

PACCAR INC
Form 10-Q
August 01, 2008

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 June 30, 2008

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)

(425) 468-7400

(Registrant's telephone number, including area code)

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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 Smaller reporting company

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 363,346,327 shares as of June 30, 2008

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Income (Unaudited)

(Millions Except Per Share Amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
TRUCK AND OTHER:				
Net sales and revenues	\$ 3,782.0	\$ 3,429.4	\$ 7,403.0	\$ 7,149.9
Cost of sales and revenues	3,202.2	2,912.5	6,281.5	6,047.8
Research and development	90.7	58.2	173.6	95.6
Selling, general and administrative	127.5	120.3	253.6	240.4
Interest and other (income) expense, net	(3.1)	.9	(2.0)	(21.5)
	3,417.3	3,091.9	6,706.7	6,362.3
Truck and Other Income Before Income Taxes	364.7	337.5	696.3	787.6
FINANCIAL SERVICES:				
Revenues	330.5	286.8	647.9	550.8
Interest and other	217.4	180.5	421.0	346.7
Selling, general and administrative	30.0	28.4	59.1	52.9
Provision for losses on receivables	24.4	9.0	41.8	16.7
	271.8	217.9	521.9	416.3
Financial Services Income Before Income Taxes	58.7	68.9	126.0	134.5
Investment income	22.6	23.7	47.3	45.7
Total Income Before Income Taxes	446.0	430.1	869.6	967.8
Income taxes	132.5	131.8	263.8	303.9
Net Income	\$ 313.5	\$ 298.3	\$ 605.8	\$ 663.9
Net Income Per Share:				
Basic	\$.86	\$.80	\$ 1.66	\$ 1.78
Diluted	\$.86	\$.79	\$ 1.65	\$ 1.77
Weighted Average Common Shares Outstanding:				
Basic	364.5	373.1	365.5	373.0
Diluted	366.5	375.3	367.4	375.2
Dividends declared per share	\$.18	\$.17	\$.36	\$.30

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheets (Millions)

	June 30 2008 (Unaudited)	December 31 2007*
ASSETS		
TRUCK AND OTHER:		
Current Assets		
Cash and cash equivalents	\$ 1,617.1	\$ 1,736.5
Trade and other receivables, net	827.7	570.0
Marketable debt securities	587.0	778.5
Inventories	892.1	628.3
Deferred taxes and other current assets	240.9	205.6
Total Truck and Other Current Assets	4,164.8	3,918.9
Equipment on operating leases, net	539.0	489.2
Property, plant and equipment, net	1,786.6	1,642.6
Other noncurrent assets	452.0	467.2
Total Truck and Other Assets	6,942.4	6,517.9
FINANCIAL SERVICES:		
Cash and cash equivalents	70.9	121.6
Finance and other receivables, net	9,160.8	9,025.4
Equipment on operating leases, net	1,476.7	1,318.7
Other assets	359.7	244.6
Total Financial Services Assets	11,068.1	10,710.3
	\$ 18,010.5	\$ 17,228.2

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	June 30 2008 (Unaudited)	December 31 2007*
LIABILITIES AND STOCKHOLDERS EQUITY		
TRUCK AND OTHER:		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,621.3	\$ 2,136.3
Dividend payable		367.1
Total Truck and Other Current Liabilities	2,621.3	2,503.4
Long-term debt	23.0	23.6
Residual value guarantees and deferred revenues	597.5	539.4
Deferred taxes and other liabilities	462.5	458.4
Total Truck and Other Liabilities	3,704.3	3,524.8
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	257.8	258.5
Commercial paper and bank loans	3,596.9	4,106.8
Term debt	4,443.1	3,745.4
Deferred taxes and other liabilities	591.8	579.6
Total Financial Services Liabilities	8,889.6	8,690.3
STOCKHOLDERS EQUITY		
Preferred stock, no par value: Authorized 1.0 million shares, none issued		
Common stock, \$1 par value: Authorized 1.2 billion shares, 369.0 million shares issued	369.0	368.4
Additional paid-in capital	53.1	37.7
Treasury stock - at cost 5.62 million shares	(262.5)	(61.7)
Retained earnings	4,734.6	4,260.6
Accumulated other comprehensive income	522.4	408.1
Total Stockholders Equity	5,416.6	5,013.1
	\$ 18,010.5	\$ 17,228.2

* The December 31, 2007 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)

Six Months Ended June 30	2008	2007
OPERATING ACTIVITIES:		
Net income	\$ 605.8	\$ 663.9
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization:		
Property, plant and equipment	113.6	92.8
Equipment on operating leases and other	201.8	154.4
Provision for losses on financial services receivables	41.8	16.7
Gain on sale of property		(21.7)
Other	5.1	3.5
Change in operating assets and liabilities:		
Wholesale receivables on new trucks	(63.5)	58.4
Sales-type finance leases and dealer direct loans on new trucks	54.6	37.3
Other	(205.6)	(22.7)
Net Cash Provided by Operating Activities	753.6	982.6
INVESTING ACTIVITIES:		
Retail loans and direct financing leases originated	(1,424.7)	(1,610.2)
Collections on retail loans and direct financing leases	1,502.1	1,302.0
Marketable securities purchases	(284.6)	(905.2)
Marketable securities maturities and sales	474.9	660.9
Acquisition of property, plant and equipment	(201.0)	(118.7)
Acquisition of equipment for operating leases	(481.5)	(321.1)
Proceeds from asset disposals	84.6	106.3
Other	(5.6)	(16.1)
Net Cash Used in Investing Activities	(335.8)	(902.1)
FINANCING ACTIVITIES:		
Cash dividends paid	(498.6)	(608.9)
Purchase of treasury stock	(192.3)	(49.1)
Stock compensation transactions	8.9	29.2
Net decrease in commercial paper and bank loans	(625.0)	(30.9)
Proceeds from term debt	922.6	292.8
Payment of term debt	(279.6)	(174.1)
Net Cash Used in Financing Activities	(664.0)	(541.0)
Effect of exchange rate changes on cash	76.1	22.2
Net Decrease in Cash and Cash Equivalents	(170.1)	(438.3)
Cash and cash equivalents at beginning of period	1,858.1	1,852.5
Cash and cash equivalents at end of period	\$ 1,688.0	\$ 1,414.2

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. Operating results for the three and six month periods ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ended December 31, 2008. 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, 2007.

PACCAR paid a 50% common stock dividend to stockholders in October 2007. 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 2008 presentation.

NOTE B Inventories

	June 30 2008	December 31 2007
Inventories at cost:		
Finished products	\$ 502.5	\$ 435.2
Work in process and raw materials	541.9	342.5
	1,044.4	777.7
Less LIFO reserve	(152.3)	(149.4)
	\$ 892.1	\$ 628.3

Under the LIFO method of accounting (used for approximately 42% of June 30, 2008 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.

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Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE C Finance Receivables

	June 30 2008	December 31 2007
Loans	\$ 4,179.9	\$ 4,325.9
Retail direct financing leases	2,986.2	2,816.7
Sales-type finance leases	853.7	908.1
Dealer wholesale financing	1,730.1	1,554.6
Interest and other receivables	128.8	108.9
Unearned interest:		
Finance leases	(518.1)	(495.4)
	9,360.6	9,218.8
Less allowance for losses	(199.8)	(193.4)
	\$ 9,160.8	\$ 9,025.4

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:

	2008	2007
Beginning balance, January 1	\$ 483.3	\$ 458.3
Cost accruals and revenue deferrals	168.9	157.2
Payments and revenue recognized	(153.5)	(165.9)
Currency translation	23.7	8.5
Ending balance, June 30	\$ 522.4	\$ 458.1

NOTE E Stockholders Equity

Comprehensive Income

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net income	\$ 313.5	\$ 298.3	\$ 605.8	\$ 663.9
Other comprehensive income:				
Currency translation adjustment	15.6	76.7	109.6	88.0
Derivative contracts increase	40.8	14.8	6.1	9.2
Marketable securities decrease	(5.5)	(2.5)	(2.8)	(2.8)
Employee benefit plans amortization	.9	(.2)	1.4	2.0
Net other comprehensive income	51.8	88.8	114.3	96.4
Comprehensive income	\$ 365.3	\$ 387.1	\$ 720.1	\$ 760.3

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Notes to Consolidated Financial Statements (Unaudited)

(Millions Except Share Amounts)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income was comprised of the following:

	June 30 2008		December 31 2007
Currency translation adjustment	\$ 625.8	\$	516.2
Net unrealized loss on derivative contracts	(2.1)		(8.2)
Net unrealized investment (losses) gains	(.9)		1.9
Employee benefit plans	(100.4)		(101.8)
Total accumulated other comprehensive income	\$ 522.4	\$	408.1

The currency translation gains in 2008 and 2007 are primarily attributable to changes in the value of the U.S. dollar compared to the euro.

Stock Compensation Plans

Stock-based compensation expense was \$5.0 and \$6.7 for the first six months of 2008 and 2007, respectively. Realized tax benefits related to the excess of deductible amounts over expense recognized amounted to \$3.4 and \$12.9 for the first six months of 2008 and 2007, respectively, and have been classified as a financing cash flow.

Other Capital Stock Changes

In the six months ended June 30, 2008, PACCAR issued 616,438 additional common shares under deferred and stock compensation arrangements. PACCAR purchased 4,344,900 shares of its common stock at an average price of \$46.20 during this period.

Diluted Earnings Per Share

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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		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Additional shares	1,981,400	2,241,200	1,947,000	2,204,700
Excluded antidilutive shares	714,200		1,458,400	813,400

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Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE F Segment Information

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net sales and revenues :				
Truck				
Total	\$ 3,899.8	\$ 3,499.0	\$ 7,601.8	\$ 7,272.3
Less intersegment	(157.2)	(114.4)	(275.9)	(210.3)
External customers	3,742.6	3,384.6	7,325.9	7,062.0
All other	39.4	44.8	77.1	87.9
	3,782.0	3,429.4	7,403.0	7,149.9
Financial Services	330.5	286.8	647.9	550.8
	\$ 4,112.5	\$ 3,716.2	\$ 8,050.9	\$ 7,700.7
Income before income taxes :				
Truck	\$ 365.8	\$ 336.6	\$ 701.1	\$ 763.9
All other	(1.1)	.9	(4.8)	23.7
	364.7	337.5	696.3	787.6
Financial Services	58.7	68.9	126.0	134.5
Investment Income	22.6	23.7	47.3	45.7