

PACCAR INC
Form 10-Q
November 02, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

or

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

For the transition period from to

Commission File No. 001-14817

PACCAR Inc

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

91-0351110

(I.R.S. Employer Identification No.)

777 - 106th Ave. N.E., Bellevue, WA

(Address of principal executive offices)

98004

(Zip Code)

(425) 468-7400

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

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Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

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

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

Common Stock, \$1 par value 248,313,102 shares as of September 30, 2006

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Income (Unaudited)
(Millions Except Per Share Data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
TRUCK AND OTHER:				
Net sales and revenues	\$ 3,959.2	\$ 3,345.4	\$ 11,535.0	\$ 9,872.9
Cost of sales and revenues	3,364.9	2,842.5	9,817.7	8,408.6
Selling, general and administrative	111.6	102.8	333.8	315.8
Interest and other expense, net	.7	6.0	1.3	9.0
	3,477.2	2,951.3	10,152.8	8,733.4
Truck and Other Income Before Income Taxes	482.0	394.1	1,382.2	1,139.5
FINANCIAL SERVICES:				
Revenues	246.2	195.6	690.1	549.5
Interest and other	148.9	112.4	415.7	311.2
Selling, general and administrative	24.3	21.5	70.9	63.0
Provision for losses on receivables	6.3	14.5	22.3	30.9
	179.5	148.4	508.9	405.1
Financial Services Income Before Income Taxes	66.7	47.2	181.2	144.4
Investment income	21.7	13.7	55.9	39.9
Total Income Before Income Taxes	570.4	455.0	1,619.3	1,323.8
Income taxes	166.8	150.2	503.8	503.5
Net Income	\$ 403.6	\$ 304.8	\$ 1,115.5	\$ 820.3
Net Income Per Share:				
Basic	\$ 1.62	\$ 1.19	\$ 4.45	\$ 3.17
Diluted	\$ 1.61	\$ 1.18	\$ 4.43	\$ 3.15
Weighted Average Common Shares Outstanding:				
Basic	249.2	255.9	250.4	258.7
Diluted	250.5	257.5	251.8	260.4
Dividends declared per share	\$.20	\$.14	\$.57	\$.41

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheets

	September 30 2006 (Millions of Dollars) (Unaudited)	December 31 2005*
ASSETS		
TRUCK AND OTHER:		
Current Assets		
Cash and cash equivalents	\$ 1,553.2	\$ 1,624.4
Trade and other receivables, net	926.8	582.2
Marketable debt securities	825.6	591.4
Inventories	563.8	495.5
Deferred taxes and other current assets	225.6	214.9
Total Truck and Other Current Assets	4,095.0	3,508.4
Equipment on operating leases, net	395.2	361.0
Property, plant and equipment, net	1,253.3	1,143.0
Other noncurrent assets	434.9	347.1
Total Truck and Other Assets	6,178.4	5,359.5
FINANCIAL SERVICES:		
Cash and cash equivalents	55.7	74.5
Finance and other receivables, net	8,052.6	7,262.5
Equipment on operating leases, net	946.5	845.9
Other assets	224.7	173.0
Total Financial Services Assets	9,279.5	8,355.9
	\$ 15,457.9	\$ 13,715.4

	September 30 2006 (Millions of Dollars) (Unaudited)	December 31 2005*
LIABILITIES AND STOCKHOLDERS EQUITY		
TRUCK AND OTHER:		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,334.6	\$ 1,834.9
Current portion of long-term debt and commercial paper		8.6
Dividend payable		338.7
Total Truck and Other Current Liabilities	2,334.6	2,182.2
Long-term debt	21.1	20.2
Residual value guarantees and deferred revenues	452.3	410.4
Deferred taxes and other liabilities	377.0	344.0
Total Truck and Other Liabilities	3,185.0	2,956.8
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	154.0	168.9
Commercial paper and bank loans	3,719.9	3,568.6
Term debt	3,195.3	2,657.5
Deferred taxes and other liabilities	489.9	462.5
Total Financial Services Liabilities	7,559.1	6,857.5
STOCKHOLDERS EQUITY		
Preferred stock, no par value: Authorized 1.0 million shares, none issued		
Common stock, \$1 par value: Authorized 400.0 million shares, 249.4 million shares issued	249.4	169.4
Additional paid-in capital	27.8	140.6
Treasury stock - at cost - 1.1 million shares	(59.4)	(35.1)
Retained earnings	4,241.1	3,471.5
Accumulated other comprehensive income	254.9	154.7
Total Stockholders Equity	4,713.8	3,901.1
	\$ 15,457.9	\$ 13,715.4

* The December 31, 2005, consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)
(Millions of Dollars)

Nine Months Ended September 30	2006	2005
OPERATING ACTIVITIES:		
Net income	\$ 1,115.5	\$ 820.3
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization:		
Property, plant and equipment	118.1	99.1
Equipment on operating leases and other	203.3	174.5
Provision for losses on financial services receivables	22.3	30.9
Other	2.2	(45.7)
Change in operating assets and liabilities:		
Wholesale receivables on new trucks	(68.2)	(284.7)
Sales-type finance leases and dealer direct loans on new trucks	(88.4)	(67.1)
Other	(3.7)	(48.9)
Net Cash Provided by Operating Activities	1,301.1	678.4
INVESTING ACTIVITIES:		
Retail loans and direct financing leases originated	(2,414.4)	(2,222.0)
Collections on retail loans and direct financing leases	1,932.2	1,609.6
Marketable securities purchased	(1,238.1)	(1,067.0)
Marketable securities maturities and sales	1,004.1	1,051.1
Acquisition of property, plant and equipment	(187.9)	(201.8)
Acquisition of equipment on operating leases	(428.5)	(394.2)
Proceeds from asset disposals	117.7	63.4
Other	(6.4)	48.0
Net Cash Used in Investing Activities	(1,221.3)	(1,112.9)
FINANCING ACTIVITIES:		
Cash dividends paid	(480.7)	(454.6)
Purchase of treasury stock	(310.8)	(343.5)
Stock option transactions	31.7	9.7
Net increase in commercial paper and bank loans	75.2	858.1
Proceeds from long-term debt	1,565.8	548.7
Payment of long-term debt	(1,093.6)	(526.3)
Net Cash (Used in) Provided by Financing Activities	(212.4)	92.1
Effect of exchange rate changes on cash	42.6	(112.5)
Net Decrease in Cash and Cash Equivalents	(90.0)	(454.9)
Cash and cash equivalents at beginning of period	1,698.9	1,614.7
Cash and cash equivalents at end of period	\$ 1,608.9	\$ 1,159.8

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE A Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Net income for the first nine months of 2005 included an estimated \$64.0 million tax provision related to repatriation of certain foreign earnings. Net income for the third quarter and first nine months of 2006 included a \$10.0 million tax benefit resulting from the final calculation of taxes related to the 2005 foreign earnings repatriation. Operating results for the three and nine month periods ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. For further information, refer to the consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

New Accounting Pronouncements: In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 is an interpretation of FAS No. 109, *Accounting for Income Taxes*, that clarifies the criteria for recognition of income tax benefits and becomes effective January 1, 2007. The Company is currently assessing the impact of this pronouncement.

In September 2006, the FASB issued FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability and to recognize changes in funded status as a component of comprehensive income. For PACCAR, FAS 158 is effective for the year ending December 31, 2006. Had FAS 158 been effective as of December 31, 2005, total assets would have been \$131 lower, total liabilities would have been \$17 higher and stockholders' equity would have been \$148 million lower, net of tax. A similar effect is anticipated upon adoption at December 31, 2006.

Reclassifications: Certain prior year amounts have been reclassified to conform to the 2006 presentation.

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Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE B Inventories

	September 30 2006	December 31 2005
Inventories at cost:		
Finished products	\$ 351.0	\$ 299.3
Work in process and raw materials	354.1	330.1
	705.1	629.4
Less LIFO reserve	(141.3)	(133.9)
	\$ 563.8	\$ 495.5

Under the LIFO method of accounting (used for approximately 48% of September 30, 2006, inventories), an actual valuation can be made only at the end of each year based on year-end inventory levels and costs. Accordingly, the Company's interim valuations are based on management's estimates of year-end amounts.

NOTE C Finance Receivables

	September 30 2006	December 31 2005
Loans	\$ 4,125.5	\$ 3,745.9
Retail direct financing leases	2,183.0	1,881.8
Sales-type finance leases	791.2	701.2
Dealer wholesale financing	1,525.6	1,402.8
Interest and other receivables	95.1	86.6
Unearned interest:		
Loans	(127.7)	(103.6)
Finance leases	(377.6)	(307.0)
	8,215.1	7,407.7
Less allowance for losses	(162.5)	(145.2)
	\$ 8,052.6	\$ 7,262.5

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Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE D Product Support Liabilities

Product support liabilities consist of amounts accrued to meet product warranty obligations and deferred revenue and accrued costs associated with optional extended warranty and repair and maintenance contracts. PACCAR periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience.

Changes in product support liabilities are summarized as follows:

	2006	2005
Beginning balance, January 1	\$ 391.5	\$ 376.3
Cost accruals and revenue deferrals	227.3	211.6
Payments and revenue recognized	(190.2)	(183.9)
Translation	21.5	(26.0)
Ending balance, September 30	\$ 450.1	\$ 378.0

NOTE E Stockholders Equity**Comprehensive Income**

The components of comprehensive income, net of any related tax, are as follows:

	Three Months Ended		Nine Months Ended	
	September 30 2006	2005	September 30 2006	2005
Net income	\$ 403.6	\$ 304.8	\$ 1,115.5	\$ 820.3
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	12.7	13.5	105.1	(142.0)
Derivative contracts (decrease) increase	(22.7)	11.9	(4.9)	15.6
Marketable securities increase (decrease)	2.7	(1.1)		(.7)
Minimum pension liability adjustments		(.1)		(.1)
Net other comprehensive (loss) income	(7.3)	24.2	100.2	(127.2)
Comprehensive income	\$ 396.3	\$ 329.0	\$ 1,215.7	\$ 693.1

Foreign currency translation changes for the first nine months of 2005 and 2006 are attributable primarily to fluctuations in, the value of the US dollar relative to the euro and, to a lesser extent, the Canadian dollar and British pound.

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Notes to Consolidated Financial Statements (Unaudited)

(Millions Except Share Amounts)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is comprised of the following:

	September 30 2006	December 31 2005
Foreign currency translation gains	\$ 260.9	\$ 155.8
Net unrealized gain on derivative contracts	15.8	20.7
Net unrealized investment loss	(1.0)	(1.0)
Minimum pension liability	(20.8)	(20.8)
Total accumulated other comprehensive income	\$ 254.9	\$ 154.7

Other Capital Stock Changes

Stock-based compensation expense in the third quarter was \$2.8 in 2006 and \$2.3 in 2005. Stock-based compensation expense for the first nine months of 2006 was \$6.9 and \$5.7 in 2005. As of September 30, 2006, there was \$8.9 of unamortized compensation cost related to unvested stock option awards, which is expected to be recognized over a remaining weighted-average vesting period of 1.3 years. Unamortized compensation cost at September 30, 2006 related to unvested restricted stock awards was \$2.9, which is expected to be recognized over a remaining weighted-average vesting period of 1.2 years. Realized tax benefits for the nine months ended September 30, 2006 of \$12.5 related to the excess of deductible amounts over the compensation costs recognized have been classified as a financing inflow in the cash flow statement in accordance with FAS No. 123(R).

On July 13, 2006 PACCAR retired all of its common shares held as treasury stock. The resulting adjustment reduced the common stock account by \$3.9, additional paid-in capital by \$150.6 and retained earnings by \$120.6. On August 10, 2006 PACCAR paid a 50% common stock dividend to stockholders. All share and per share figures presented are adjusted for the effects of the stock dividend.

In the nine months ended September 30, 2006, PACCAR issued 1,202,326 additional common shares under terms of employee stock option, deferred compensation and non-employee directors stock compensation arrangements.

Diluted Earnings Per Share

The following table shows the additional amounts added to weighted average basic shares outstanding to calculate diluted earnings per share. These amounts primarily represent the dilutive effect of stock options.

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Additional shares	1,300,900	1,636,300	1,332,300	1,665,200

Antidilutive shares (where assumed per share option exercise proceeds exceed the average common stock market price for the period) are excluded from the diluted earnings per share calculation and amounted to 1,238,600, 1,226,300 and 632,000 shares in the first, second and third quarters of 2006 and 612,400, 610,700 and 606,300 shares in the first, second and third quarters of 2005.

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Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE F Segment Information

	Three Months Ended September 30 2006	2005	Nine Months Ended September 30 2006	2005
Net sales and revenues:				
Truck				
Total	\$ 4,037.4	\$ 3,408.0	\$ 11,756.3	\$ 10,085.4
Less intersegment	(115.1)	(90.3)	(320.7)	(287.1)
External customers	3,922.3	3,317.7	11,435.6	9,798.3
All other	36.9	27.7	99.4	74.6
	3,959.2	3,345.4	11,535.0	9,872.9
Financial Services	246.2	195.6	690.1	549.5
	\$ 4,205.4	\$ 3,541.0	\$ 12,225.1	\$ 10,422.4
Income before income taxes:				
Truck				
	\$ 477.0	\$ 391.7	\$ 1,373.6	\$ 1,137.2
All other	5.0	2.4	8.6	2.3
	482.0	394.1	1,382.2	1,139.5
Financial Services	66.7	47.2	181.2	144.4
Investment income	21.7	13.7	55.9	39.9
	\$ 570.4	\$ 455.0	\$ 1,619.3	\$ 1,323.8

Included in All other are PACCAR's industrial winch manufacturing business and other sales, income and expense not attributable to a reportable segment, including a portion of corporate expense.

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Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE G Employee Benefit Plans

PACCAR has several defined benefit pension plans, which cover a majority of its employees. The Company also provides coverage of approximately 50% of medical costs for the majority of its U.S. employees from retirement until age 65.

The following information details the components of net periodic pension cost for the Company's defined benefit plans:

Three Months Ended		Nine Months Ended	
September 30		September 30	
2006	2005	2006	2005

Components of Pension Expense:

Service cost