

PACCAR INC  
Form 10-K  
February 27, 2008

## FORM 10-K

### SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

**For the fiscal year ended December 31, 2007**

Commission File No. 001-14817

## PACCAR Inc

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State of incorporation)

**91-0351110**  
(I.R.S. Employer Identification No.)

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

**98004**  
(Zip Code)

Registrant's telephone number, including area code **(425) 468-7400**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$1 par value	The NASDAQ Stock Market LLC
Preferred Stock Purchase Rights	The NASDAQ Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

For the fiscal year ended December 31, 2007

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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 ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2007:

**Common Stock, \$1 par value \$ 20.7 billion**

The number of shares outstanding of the registrant's classes of common stock, as of January 31, 2008:

**Common Stock, \$1 par value 366,674,322 shares**

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the year ended December 31, 2007, are incorporated by reference into Parts I and II.

Portions of the proxy statement for the annual stockholders meeting to be held on April 22, 2008, are incorporated by reference into Part III.

For the fiscal year ended December 31, 2007



**PART I**

**ITEM 1. BUSINESS.**

(a) General Development of Business

PACCAR Inc (the Company), incorporated under the laws of Delaware in 1971, is the successor to Pacific Car and Foundry Company which was incorporated in Washington in 1924. The Company traces its predecessors to Seattle Car Manufacturing Company formed in 1905.

(b) Financial Information About Industry Segments and Geographic Areas

Information about the Company's industry segments and geographic areas in response to Items 101(b), (c)(1)(i), and (d) of Regulation S-K appears on page 49 of the Annual Report to Stockholders for the year ended December 31, 2007 and is incorporated herein by reference.

(c) Narrative Description of Business

The Company has two principal industry segments, (1) design, manufacture and distribution of light-, medium- and heavy-duty trucks and related aftermarket distribution of parts and (2) finance and leasing services provided to customers and dealers. The Company's finance and leasing activities are principally related to Company products and associated equipment. Other manufactured products include industrial winches.

**TRUCKS**

The Company and its subsidiaries design and manufacture heavy-duty diesel trucks which are marketed under the Kenworth, Peterbilt and DAF nameplates. These trucks, which are built in four plants in the United States, three in Europe and one each in Australia, Canada and Mexico, are used world-wide for over-the-road and off-highway hauling of freight, petroleum, wood products, construction and other materials. The Company competes in the North American Class 5-7 markets primarily with conventional models. These trucks are assembled at facilities in Ste. Therese, Canada and in Mexicali, Mexico, which are operated by the Company's wholly owned subsidiaries located in those countries. The Company competes in the European light/medium (6 to 15 metric ton) market with DAF cab-over-engine trucks assembled in the United Kingdom by Leyland, one of the Company's wholly owned subsidiaries. Commercial trucks and related replacement parts comprise the largest segment of the Company's business, accounting for 91% of total 2007 net sales and revenues.

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Substantially all trucks and related parts are sold to independent dealers. The Kenworth and Peterbilt nameplates are marketed and distributed by separate divisions in the U.S. and a foreign subsidiary in Canada. The Kenworth nameplate is also marketed and distributed by foreign subsidiaries in Mexico and Australia. The DAF nameplate is marketed and distributed by a foreign subsidiary headquartered in the Netherlands. A U.S. division, PACCAR International, also markets all three nameplates outside each of their primary markets. The decision to operate as a subsidiary or as a division is incidental to Truck Segment operations and reflects legal, tax and regulatory requirements in the various countries where PACCAR operates.

The Truck Segment utilizes centrally managed purchasing, information technology, technical research and testing, treasury and finance functions. Certain manufacturing plants in North America produce trucks for more than one nameplate in common production facilities, while other plants produce trucks for only one nameplate, depending on various factors. As a result of the close similarity of the business models employed by each nameplate, best manufacturing practices within the Company are shared on a routine basis.

The Company's trucks are essentially custom products and have a reputation for high quality. For a significant portion of the Company's truck operations, major components, such as engines, transmissions and axles, as well as a substantial percentage of other components, are purchased from component manufacturers pursuant to PACCAR and customer specifications. DAF, which is more vertically integrated, manufactures its own engines and axles and a higher percentage of other components for its heavy truck models. The value of truck components manufactured by independent suppliers ranges from approximately 45% in Europe to approximately 90% in North America.

Raw materials and other components used in the manufacture of trucks are purchased from a number of suppliers. The Company's DAF subsidiary purchases fully assembled cabs from a competitor, Renault V.I., for its European light-duty product line pursuant to a joint product development and long-term supply contract. Sales of trucks manufactured with these cabs amounted to approximately 4% of consolidated revenues in 2007. A short-term loss of supply, and the resulting interruption in the production of these trucks, would not have a material effect on the Company's results of operations. However, a loss of supply for an extended period of time would either require the Company to contract for an alternative source of supply or to manufacture cabs itself. Other than these components, the Company is not limited to any single source for any significant component, although the sudden inability of a supplier to deliver components could have a temporary adverse effect on production of certain products. No significant shortages of materials or components were experienced in 2007. Manufacturing inventory levels are based upon production schedules and orders are placed with suppliers accordingly.

Replacement truck parts are sold and delivered to the Company's independent dealers through the Company's parts distribution network. Parts are both manufactured by the Company and purchased from various suppliers. Replacement parts inventory levels are determined largely by anticipated customer demand and the need for timely delivery. As a percentage of total consolidated net sales and revenues, parts sales were 15.0% in 2007, 11.8% in 2006, and 12.0% in 2005.

There were three other principal competitors in the U.S. and Canada Class 8 truck market in 2007. The Company's share of the U.S. and Canadian market was 26.4% of retail sales in 2007. In Europe there were five other principal competitors in the commercial vehicle market in 2007, including parent companies to two competitors of the Company in the United States. In 2007, DAF had a 13.9% share of the Western and Central European heavy-duty market and a 8.3% share of the light/medium market. These markets are highly competitive in price, quality and service, and PACCAR is not dependent on any single customer for its sales. There are no significant seasonal variations in sales.

The Peterbilt, Kenworth, and DAF nameplates are recognized internationally and play an important role in the marketing of the Company's truck products. The Company engages in a continuous program of trademark and trade name protection in all marketing areas of the world.

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The Company's truck products are subject to environmental noise and emission regulations and competing manufacturers are subject to the same regulations. The Company believes the cost of complying with noise and emission regulations will not be detrimental to its business.

The Company had a total production backlog of \$4.7 billion at the end of 2007. Within this backlog, orders scheduled for delivery within three months (90 days) are considered to be firm. The 90-day backlog approximated \$2.2 billion at December 31, 2007, \$2.7 billion at December 31, 2006 and \$2.5 billion at December 31, 2005. Production of the year-end 2007 backlog is expected to be substantially completed during 2008.

### **OTHER BUSINESS**

The Truck and Other businesses include a division of the Company which manufactures industrial winches in two U.S. plants and markets them under the Braden, Carco, and Gearmatic nameplates. The markets for these products are highly competitive and the Company competes with a number of well established firms. Sales of industrial winches were approximately 1% of net sales and revenues in 2007, 2006 and 2005.

The Braden, Carco, and Gearmatic trademarks and trade names are recognized internationally and play an important role in the marketing of those products.

### **FINANCIAL SERVICES**

In North America, Australia and 14 European countries, the Company provides financing and leasing arrangements, principally for its manufactured trucks, through wholly owned finance companies operating under the PACCAR Financial trade name. They provide inventory financing for independent dealers selling PACCAR products, and retail and lease financing for new and used trucks and other transportation equipment sold principally by its independent dealers. Receivables are secured by the products financed or leased.

The Company also conducts full service leasing operations through wholly owned subsidiaries in North America and Germany under the PacLease trade name. Selected dealers in North America are franchised to provide full service leasing. The Company provides its franchisees equipment financing and administrative support. The Company also operates full service lease outlets on its own behalf.

### **PATENTS**

The Company owns numerous patents which relate to all product lines. Although these patents are considered important to the overall conduct of the Company's business, no patent or group of patents is considered essential to a material part of the Company's business.

**REGULATION**

As a manufacturer of highway trucks, the Company is subject to the National Traffic and Motor Vehicle Safety Act and Federal Motor Vehicle Safety Standards promulgated by the National Highway Traffic Safety Administration as well as environmental laws and regulations in the United States, and is subject to similar regulations in Canada, Mexico, Australia and Europe. In addition, the Company is subject to certain other licensing requirements to do business in the United States and Europe. The Company believes it is in compliance with laws and regulations applicable to safety standards, the environment and other licensing requirements in all countries where it has operations.



Information regarding the effects that compliance with international, federal, state and local provisions regulating the environment have on the Company's capital and operating expenditures and the Company's involvement in environmental cleanup activities is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's Consolidated Financial Statements incorporated by reference in Items 7 and 8, respectively.

## EMPLOYEES

On December 31, 2007, the Company had approximately 21,800 employees.

## OTHER DISCLOSURES

The Company's filings on Form 10-K, 10-Q, and 8-K and any amendments to those reports can be found on the Company's website [www.paccar.com](http://www.paccar.com) free of charge as soon as practicable after the report is electronically filed with, or furnished to, the Securities and Exchange Commission. The information on the Company's website is not incorporated by reference into this report.

## ITEM 1A. RISK FACTORS.

The following are significant risks which could negatively impact the Company's financial condition or results of operations.

### Business and Industry Risks

**The commercial truck market demand is variable.** Demand for commercial vehicles depends to some extent on economic and other conditions in a given market and the introduction of new vehicles and technologies. The yearly demand for commercial vehicles may increase or decrease more than overall gross domestic product in markets the Company serves which are principally North America and Western Europe. Demand may also be affected by factors impacting new truck prices such as costs of raw materials and components and cost of compliance with governmental regulations (including tariffs, engine emissions regulations, import regulations and taxes).

**The financial services industry is highly competitive.** The Company competes with banks, other commercial finance companies and financial services firms which may have lower costs of borrowing, higher leverage or market share goals that result in a willingness to offer lower interest rates, which may lead to decreased margins, lower market share or both. A decline in the Company's commercial truck unit sales, an increase in residual value risk due to lower used truck pricing and increased funding costs are also factors which may negatively affect the Company's financial services operations.

**The financial services segment is subject to credit risk.** The financial services segment is exposed to the risk of loss arising from the failure of a customer, dealer or counterparty to meet the terms of the loans, leases and derivative contracts with the Company. Although the financial assets of the financial services segment are secured by underlying equipment collateral, in the event a customer cannot meet its obligations to the Company, there is a risk that the value of the underlying collateral will not be sufficient to recover the amounts owed to the Company resulting in credit losses.

## Political, Regulatory and Economic Risks

**The Company's operations could be subject to currency and interest rate fluctuations.** The Company's consolidated financial statements, which are presented in U.S. dollars, are affected by foreign currency exchange fluctuations through both translation and transaction risk. The Company uses certain derivative financial instruments and localized production of its products to reduce, but not eliminate, the effects of interest rate and foreign currency exchange rate fluctuations.

**The Company may be adversely affected by political instabilities, fuel shortages or interruptions in transportation systems, natural calamities, wars, terrorism and labor strikes.** The Company is subject to various risks associated with conducting business worldwide.

## ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

## ITEM 2. PROPERTIES.

The Company and its subsidiaries own and operate manufacturing plants in five U.S. states, three countries in Europe, and one each in Australia, Canada and Mexico. The Company also has a number of parts distribution centers, sales and service offices, and finance and administrative offices which are operated in owned or leased premises in these and other countries. Facilities for product testing and research and development are located in Washington state and the Netherlands. The Company's corporate headquarters is located in owned premises in Bellevue, Washington. The Company considers all of the properties used by its businesses to be suitable for their intended purposes.

Substantially all the Company's manufacturing facilities increased their capacity in 2007 compared to the prior year. The Company continuously invests in facilities, equipment and processes to provide manufacturing and warehouse capacity to meet its customers' needs.

Construction of PACCAR's new engine production facility and technology center in Columbus, Mississippi began in July 2007 and is expected to be completed in late 2009. PACCAR's 12.9-liter and 9.2-liter diesel engines manufactured in Columbus will be installed in Kenworth and Peterbilt trucks and may be exported to meet DAF's production requirements.

The following summarizes the number of the Company's manufacturing plants in operation by geographical location within indicated industry segments:

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	U.S.	Canada	Australia	Mexico	Europe
Truck	4	1	1	1	3
Other	2				

### ITEM 3. LEGAL PROCEEDINGS.

The Company and its subsidiaries are parties to various lawsuits incidental to the ordinary course of business. Management believes that the disposition of such lawsuits will not materially affect the Company's business or financial condition.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) Market Information, Holders, Dividends, Securities Authorized for Issuance Under Equity Compensation Plans and Performance Graph

Data regarding Market Information, Holders and Dividends are included in the Annual Report to Stockholders for the year ended December 31, 2007, under the caption "Common Stock Market Prices and Dividends" and are incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2007, regarding compensation plans under which PACCAR equity securities are authorized for issuance.

Plan Category	Number of Securities to be Issued on Exercise of Outstanding Options and Other Rights	Weighted-average Exercise Price of Outstanding Options	Securities Available for Future Grant (Excluding Shares Reflected in Column (1))
Stock compensation	(1)	(2)	(3)
Plans approved by Shareholders	6,227,426	\$ 23.79	19,539,278

All stock compensation plans have been approved by the shareholders.

The number of securities to be issued includes those issuable under the PACCAR Inc Long Term Incentive Plan (LTI Plan) and the Restricted Stock and Deferred Compensation Plan for Non-Employee Directors (RSDC Plan). Securities to be issued include 518,389 shares that represent deferred cash awards payable in stock. The weighted-average exercise price does not include the securities that represent deferred cash awards.

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Securities available for future grant are authorized under the following two plans: (i) 18,576,640 shares under the LTI Plan, and (ii) 962,639 shares under the RSDC Plan.

Data regarding the Performance Graph are included in the Annual Report to Stockholders for the year ended December 31, 2007, under the caption "Stockholder Return Performance Graph" and are incorporated herein by reference.

(b) Use of Proceeds from Registered Securities

Not applicable

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In November 2007 PACCAR purchased, on the open market, 1,278,900 shares of its common stock at an average price of \$48.28. These shares were purchased under a plan approved by the Board of Directors on October 29, 2007 to repurchase up to \$300 million of PACCAR's outstanding common stock.

**ITEM 6. SELECTED FINANCIAL DATA.**

Information in response to Item 301 of Regulation S-K appears in the Annual Report to Stockholders for the year ended December 31, 2007 under the caption "Selected Financial Data" and is incorporated herein by reference.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

Information in response to Item 303 of Regulation S-K appears in the Annual Report to Stockholders for the year ended December 31, 2007 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Information in response to Item 305 of Regulation S-K appears in the Annual Report to Stockholders for the year ended December 31, 2007 under the caption "Market Risks and Derivative Instruments" and is incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The following consolidated financial statements of the registrant and its subsidiaries, included in the Annual Report to Stockholders for the year ended December 31, 2007, are incorporated herein by reference:

Consolidated Statements of Income

Years Ended December 31, 2007, 2006 and 2005

Consolidated Balance Sheets

December 31, 2007 and 2006

Consolidated Statements of Cash Flows

Years Ended December 31, 2007, 2006 and 2005

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2007, 2006 and 2005

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

December 31, 2007, 2006 and 2005



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Information in response to Item 302(A) of Regulation S-K appears in the Annual Report to Stockholders for the year ended December 31, 2007 under the caption Quarterly Results (Unaudited) and is incorporated herein by reference.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

The registrant has not had any disagreements with its independent auditors on accounting or financial disclosure matters.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

*Disclosure 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 December 31, 2007 (Evaluation Date). 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 changes in the Company's internal controls over financial reporting during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*Management's Report on Internal Control over Financial Reporting.* Management's Report on Internal Control over Financial Reporting on page 50 and Report of Independent Registered Public Accounting Firm on the Company's Internal Controls on page 51 of the Annual Report to Stockholders for the year ended December 31, 2007, is incorporated herein by reference.

### **ITEM 9B. OTHER INFORMATION.**

Not applicable.

## **PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

Item 401(a), (d), (e) and (h) of Regulation S-K:

The following information is included in the proxy statement for the annual stockholders meeting of April 22, 2008 and is incorporated herein by reference:

- Identification of directors, family relationships, and business experience is included under the caption ITEM 1: ELECTION OF DIRECTORS.
- Identification of the audit committee financial expert is included under the caption AUDIT COMMITTEE REPORT.
- Identification of the audit committee is included under the caption THE AUDIT COMMITTEE.

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Item 401(b) of Regulation S-K:

Executive Officers of the registrant as of February 23, 2008:

<b>Name and Age</b>	<b>Present Position and Other Position(s) Held During Last Five Years</b>
Mark C. Pigott (54)	Chairman and Chief Executive Officer since 1997. Mr. Pigott is the nephew of James C. Pigott, a director of the Company.