units credited to the accounts of our directors and executive officers under various compensation and benefit plans. For purposes of this table, shares are considered to be beneficially owned if the person, directly or indirectly, has sole or shared voting or investment power with respect to such shares. In addition, a person is deemed to beneficially own shares if that person has the right to acquire such shares within 60 days of March 11, 2019.

		NUMBER OF SHARES OR UNITS	
		RESTRICTED/	
	TOTAL COMMON STOCK	DEFERRED	OPTIONS EXERCISABLE
NAME OF BENEFICIAL OWNER	BENEFICIALLY OWNED	STOCK UNITS(1)	WITHIN 60 DAYS(2)
Mr. Garland	363,962	298,615	765,900
Mr. Herman	31,173	67,362	67,362
Ms. Johnson	54,426	49,402	122,332
Mr. Mitchell	38,618	28,115	76,366
Mr. Roberts	3,642	19,232	48,032
Mr. Adams	7,056		
Mr. Ferguson(3)	21,734	23,434	
Mr. Lowe	26,000	23,434	
Mr. McGraw(4)	873	43,300	
Ms. Ramos		7,309	
Mr. Tilton	5,900	23,434	
Ms. Tschinkel(5)	46,043	9,508	
Dr. Whittington	2,500	23,434	
Directors and Executive Officers as a Group (15 Persons)	612,925	616,579	1,127,157

(1) Includes RSUs or Deferred Stock Units that may be voted or sold only upon passage of time.

(2) Includes beneficial ownership of shares of common stock which may be acquired within 60 days of March 11, 2019, through stock options awarded under compensation plans.

STOCK OWNERSHIP

(3) Includes 21,500 shares of common stock owned by an entity managed by Mr. Ferguson and his wife.

(4) Includes 373 shares held on behalf of the Harold W. McGraw Family Foundation, Inc., of which Mr. McGraw serves on the board, or various trusts for the benefit of various family members of Mr. McGraw and for which trusts Mr. McGraw serves as trustee and has voting and investment power. Mr. McGraw disclaims beneficial ownership of all securities held by the foundation and the trusts.

(5) Includes 171 shares of common stock owned by the Erika Tschinkel Trust.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING

Section 16(a) of the Exchange Act requires directors and executive officers of Phillips 66, and persons who own more than 10 percent of a registered class of Phillips 66 equity securities, to file reports of ownership and changes in ownership of Phillips 66 common stock with the SEC and the NYSE, and to furnish Phillips 66 with copies of the forms they file.

To our knowledge, based solely upon a review of the copies of such reports furnished to the Company and written representations of our officers and directors, during the year ended December 31, 2018, all Section 16(a) reports applicable to those officers and directors were filed on a timely basis other than the following: (i) one late report on Form 4 for each of Greg C. Garland, Robert A. Herman and Paula A. Johnson to report the withholding of shares by the Company in payment of FICA taxes that became due six months after the date of grant of an annual RSU award in accordance with the terms of the Company s RSUs; and (ii) the inadvertent omission of a holding on Form 3 of initial ownership for Brian M. Mandell that was later reported on Form 5.

PROPOSAL 5: SHAREHOLDER PROPOSAL REGARDING PLASTIC POLLUTION

The following proposal was submitted by As You Sow, on behalf of Mr. Winston Dines, the beneficial owner of 283 shares of Phillips 66 common stock. We will provide the addresses of Mr. Dines and As You Sow to shareholders promptly after receiving an oral or written request. The proposal and supporting statement have been included as submitted and quoted verbatim. Phillips 66 is not responsible for the content of the shareholder proposal or supporting statement.

Whereas plastic pollution is a global environmental crisis. Chevron Phillips Chemical Co., owned jointly by Phillips 66 and Chevron, is one of the world s top producers of olefins and polyolefins, used in the production of plastics such as polypropylene and polyethylene. As a major petrochemical producer, it operates facilities that produce plastic pellets.

Most plastic products originate from plastic pellets, also known as pre-production pellets, or nurdles, manufactured in polymer production plants. Due to spills and poor handling procedures, billions of such plastic pellets are swept into waterways during production or transport annually and increasingly found on beaches and shorelines, adding to harmful levels of plastic pollution in the environment.

Eight million tons of plastics leaks into oceans annually. Plastics degrade in water to small particles that animals mistake for food; plastic pollution impacts 260 species, causing fatalities from ingestion, entanglement, suffocation, and drowning. Plastic does $13 billion in damage to marine ecosystems annually. If no action is taken, oceans are expected to contain more plastic than fish by 2050. Pellets are similar in size and shape to fish eggs and are often mistaken by marine animals for food. Plastic pellets can absorb toxins such as dioxins from water and transfer them to the marine food web and potentially to human diets, increasing the risk of adverse effects to wildlife and humans.

Nearly 200 nations pledged to eliminate plastic pollution in the world s oceans at the United Nations Environment Assembly in Nairobi last December. The United Nations Undersecretary-General has called this issue an ocean Armageddon. The U.S. Microbead-Free Waters Act of 2015 banned one form of microplastic pollution-microbeads used in cosmetic products. Plastic pellets are estimated to be the second largest direct source of microplastic pollution to the ocean by weight; up to 53 billion pellets may be spilled annually in the United Kingdom alone. A recent study concluded that up to 36 million plastic pellets may be spilled from one major industry production complex in Sweden.

Chevron Phillips Chemical is listed as a member of Operation Clean Sweep, an industry program that encourages use of best practices for pellet management and containment to reduce pellet loss, but this initiative provides no public reporting.

Given the severe biodiversity and economic impacts of plastic pollution described above, there is an urgent need to increase and improve reporting on pellet spills and remediation, as well as discussing accountability for pellet spill remediation in more detail.

BE IT RESOLVED Shareholders request that the Board of Directors of Phillips 66 issue an annual report to shareholders, at reasonable cost and omitting proprietary information, on plastic pollution. The report should disclose trends in the amount of pellets, powder or granules released to the environment by the company annually, and concisely assess the effectiveness of the company s policies and actions to reduce the volume of the company s plastic materials contaminating the environment.

Supporting statement: Proponent recommends that the report include discussion of pellet loss prevention, cleanup and containment.

PROPOSAL 5: SHAREHOLDER PROPOSAL REGARDING PLASTIC POLLUTION

Board of Directors Response

YOUR BOARD RECOMMENDS THAT YOU VOTE AGAINST THE PROPOSAL.

We understand that plastic pollution is a global environmental issue and believe that the Chemicals industry, among others, should develop policies and practices to address that issue. After a careful review of the proposal, the Board of Phillips 66 has determined that the report suggested by the proponent is unnecessary given the robust sustainability policies and programs that both CPChem and Phillips 66 follow, which include waste management programs.

This proposal relates to Chevron Phillips Chemical LLC (CPChem), a Chemicals joint venture equally owned by Phillips 66 and Chevron Corporation. CPChem is not operated by Phillips 66, and Phillips 66 does not unilaterally control CPChem s business. However, like Phillips 66, CPChem is committed to driving sustainable business practices and believes in transparency. CPChem reports on its sustainability practices on its website.

CPChem drives sustainable practices throughout all its businesses. Reducing plastic waste, including plastics in the ocean, is a key component of CPChem s sustainability strategy. In addition to internal efforts and initiatives, CPChem works with customers and others to support sustainability goals through the supply chain, including responsible handling of pellets, and to increase the reduction, reuse, recycling and recovery of plastic materials. CPChem also maintains leadership roles in industry associations that are focused on enabling and encouraging the responsible handling of plastic products after their intended use and the reduction of plastic marine debris. CPChem:

- is a founding member of the World Plastics Council, an organization created to address complex global issues facing the plastics industry, including marine debris;

- is active in the American Chemistry Council (ACC) and Plastics Industry Association, which jointly administer Operation Clean Sweep® (OCS), an international program designed to help keep plastic litter materials out of the marine environment. CPChem has adopted OCS practices and controls to help prevent losses of pellet, flake and powder into the environment;

- has committed to the ACC s Plastics Division Circular Economy Goals, which include goals for capturing, recycling and recovering plastics as well as participation in OCS Blue, an enhanced effort to prevent accidental releases of plastic raw materials, such as pellets, into the environment. In connection with OCS Blue, CPChem is preparing for third party audits of its pellet spills management systems; and

- is a founding member of the Alliance to End Plastic Waste (Alliance), an organization working to find common solutions to reduce plastic waste and prevent it from entering the environment. Alliance members have committed more than $1 billion, with the goal of investing $1.5 billion over the next five years. The Alliance intends to develop and deploy solutions to minimize and manage plastic waste, including on-the-ground waste management and infrastructure development in the Asia-Pacific region.

Phillips 66 is committed to transparent reporting on sustainability and environmental matters, and information about Phillips 66 s sustainability practices can be found on its website (www.phillips66.com). We appreciate that plastic pollution, especially in the ocean, is a concern, including to stakeholders who invest in us. That is why Phillips 66 supports the actions CPChem is taking to avoid pellet spills, increase plastic recycling, and prevent plastic waste from entering the environment. We believe those actions address the concerns and accomplish the objective of the proposal. For these reasons, we believe the annual reporting requested by the proposal is unnecessary and would consume time and resources that are best spent on executing the programs, processes and systems that are already in place to address the issue of plastic pollution.

Therefore, your Board recommends that you vote **AGAINST** this proposal.

ABOUT THE ANNUAL MEETING

Who is soliciting my vote?

The Board of Directors of Phillips 66 is soliciting proxies to be voted at the 2019 Annual Meeting of Shareholders of Phillips 66.

Who is entitled to vote?

You may vote if you were the record owner of Phillips 66 common stock as of the close of business on March 11, 2019, the record date established by the Board of Directors. Each share of common stock is entitled to one vote. As of March 11, 2019, we had 454,352,328 shares of common stock outstanding and entitled to vote. There is no cumulative voting.

How many shares must be present to hold the meeting?

In order for us to hold our meeting, holders of a majority of our outstanding shares of common stock as of March 11, 2019, must be present in person or by proxy at the meeting. This is referred to as a quorum. Your shares are counted as present at the Annual Meeting if you attend the meeting and vote in person or if you properly return a proxy by Internet, telephone or mail. Abstentions and broker non-votes will also be counted for purposes of establishing a quorum at the meeting.

What is a broker non-vote?

Brokers are allowed to vote shares held for the benefit of their clients even though the brokers have not received voting instructions from the beneficial owner on how to vote the shares only on routine matters. The ratification of an independent auditor is an example of a routine matter on which brokers may vote in this manner.

Without voting instructions, brokers may not vote shares held for the benefit of their clients on non-routine matters. Non-routine matters include the election of directors, proposals relating to executive compensation and proposals to amend certificates of incorporation and certain other corporate governance changes. Shares that are not voted by brokers on non-routine matters are called broker non-votes.

How many votes are needed to approve each of the proposals?

Each of the director nominees requires the affirmative **FOR** vote of the majority of the votes cast.

All other proposals require the affirmative **FOR** vote of a majority of shares present in person or represented by proxy at the meeting.

How do I vote?

You can vote either *in person* at the meeting or *by proxy*.

This proxy statement, the accompanying proxy card and the Company s 2018 Annual Report to Shareholders are being made available to the Company s shareholders on the Internet at *www.proxyvote.com* through the notice and access process. The Company s 2018 Annual Report to Shareholders contains consolidated financial statements and reports of the independent registered public accounting firm, management s discussion and analysis of financial condition and results of operations, information concerning the quarterly financial data for the past two fiscal years, and other information.

To vote by proxy, you must do one of the following:

- Vote over the Internet (instructions are on the proxy card).
- Vote by telephone (instructions are on the proxy card).
- If you elected to receive a hard copy of your proxy materials, fill out the enclosed proxy card, date and sign it, and return it in the enclosed postage-paid envelope.

If you hold your Phillips 66 stock in a brokerage account (that is, in street name), your ability to vote by telephone or over the Internet depends on your broker s voting process. Please follow the directions on your proxy card or voter instruction form carefully.

ABOUT THE ANNUAL MEETING

Even if you plan to attend the Annual Meeting, we encourage you to vote your shares by proxy. If you plan to vote in person at the Annual Meeting and you hold your Phillips 66 stock in street name, you must obtain a proxy from your broker and bring that proxy to the meeting.

How do I vote if I hold my stock through a Phillips 66 employee benefit plan?

If you hold your stock through a Phillips 66 employee benefit plan, you must either:

- Vote over the Internet (instructions are in the email sent to you or on the notice and access form).
- Vote by telephone (instructions are on the notice and access form).
- If you elected to receive a hard copy of your proxy materials, fill out the enclosed voting instruction form, date and sign it, and return it in the enclosed postage-paid envelope.

You will receive a separate voting instruction form for each employee benefit plan in which you hold Phillips 66 stock. Please pay close attention to the deadline for returning your voting instruction form to the plan trustee. The voting deadline for each plan is set forth on the voting instruction form. Please note that different plans may have different deadlines.

How can I revoke my proxy?

You can revoke your proxy by sending written notice of revocation of your proxy to our Corporate Secretary so that it is received prior to 5:00 p.m., Central Daylight Time, on May 7, 2019.

Can I change my vote?

Yes. You can change your vote at any time before the polls close at the Annual Meeting, which will void any earlier vote. You can change your vote by:

- voting again by telephone or over the Internet prior to 11:59 p.m., Eastern Daylight Time, on May 7, 2019;
- signing another proxy card with a later date and returning it to us prior to the meeting; or
- voting again at the meeting.

If you hold your Phillips 66 stock in street name, you must contact your broker to obtain information regarding changing your voting instructions.

Who counts the votes?

We hired Broadridge Financial Solutions, Inc. to count the votes represented by proxies and cast by ballot, and appointed Jim Gaughan of Carl T. Hagberg and Associates to act as Inspector of Election.

Will my shares be voted if I don t provide my proxy and don t attend the Annual Meeting?

For shares held in your name, if you do not provide a proxy or vote your shares at the Annual Meeting, those shares will not be voted.

If you hold shares in street name, your broker may vote those shares for routine matters even if you do not provide the broker with voting instructions. Only the ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2019 is considered to be a routine matter.

If you do not give your broker instructions on how to vote your shares, the broker will return the proxy card without voting on proposals that are non-routine. This is a broker non-vote. Without instructions from you, the broker may not vote on any proposals other than the ratification of Ernst & Young LLP as our independent registered public accounting firm for 2019.

How are votes counted?

For all proposals, you may vote **FOR**, **AGAINST**, or **ABSTAIN**. If you vote to **ABSTAIN** on the election of directors, it is not considered as a vote cast and, therefore, your vote will reduce the number, but not the percentage, of affirmative votes needed to elect the nominees.

For the other proposals, if you vote to **ABSTAIN,** your shares are still considered as present and entitled to vote and, therefore, your abstention has the same effect as a vote **AGAINST**.

What if I return my proxy but don t vote for some of the matters listed on my proxy card?

If you return a signed proxy card without indicating your vote, your shares will be voted **FOR** the director nominees listed on the card; the ratification of Ernst & Young LLP as the independent registered public accounting firm for Phillips 66 for fiscal year 2019; and the approval of the compensation of our Named Executive Officers. Your shares will be voted for an **ANNUAL** frequency of voting for the approval of the compensation for our Named Executive Officers and **AGAINST** the shareholder proposal regarding plastic pollution.

Could other matters be decided at the Annual Meeting?

We are not aware of any other matters to be presented at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, the persons named in your proxy will vote in accordance with their best judgment. Discretionary authority to vote on other matters is included in the proxy.

When will the Company announce the results of the vote?

Within four business days after the Annual Meeting, we will file a Current Report on Form 8-K announcing the results of the vote at the Annual Meeting.

Who can attend the Annual Meeting?

The Annual Meeting is open to all holders of Phillips 66 common stock. Each shareholder is permitted to bring one guest. No cameras, recording equipment, large bags, briefcases or packages will be permitted in the Annual Meeting, and security measures will be in effect to provide for the safety of attendees.

Do I need a ticket to attend the Annual Meeting?

Yes, you will need an admission ticket or proof of ownership of Phillips 66 stock to enter the meeting. If your shares are registered in your name, you will find an admission ticket attached to the proxy card sent to you. If your shares are held in the name of your broker or bank or you received your materials electronically, you will need to bring evidence of your stock ownership, such as your most recent brokerage statement. All shareholders will be required to present valid picture identification. **IF YOU DO NOT HAVE VALID PICTURE IDENTIFICATION AND EITHER AN ADMISSION TICKET OR PROOF THAT YOU OWN PHILLIPS 66 STOCK, YOU MAY NOT BE ADMITTED INTO THE MEETING**.

How can I access the Phillips 66 proxy materials and annual report electronically?

This proxy statement, the accompanying proxy card and the Company s 2018 Annual Report are being made available to the Company s shareholders on the Internet at *www.proxyvote.com* through the notice and access process. Most shareholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail.

If you own Phillips 66 stock in your name, you can choose this option, and help conserve resources and save the cost of producing and mailing these documents, by checking the box for electronic delivery on your proxy card or by following the instructions provided when you vote by telephone or over the Internet. If you hold your Phillips 66 stock through a bank, broker or other holder of record, please refer to the information provided by that entity for instructions on how to elect to view future proxy statements and annual reports over the Internet.

ABOUT THE ANNUAL MEETING

If you choose to view future proxy statements and annual reports over the Internet, you will receive a Notice of Internet Availability next year containing the Internet address to use to access our proxy statement and annual report. Your choice will remain in effect unless you change your election following the receipt of a Notice of Internet Availability. You do not have to elect Internet access each year. If you later change your mind and would like to receive paper copies of our proxy statements and annual reports, you can request both by phone at 800-579-1639, by email at *sendmaterial@proxyvote.com*, through the Internet at *www.proxyvote.com* or by writing to Phillips 66, c/o Broadridge Financial Solutions, Inc., 51 Mercedes Way, Edgewood, NY 11717. You will need your 12-digit control number located on your Notice of Internet Availability to request a package. You will also be provided with the opportunity to receive a copy of the proxy statement and annual report in future mailings.

Will my vote be kept confidential?

The Board of Directors has a policy that shareholder proxies, ballots, and tabulations that identify shareholders are to be maintained in confidence. No such document will be available for examination, and the identity and vote of any shareholder will not be disclosed, except as necessary to meet legal requirements and allow the inspectors of election to certify the results of the shareholder vote. The policy also provides that inspectors of election must be independent and cannot be employees of the Company. Occasionally, shareholders provide written comments on their proxy card that may be forwarded to management.

What is the cost of this proxy solicitation?

The Board of Directors has sent you this proxy statement. Our directors, officers and employees may solicit proxies by mail, by email, by telephone or in person. Those persons will receive no additional compensation for any solicitation activities. We will request banking institutions, brokerage firms, custodians, trustees, nominees and fiduciaries to forward solicitation materials to the beneficial owners of common stock held of record by those entities, and we will, upon the request of those record holders, reimburse reasonable forwarding expenses. We will pay the costs of preparing, printing, assembling and mailing the proxy materials used in the solicitation of proxies. In addition, we have hired Alliance Advisors, LLC to assist us in soliciting proxies, which it may do by telephone or in person. We anticipate paying Alliance Advisors, LLC a fee of $15,000, plus expenses.

Why did my household receive a single set of proxy materials?

SEC rules permit us to deliver a single copy of an annual report and proxy statement to any household not participating in electronic proxy material delivery at which two or more shareholders reside, if we believe the shareholders are members of the same family. This benefits both you and the Company, as it eliminates duplicate mailings that shareholders living at the same address receive and conserves resources and reduces printing and mailing costs. This rule applies to any annual reports, proxy statements, proxy statements combined with a prospectus or information statements. Each shareholder will continue to receive a separate proxy card or voting instruction card.

Your household may have received a single set of proxy materials this year. If you prefer to receive your own copy now or in future years, please request a duplicate set by phone at 800-579-1639, through the Internet at *www.proxyvote.com*, by email at *sendmaterial@proxyvote.com*, or by writing to Phillips 66, c/o Broadridge Financial Solutions, Inc., 51 Mercedes Way, Edgewood, NY 11717. Shareholders sharing the same address can request delivery of a single copy of these materials using the same methods described in the preceding sentence. If a broker or other nominee holds your shares, you may continue to receive some duplicate mailings. Certain brokers will eliminate duplicate account mailings by allowing shareholders to consent to such elimination, or through implied consent if a shareholder does not request continuation of duplicate mailings. Because not all brokers and nominees may offer shareholders the opportunity to request eliminating duplicate mailings, you may need to contact your broker or nominee directly to discontinue duplicate mailings to your household.

SUBMISSION OF FUTURE SHAREHOLDER PROPOSALS AND DIRECTOR NOMINATIONS

Under SEC rules, if a shareholder wants us to include a proposal in our proxy statement and form of proxy for the 2020 Annual Meeting of Shareholders, our Corporate Secretary must receive the proposal at our principal executive offices by November 30, 2019. Any such proposal must comply with the requirements of Rule 14a-8 promulgated under the Exchange Act.

Under our By-Laws, and as SEC rules permit, shareholders must follow certain procedures to nominate a person for election as a director at an annual or special meeting, or to introduce an item of business at an annual meeting (other than a proposal submitted under Rule 14a-8). Under these procedures, shareholders must submit the proposed nominee or item of business by delivering a notice to the Corporate Secretary at the following address: Corporate Secretary, Phillips 66, P.O. Box 421959, Houston, Texas 77242-1959. We must receive notice as follows:

- We must receive notice of a shareholder s intention to introduce a nomination or proposed item of business for an annual meeting not less than 90 days nor more than 120 days before the first anniversary of the prior year s meeting. Assuming that our 2019 Annual Meeting is held on schedule, we must receive notice pertaining to the 2020 Annual Meeting no earlier than January 9, 2020, and no later than February 8, 2020.

- However, if we hold the annual meeting on a date that is not within 30 days before or after such anniversary date, and if our first public announcement of the date of such annual meeting is less than 100 days prior to the date of such meeting, we must receive the notice no later than 10 days after the public announcement of such meeting.

- If we hold a special meeting to elect directors, we must receive a shareholder s notice of intention to introduce a nomination no later than 10 days after the earlier of the date we first provide notice of the meeting to shareholders or announce it publicly.

As required by Article II of our By-Laws, a notice of a proposed nomination must include information about the shareholder and the nominee, as well as a written consent of the proposed nominee to serve if elected. A notice of a proposed item of business must include a description of and the reasons for bringing the proposed business to the meeting, any material interest of the shareholder in the business and certain other information about the shareholder. You can obtain a copy of our By-Laws by writing the Corporate Secretary at the address above, or via our website under the *Corporate Governance* caption.

AVAILABLE INFORMATION

SEC rules require us to provide an annual report to shareholders who receive this proxy statement. Additional printed copies of the annual report to shareholders, as well as our Corporate Governance Guidelines, Code of Business Ethics and Conduct, charters for each of the committees of the Board of Directors and our Annual Report on Form 10-K for the year ended December 31, 2018, including the financial statements and the financial statement schedules, are available without charge to shareholders upon written request to Phillips 66, 411 S. Keeler, Bartlesville, Oklahoma, 74003 or via the Internet at *www.Phillips66.com*. We will furnish the exhibits to our Annual Report on Form 10-K upon payment of our copying and mailing expenses.

Appendix A

NON-GAAP FINANCIAL MEASURES

The discussion of our results in this proxy statement includes references to our adjusted EBITDA ; run-rate EBITDA ; after-tax ROCE as used in absolute ROCE and relative ROCE ; and adjusted controllable costs. These measures are not measures of financial performance under U.S. generally accepted accounting principles (GAAP) and may not be defined and calculated by other companies using the same or similar terminology.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure because it adjusts net income to exclude depreciation and amortization, net interest expense and income taxes, as well as certain items of expense or income that management does not consider representative of our core operating performance. Management uses this measure as a factor in its assessment of performance for the purposes of compensation decisions. A reconciliation of adjusted EBITDA to net income, the most directly comparable GAAP financial measure, is set forth below.

YEAR ENDED DECEMBER 31, 2018	MILLIONS OF DOLLARS
Net Income	$ 5,873
Plus:	
Income tax expense	1,572
Net interest expense	459
Depreciation and amortization (D&A)	1,356
EBITDA	9,260
Adjustments:	
Impairments by equity affiliates	28
Pending claims and settlements	21
Pension settlement expense	67
U.S. tax reform	(16)
Proportional share of selected equity affiliates income taxes	102
Proportional share of selected equity affiliates net interest	167
Proportional share of selected equity affiliates D&A	912
EBITDA attributable to Phillips 66 noncontrolling interests	(361)
Certain tax impacts	(119)
Adjusted EBITDA	**$ 10,061**

Run-rate EBITDA

Run-rate EBITDA is a forecast of future EBITDA to be derived from growth projects completed during 2017 and 2018. We are unable to present a reconciliation of run-rate EBITDA to net income, which is the nearest GAAP financial measure, because certain elements of net income, including interest, depreciation and taxes, were not used in the forecasts and are therefore not available. Together, these items generally result in run-rate EBITDA being significantly higher than net income.

Appendix A

NON-GAAP FINANCIAL MEASURES

ROCE

We believe after-tax ROCE is an important metric for evaluating the quality of capital allocation decisions, measuring portfolio value, and measuring the efficiency and profitability of capital investments. After-tax ROCE as used in the assessment of performance for compensation decisions is a ratio, the numerator of which is adjusted earnings plus after-tax interest expense, and the denominator of which is average adjusted total equity plus total debt.

Our calculation of after-tax ROCE as used in the PSP, and its reconciliation to ROCE prepared using GAAP amounts, is set forth below.

	ROCE MILLIONS OF DOLLARS (except as indicated)				
	Average 2016-2018		2018	2017	2016
Numerator					
Net Income		$	5,873	5,248	1,644
After-tax interest expense			398	285	220
ROCE earnings - GAAP			6,271	5,533	1,864
Adjustments[1]			(45)	(2,837)	(57)
ROCE earnings - as used in PSP			**6,226**	**2,696**	**1,807**
Denominator					
Average capital employed[2] - GAAP			37,925	35,700	33,344
In-process capital and other			(1,634)	(2,293)	(3,134)
Average capital employed - as used in PSP		**$**	**36,291**	**33,407**	**30,210**
ROCE (percent) - as used in PSP	10.4%		17.2%	8.1%	6.0%
ROCE (percent) - GAAP	12.5%		16.5%	15.5%	5.6%

(1) Primarily related to certain tax impacts, impairments, pending claims and settlements, and pension settlement expense.
(2) Total equity plus total debt.

Adjusted Controllable Costs

Adjusted controllable costs is a measure of how effectively we manage costs versus internal targets. Management uses this measure as a factor in its assessment of performance for the purposes of compensation decisions. Adjusted controllable costs is a non-GAAP financial measure because it excludes certain costs that management believes are not directly relevant to compensation decisions. A reconciliation of adjusted controllable costs to the sum of operating expenses and selling, general and administrative expenses, the most directly comparable GAAP measures, is set forth below.

YEAR ENDED DECEMBER 31, 2018		MILLIONS OF DOLLARS
Operating Expenses	**$**	**4,880**
Selling, General and Administrative Expenses		**1,677**
Adjustments:		
Certain employee benefits		(237)
Foreign currency, price impacts and other		(137)
Adjusted Controllable Costs	**$**	**6,183**

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on May 7, 2019. Have your Voting Direction card in hand when you access the web site and follow the instructions to obtain your records and to complete an electronic voting instruction form.

2331 CITYWEST BLVD.

HOUSTON, TX 77042

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS

If you would like to reduce the costs incurred by Phillips 66 in mailing proxy materials, you can consent to receiving all future proxy statements, Voting Direction cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on May 7, 2019. Have your Voting Direction card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your Voting Direction card and return it in the postage-paid envelope we have provided or return it to Phillips 66, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E59420-P18482 KEEP THIS PORTION FOR YOUR REC

DETACH AND RETURN THIS I

THIS VOTING DIRECTION CARD IS VALID ONLY WHEN SIGNED AND DATED.

PHILLIPS 66
The Board of Directors recommends a vote FOR each listed nominee in

item #1.

	For	Against	Abstain
1. To elect four directors to the Board of Directors for a term of office expiring at the 2022 annual meeting of shareholders. The nominees for election are:			
1a. Greg C. Garland			
1b. Gary K. Adams			
1c. John E. Lowe			
1d. Denise L. Ramos			

The Board of Directors recommends a vote FOR each of items #2 and #3.

	For	Against	Abstain
2. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal year 2019.			
3. Advisory vote to approve our executive compensation.			

The Board of Directors recommends a vote of ONE YEAR in item #4.	**1 Year**	**2 Years**	**3 Years**	**Abstain**
4. Advisory vote on the frequency of future shareholder advisory votes to approve executive compensation.				

The Board of Directors recommends a vote AGAINST the shareholder proposal in item #5.	**For**	**Against**	**Abstain**
5. Shareholder proposal requesting an annual report on plastic pollution.			

In their discretion, the named proxies are authorized to vote upon such other matters that may properly come before the meeting or any adjournment or postponement thereof.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

If you plan to attend the Annual Meeting of Shareholders, you will be asked to verify that you are a shareholder by presenting this admission ticket together with a proper form of identification.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

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THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

ANNUAL MEETING OF SHAREHOLDERS

MAY 8, 2019

The shareholder(s) hereby appoint(s) Greg C. Garland and Paula A. Johnson, or either of them, as proxies, each with the power to appoint his or her substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of Phillips 66 that the shareholder(s) is/are entitled to vote at the Annual Meeting of Shareholders to be held at 9:00 a.m., Central Time, on May 8, 2019, at the Houston Marriott Westchase, 2900 Briarpark Drive, Houston, Texas, and any adjournment or postponement thereof.

This proxy card will be voted as specified or, if no choice is specified, will be voted FOR the election of the four director nominees named on the reverse side; FOR ratification of the appointment of Ernst & Young LLP; FOR the advisory vote to approve executive compensation; for ONE YEAR on the frequency of future shareholder votes to approve executive compensation; and AGAINST the shareholder proposal.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPLY ENVELOPE.

Continued and to be signed on reverse side