

PACCAR INC
Form 10-Q
May 04, 2007

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 March 31, 2007

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)

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

91-0351110

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

98004
(Zip Code)

Edgar Filing: PACCAR INC - Form 10-Q

(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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

Common Stock, \$1 par value 248,409,042 shares as of March 31, 2007

FORM 10-Q
PACCAR Inc AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION:

ITEM 1. FINANCIAL STATEMENTS:

Consolidated Statements of Income
Three Months Ended March 31, 2007 and 2006 (unaudited)

Consolidated Balance Sheets
March 31, 2007 (unaudited) and December 31, 2006

Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2007 and 2006 (unaudited)

Notes to Consolidated Financial Statements (unaudited)

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION:

ITEM 1A. RISK FACTORS

ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

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

ITEM 6. EXHIBITS

SIGNATURE

INDEX TO EXHIBITS

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Income (Unaudited)

(Millions Except Per Share Amounts)

| Three Months Ended March 31 | 2007 | 2006 |
|--|-----------------|-----------------|
| TRUCK AND OTHER: | | |
| Net sales and revenues | \$ 3,720.5 | \$ 3,639.2 |
| Cost of sales and revenues | 3,172.7 | 3,098.9 |
| Selling, general and administrative | 120.1 | 109.6 |
| Interest and other (income) expense, net | (22.4) | .4 |
| | 3,270.4 | 3,208.9 |
| Truck and Other Income Before Income Taxes | 450.1 | 430.3 |
| FINANCIAL SERVICES: | | |
| Revenues | 264.0 | 212.5 |
| Interest and other | 166.2 | 127.9 |
| Selling, general and administrative | 24.5 | 23.2 |
| Provision for losses on receivables | 7.7 | 6.6 |
| | 198.4 | 157.7 |
| Financial Services Income Before Income Taxes | 65.6 | 54.8 |
| Investment income | 22.0 | 15.6 |
| Total Income Before Income Taxes | 537.7 | 500.7 |
| Income taxes | 172.1 | 158.7 |
| Net Income | \$ 365.6 | \$ 342.0 |
| Net Income Per Share: | | |
| Basic | \$ 1.47 | \$ 1.36 |
| Diluted | \$ 1.46 | \$ 1.35 |
| Weighted Average Common Shares Outstanding: | | |
| Basic | 248.6 | 252.3 |
| Diluted | 250.1 | 253.7 |
| Dividends declared per share | \$.20 | \$.17 |

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

| | March 31 2007 (Millions of Dollars) (Unaudited) | December 31 2006* |
|---|--|----------------------|
| ASSETS | | |
| TRUCK AND OTHER: | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,327.2 | \$ 1,806.3 |
| Trade and other receivables, net | 811.1 | 665.0 |
| Marketable debt securities | 1,018.7 | 821.7 |
| Inventories | 650.9 | 693.7 |
| Deferred taxes and other current assets | 200.9 | 212.8 |
| Total Truck and Other Current Assets | 4,008.8 | 4,199.5 |
| Equipment on operating leases, net | 424.2 | 418.2 |
| Property, plant and equipment, net | 1,342.1 | 1,347.2 |
| Other noncurrent assets | 330.8 | 331.3 |
| Total Truck and Other Assets | 6,105.9 | 6,296.2 |
| FINANCIAL SERVICES: | | |
| Cash and cash equivalents | 48.0 | 46.2 |
| Finance and other receivables, net | 8,694.5 | 8,542.7 |
| Equipment on operating leases, net | 1,046.7 | 1,033.1 |
| Other assets | 214.6 | 189.2 |
| Total Financial Services Assets | 10,003.8 | 9,811.2 |
| | \$ 16,109.7 | \$ 16,107.4 |

| | March 31 2007 (Millions of Dollars) (Unaudited) | December 31 2006* |
|--|--|----------------------|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| TRUCK AND OTHER: | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,251.0 | \$ 2,240.5 |
| Dividend payable | | 497.0 |
| Total Truck and Other Current Liabilities | 2,251.0 | 2,737.5 |
| Long-term debt | 20.3 | 20.2 |
| Residual value guarantees and deferred revenues | 484.8 | 477.5 |
| Deferred taxes and other liabilities | 396.4 | 383.7 |
| Total Truck and Other Liabilities | 3,152.5 | 3,618.9 |
| FINANCIAL SERVICES: | | |
| Accounts payable, accrued expenses and other | 239.1 | 243.2 |
| Commercial paper and bank loans | 4,550.9 | 4,222.6 |
| Term debt | 2,879.4 | 3,037.2 |
| Deferred taxes and other liabilities | 530.8 | 529.3 |
| Total Financial Services Liabilities | 8,200.2 | 8,032.3 |
| STOCKHOLDERS EQUITY | | |
| Preferred stock, no par value: Authorized 1.0 million shares, none issued | | |
| Common stock, \$1 par value: Authorized 400.0 million shares, 249.2 million shares issued | 249.2 | 248.5 |
| Additional paid-in capital | 52.4 | 27.5 |
| Treasury stock - at cost .752 million shares | (50.3) | (2.1) |
| Retained earnings | 4,341.9 | 4,026.1 |
| Accumulated other comprehensive income | 163.8 | 156.2 |
| Total Stockholders Equity | 4,757.0 | 4,456.2 |
| | \$ 16,109.7 | \$ 16,107.4 |

* The December 31, 2006 Consolidated Balance Sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

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

| Three Months Ended March 31 | 2007 | 2006 |
|---|----------------|----------------|
| OPERATING ACTIVITIES: | | |
| Net income | \$ 365.6 | \$ 342.0 |
| Adjustments to reconcile net income to cash provided by operations: | | |
| Depreciation and amortization: | | |
| Property, plant and equipment | 44.3 | 37.0 |
| Equipment on operating leases and other | 73.7 | 63.2 |
| Provision for losses on financial services receivables | 7.7 | 6.6 |
| Gain on sale of property | (21.7) |) |
| Other, net | (1.9) |) (6.2) |
| Change in operating assets and liabilities: | | |
| Wholesale receivables on new trucks | (7.1) |) (34.5) |
| Sales-type finance leases and dealer direct loans on new trucks | 26.6 | 13.9 |
| Other, net | (74.4) |) 57.4 |
| Net Cash Provided by Operating Activities | 412.8 | 479.4 |
| INVESTING ACTIVITIES: | | |
| Retail loans and direct financing leases originated | (778.9) |) (673.6) |
| Collections on retail loans and direct financing leases | 622.7 | 546.7 |
| Net decrease in wholesale receivables on used equipment | 7.2 | 6.2 |
| Marketable securities purchases | (531.9) |) (584.1) |
| Marketable securities maturities and sales | 337.4 | 410.7 |
| Acquisition of property, plant and equipment | (39.5) |) (43.4) |
| Acquisition of equipment on operating leases | (138.0) |) (118.0) |
| Proceeds from asset disposals | 64.0 | 38.8 |
| Other, net | (7.5) |) |
| Net Cash Used in Investing Activities | (464.5) | (416.7) |
| FINANCING ACTIVITIES: | | |
| Cash dividends paid | (546.7) |) (380.8) |
| Purchase of treasury stock | (49.1) |) (185.8) |
| Stock compensation transactions | 21.2 | 14.3 |
| Net increase in commercial paper and bank loans | 308.0 | 150.5 |
| Proceeds from term debt | | 312.4 |
| Payments on term debt | (165.9) |) (295.7) |
| Net Cash Used in Financing Activities | (432.5) | (385.1) |
| Effect of exchange rate changes on cash | 6.9 | 13.7 |
| Net Decrease in Cash and Cash Equivalents | (477.3) | (308.7) |
| Cash and cash equivalents at beginning of period | 1,852.5 | 1,698.9 |
| Cash and cash equivalents at end of period | \$ 1,375.2 | \$ 1,390.2 |
| See Notes to Consolidated Financial Statements. | | |

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. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. 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, 2006.

PACCAR paid a 50% common stock dividend to stockholders in August of 2006. All share and per share figures presented are adjusted for the effects of the dividend.

Reclassifications: Certain prior year amounts have been reclassified to conform to the 2007 presentation.

NOTE B Inventories

| | March 31 2007 | December 31 2006 |
|-----------------------------------|------------------|---------------------|
| Inventories at cost: | | |
| Finished products | \$ 401.9 | \$ 365.4 |
| Work in process and raw materials | 392.7 | 472.1 |
| | 794.6 | 837.5 |
| Less LIFO reserve | (143.7) | (143.8) |
| | \$ 650.9 | \$ 693.7 |

Under the LIFO method of accounting (used for approximately 47% of March 31, 2007 inventories), an actual valuation can be made only at the end of each year based on year-end inventory levels and costs. Accordingly, interim valuations are based on management's estimates of those year-end amounts.

NOTE C Finance Receivables

| | March 31 2007 | December 31 2006 |
|--------------------------------|--------------------------|-----------------------------|
| Loans | \$ 4,326.2 | \$ 4,226.7 |
| Retail direct financing leases | 2,398.2 | 2,322.1 |
| Sales-type finance leases | 897.2 | 909.2 |
| Dealer wholesale financing | 1,570.0 | 1,562.6 |
| Interest and other receivables | 103.9 | 112.1 |
| Unearned interest: | | |
| Finance leases | (427.6) | (421.0) |
| | 8,867.9 | 8,711.7 |
| Less allowance for losses | (173.4) | (169.0) |
| | \$ 8,694.5 | \$ 8,542.7 |

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:

| | 2007 | 2006 |
|-------------------------------------|-----------------|-------------|
| Beginning balance, January 1 | \$ 458.3 | \$ 391.5 |
| Cost accruals and revenue deferrals | 65.5 | 63.1 |
| Payments and revenue recognized | (76.0) | (62.8) |
| Translation | 3.0 | 5.8 |
| Ending balance, March 31 | \$ 450.8 | \$ 397.6 |

NOTE E Stockholders Equity**Comprehensive Income**

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

| Three Months Ended March 31 | 2007 | 2006 |
|--|-------------|-------------|
| Net income | \$ 365.6 | \$ 342.0 |
| Other comprehensive income (loss): | | |
| Foreign currency translation gains | 11.3 | 21.8 |
| Derivative contracts (decrease) increase | (5.6) |) 14.3 |
| Marketable securities decrease | (.3) |) (1.7) |
| Employee benefit plans amortization | 2.2 | |
| Net other comprehensive income | 7.6 | 34.4 |
| Comprehensive income | \$ 373.2 | \$ 376.4 |

Foreign currency translation gains in both years primarily resulted from the change in the value of the euro relative to the U.S. dollar.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income was comprised of the following:

| | March 31 2007 | December 31 2006 |
|--|--------------------------|-----------------------------|
| Foreign currency translation gains | \$ 316.0 | \$ 304.7 |
| Net unrealized gains on derivative contracts | 12.0 | 17.6 |
| Net unrealized investment losses | (1.6) |) (1.3) |
| Employee benefit plans | (162.6) |) (164.8) |
| Total accumulated other comprehensive income | \$ 163.8 | \$ 156.2 |

Other Capital Stock Changes

In the three months ended March 31, 2007, PACCAR issued 661,856 additional common shares under deferred and stock compensation arrangements. PACCAR purchased 719,304 shares of its common stock at an average price of \$66.99 per share during the first three months of 2007.

Stock-based compensation expense for the first quarter was \$3.8 in 2007 and \$1.4 in 2006. As of March 31, 2007, there was \$16.3 of unamortized compensation cost related to unvested stock option and restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 1.7 years. Realized tax benefits related to the excess of deductible amounts over compensation costs recognized amounted to \$9.4 and \$5.5 for the first three months of 2007 and 2006, respectively, and have been classified as financing cash flows.

During the first three months of 2007, the Company granted employee stock options to buy 549,448 shares at an exercise price of \$66.84. The estimated fair value of the award was \$8.3 using the Black-Scholes-Merton model. The assumptions for the risk-free interest rate, expected volatility of common stock, dividend yield and expected life of the options were 4.80%, 30%, 4.0%, and 5 years, respectively. The Company also awarded 85,818 shares of restricted stock with a fair value of \$5.8 to employees and non-employee directors.

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. Antidilutive options are excluded from the diluted earnings per share calculation and are shown separately in the table below.

| Three Months Ended March 31 | 2007 | 2006 |
|-----------------------------|-----------|-----------|
| Additional shares | 1,447,800 | 1,387,100 |
| Antidilutive options | 542,300 | 1,238,600 |

NOTE F Segment Information

| Three Months Ended March 31 | 2007 | 2006 |
|-----------------------------|------------|------------|
| Net sales and revenues: | | |
| Truck | | |
| Total | \$ 3,773.0 | \$ 3,738.3 |
| Less intersegment | (95.9) | (129.3) |
| External customers | 3,677.1 | 3,609.0 |
| All other | 43.4 | 30.2 |
| | 3,720.5 | 3,639.2 |
| Financial Services | 264.0 | 212.5 |
| | \$ 3,984.5 | \$ 3,851.7 |
| Income before income taxes: | | |
| Truck | \$ 423.2 | \$ 428.1 |
| All other | 26.9 | 2.2 |
| | 450.1 | 430.3 |
| Financial Services | 65.6 | 54.8 |
| Investment income | 22.0 | 15.6 |
| | \$ 537.7 | \$ 500.7 |

Included in All other is PACCAR's industrial winch manufacturing business and other sales, income and expense not attributable to a reportable segment, including a portion of corporate expense. In 2007, All other income before income taxes included a \$21.7 (\$14.7 net of tax) gain on sale of property in the United Kingdom.

NOTE G Income Taxes**Adoption of FIN 48**

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) effective January 1, 2007 with no effect on the Company's consolidated financial statements. As of the date of adoption, the Company had \$30.7 of unrecognized tax benefits, all of which would impact the effective tax rate if recognized. The Company is not currently under examination by the IRS and has completed examinations for all years through 2003. Open tax years for other major jurisdictions, including The Netherlands, United Kingdom, Canada, Mexico, and Australia, range from 2001 to 2006. Tax interest and penalties are classified as income taxes in the accompanying statements of income and were insignificant for all periods presented. The Company does not currently anticipate that any significant increase or decrease to the unrecognized tax benefit will be recorded during the next 12 months.

NOTE H 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 March 31 | 2007 | 2006 |
|--|-------------|-------------|
| <i>Components of Pension Expense:</i> | | |
| Service cost | \$ 12.5 | \$ 11.6 |
| Interest on projected benefit obligation | 16.5 | 14.2 |
| Expected return on assets | (21.6) | (17.7) |
| Amortization of prior service costs | .9 | 1.0 |
| Curtailment charge | 2.8 | |
| Recognized actuarial loss | 1.9 | 2.6 |
| Net pension expense | \$ 13.0 | \$ 11.7 |

During the first quarter of 2007, the Company contributed \$3.4 to its pension plans. The curtailment charge in 2007 related to a production workforce reduction in the United States.

The following information details the components of net periodic retiree cost for the Company's unfunded postretirement medical and life insurance plans:

| Three Months Ended March 31 | 2007 | 2006 |
|---------------------------------------|-------------|-------------|
| <i>Components of Retiree Expense:</i> | | |
| Service cost | \$ 1.4 | \$.9 |
| Interest cost | 1.3 | 1.1 |
| Recognized actuarial loss | .3 | .3 |
| Recognized net initial obligation | .1 | .1 |
| Net retiree expense | \$ 3.1 | \$ 2.4 |

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

RESULTS OF OPERATIONS:

PACCAR recorded higher sales and net income in the first quarter of 2007 compared to year-earlier levels. First quarter 2007 total net sales and revenues increased 3% to \$3.98 billion compared to the \$3.85 billion in the first quarter of 2006. First quarter 2007 net income of \$365.6 million increased 7% from \$342.0 million in the first quarter of 2006. Included in first quarter 2007 net income is a \$14.7 million gain on sale of property in the United Kingdom. The translation effect of stronger foreign currencies, primarily the euro, increased first quarter 2007 sales by \$128.6 million and net income by \$15.0 million compared to the first quarter of 2006.

Truck segment net sales and revenues increased to \$3.68 billion in the first quarter of 2007 from \$3.61 billion in the first quarter of 2006. Truck segment income before income taxes of \$423.2 million decreased slightly compared to \$428.1 million in the first quarter of 2006, reflecting the impact of lower build rates in the U.S. and Canada, partially offset by higher build rates in Europe, Mexico and Australia. First quarter gross margins were 14.7% in 2007 and 14.8% in 2006. Gross margins in 2007 were impacted by \$10 million of work-force reduction costs in the U.S. and Canada.

The U.S. and Canadian truck markets have declined, as anticipated, due to market reaction to new emissions regulations that became effective January 1, 2007 requiring new trucks to be equipped with emissions reducing engine technology that significantly increased the price of a new truck. Industry orders in the first quarter were well below the previous year as many customers placed orders for pre-2007 emissions-compliant trucks in 2006. As a result of this prebuy, the Company expects industry Class 8 heavy-duty retail sales to be in the range of 190,000 to 220,000 units for 2007. PACCAR's Peterbilt and Kenworth truck divisions in the U.S. and Canada have adjusted production levels accordingly. The lower demand and related build rate adjustments will have a dampening effect on financial results until the industry absorbs the new trucks purchased in 2006.

Truck sales remain strong at the Company's operations in Europe, Mexico and Australia. In Europe, industry sales in the above 15 tonne truck market continue to be strong and are expected to be in the range of 265,000 to 280,000 units for 2007 compared to 268,500 in 2006. PACCAR's DAF truck operations in Europe are increasing production rates.

Selling, general and administrative expense (SG&A) increased \$10.5 million compared to the first quarter of 2006, including \$3.8 million due to stronger foreign currencies, primarily the euro. As a percent of sales, SG&A increased to 3.2% from 3.0%.

Financial Services segment revenues increased 24% to \$264.0 million from \$212.5 million last year due to higher asset levels and interest rates. Financial Services income before income taxes of \$65.6 million in the first quarter of 2007 increased nearly 20% compared to the \$54.8 million earned in the first quarter of 2006. The improvement was due primarily to higher finance gross profit resulting from portfolio growth and continued low credit losses. Past dues continued at low levels with accounts 30 days or more past due at 1.4% of portfolio balances as of March 31, 2007 compared to 1.2% as of March 31, 2006.

The effective tax rate for the first quarter of 2007 was 32.0% compared to 32.9% last year (excluding a \$6.0 million favorable tax settlement). The lower effective tax rate reflects the impact of a higher proportion of income from foreign operations and higher tax exempt income.

LIQUIDITY AND CAPITAL RESOURCES:

PACCAR's Truck and Other working capital (current assets minus current liabilities) increased \$295.8 million during the first quarter of 2007 compared to December 31, 2006. Total Truck and Other cash and marketable debt securities decreased \$282.1 million to \$2.35 billion at the end of the first quarter of 2007.

Cash provided by operations was \$412.8 million in the first quarter of 2007 compared to \$479.4 million in the first quarter of 2006. The decrease in cash provided by operations in 2007 was due primarily to changes in components of working capital. During the first quarter of 2007, in addition to dividend payments, the Company used cash to purchase treasury stock and make capital investments.

At March 31, 2007, PACCAR's European finance subsidiary, PACCAR Financial Europe (PFE), had \$289.6 million available for issuance under the \$1.0 billion medium term-note program registered with the London Stock Exchange. PFE intends to renew this program (which is renewable annually through the filing of a new prospectus) by the end of the second quarter of 2007.

At the end of March 2007, the Company had lines of credit arrangements of \$2.3 billion. Included in these arrangements were \$2.0 billion of committed bank facilities, of which \$1.0 billion matures in July 2007 and \$1.0 billion matures in 2010.

Other information on liquidity and sources of capital as presented in the 2006 Annual Report to Stockholders continues to be relevant.

FORWARD-LOOKING STATEMENTS:

Certain information presented in this report contains forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient supplier capacity or access to raw materials; labor disruptions; shortages of commercial truck drivers; increased warranty costs or litigation; or legislative and governmental regulations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's market risk during the three months ended March 31, 2007. For additional information, refer to Item 7A as presented in the 2006 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of March 31, 2007. Based on that evaluation, the principal executive officer and principal financial officer of the Company concluded that the disclosure controls and procedures in place at the Company are effective to ensure that information required to be disclosed by the Company, including its consolidated subsidiaries, in reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable rules and regulations. There have been no significant changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 4T. CONTROLS AND PROCEDURES

Not Applicable.

PART II OTHER INFORMATION

For Items 1, 3 and 5, there was no reportable information for the three months ended March 31, 2007.

ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as presented in the 2006 Annual Report on Form 10-K. There has been no material changes in the Company's risk factors during the three months ended March 31, 2007.

ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

For items 2(a) and (b), there was no reportable information for the three months ended March 31, 2007.

(c) Issuer purchases of equity securities.

On December 5, 2006 PACCAR's Board of Directors approved a plan to repurchase up to \$300 million of the Company's outstanding common stock. The following are details of repurchases under this plan for the period covered by this report:

| Period | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of the plan | (d) Approximate dollar value of shares that may yet be purchased under the plan |
|--------------------|--------------------------------------|----------------------------------|--|---|
| January 1-31, 2007 | 340,820 | \$ 64.61 | 340,820 | \$ 275,841,629 |
| March 1-31, 2007 | 378,484 | 69.13 | 378,484 | 249,678,608 |
| Total | 719,304 | \$ 66.99 | 719,304 | \$ 249,678,608 |

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

(a) The annual meeting of stockholders was held on April 24, 2007.

(b) The following persons were elected to serve as directors:

Class III - Term Expiring in 2010

Alison J. Carnwath

Robert T. Parry

Harold A. Wagner

Other persons whose term of office as a director continued after the meeting:

Class I - Term Expiring in 2008

John M. Fluke, Jr.

Stephen F. Page

Michael A. Tembreull

Class II - Term Expiring in 2009

James C. Pigott

Mark C. Pigott

William G. Reed, Jr.

Charles R. Williamson

(c) Following is a brief description and vote count of all items voted on at the annual meeting:

ITEM NO. 1: ELECTION OF DIRECTORS

Directors were elected with the following vote:

| | Shares Voted For | Shares Withheld | Broker Nonvotes |
|--------------------|---------------------|--------------------|--------------------|
| Alison J. Carnwath | 224,759,644 | 2,877,378 | |
| Robert T. Parry | 225,027,308 | 2,609,714 | |
| Harold A. Wagner | 222,890,883 | 4,746,139 | |

ITEM NO. 2: STOCKHOLDER PROPOSAL REGARDING THE SHAREHOLDER RIGHTS PLAN

Item No. 2 was not approved with the following vote:

| Shares Voted For | Shares Voted Against | Abstentions | Broker Nonvotes |
|---------------------|-------------------------|-------------|--------------------|
| 91,009,113 | 117,750,366 | 2,188,921 | 16,688,622 |

ITEM NO. 3: STOCKHOLDER PROPOSAL REGARDING A DIRECTOR VOTE THRESHOLD

Item No. 3 was not approved with the following vote:

| Shares Voted For | Shares Voted Against | Abstentions | Broker Nonvotes |
|---------------------|-------------------------|-------------|--------------------|
| 87,414,091 | 121,274,131 | 2,260,178 | 16,688,622 |

(d) None

ITEM 6. EXHIBITS

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

SIGNATURE

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

PACCAR Inc

(Registrant)

Date May 4, 2007

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

17

INDEX TO EXHIBITS

Exhibit (in order of assigned index numbers)

3 Articles of incorporation and bylaws:

(a) Restated Certificate of Incorporation of PACCAR Inc (incorporated by reference to Exhibit 99.3 of the Current Report on Form 8-K of PACCAR Inc dated September 19, 2005).

(b) Amended and Restated Bylaws of PACCAR Inc (incorporated by reference to Exhibit 99.4 of the Current Report on Form 8-K of PACCAR Inc dated September 19, 2005).

4 Instruments defining the rights of security holders, including indentures:

(a) Rights agreement dated as of December 10, 1998 between PACCAR Inc and First Chicago Trust Company of New York setting forth the terms of the Series A Junior Participating Preferred Stock, no par value per share (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K of PACCAR Inc dated December 21, 1998).

(b) Amendment Number 1 to rights agreement dated as of December 10, 1998 between PACCAR Inc and First Chicago Trust Company of New York appointing Wells Fargo Bank N.A. as successor rights agent, effective as of the close of business September 15, 2000 (incorporated by reference to Exhibit (4)(b) of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).

(c) Indenture for Senior Debt Securities dated as of December 1, 1983 and first Supplemental Indenture dated as of June 19, 1989 between PACCAR Financial Corp. and Wilmington Trust Company (incorporated by reference to Exhibit 4.1 of PACCAR Financial Corp. s Annual Report on Form 10-K dated March 26, 1984, File Number 001-11677 and Exhibit 4.2 of PACCAR Financial Corp. s Registration Statement on Form S-3 dated June 23, 1989, Registration Number 33-29434), and the Agreement of Resignation, Appointment and Acceptance, dated as of October 31, 2006 (incorporated by reference to PACCAR Financial Corp. s Form 8-K dated November 3, 2006).

(d) Forms of Medium-Term Note, Series K (incorporated by reference to Exhibits 4.2A and 4.2B to PACCAR Financial Corp. s Registration Statement on Form S-3 dated December 23, 2003, Registration Number 333-111504).

Form of Letter of Representation among PACCAR Financial Corp., Citibank, N.A. and the Depository Trust Company, Series K (incorporated by reference to Exhibit 4.3 to PACCAR Financial Corp. s Registration Statement on Form S-3 dated December 23, 2003, Registration Number 333-111504).

(e) Forms of Medium-Term Note, Series L (incorporated by reference to Exhibits 4.2A and 4.2B to PACCAR Financial Corp. s Registration Statement on Form S-3 dated November 7, 2006, Registration Number 333-138464).

Form of Letter of Representation among PACCAR Financial Corp., Citibank, N.A. and the Depository Trust Company, Series L (incorporated by reference to Exhibit 4.3 to PACCAR Financial Corp. s Registration Statement on Form S-3 dated November 7, 2006, Registration Number 333-138464).

Exhibit (in order of assigned index numbers)

10 Material contracts:

- (a) PACCAR Inc Amended and Restated Supplemental Retirement Plan (incorporated by reference to Exhibit (10)(a) of the Annual Report on Form 10-K for the year ended December 31, 2006).
- (b) Deferred Incentive Compensation Plan (Amended and Restated as of December 31, 2004) (incorporated by reference to Exhibit (10)(b) of the Annual Report on Form 10-K for the year ended December 31, 2005).
- (c) Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-employee Directors (incorporated by reference to Exhibit (10)(c) of the Annual Report on Form 10-K for the year ended December 31, 2006).
- (d) PACCAR Inc Long Term Incentive Plan (incorporated by reference to Appendix A of the 2006 Proxy Statement, dated March 14, 2006).
- (e) PACCAR Inc Senior Executive Yearly Incentive Compensation Plan (incorporated by reference to Appendix B of the 2006 Proxy Statement, dated March 14, 2006).
- (f) Compensatory arrangement with K. R. Gangl dated February 1, 1999 and attached amendment dated February 18, 1999 (incorporated by reference to Exhibit (10)(g) of the Annual Report on Form 10-K for the year ended December 31, 2004).
- (g) PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement (incorporated by reference to Exhibit 99.1 of Form 8-K dated January 20, 2005 and filed January 25, 2005).
- (h) PACCAR Inc Long Term Incentive Plan, Amended Form of 2006 Restricted Stock Award Agreement (incorporated by reference as Exhibit 99.2 of Form 8-K dated January 31, 2007 and filed February 5, 2007).
- (i) PACCAR Inc Long Term Incentive Plan, Form of Restricted Stock Award Agreement (incorporated by reference as Exhibit 99.1 of Form 8-K dated January 31, 2007 and filed February 5, 2007).
- (j) PACCAR Inc Long Term Incentive Plan, Amended Form of Share Match Restricted Stock Award Agreement (incorporated by reference as Exhibit 99.3 of Form 8-K dated January 31, 2007 and filed February 5, 2007).
- (k) Amendment to compensatory arrangement with non-employee directors (incorporated by reference to Exhibit (10)(h) of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
- (l) PACCAR Inc Savings Investment Plan, Amendment and Restatement Effective January 1, 2006.

Exhibit (in order of assigned index numbers)

(m) Deferred Compensation Plan (incorporated by reference as Exhibit 99.1 of Form 8-K dated September 12, 2006 and filed September 15, 2006).

Certain instruments relating to long-term debt constituting less than 10 percent of the Company's total assets are not filed as exhibits herewith pursuant to Item 601(b)(4)(iii)(A) of Regulations S-K. The Company will file copies of such instruments upon request of the Commission.

31 Rule 13a-14(a)/15d-14(a) Certifications:

(a) Certification of Principal Executive Officer.

(b) Certification of Principal Financial Officer.

32 Section 1350 Certifications:

(a) Certification pursuant to rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350).

20
