

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)

Edgar Filing: PACCAR INC - Form 10-Q

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

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

INDEX

| | Page | |
|--|--|----|
| <u>PART I. FINANCIAL INFORMATION:</u> | | |
| <u>ITEM 1.</u> | <u>FINANCIAL STATEMENTS:</u> | |
| <u>Consolidated Statements of Income</u> <u>Three and Six Months Ended June 30, 2008 and 2007 (Unaudited)</u> | 3 | |
| <u>Consolidated Balance Sheets</u> <u>June 30, 2008 (Unaudited) and December 31, 2007</u> | 4 | |
| <u>Condensed Consolidated Statements of Cash Flows</u> <u>Six Months Ended June 30, 2008 and 2007 (Unaudited)</u> | 6 | |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u> | 7 | |
| <u>ITEM 2.</u> | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL</u> <u>CONDITION</u> <u>AND RESULTS OF OPERATIONS</u> | 13 |
| <u>ITEM 3.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT</u> <u>MARKET RISK</u> | 16 |
| <u>ITEM 4.</u> | <u>CONTROLS AND PROCEDURES</u> | 16 |
| <u>PART II. OTHER INFORMATION:</u> | | |
| <u>ITEM 1A.</u> | <u>RISK FACTORS</u> | 17 |
| <u>ITEM 4.</u> | <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY</u> <u>HOLDERS</u> | 17 |
| <u>ITEM 6.</u> | <u>EXHIBITS</u> | 17 |
| <u>SIGNATURE</u> | | 18 |
| <u>INDEX TO EXHIBITS</u> | | 19 |

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 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.

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

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 |

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

| | 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.

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

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.

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

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.

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

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

Edgar Filing: PACCAR INC - Form 10-Q

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 |

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

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

Edgar Filing: PACCAR INC - Form 10-Q

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 June 30 | | Six Months Ended 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 |

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

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 |
| | \$ 446.0 | \$ 430.1 | \$ 869.6 | \$ 967.8 |

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. For the six months ended June 30, 2007, All other income before income taxes included a \$21.7 gain on sale of property in the United Kingdom.

NOTE G Fair Value Measurements

The Company adopted Statement No.157, *Fair Value Measurements* (FAS 157) effective January 1, 2008 with no effect on the financial statements. FAS 157 defines fair value and establishes a three-level hierarchy for measuring fair value of certain financial instruments based on the source of information used to determine fair value. FAS 157 also expands disclosures about fair value measurements. The hierarchy of fair value measurements is described below.

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

Edgar Filing: PACCAR INC - Form 10-Q

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

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(Millions)

Level 3 Valuations are based on model-based techniques for which some or all of the assumptions are obtained from indirect market information that is significant to the overall fair value measurement and which require a significant degree of management judgment. The Company has no financial instruments requiring Level 3 valuation.

PACCAR's assets and liabilities subject to recurring fair value measurements are either Level 1 or Level 2 and include marketable debt securities, derivative contracts and certain term debt as follows:

| At June 30, 2008 | Level 1 | Level 2 | Total |
|-----------------------------------|----------|----------|----------|
| Assets: | | | |
| Marketable debt securities | \$ 209.4 | \$ 377.6 | \$ 587.0 |
| Foreign currency derivatives, net | | 1.4 | 1.4 |
| Liabilities: | | | |
| Term debt | | 573.8 | 573.8 |
| Interest rate derivatives, net | | 26.9 | 26.9 |

The Company's marketable debt securities consist of municipal bonds, foreign government obligations and investment-grade corporate bonds.

The fair value of foreign government obligations and foreign corporate bonds is based on quoted prices in active markets. These are categorized as Level 1.

The fair value of municipal bonds is estimated using recent transactions, market price quotations, and pricing models that consider, where applicable, interest rates and other observable market information. These bonds are categorized as Level 2.

A portion of the Company's fixed-rate term debt has been converted to variable rate term debt using fair value hedges. Fair value is determined using modeling techniques that include market inputs such as interest rates. This debt is categorized as Level 2.

The Company's derivative contracts consist of interest rate contracts and foreign currency exchange contracts. These derivative contracts are over the counter and their fair value is determined using modeling techniques that include market inputs such as interest rates, yield curves and currency exchange rates. These contracts are categorized as Level 2.

FORM 10-Q

PACCAR Inc AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(Millions)

NOTE H Employee Benefit Plans

PACCAR has several defined benefit pension plans, which cover a majority of its employees.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|---------|-----------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| <i>Components of Pension Expense :</i> | | | | |
| Service cost | \$ 11.9 | \$ 12.3 | \$ 23.9 | \$ 24.8 |
| Interest on projected benefit obligation | 19.0 | 16.9 | 37.5 | 33.4 |
| Expected return on assets | (23.6) | (22.3) | (47.2) | (43.9) |
| Curtailment charge | | .8 | | 3.6 |
| Recognized actuarial loss | .9 | 2.1 | 1.3 | 4.0 |
| Recognized prior service costs | .8 | .7 | 1.5 | 1.6 |
| Net pension expense | \$ 9.0 | \$ 10.5 | \$ 17.0 | \$ 23.5 |

During the first six months of 2008, the Company contributed \$6.8 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 retiree expense for the Company's unfunded postretirement medical and life insurance plans:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|--------|-----------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| <i>Components of Retiree Expense :</i> | | | | |
| Service cost | \$.5 | \$ 1.2 | \$ 1.6 | \$ 2.6 |
| Interest cost | .9 | 1.3 | 2.3 | 2.6 |
| Recognized actuarial (gain) loss | (.1) | .3 | | .5 |
| Recognized prior service costs | .1 | | .1 | .1 |
| Recognized net initial obligation | .1 | .1 | .2 | .2 |
| Net retiree expense | \$ 1.5 | \$ 2.9 | \$ 4.2 | \$ 6.0 |

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

RESULTS OF OPERATIONS:

Second quarter 2008 total net sales and revenues increased to \$4.11 billion compared to \$3.72 billion in the second quarter of 2007. Second quarter 2008 net income was \$313.5 million (\$.86 per diluted share) compared to \$298.3 million (\$.79 per diluted share) in the second quarter of 2007. First half total net sales and revenues were \$8.05 billion compared to \$7.70 billion in the first half of 2007. First half net income was \$605.8 million (\$1.65 per diluted share) compared to \$663.9 million (\$1.77 per diluted share) in the year-earlier period.

Compared to 2007, second quarter and first half 2008 total net sales and revenues and income before income taxes were favorably affected by the translation of stronger foreign currencies, primarily the euro. The translation effect increased second quarter 2008 sales and revenues by \$273.5 million and income before income taxes by \$34.9 million compared to the second quarter of 2007. For the first half, the translation effect increased sales and revenues by \$521.1 million and income before income taxes by \$67.3 million compared to 2007.

Truck segment net sales and revenues increased to \$3.78 billion in the second quarter of 2008 compared to \$3.43 billion in the second quarter of 2007. For the first half of 2008, Truck segment net sales and revenues increased to \$7.40 billion from \$7.15 billion in 2007. Both the second quarter and year-to-date periods for 2008 reflect increased truck production in Europe, partially offset by lower truck production in the U.S. and Canada.

Truck segment income before income taxes increased to \$364.7 million in the second quarter of 2008 from \$337.5 million in the second quarter of 2007 primarily due to higher truck sales and margins in Europe, somewhat offset by higher research and development (R&D) spending and lower truck sales in the U.S. and Canada. Gross margins for the second quarter of 2008 improved to 15.3% from 15.1% in the second quarter of 2007. Gross margins for the first half of 2008 were 15.1% compared to 15.4% in the same period of 2007. During the first half of 2008, Truck segment income before income taxes was \$696.3 million compared to \$787.6 million in 2007, principally due to lower truck sales and margins in the U.S. and Canada and higher R&D spending, partially offset by higher truck sales and margins in Europe.

R&D spending increased to \$90.7 million in the second quarter of 2008 from \$58.2 million in the second quarter of 2007 and to \$173.6 million for the first half of 2008 compared to \$95.6 million in the first half of 2007 due to investments in new vehicle and engine development programs.

Truck retail sales in the U.S. and Canada during the three- and six-month periods ended June 30, 2008 were dampened by a dramatic increase in diesel prices coupled with declining housing starts and lower auto production. Customers continue to adjust their freight capacity due to the declining economy and the Company expects industry Class 8 retail sales to be in the range of 150,000-165,000 trucks in 2008. Truck demand in Europe, particularly in Central Europe, and other international markets continues to be strong. 2008 industry truck sales in Europe above 15 tonnes are expected to be at a record of 350,000-360,000 units.

Selling, general and administrative expense (SG&A) increased by \$7.2 million and \$13.2 million in the second quarter and first half of 2008, respectively, primarily due to the stronger euro. As a percentage of sales, SG&A decreased to 3.4% in 2008 from 3.5% in 2007 for the second quarter and was 3.4% in the first half of 2008 and 2007.

Financial Services segment revenues for the second quarter of 2008 increased to \$330.5 million from \$286.8 million in the second quarter of 2007. Revenues were \$647.9 million in the first half of 2008, compared to \$550.8 million in the first half of 2007. Second quarter Financial Services income before income taxes was \$58.7 million compared to \$68.9 in 2007 primarily due to a higher provision for credit losses, somewhat mitigated by higher finance margins due to portfolio growth. Credit losses rose to \$23.0 million in the second quarter of 2008 from \$4.7 million in the second quarter of 2007, primarily due to increased credit losses in the U.S. and Canada. Higher second quarter 2008 finance margin resulted from portfolio growth in Europe, Mexico and Australia. For the first half of 2008, Financial Services income before income taxes was \$126.0 million compared to \$134.5 million in the year-earlier period. Higher credit losses in the U.S. and Canada in 2008 were partially offset by higher finance margins due to portfolio growth outside the U.S. and Canada.

The slowing economy in the U.S. and Canada and higher fuel prices negatively affected truck operators and resulted in increased past due accounts and higher credit losses in the second quarter of 2008. Worldwide, Financial Services accounts 30+ days past due were 2.7% of portfolio balances as of June 30, 2008, compared to 2.2% as of March 31, 2008 and 1.3% at June 30, 2007.

The effective tax rate was 29.7% and 30.3% for the second quarter and first half of 2008 compared to 30.6% and 31.4% for the second quarter and first half of 2007. The lower effective tax rate in 2008 reflects a higher proportion of income from foreign operations.

LIQUIDITY AND CAPITAL RESOURCES:

During the first half of 2008, Truck and Other cash and marketable securities decreased by \$310.9 million to \$2.20 billion. Payments for dividends, capital investments and stock repurchases were partially offset by cash provided by operations of \$753.6 million.

Cash provided by operations was \$753.6 million in the first half of 2008 compared to \$982.6 million in the same period of 2007, due to lower net income and higher working capital investments in 2008.

As of June 30, 2008, the Company had repurchased 5.62 million shares of its common shares for \$262.5 million under its existing \$300 million repurchase authorization. In July 2008, the Board of Directors approved the repurchase of an additional \$300 million of PACCAR's outstanding common stock.

At June 30, 2008, PACCAR's European finance subsidiary, PACCAR Financial Europe (PFE), had \$105.2 million available for issuance under a \$1.2 billion medium term note program registered with the London Stock Exchange. In July 2008, PFE renewed and increased this program to \$1.5 billion. The program is renewable annually.

The Company had line of credit arrangements of \$3.39 billion, of which \$3.34 billion was unused at the end of June 2008. Included in these arrangements are \$3.0 billion of syndicated bank facilities, which were increased from \$2.7 billion in June 2008. Of the \$3.0 billion bank facilities, \$2.0 billion matures in June 2009 and \$1.0 billion matures in 2012. The Company intends to replace these credit facilities as they expire with facilities of similar amounts. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium term notes of the financial services companies.

During the first six months of 2008, PACCAR maintained its Standard & Poor's short- and long-term debt ratings of A-1+ and AA-, respectively. The Company believes its strong cash position and investment-grade credit ratings will continue to provide financial stability and access to public debt markets at competitive interest rates.

Other information on liquidity and capital resources as presented in the 2007 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 have been no material changes in the Company's market risk during the six months ended June 30, 2008. For additional information, refer to the market risk disclosure in Item 7A as presented in the Company's 2007 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 June 30, 2008. 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. During the second quarter of 2008, the Company implemented a new consolidation system for financial reporting. This implementation has involved changes to internal processes and procedures over financial reporting, but the internal controls over financial reporting did not materially change. 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 June 30, 2008.

ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as presented in the 2007 Annual Report on Form 10-K. There have been no material changes in the Company's risk factors during the three months ended June 30, 2008.

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 June 30, 2008.

(c) Issuer purchases of equity securities.

On October 29, 2007, 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 |
|------------------|--------------------------------------|----------------------------------|--|---|
| April 1-30, 2008 | 400,000 | \$47.79 | 400,000 | \$108,194,900 |
| May 1-31, 2008 | 661,562 | 49.14 | 661,562 | 75,686,200 |
| June 1-30, 2008 | 833,335 | 45.78 | 833,335 | 37,535,100 |
| Total | 1,894,897 | \$47.38 | 1,894,897 | \$37,535,100 |

On July 8, 2008, PACCAR's Board of Directors approved a new plan to repurchase up to an additional \$300 million of the Company's outstanding common stock.

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

Edgar Filing: PACCAR INC - Form 10-Q

Reportable information in response to Item 4 was previously reported in the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

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 August 1, 2008

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

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) Certificate of Amendment of Certificate of Incorporation of PACCAR Inc dated April 28, 2008 (incorporated by reference to Exhibit (3) (b) of the Quarterly Report on Form 10-Q for the period ended March 31, 2008).
 - (c) 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).

INDEX TO EXHIBITS

Exhibit (in order of assigned index numbers)

10 Material contracts:

- 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 99.2 of Form 8-K dated and filed December 10, 2007).
 - (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) 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).
 - (g) 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).
 - (h) 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).
 - (i) PACCAR Inc Long Term Incentive Plan, Amended Form of Share Match Restricted Stock Award Agreement (incorporated by reference as Exhibit 99.1 of Form 8-K dated January 30, 2008 and filed February 5, 2008).
 - (j) 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).
 - (k) PACCAR Inc Savings Investment Plan, Amendment and Restatement Effective January 1, 2006 (incorporated by reference to Exhibit (10)(l) of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).

INDEX TO EXHIBITS

Exhibit (in order of assigned index numbers)

- (l) PACCAR Inc Savings Investment Plan, Amendment Effective July 1, 2007.
- (m) Deferred Compensation Plan (incorporated by reference as Exhibit 99.1 of Form 8-K dated September 12, 2006 and filed September 15, 2006).
- (n) Memorandum of Understanding, dated as of May 11, 2007, by and among PACCAR Engine Company, the State of Mississippi and certain state and local supporting government entities (incorporated by reference as Exhibit 10.1 of Form 8-K filed May 16, 2007).

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).