PACCAR INC
Form 10-Q
November 02, 2006

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **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**

o **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** | **91-0351110** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **777 - 106th Ave. N.E., Bellevue, WA** | **98004** |
| (Address of principal executive offices) | (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 x No o

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

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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**PACCAR Inc AND SUBSIDIARIES**

**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.

**FORM 10-Q**
**PACCAR Inc AND SUBSIDIARIES**

**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 |

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| | 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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**FORM 10-Q**
**PACCAR Inc AND SUBSIDIARIES**

**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.

**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. 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. Operat–ing 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 September 30** | | **Nine Months Ended September 30** | |
|---|---|---|---|---|
| | **2006** | **2005** | **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 outstand–ing 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 September 30** | | **Nine Months Ended September 30** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| *Components of Pension Expense:* | | | | |
| Service cost | **$ 12.6** | $ 9.5 | **$ 37.5** | $ 30.4 |
| Interest on projected benefit obligation | **15.2** | 12.4 | **45.1** | 39.5 |
| Expected return on assets | **(19.4 )** | (14.8 ) | **(56.5 )** | (47.7 ) |
| Amortization of prior service costs | **1.1** | 1.2 | **3.1** | 3.0 |
| Recognized actuarial loss | **3.1** | 2.1 | **9.1** | 6.7 |
| Net pension expense | **$ 12.6** | $ 10.4 | **$ 38.3** | $ 31.9 |

During the first nine months of 2006, the Company contributed $96.7 to its pension plans.

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 September 30** | | **Nine Months Ended September 30** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| *Components of Retiree Expense:* | | | | |
| Service cost | **$ 2.1** | $ 1.1 | **$ 4.0** | $ 2.7 |
| Interest cost | **1.5** | 1.2 | **3.6** | 3.2 |
| Amortization and other | **.8** | .6 | **1.6** | 1.5 |
| Net retiree expense | **$ 4.4** | $ 2.9 | **$ 9.2** | $ 7.4 |

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

**RESULTS OF OPERATIONS:**

PACCAR s total net sales and revenues for the first nine months of 2006 increased 17% to $12.23 billion from $10.42 billion in 2005. Net income for the first nine months of 2006 improved 36% to $1,115.5 million compared to $820.3 million in 2005. Third quarter 2006 total net sales and revenues increased 19% to $4.21 billion, from the $3.54 billion reported for the comparable period in 2005. Third quarter 2006 net income increased 32% to $403.6 million from $304.8 million earned in the third quarter of 2005. The consolidated results reflect improvements in both the Truck and Financial Services segments, as well as higher investment income. Net income for the first nine months of 2005 included an estimated $64.0 million tax provision ($.25 per share) 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.

Truck segment net sales and revenues in the third quarter of 2006 increased 18% to $3.92 billion compared to $3.32 billion in the third quarter of 2005. Truck segment net sales for the first nine months of 2006 increased 17% to $11.44 billion. Third quarter 2006 Truck segment income before taxes was $477.0 million, an increase of 22% compared to the $391.7 million recorded in the year-earlier period. For the first nine months of 2006 Truck segment income before taxes of $1,373.6 million increased 21% from $1,137.2 million earned in the first nine months of 2005.

Truck segment results in the third quarter and first nine months of 2006 benefited from higher production rates and aftermarket parts sales volume due to increased demand. Changes in foreign currency exchange rates increased third quarter consolidated net sales and pretax income by $47.2 and $6.4 million respectively, compared to the prior year. For the first nine months, currency effects reduced consolidated net sales and pretax income by $74.8 and $9.7 million.

Gross margins were comparable to the prior year at 15.0% for the quarter and 14.9% year-to-date. Margins benefited from strong demand and capacity utilization rates, offset somewhat by material cost increases and higher spending on new product development. Selling, general and administrative (SG&A) expense increased $8.8 million for the third quarter and $18.0 million year-to-date due to expenses required to support higher business volumes. As a percent of sales, SG&A was 2.8% and 2.9% for the third quarter and first nine months of 2006 compared to year earlier-levels of 3.1% and 3.2%, respectively.

Demand for heavy-duty trucks in the U.S. and Canada has improved compared to 2005, with industry retail sales expected to reach 315,000 trucks. European heavy-duty registrations for 2006 are projected to be slightly higher than 2005 at approximately 260,000 units. Both markets are being affected by changes to engine emissions regulations. In Europe, effective October 1, 2006, new truck registrations were required to comply with Euro 4 emissions standards. In the U.S. and Canada, effective January 1, 2007, all new diesel engines manufactured will be required to comply with EPA 2007 engine emissions standards. In both markets, conversion to the new engine emissions standards will increase the end-user vehicle cost. Management believes 2006 volumes have been somewhat affected by a pull forward of vehicle sales in Europe in the first three quarters of 2006 and in the U.S. and Canada prior to the January 1, 2007 deadline. Management s heavy-duty market projections for 2007 range from 200,000 to 230,000 in the U.S. and Canada and from 230,000 to 260,000 in Western Europe.

Financial Services segment revenues increased 26% over year-earlier levels to $246.2 million from $195.6 million for the quarter and to $690.1 million from $549.5 million for the first nine months due to higher portfolio levels and interest rates. Financial Services income before income taxes of $66.7 million in the third quarter of 2006 increased 41% compared to the $47.2 million earned in the third quarter of 2005. For the first nine months, segment pretax earnings increased 26% to $181.2 million from $144.4 million in 2005. The improve–ment was due primarily to higher net interest margin from larger portfolio balances and a lower loss provision reflecting excellent portfolio performance.

Excluding the adjustments to the tax provisions related to foreign earnings repatriations in both years as previously discussed, the effective tax rate was 31.0% for the third quarter and 31.7% for the first nine months of 2006, compared to 33.0% and 33.2% for the corresponding periods in 2005. The lower effective rates in the current year are primarily due to lower tax rates in certain foreign tax jurisdictions, higher tax-exempt investment income and a $6.0 million benefit from a tax settlement that occurred in the first quarter of 2006.

**LIQUIDITY AND CAPITAL RESOURCES:**

PACCAR s Truck and Other working capital (current assets minus current liabilities) in–creased $434.2 million during the first nine months of 2006, including an increase in cash and marketable debt securities of $163.0 million to $2.38 billion.

The increase in cash provided by operating activities in 2006 was due primarily to higher net income and a lower increase in wholesale receivables in the Company s Financial Services segment. During the first nine months of 2006, in addition to dividend payments, the Company used cash provided by operations to repurchase PACCAR common stock and make capital additions. Financial Services funded new loan and lease volume and debt repayments from collections on loans and leases as well as the proceeds of new debt issuances.

The Company s largest financial services subsidiary, PACCAR Financial Corp. (PFC), periodically files shelf registrations under the Securities Act of 1933. The current registration provides for the issuance of up to $3.0 billion of senior debt securities to the public. This shelf registration was fully utilized as of October 24, 2006. PFC intends to file a new shelf registration in November 2006.

In September 2006, PACCAR s European finance subsidiary, PACCAR Financial Europe (PFE), renewed the listing of its 1.0 billion euro medium term note program with the London Stock Exchange. This program is renewable annually through the filing of a new prospectus.

At the end of September 2006, the Company had lines of credit arrangements of $2.2 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 2005 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: economic, political and industry conditions; supplier financial difficulties; insufficient supplier capacity or access to raw materials; reduced availability of or higher prices for fuel; a significant decline in industry sales; competitive pressures; reduced market share; 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; labor disruptions; shortages of commercial truck drivers; increased warranty costs or litigation; and legislation and governmental regulation.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company s market risk during the nine months ended September 30, 2006. For additional information, refer to Item 7a as presented in the 2005 Annual Report to Stockholders.

## 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 September 30, 2006. 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.

## PART II--OTHER INFORMATION

For Items 1, 3, 4 and 5, there was no reportable information for any of the three months ended September 30, 2006.

### ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as described in the 2005 Annual Report on Form 10-K. There have been no subsequent, material changes in the Company s risk factors.

### ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

For Items 2(a) and (b), there was no reportable information for any of the three months ended September 30, 2006.

(c) Issuer purchases of equity securities.

PACCAR s plan to repurchase up to five million shares of the Company s outstanding common stock was completed in the third quarter of 2006. 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) Maximum number of shares that may yet be purchased under the plan** |
|---|---|---|---|---|
| August 1-31, 2006 | 400,000 | $ 54.84 | 400,000 | 685,916 |
| September 1-30, 2006 | 685,916 | $ 54.66 | 685,916 | |
| Total | 1,085,916 | $ 54.73 | 1,085,916 | |

### 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 | November 2, 2006 | By | /s/ R. E. Armstrong<br>R. E. Armstrong<br>Vice President and Controller<br>(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) 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 Citibank, N.A., Trustee (incorporated by reference to Exhibit 4.1 of the Annual Report on Form 10-K of PACCAR Financial Corp. dated March 26, 1984, File Number 0-12553 and Exhibit 4.2 to PACCAR Financial Corp. s registration statement on Form S-3 dated June 23, 1989, Registration Number 33-29434).

(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).

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.

Exhibit (in order of assigned index numbers)

10 Material contracts:

(a) Amended and Restated Supplemental Retirement Plan (as incorporated by reference to Exhibit (10)(b) of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000) and Amendment dated December 19, 2005 (incorporated by reference to Exhibit (10)(a) of the Annual Report on Form 10-K for the year ended December 31, 2005).

(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) PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-employee Directors (incorporated by reference to Appendix C of the 2004 Proxy Statement of PACCAR Inc, dated March 15, 2004) and Amendment to Section 4 (incorporated by reference to Exhibit 99.1 of Current Report on Form 8-K dated September 19, 2005).

(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, Form of 2006 Restricted Stock Award Agreement (incorporated by reference as Exhibit 99.1 of Form 8-K dated and filed May 1, 2006).

(i) PACCAR Inc Long Term Incentive Plan, Form of Share Match Restricted Stock Award Agreement (incorporated by reference as Exhibit 99.2 of Form 8-K dated and filed May 1, 2006).

(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 (incorporated by reference to Exhibit (10)(i) of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).

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

Exhibit (in order of assigned index numbers)

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).

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