PACCAR INC
Form 10-Q
May 06, 2011
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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 March 31, 2011

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 the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 x 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 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 365,468,969 shares as of April 30, 2011

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Income (Unaudited)
(Millions Except Per Share Amounts)

Three Months Ended March 31	2011	2010
TRUCK AND OTHER:		
Net sales and revenues	**$ 3,042.6**	$ 1,984.3
Cost of sales and revenues	**2,632.3**	1,767.8
Research and development	**68.4**	54.8
Selling, general and administrative	**109.9**	94.1
Interest and other expense, net	**4.0**	4.2
	2,814.6	1,920.9
Truck and Other Income Before Income Taxes	**228.0**	63.4
FINANCIAL SERVICES:		
Interest and fees	**101.5**	110.0
Operating lease, rental and other income	**139.5**	136.4
Revenues	**241.0**	246.4
Interest and other borrowing expenses	**46.5**	57.1
Depreciation and other	**110.5**	121.3
Selling, general and administrative	**23.2**	21.5
Provision for losses on receivables	**10.5**	18.4
	190.7	218.3
Financial Services Income Before Income Taxes	**50.3**	28.1
Investment income	**8.0**	4.5
Total Income Before Income Taxes	**286.3**	96.0
Income taxes	**93.0**	27.7
Net Income	**$ 193.3**	$ 68.3
Net Income Per Share:		
Basic	**$ .53**	$ .19
Diluted	**$ .53**	$ .19
Weighted Average Common Shares Outstanding:		
Basic	**365.8**	364.6
Diluted	**367.2**	365.7

Dividends declared per share	**$ .12**	$ .09

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheets (Millions)

ASSETS	**March 31 2011 (Unaudited)**	December 31 2010*
TRUCK AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 1,642.8**	$ 1,982.0
Trade and other receivables, net	**865.4**	610.4
Marketable debt securities	**1,001.7**	450.5
Inventories, net	**590.3**	534.0
Other current assets	**207.8**	218.6
Total Truck and Other Current Assets	**4,308.0**	3,795.5
Equipment on operating leases, net	**612.6**	536.2
Property, plant and equipment, net	**1,724.0**	1,673.7
Other noncurrent assets, net	**334.5**	350.5
Total Truck and Other Assets	**6,979.1**	6,355.9
FINANCIAL SERVICES:		
Cash and cash equivalents	**46.9**	58.8
Finance and other receivables, net	**6,243.0**	6,070.9
Equipment on operating leases, net	**1,559.6**	1,483.1
Other assets	**305.1**	265.4
Total Financial Services Assets	**8,154.6**	7,878.2
	$ 15,133.7	$ 14,234.1

* The December 31, 2010 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheets (Millions)

LIABILITIES AND STOCKHOLDERS EQUITY	March 31 2011 (Unaudited)	December 31 2010*
TRUCK AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 2,043.3**	$ 1,676.5
Current portion of long-term debt	**24.2**	23.5
Total Truck and Other Current Liabilities	**2,067.5**	1,700.0
Long-term debt	**150.0**	150.0
Residual value guarantees and deferred revenues	**645.2**	563.8
Other liabilities	**380.3**	370.3
Total Truck and Other Liabilities	**3,243.0**	2,784.1
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**317.6**	275.9
Commercial paper and bank loans	**2,590.5**	2,371.7
Term notes	**2,647.3**	2,730.8
Deferred taxes and other liabilities	**686.4**	713.8
Total Financial Services Liabilities	**6,241.8**	6,092.2
STOCKHOLDERS EQUITY		
Preferred stock, no par value: Authorized 1.0 million shares, none issued		
Common stock, $1 par value: Authorized 1.2 billion shares, issued 365.4 million shares	**365.4**	365.3
Additional paid-in capital	**114.4**	105.1
Retained earnings	**4,995.6**	4,846.1
Accumulated other comprehensive income	**173.5**	41.3
Total Stockholders Equity	**5,648.9**	5,357.8
	$ 15,133.7	$ 14,234.1

* The December 31, 2010 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(Millions)

Three Months Ended March 31	2011	2010
OPERATING ACTIVITIES:		
Net income	**$ 193.3**	$ 68.3
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization:		
Property, plant and equipment	**47.1**	48.1
Equipment on operating leases and other	**115.3**	117.3
Provision for losses on financial services receivables	**10.5**	18.4
Other	**9.7**	(18.9)
Change in operating assets and liabilities:		
Wholesale receivables on new trucks	**(75.8)**	(.5)
Sales-type finance leases and dealer direct loans on new trucks	**32.4**	57.3
Pension contributions	**(4.1)**	(19.3)
Other	**130.9**	14.7
Net Cash Provided by Operating Activities	**459.3**	285.4
INVESTING ACTIVITIES:		
Retail loans and direct financing leases originated	**(504.6)**	(331.0)
Collections on retail loans and direct financing leases	**464.0**	499.1
Marketable securities purchases	**(934.2)**	(94.6)
Marketable securities sales and maturities	**408.4**	67.7
Acquisition of property, plant and equipment	**(62.2)**	(26.1)
Acquisition of equipment for operating leases	**(295.3)**	(163.0)
Proceeds from asset disposals	**85.8**	79.8
Other	**(12.6)**	8.6
Net Cash (Used in) Provided by Investing Activities	**(850.7)**	40.5
FINANCIAL ACTIVITIES:		
Cash dividends paid	**(43.8)**	(32.8)
Stock compensation transactions	**1.6**	3.6
Net increase (decrease) in commercial paper and short-term bank loans	**146.4**	(331.6)
Proceeds from term debt	**135.6**	13.2
Payment of term debt	**(250.2)**	(3.2)
Net Cash Used in Financing Activities	**(10.4)**	(350.8)
Effect of exchange rate changes on cash	**50.7**	(32.4)
Net Decrease in Cash and Cash Equivalents	**(351.1)**	(57.3)
Cash and cash equivalents at beginning of period	**2,040.8**	1,912.0
Cash and cash equivalents at end of period	**$ 1,689.7**	$ 1,854.7

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

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 first quarter ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the consolidated financial statements and footnotes included in PACCAR Inc s (the Company) Annual Report on Form 10-K for the year ended December 31, 2010.

Earnings per Share: Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding, plus the effect of any participating securities. Diluted earnings per common share are computed assuming that all potentially dilutive securities are converted into common shares under the treasury stock method. The dilutive and antidilutive options are shown separately in the table below.

Three Months Ended March 31	**2011**	2010
Additional shares	**1,362,000**	1,050,900
Antidilutive options	**829,500**	1,846,400

Reclassifications: The Company has made the following reclassifications to the prior year to conform to the 2011 presentation. The Company has reclassified the impairment losses related to repossessed equipment on operating lease in the Financial Services segment from Provision for losses on receivables to Depreciation and other in the Consolidated Statements of Income and Consolidated Statements of Cash Flows. In addition, the Company has reclassified proceeds for the sale of repossessed assets relating to finance receivables from Collections on retail loans and direct financing leases to Proceeds from asset disposals in the Consolidated Statements of Cash Flows.

The reclassifications are summarized below.

Three Months Ended March 31, 2010	Before	After
Consolidated Statements of Income		
Depreciation and other	$ 118.0	$ 121.3
Provision for losses on receivables	21.7	18.4
Consolidated Statements of Cash Flows		
Operating Activities:		
Depreciation of equipment on operating leases and other	$ 114.0	$ 117.3
Provision for losses on receivables	21.7	18.4
Investing Activities:		
Collections on retail loans and direct financing leases	$ 534.6	$ 499.1
Proceeds from asset disposals	44.3	79.8

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

New Accounting Pronouncements: In April 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-02, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 gives additional guidance to companies to assist in determining troubled debt restructurings. ASU 2011-02 is effective for reporting periods beginning on or after June 15, 2011 and the Company does not expect the implementation of ASU 2011-02 to have a significant impact on its results of operations, financial position or cash flow.

NOTE B Investments in Marketable Debt Securities

The Company s investments in marketable securities are classified as available-for-sale. These investments are stated at fair value with any unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive income.

Marketable debt securities consisted of the following:

At March 31, 2011	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. tax-exempt securities	**$ 381.2**	**$ 1.2**	**$ .2**	**$ 382.2**
U.S. government and agency securities	**2.7**			**2.7**
U.S. corporate securities	**37.1**	**.1**		**37.2**
Non U.S. corporate securities	**177.9**	**.2**	**.6**	**177.5**
Non U.S. government securities	**345.9**	**.2**	**2.2**	**343.9**
Other debt securities	**58.1**	**.1**		**58.2**
	$ 1,002.9	**$ 1.8**	**$ 3.0**	**$ 1,001.7**
At December 31, 2010				
U.S. tax-exempt securities	$ 364.9	$ .8	$ .3	$ 365.4
U.S. government and agency securities	2.7			2.7
U.S. corporate securities	27.3	.3		27.6
Non U.S. corporate securities	37.0			37.0
Other debt securities	17.8			17.8
	$ 449.7	$ 1.1	$ .3	$ 450.5

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest, dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. The proceeds from sales and maturities of marketable securities for the three months ended March 31, 2011 were $408.4. Gross realized gains were $.4 and $.2 for the three months ended March 31, 2011 and 2010, respectively, with realized losses of $.2 and nil for the three months ended March 31, 2011 and 2010, respectively.

The Company evaluates its investments in marketable securities at the end of each reporting period to determine if a decline in fair value is other than temporary. As of March 31, 2011 and December 31, 2010, there were no marketable debt securities that were in an unrealized loss position for greater than 12 months.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Contractual maturities on these securities at March 31, 2011 were as follows:

Maturities:	Amortized Cost	Fair Value
Within one year	**$ 217.9**	**$ 218.1**
One to five years	**783.2**	**781.8**
More than ten years	**1.8**	**1.8**
	$ 1,002.9	**$ 1,001.7**

Marketable debt securities included $1.8 and $12.2 of variable rate demand obligations (VRDOs) at March 31, 2011 and December 31, 2010, respectively. VRDOs are debt instruments with long-term scheduled maturities which have interest rates that reset periodically.

NOTE C Inventories

Inventories are stated at the lower of cost or market. Cost of inventories in the United States is determined principally by the last in, first out (LIFO) method. Cost of all other inventories is determined principally by the first in, first out (FIFO) method.

Inventories included the following:

	March 31 2011	December 31 2010
Finished products	**$ 396.4**	$ 370.1
Work in process and raw materials	**354.1**	322.2
	750.5	692.3
Less LIFO reserve	**(160.2)**	(158.3)
	$ 590.3	$ 534.0

Under the LIFO method of accounting (used for approximately 39% of March 31, 2011 inventories), an actual valuation can be made only at the end of each year based on year-end inventory levels and costs. Accordingly, interim valuations are based on management s estimates of those year-end amounts.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE D Finance and Other Receivables

Finance and other receivables include the following:

	March 31 2011	December 31 2010
Loans	**$ 2,784.5**	$ 2,713.9
Retail direct financing leases	**2,031.3**	2,005.0
Sales-type finance leases	**672.3**	703.6
Dealer wholesale financing	**1,090.7**	983.4
Interest and other receivables	**107.7**	109.3
Unearned interest on finance leases	**(294.5)**	(299.3)
	6,392.0	6,215.9
Less allowance for losses:		
Loans, leases and other	**(141.3)**	(137.5)
Dealer wholesale financing	**(7.7)**	(7.5)
	$ 6,243.0	$ 6,070.9

Recognition of interest income and rental revenue is suspended (put on non-accrual status) when the receivable becomes more than 90 days past the contractual due date or earlier if some other event causes the Company to determine that collection is not probable. Recognition is resumed if the receivable becomes contractually current by the payment of all amounts due under the terms of the existing contract and collection of remaining amounts is considered probable (if not modified), or after the customer has made scheduled payments for three months and collection of remaining amounts is considered probable (if contractually modified). Payments received while the finance receivable is impaired or on non-accrual status are applied to interest and principal in accordance with the contractual terms.

Allowance for Credit Losses

The Company continuously monitors the performance of all its finance receivables, by reviewing payment performance. In addition, for large customers and dealer wholesale financing accounts, the Company regularly monitors their financial statements and makes appropriate customer contact. If the Company becomes aware of circumstances with those customers or dealers that could lead to financial difficulty, whether or not they are past-due, the accounts are placed on a watch list. In determining the allowance for credit losses, loans and finance leases are evaluated together since they relate to a similar customer base and their contractual terms require regular payment of principal and interest generally over 36 to 60 months and they are secured by the same type of collateral. The Company collectively and individually evaluates its finance receivables and the allowance for credit losses consists of both a general and specific reserve.

The Company individually evaluates certain finance receivables for impairment. Finance receivables which are evaluated individually consist of customers on non-accrual status, all wholesale accounts and certain large retail accounts with past-due balances or that otherwise are deemed to be at a higher risk of credit loss and loans which have been modified as troubled debt restructurings. A receivable is considered impaired if it is

probable the Company will be unable to collect all contractual interest and principal payments as scheduled. Impaired receivables are individually evaluated to determine the amount of impairment and these receivables are considered collateral dependent. Accordingly, the evaluation of individual reserves is based on the fair value less costs to sell the associated collateral. When the underlying collateral fair value exceeds the Company s loss exposure, no individual reserve

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

is recorded. The Company uses a pricing model to value the underlying collateral on a quarterly basis. The fair value of the collateral is determined based on management s evaluation of numerous factors such as the make, model and year of the equipment, overall condition of the equipment, primary method of distribution for the equipment, recent sales prices of comparable equipment and economic trends affecting used equipment values.

For finance receivables that are evaluated collectively, the Company determines the allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past-due account data and current market conditions. Information used includes assumptions regarding the likelihood of collecting current and past-due accounts, repossession rates and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company has developed a range of loss estimates for each of its country portfolios based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined as probable based on current market conditions and other factors impacting the creditworthiness of the Company s borrowers and their ability to repay. The projected amount is then compared to the allowance for credit loss balance and an appropriate adjustment is made.

The provision for losses on finance receivables is charged to income based on management s estimate of incurred credit losses, net of recoveries, inherent in the portfolio. Accounts are charged-off against the allowance for credit losses when, in the judgment of management, they are considered uncollectable (generally upon repossession of the collateral). Typically the timing between the repossession process and when a receivable is charged-off is not significant. In cases where repossession is delayed (i.e., for legal reasons), the Company will record partial charge-offs. The charge-off is determined by comparing the fair value of the collateral less costs to sell to the recorded investment.

The Company s allowance for credit losses is segregated into two portfolio segments: wholesale and retail. A portfolio segment is the level at which the Company develops a systematic methodology for determining its allowance for credit losses. The wholesale segment includes wholesale financing loans to dealers that are collateralized by the trucks being financed. The retail segment includes retail loans and direct and sales-type finance leases, net of unearned interest.

The wholesale segment risk characteristics differ from the retail segment. For wholesale receivables the terms are shorter in duration and the Company requires monthly reporting of the dealer s financial condition, conducts periodic physical audits of the trucks being financed and in many cases, obtains personal guarantees or other security such as dealership assets to reduce the risk of loss compared to retail receivables.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The allowance for credit losses is summarized as follows:

		2011	
	Wholesale	**Retail**	**Total**
Balance at January 1	**$ 7.5**	**$ 137.5**	**$ 145.0**
Provision for losses	**.5**	**10.0**	**10.5**
Charge-offs	**(.5)**	**(10.3)**	**(10.8)**
Recoveries		**1.5**	**1.5**
Currency translation	**.2**	**2.6**	**2.8**
Balance at March 31	**$ 7.7**	**$ 141.3**	**$ 149.0**

Information regarding finance receivables summarized by those evaluated collectively and individually is as follows:

At March 31, 2011	**Wholesale**	**Retail**	**Total**
Recorded investment for impaired finance receivables evaluated individually	**$ 1.0**	**$ 159.0**	**$ 160.0**
Allowance for finance receivables evaluated individually	**1.0**	**35.0**	**36.0**
Recorded investment for finance receivables evaluated collectively	**$ 1,089.7**	**$ 5,034.6**	**$ 6,124.3**
Allowance for finance receivables evaluated collectively	**6.7**	**106.3**	**113.0**
At December 31, 2010			
Recorded investment for impaired finance receivables evaluated individually	$ 3.4	$ 150.0	$ 153.4
Allowance for finance receivables evaluated individually	1.3	33.6	34.9
Recorded investment for finance receivables evaluated collectively	$ 980.0	$ 4,973.2	$ 5,953.2
Allowance for finance receivables evaluated collectively	6.2	103.9	110.1

The recorded investment of finance receivables that are on non-accrual status in the wholesale, fleet and owner/operator portfolio classes as defined below as of March 31, 2011 was $1.0, $77.6 and $26.7, respectively. The recorded investment of finance receivables on non-accrual status as of December 31, 2010 was $3.4, $72.2 and $33.9, respectively.

Impaired Loans

The Company s impaired loans are segregated by portfolio class. A portfolio class of receivables is a subdivision of a portfolio segment with similar measurement attributes and risk characteristics and common methods to monitor and assess credit risk. The Company s retail segment is subdivided into the fleet and owner/operator classes. Fleet consists of retail accounts with customers operating more than five trucks. All others are owner/operator.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

All impaired loans have a specific reserve and are summarized as follows:

At March 31, 2011	Wholesale	Fleet	Owner / Operator	Total
Impaired loans with specific reserve	**$ 1.0**	**$ 36.8**	**$ 15.5**	**$ 53.3**
Associated allowance	**(1.0)**	**(4.9)**	**(3.5)**	**(9.4)**
Net carrying amount of impaired loans		**$ 31.9**	**$ 12.0**	**$ 43.9**
Unpaid principal balance	**1.0**	**36.8**	**15.5**	**53.3**
Average recorded investment*	**5.7**	**36.9**	**22.7**	**65.3**
Interest income recognized on a cash basis**		**.3**	**.1**	**.4**

* Represents the average during the 12 months ended March 31, 2011.

** Represents the amounts recognized during the three months ended March 31, 2011.

At December 31, 2010	Wholesale	Fleet	Owner / Operator	Total
Impaired loans with specific reserve	$ 3.4	$ 21.5	$ 17.8	$ 42.7
Associated allowance	(1.3)	(4.4)	(3.8)	(9.5)
Net carrying amount of impaired loans	$ 2.1	$ 17.1	$ 14.0	$ 33.2
Unpaid principal balance	3.4	21.5	17.8	42.7

The balance of troubled debt restructurings was $14.6 and $6.5 at March 31, 2011 and December 31, 2010, respectively.

Credit Quality

The Company s customers are principally concentrated in the transportation industry in North America, Europe and Australia. On a geographic basis, there is a proportionate concentration of credit risk in each area. The Company retains as collateral a security interest in the related equipment.

At the inception of each contract, the Company considers the credit risk based on a variety of credit quality indicators including, prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios and other internal metrics. On an ongoing basis, the Company monitors the credit exposure based on past-due status and collection experience as the Company has found a meaningful correlation between the past-due status of customers and the risk of loss.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

The table below summarizes the Company s financing receivables by credit quality indicator and portfolio class. Performing accounts are paying in accordance with the contractual terms and are not considered to be of high risk. Watch accounts include past-due and large high risk accounts that are not impaired. At-risk includes customer accounts that are impaired.

At March 31, 2011	**Wholesale**	**Fleet**	**Owner / Operator**	**Total**
Performing	**$ 1,072.0**	**$ 3,596.2**	**$ 1,388.9**	**$ 6,057.1**
Watch	**17.7**	**30.2**	**19.3**	**67.2**
At-risk	**1.0**	**132.3**	**26.7**	**160.0**
	$ 1,090.7	**$ 3,758.7**	**$ 1,434.9**	**$ 6,284.3**
At December 31, 2010				
Performing	$ 966.2	$ 3,544.0	$ 1,359.4	$ 5,869.6
Watch	13.8	46.6	23.2	83.6
At-risk	3.4	115.1	34.9	153.4
	$ 983.4	$ 3,705.7	$ 1,417.5	$ 6,106.6

The Company uses historical data and an impairment assessment of the condition of its customers and the economy to estimate default rates for each credit quality indicator.

The table below summarizes the Company s financing receivables by aging category. Customer accounts that were 30+ days past due prior to modification became current upon modification for aging purposes.

At March 31, 2011	**Wholesale**	**Fleet**	**Owner / Operator**	**Total**
Current and up to 30 days past-due	**$ 1,072.0**	**$ 3,647.4**	**$ 1,388.9**	**$ 6,108.3**
31 - 60 days past-due	**2.1**	**21.5**	**16.1**	**39.7**
Greater than 60 days past-due	**16.6**	**89.8**	**29.9**	**136.3**
	$ 1,090.7	**$ 3,758.7**	**$ 1,434.9**	**$ 6,284.3**
At December 31, 2010				
Current and up to 30 days past-due	$ 966.2	$ 3,581.1	$ 1,359.5	$ 5,906.8

31 - 60 days past-due	7.7	48.5	19.7	75.9
Greater than 60 days past-due	9.5	76.1	38.3	123.9
	$ 983.4	$ 3,705.7	$ 1,417.5	$ 6,106.6

Repossessions

When the Company determines that a customer in default is not likely to meet their contractual commitments, the Company repossesses the vehicles which serve as collateral for loans, finance leases and equipment on operating leases. The Company records the vehicles as used truck inventory included in Financial Services Other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at March 31, 2011 and December 31, 2010 was $12.6 and $15.6, respectively. Proceeds from the sales of repossessed assets were $21.6 and $35.5 for the three months ended March 31, 2011 and 2010, respectively. These amounts are included in Proceeds from asset disposals on the Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services Depreciation and other on the Consolidated Statements of Income.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE E Product Support Liabilities

Product support liabilities include reserves related to product warranties, optional extended warranties and repair and maintenance (R&M) contracts. The Company generally offers one-year warranties covering most of its vehicles and related aftermarket parts. Specific terms and conditions vary depending on the product and the country of sale. Optional extended warranty and R&M contracts can be purchased for periods which generally range up to five years. Warranty expenses and reserves are estimated and recorded at the time products or contracts are sold based on historical data regarding the source, frequency and cost of claims, net of any recoveries. The Company periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience.

Changes in warranty and R&M reserves are summarized as follows:

	2011	2010
Balance at January 1	**$ 372.2**	$ 386.4
Cost accruals and revenue deferrals	**57.2**	43.5
Payments and revenue recognized	**(43.8)**	(54.2)
Currency translation	**14.1**	(16.5)
Balance at March 31	**$ 399.7**	$ 359.2

NOTE F Stockholders Equity

Comprehensive Income

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

Three Months Ended March 31	**2011**	2010
Net income	**$ 193.3**	$ 68.3
Other comprehensive income (loss):		
Currency translation gains (losses)	**121.5**	(70.2)
Derivative contracts increase	**13.1**	9.4
Marketable securities decrease	**(1.5)**	(.2)
Employee benefit plans (decrease) increase	**(.9)**	6.7
Net other comprehensive income (loss)	**132.2**	(54.3)
Comprehensive income	**$ 325.5**	$ 14.0

In the three months ended March 31, 2011, currency translation gains are primarily due to increases in the euro and Canadian dollar.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income was comprised of the following:

	March 31 2011	December 31 2010
Currency translation adjustment	**$ 492.6**	$ 371.1
Net unrealized losses on derivative contracts	**(4.8)**	(17.9)
Net unrealized investment (losses) gains	**(1.0)**	.5
Employee benefit plans	**(313.3)**	(312.4)
Total accumulated other comprehensive income	**$ 173.5**	$ 41.3

Stock Compensation Plans

Stock-based compensation expense was $7.0 and $1.6 for the first three months of 2011 and 2010, respectively. Realized tax benefits related to the excess of deductible amounts over expense recognized amounted to $.4 and $.8 for the first three months of 2011 and 2010, respectively, and have been classified as a financing cash flow.

During the first quarter of 2011, the Company issued 163,738 additional common shares under deferred and stock compensation arrangements.

NOTE G Income Taxes

The effective income tax rate was 32.5% in the first quarter of 2011 compared to 28.9% in the first quarter of 2010. The effective tax rate in 2010 included a favorable resolution of a prior year tax position.

NOTE H Contingencies

On October 28, 2010, a National Labor Relations Board (NLRB) administrative law judge issued a decision that since the Company did not provide certain information to the union representing employees at Peterbilt s former truck assembly plant in Madison, Tennessee, during collective bargaining negotiations in 2008, the employer-directed work stoppage was not in conformity with certain provisions of the National Labor Relations Act from July 16, 2008 and that the Company should reimburse approximately 300 plant employees, with interest, for wage and benefit losses incurred during the work stoppage which ended on April 6, 2009. The Company disagrees with this decision and filed its exceptions with the NLRB. The Company believes that resolution of this matter will not have a material adverse effect on its results. The Company believes the range of possible outcomes is between nil and $15.0. No reserve has been provided as the Company believes it will ultimately prevail in the matter.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

NOTE I Segment Information

The Company operates in two principal segments, Truck and Financial Services.

Three Months Ended March 31	**2011**	2010
Net sales and revenues:		
Truck		
Total	**$ 3,183.1**	$ 2,056.3
Less intersegment	**(165.0)**	(90.6)
External customers	**3,018.1**	1,965.7
All other	**24.5**	18.6
	3,042.6	1,984.3
Financial Services	**241.0**	246.4
	$ 3,283.6	$ 2,230.7
Income (loss) before income taxes:		
Truck	**$ 240.7**	$ 66.6
All other	**(12.7)**	(3.2)
	228.0	63.4
Financial Services	**50.3**	28.1
Investment Income	**8.0**	4.5
	$ 286.3	$ 96.0
Depreciation and amortization:		
Truck	**$ 78.4**	$ 71.4
All other	**2.2**	2.3
	80.6	73.7
Financial Services	**81.8**	91.7
	$ 162.4	$ 165.4

Included in All other is the Company s industrial winch manufacturing business and other sales, income and expense not attributable to a reportable segment, including a portion of corporate expenses.

NOTE J Derivative Financial Instruments

As part of its risk management strategy, the Company enters into derivative contracts to hedge against interest rate and foreign currency risk.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. The Company is exposed to interest rate and exchange rate risk caused by market volatility as a result of its borrowing activities. The objective of these contracts is to mitigate the fluctuations on earnings, cash flows and fair value of borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

At March 31, 2011, the notional amount of the Company s interest-rate contracts was $2,792.0. Notional maturities for all interest-rate contracts are $898.6 for the remainder of 2011, $710.1 for 2012, $426.8 for 2013, $475.2 for 2014, $262.5 for 2015 and $18.8 thereafter. The majority of these contracts are floating to fixed swaps that effectively convert an equivalent amount of commercial paper and other variable rate debt to fixed rates.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. At March 31, 2011, the notional amount of the outstanding foreign-exchange contracts was $292.0. Foreign-exchange contracts mature within one year.

The following table presents the balance sheet locations and fair value of derivative financial instruments:

	March 31, 2011		December 31, 2010	
	Assets	**Liabilities**	Assets	Liabilities
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 16.8**		$ 9.1	
Deferred taxes and other liabilities		**$ 103.3**		$ 107.5
Foreign-exchange contracts:				
Truck and Other:				
Other current assets	**4.8**		.9	
Accounts payable, accrued expenses and other		**1.1**		1.1
	$ 21.6	**$ 104.4**	$ 10.0	$ 108.6
Economic hedges:				
Interest-rate contracts:				
Financial Services:				
Deferred taxes and other liabilities		**$ 3.8**		$ 3.5
Foreign-exchange contracts:				
Truck and Other:				
Other current assets	**$ .1**		$ .1	
Accounts payable, accrued expenses and other		**.2**		.3
Financial Services:				
Deferred taxes and other liabilities				.2
	$ .1	**$ 4.0**	$ .1	$ 4.0

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Fair Value Hedges

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. The (income) or expense recognized in earnings related to fair value hedges was included in Interest and other borrowing expenses in the Financial Services segment as follows:

Three Months Ended March 31	2011	2010
Interest-rate swaps	**$ 1.5**	$ (1.0)
Term notes	**$ (1.6)**	$ 1.1

Cash Flow Hedges

The majority of the Company s interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in Accumulated other comprehensive income to the extent such hedges are considered effective.

Amounts in Accumulated other comprehensive income are reclassified into net income in the same period in which the hedged transaction affects earnings. Net realized gains and losses from interest-rate contracts are recognized as an adjustment to interest expense. Net realized gains and losses from foreign-exchange contracts are recognized as an adjustment to cost of sales or to Financial Services interest expense, consistent with the hedged transaction. For the three months ended March 31, 2011 and 2010, the Company recognized gains on the ineffective portion of $.4 and nil, respectively.

The following table presents the pre-tax effects of derivative instruments recognized in earnings and Other Comprehensive Income (OCI):

Three Months Ended March 31	2011		2010	
	Interest-rate Contracts	**Foreign-exchange Contracts**	Interest-rate Contracts	Foreign-exchange Contracts
Loss (gain) recognized in OCI:				
Truck and Other:		**$ (4.6)**		$ .5
Financial Services:	**$ (.6)**		$ 18.0	
	$ (.6)	**$ (4.6)**	$ 18.0	$ .5
Expense reclassified from Accumulated OCI into income:				
Truck and Other:				
Cost of sales		**$ .5**		$ .1
Interest and other expense, net				.4

Financial Services:				
Interest and other borrowing expenses	**$ 13.9**		$ 31.1	
	$ 13.9	**$ .5**	$ 31.1	$ .5

Of the $4.8 accumulated net loss on derivative contracts included in accumulated other comprehensive loss as of March 31, 2011, $39.5 of losses, before tax effects, is expected to be reclassified to interest expense or cost of sales in the following 12 months. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company s risk management strategy.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Economic Hedges

For other risk management purposes, the Company enters into derivative instruments not designated as hedges that do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of market volatility arising from borrowings and foreign currency denominated transactions. Changes in the fair value of economic hedges are recorded in earnings in the period in which the change occurs.

The (income) or expense recognized in earnings related to economic hedges is as follows:

Three Months Ended March 31	2011		2010	
	Interest-rate Contracts	Foreign-exchange Contracts	Interest-rate Contracts	Foreign-exchange Contracts
Truck and Other:				
Cost of sales and revenues		$ .1		$ .3
Interest and other expense, net			$ 1.5	6.4
Financial Services:				
Interest and other borrowing expenses (income)	$ .3	(.1)	(5.3)	(.1)
	$ .3		$ (3.8)	$ 6.6

NOTE K Fair Value Measurements

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

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.

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.

The Company uses the following methods and assumptions to measure fair value for assets and liabilities subject to recurring fair value measurements.

Marketable Securities: The Company s marketable debt securities consist of municipal bonds, government obligations, investment-grade corporate obligations, commercial paper, asset-backed securities and term deposits. The fair value of U.S. government obligations is based on quoted prices in active markets. These are categorized as Level 1. The fair value of non U.S. government bonds,

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

municipal bonds, corporate bonds, asset-backed securities, commercial paper and term deposits is estimated using an industry standard valuation model, which is based on the income approach. The significant inputs into the valuation model include quoted interest rates, yield curves, credit rating of the security and other observable market information. These are categorized as Level 2.

Derivative Financial Instruments: The Company s derivative contracts consist of interest-rate swaps, cross currency swaps and foreign currency exchange contracts. These derivative contracts are over the counter and their fair value is determined using industry standard valuation models, which are based on the income approach. The significant inputs into the valuation models include market inputs such as interest rates, currency exchange rates, credit default swap spreads, and forward rates. These contracts are categorized as Level 2.

The Company s financial assets and liabilities subject to recurring fair value measurements are either Level 1 or Level 2 as follows:

At March 31, 2011	Level 1	Level 2	Total
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		**$ 382.2**	**$ 382.2**
U.S. government and agency securities	**$ 2.7**		**2.7**
U.S. corporate securities		**37.2**	**37.2**
Non U.S. corporate securities		**177.5**	**177.5**
Non U.S. government securities		**343.9**	**343.9**
Other		**58.2**	**58.2**
Total marketable debt securities	**$ 2.7**	**$ 999.0**	**$ 1,001.7**
Derivatives			
Interest-rate swaps		**$ 10.7**	**$ 10.7**
Cross currency swaps		**6.1**	**6.1**
Foreign-exchange contracts		**4.9**	**4.9**
Total derivative assets		**$ 21.7**	**$ 21.7**
Liabilities:			
Derivatives			
Interest-rate swaps		**$ 26.0**	**$ 26.0**
Cross currency swaps		**81.1**	**81.1**
Foreign-exchange contracts		**1.3**	**1.3**
Total derivative liabilities		**$ 108.4**	**$ 108.4**

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

At December 31, 2010	Level 1	Level 2	Total
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 365.4	$ 365.4
U.S. government and agency securities	$ 2.7		2.7
U.S. corporate securities		27.6	27.6
Non U.S. corporate securities		37.0	37.0
Other		17.8	17.8
Total marketable debt securities	$ 2.7	$ 447.8	$ 450.5
Derivatives			
Interest-rate swaps		$ 5.8	$ 5.8
Cross currency swaps		3.3	3.3
Foreign-exchange contracts		1.0	1.0
Total derivative assets		$ 10.1	$ 10.1
Liabilities:			
Derivatives			
Interest-rate swaps		$ 37.2	$ 37.2
Cross currency swaps		73.8	73.8
Foreign-exchange contracts		1.6	1.6
Total derivative liabilities		$ 112.6	$ 112.6

Other assets that are measured at fair value on a nonrecurring basis are as follows:

	March 31 2011 Level 2	December 31 2010 Level 2
Impaired loans:		
Financial Services	**$ 43.9**	$ 33.2
Used trucks held for sale:		
Truck and Other	**$ 21.9**	$ 20.0
Financial Services	**39.6**	38.2
	$ 61.5	$ 58.2

The carrying amount of used trucks held for sale and the collateral dependent impaired loans are adjusted when appropriate to reflect their fair value. The fair value of used trucks and collateral dependent impaired loans are determined from a matrix pricing model, which is based on the market approach. The significant observable inputs into the valuation model are recent sales prices of comparable units, the condition of the vehicles, and the number of similar units to be sold.

There were no write-downs of used trucks held for sale during the quarter ended March 31, 2011.

The Company used the following methods and assumptions to determine the fair value of financial instruments that are not recognized at fair value as described below.

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Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Cash and Cash Equivalents: Carrying amounts approximate fair value.

Financial Services Net Receivable: For floating-rate loans, wholesale financing, and interest and other receivables, fair values approximate carrying values. For fixed-rate loans that are not impaired, fair values are estimated using discounted cash flow analysis based on current rates for comparable loans. Finance lease receivables and the related loss provisions have been excluded from the accompanying table.

Debt: The carrying amounts of financial services commercial paper, variable-rate bank loans and variable-rate term notes approximate fair value. For fixed-rate debt, fair values are estimated using discounted cash flow analysis based on current rates for comparable debt.

Trade Receivables and Payables: Carrying amounts approximate fair value.

Fixed-rate loans and debt that are not carried at approximate fair value at March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets:				
Financial Services fixed-rate loans	**$ 2,487.9**	**$ 2,531.0**	$ 2,444.1	$ 2,483.3
Liabilities:				
Truck and Other fixed-rate debt	**174.2**	**194.6**	173.5	196.9
Financial Services fixed-rate debt	**1,922.8**	**2,015.3**	1,870.7	1,967.9

NOTE L Employee Benefit Plans

The Company 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 March 31	**2011**	2010
Service cost	**$ 11.1**	$ 9.4
Interest on projected benefit obligation	**19.9**	19.1
Expected return on assets	**(26.2)**	(24.2)
Amortization of prior service costs	**.4**	.5
Recognized actuarial loss	**6.4**	3.6
Net pension expense	**$ 11.6**	$ 8.4

During the first three months of 2011, the Company contributed $4.1 to its pension plans.

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

PACCAR is a global technology company whose Truck segment includes the design, manufacture and distribution of high-quality, light-, medium- and heavy-duty commercial trucks and related aftermarket parts. In North America, trucks are sold under the Kenworth and Peterbilt nameplates, in Europe, under the DAF nameplate and in Australia under the Kenworth and DAF nameplates. The Company s Financial Services segment (PFS) derives its earnings primarily from financing or leasing PACCAR products in the U.S., Canada, Mexico, Europe and Australia. The Company s Other business is the manufacturing and marketing of industrial winches.

Consolidated net sales and revenues in the first quarter of 2011 were $3.28 billion, an increase of $1.05 billion from $2.23 billion in the first quarter of 2010. The increase is mainly due to higher truck deliveries and aftermarket parts sales in the Company s primary markets from improving economic conditions. Truck unit sales increased in the first quarter of 2011 to 27,500 units from 16,500 units in the first quarter of 2010. Aftermarket parts sales in the first quarter of 2011 increased to $620.2 million from $505.2 million in the first quarter of 2010.

First quarter 2011 net income increased to $193.3 million ($.53 per diluted share) compared to $68.3 million ($.19 per diluted share) in the first quarter of 2010. The increase was due to higher sales and margins in the Truck segment and improved Financial Services segment results from higher finance and lease margins and a lower provision for losses on receivables.

First quarter 2011 total net sales and revenues and income before income taxes were positively affected by the translation of stronger foreign currencies, primarily the Australian and Canadian dollars and the British pound. The translation effect increased first quarter 2011 net sales and revenues by $16.7 million and income before income taxes by $5.7 million.

Truck Outlook

Improving economic conditions are expected to result in an increase in the Company s truck production and aftermarket parts sales. Industry retail sales for the heavy-duty truck market in the U.S. and Canada are expected to be in the range of 200,000 220,000 units, up 60% to 75% from 2010. In Europe, the 2011 market size of above 15-tonne vehicles is expected to be in the range of 220,000 240,000 units, up 20% to 30% from 2010. There are industry concerns about suppliers being able to increase their production capacity in order to meet global demand, which could reduce the rate of growth in industry truck production. The Company s capital spending in 2011 is expected to increase to $400 to $500 million reflecting the acceleration of product development programs and South American expansion. Spending on Research and Development (R&D) in 2011 is expected to be $275 to $300 million, focusing on manufacturing efficiency improvements, engine development and new product programs. See the Forward Looking Statement section of Management s Discussion and Analysis for factors that may affect this outlook.

Financial Services Outlook

Average earning assets in 2011 are expected to grow approximately 10% from 2010 from increased new business financing due to improving truck markets. The Company s customers are benefiting from increased freight tonnage and rates that are contributing to improvements in customer s productivity as well as profitability. If the improved economic conditions continue, it may lead to lower levels of past-due accounts, truck repossessions and net charge-offs. See the Forward Looking Statement section of Management s Discussion and Analysis for factors that may affect this outlook.

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RESULTS OF OPERATIONS:

Three Months Ended March 31	**2011**	2010
Net sales and revenues:		
Truck	**$ 3,018.1**	$ 1,965.7
Other	**24.5**	18.6
Truck and other	**3,042.6**	1,984.3
Financial Services	**241.0**	246.4
	$ 3,283.6	$ 2,230.7
Income (loss) before taxes:		
Truck	**$ 240.7**	$ 66.6
Other	**(12.7)**	(3.2)
Truck and other	**228.0**	63.4
Financial Services	**50.3**	28.1
Investment Income	**8.0**	4.5
Income taxes	**(93.0)**	(27.7)
Net income	**$ 193.3**	$ 68.3
Diluted earnings per share	**$ .53**	$ .19
Return on Revenues	**5.9%**	3.1%

The following provides an analysis of the results of operations for the two reportable segments. Where possible, the Company has quantified the factors identified in the following discussion and analysis. In cases where it is not possible to quantify the impact of factors, the Company lists them in estimated order of importance. Factors for which the Company is unable to specifically quantify the impact include market demand, fuel prices, freight tonnage and economic conditions affecting the Company s results of operations.

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2011 Compared to 2010:

Truck

The Company s truck segment accounted for 92% of revenues in the first quarter of 2011 compared to 88% in the first quarter of 2010.

Three Months Ended March 31	2011	2010	% Change
Truck net sales and revenues:			
U.S. and Canada	**$ 1,445.6**	$ 1,006.7	44
Europe	**1,108.5**	695.9	59
Mexico, Australia and Other	**464.0**	263.1	76
	$ 3,018.1	$ 1,965.7	54
Truck income before income taxes	**$ 240.7**	$ 66.6	261

The Company s worldwide truck sales and revenues of $3.02 billion in the first quarter of 2011 increased 54% compared to the first quarter of 2010 due to higher market demand in all markets attributable to improving global economic conditions.

Truck segment income before income taxes increased to $240.7 million in the first quarter of 2011 from $66.6 million in the first quarter of 2010. The increase was due to higher truck unit sales and margins and higher aftermarket parts sales and margins, partially offset by increases in R&D and Selling, general and administrative (SG&A) expenses from a higher level of business activity.

The Company s new truck deliveries are summarized below:

Three Months Ended March 31	2011	2010	% Change
United States	**10,000**	7,000	43
Canada	**2,000**	1,700	18
U.S. and Canada	**12,000**	8,700	38
Europe	**11,600**	5,900	97
Mexico, Australia and Other	**3,900**	1,900	105
Total units	**27,500**	16,500	67

Sales and revenues in the U.S. and Canada during the first quarter of 2011 increased 44% compared to the first quarter of 2010 primarily due to a 38% increase in new truck deliveries. The truck market in the U.S. and Canada continues to improve from the recessionary levels of 2010 on higher freight volumes and the need to replace an aging truck fleet. Industry retail sales in the heavy-duty market in the U.S. and Canada increased 31% to 36,500 units in the first quarter of 2011 from 27,800 units in the first quarter of 2010. The Company s heavy-duty truck market share was 22.8% in the first quarter of 2011 compared to 23.3% in the first quarter of 2010.

In the first quarter of 2011, European net sales and revenues increased to $1.11 billion from $695.9 million in 2010. The higher net sales and revenues resulted from higher truck market demand, partially offset by lower truck market share and a weaker euro. The 15-tonne and above truck market size in Western and Central Europe increased to 59,700 units in the first quarter of 2011 from 37,400 units in the first quarter of 2010. The Company s market share was 15.7% in the first quarter of 2011 compared to 16.9% in the first quarter of 2010.

Sales and revenues in Mexico, Australia and export markets increased 76% to $464.0 million in the first quarter of 2011 primarily due to higher new truck deliveries and aftermarket parts sales in Mexico and Latin America.

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The major factors for the changes in net sales and revenues, cost of sales and revenues, and gross margin are as follows:

	Net Sales	Cost of Sales	Gross Margin
Three Months Ended March 31, 2010	$ 1,965.7	$ 1,752.1	$ 213.6
Increase (decrease)			
Truck delivery volume	732.0	617.0	115.0
Average truck sales prices	192.9		192.9
Average per truck material, labor and other direct costs		113.2	(113.2)
Factory overhead, warehouse and other indirect costs		55.8	(55.8)
Aftermarket parts volume	94.9	56.6	38.3
Average aftermarket parts sales prices	17.8		17.8
Average aftermarket parts direct costs		6.9	(6.9)
Currency translation	14.8	9.9	4.9
Total increase	1,052.4	859.4	193.0
Three Months Ended March 31, 2011	**$ 3,018.1**	**$ 2,611.5**	**$ 406.6**

Truck delivery volume increased to 27,500 units in the first quarter of 2011 from 16,500 units in the first quarter of 2010 which resulted in $732.0 million in higher sales and $617.0 million in higher cost of sales. The higher truck delivery volume reflects improved market demand which also resulted in increased sales of $192.9 million from higher average truck sales prices. Cost of sales increased $113.2 million due to a higher average cost per truck, primarily from the effect of higher content EPA 2010 emission vehicles in the U.S. and Canada. Factory overhead, warehouse and other indirect costs increased $55.8 million primarily due to higher salaries and related costs ($22.3 million) and manufacturing supplies and maintenance ($18.8 million) to support higher production levels. Higher market demand also increased aftermarket parts sales volume by $94.9 million and related cost of sales by $56.6 million. Average aftermarket parts sales prices increased by $17.8 million reflecting improved price realization. The currency translation effect on sales and cost of sales reflects a stronger Australian dollar, Canadian dollar and British pound that were partially offset by a weaker euro.

Net sales and revenues and gross margins for truck units and aftermarket parts are provided below. The aftermarket parts gross margin includes direct revenues and costs, but excludes certain truck segment costs.

Three Months Ended March 31	**2011**	2010	% Change
Net sales and revenues:			
Trucks	**$ 2,397.9**	$ 1,460.5	64
Aftermarket parts	**620.2**	505.2	23
	$ 3,018.1	$ 1,965.7	54
Gross Margin:			
Trucks	**187.4**	43.4	*
Aftermarket parts	**219.2**	170.2	29
	$ 406.6	$ 213.6	90

* percentage not meaningful

Gross Margin %:

Trucks	**7.8%**	3.0%
Aftermarket parts	**35.3%**	33.7%
Truck segment	**13.5%**	10.9%

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Total truck segment gross margins for the first quarter of 2011 increased to 13.5% from 10.9% in the first quarter of 2010. The increase in gross margins reflects higher truck and parts gross margins of 7.8% and 35.3% in the first quarter of 2011 from 3.0% and 33.7% in the first quarter of 2010, respectively. Truck gross margins in 2011 reflect the benefits of higher market demand and increased absorption of fixed costs from higher truck production. Aftermarket parts gross margins in 2011 benefited from higher price realization from improved market demand.

Truck R&D expenditures in the first quarter of 2011 increased to $68.4 million from $54.8 million in 2010. The higher spending reflects increased new product development activities, primarily new truck products for North America and Europe.

Truck SG&A was $97.9 million in the first quarter of 2011 compared to $90.3 million in 2010. The higher spending is primarily due to higher salaries and related expenses ($7.7 million). As a percentage of sales, SG&A decreased to 3.2% in the first quarter of 2011 from 4.6% in the first quarter of 2010 due to the higher sales volumes.

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Financial Services

Three Months Ended March 31	**2011**	2010	% Change
New loan and lease volume:			
U.S. and Canada	**$ 368.3**	$ 252.3	46
Europe	**230.5**	117.3	97
Mexico and Australia	**122.7**	85.0	44
	$ 721.5	$ 454.6	59
New loan and lease volume by product:			
Loans and finance leases	**$ 532.9**	$ 342.3	56
Equipment on operating leases	**188.6**	112.3	68
	$ 721.5	$ 454.6	59
New loan and lease unit volume:			
Loans and finance leases	**6,172**	4,281	44
Equipment on operating leases	**1,884**	1,182	59
	8,056	5,463	47
Average earning assets:			
U.S. and Canada	**$ 4,182.3**	$ 4,518.1	(7)
Europe	**2,060.5**	2,124.0	(3)
Mexico and Australia	**1,419.5**	1,278.3	11
	$ 7,662.3	$ 7,920.4	(3)
Average earning assets by product:			
Loans and finance leases	**$ 5,123.2**	$ 5,377.3	(5)
Dealer wholesale financing	**971.3**	958.2	1
Equipment on lease and other	**1,567.8**	1,584.9	(1)
	$ 7,662.3	$ 7,920.4	(3)
Revenue:			
U.S. and Canada	**$ 117.5**	$ 125.7	(7)
Europe	**72.7**	73.3	(1)
Mexico and Australia	**50.8**	47.4	7
	$ 241.0	$ 246.4	(2)
Revenue by product:			