

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2001

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20797

**RUSH ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

**74-1733016**  
(I.R.S. Employer  
Identification No.)

**555 I.H. 35 South Suite 500**  
**New Braunfels, Texas 78130**  
(Address of principal executive offices)  
(Zip Code)

**(830) 626-5200**  
(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  No

Indicated below is the number of shares outstanding of the registrant's only class of common stock, as of November 13, 2001.

<u>Title of Class</u>	<u>Number of Shares Outstanding</u>
Common Stock, \$.01 Par Value	7,002,044

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**

**INDEX**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

[Consolidated Balance Sheets – September 30, 2001 \(unaudited\) and December 31, 2000.](#)

[Consolidated Statements of Income - For the Three and Nine Months Ended September 30, 2001 and 2000 \(unaudited\).](#)

[Consolidated Statements of Cash Flows - For the Nine Months Ended September 30, 2001 and 2000 \(unaudited\).](#)

[Notes to Consolidated Financial Statements \(unaudited\).](#)

[Item 2. Management's Discussion and Analysis of Financial Condition](#)

**PART II. OTHER INFORMATION****SIGNATURES****RUSH ENTERPRISES, INC., AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Shares and Per Share Amounts)

	<b>September 30, 2001 (Unaudited)</b>	<b>December 31, 2000 (Audited)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 21,264	\$ 18,892
Accounts receivable, net	19,391	20,350
Inventories	122,846	177,415
Prepaid expenses and other	1,249	3,800
Deferred income taxes	1,254	1,867
Total current assets	166,004	222,324
PROPERTY AND EQUIPMENT, net	128,165	130,532
OTHER ASSETS, net	38,237	37,885
Total assets	<u>\$ 332,406</u>	<u>\$ 390,741</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Floor plan notes payable	\$ 90,952	\$ 146,272
Current maturities of long-term debt	9,103	11,379
Advances outstanding under lines of credit	26,034	33,779
Trade accounts payable	13,783	14,157
Accrued expenses	17,524	17,409
Total current liabilities	157,396	222,996
LONG-TERM DEBT, net of current maturities	82,653	79,607
DEFERRED INCOME TAXES, net	11,498	9,961
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, par value \$.01 per share; 1,000 shares authorized; 0 shares outstanding in 2001 and 2000	-	-
Common stock, par value \$.01 per share; 25,000,000 shares authorized; 7,002,044 shares outstanding - 2001 and 2000	70	70
Additional paid-in capital	39,155	39,155
Retained earnings	41,634	38,952
Total shareholders' equity	80,859	78,177
Total liabilities and shareholders' equity	<u>\$ 332,406</u>	<u>\$ 390,741</u>

The accompanying notes are an integral part of these consolidated financial statements.

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In Thousands, Except Earnings Per Share - Unaudited)

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
<b>REVENUES:</b>				
New and used truck sales	\$ 102,646	\$ 144,128	\$ 339,415	\$ 444,652

Parts and service	52,381	47,693	149,571	133,346
Construction equipment sales	20,626	18,388	52,556	56,799
Lease and rental	7,050	7,845	20,729	22,196
Finance and insurance	1,509	1,278	4,294	6,503
Retail sales	9,967	7,334	29,605	19,381
Other	988	258	2,778	2,468
<b>TOTAL REVENUES</b>	<b>195,167</b>	<b>226,924</b>	<b>598,948</b>	<b>685,345</b>
<b>COST OF PRODUCTS SOLD</b>	<b>156,739</b>	<b>186,009</b>	<b>486,107</b>	<b>568,260</b>
<b>GROSS PROFIT</b>	<b>38,428</b>	<b>40,915</b>	<b>112,841</b>	<b>117,085</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE</b>	<b>31,420</b>	<b>30,935</b>	<b>91,758</b>	<b>90,952</b>
<b>DEPRECIATION AND AMORTIZATION</b>	<b>2,664</b>	<b>2,502</b>	<b>7,979</b>	<b>6,829</b>
<b>OPERATING INCOME</b>	<b>4,344</b>	<b>7,478</b>	<b>13,104</b>	<b>19,304</b>
<b>INTEREST INCOME (EXPENSE)</b>	<b>(2,585)</b>	<b>(4,426)</b>	<b>(9,505)</b>	<b>(11,637)</b>
<b>GAIN ON SALE OF ASSETS</b>	<b>18</b>	<b>445</b>	<b>871</b>	<b>512</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,777</b>	<b>3,497</b>	<b>4,470</b>	<b>8,179</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>711</b>	<b>1,399</b>	<b>1,788</b>	<b>3,272</b>
<b>NET INCOME</b>	<b>\$ 1,066</b>	<b>\$ 2,098</b>	<b>\$ 2,682</b>	<b>\$ 4,907</b>
<b>EARNINGS PER SHARE:</b>				
Basic	\$ 0.15	\$ 0.30	\$ 0.38	\$ 0.70
Diluted	\$ 0.15	\$ 0.30	\$ 0.38	\$ 0.70
<b>Weighted average shares outstanding</b>				
Basic	7,002	7,002	7,002	7,002
Diluted	7,142	7,002	7,069	7,030

The accompanying notes are an integral part of these consolidated financial statements.

## RUSH ENTERPRISES, INC., AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)  
(Unaudited)

	Nine months ended September 30,	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,682	\$ 4,907
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	12,013	9,738
Gain on sale of property and equipment	(1,320)	(803)
Provision for deferred income tax expense	2,150	2,626
Change in accounts receivable, net	980	1,354
Change in inventories	56,543	(12,855)
Change in prepaid expenses and other	2,567	(36)
Change in trade accounts payable	(374)	797
Change in accrued expenses	20	(4,195)
Net cash provided by operating activities	75,261	1,533
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(11,482)	(29,330)
Proceeds from the sale of property and equipment	5,127	2,785
Business acquisitions	(2,791)	(2,236)
Change in other assets	(129)	(459)
Net cash used in investing activities	(9,275)	(29,240)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	16,667	23,075

Payments on long-term debt	(15,897)	(32,991)
Draws (payments) on lines of credit, net	(7,745)	19,766
Draws (payments) on floor plan notes payable, net	(56,639)	11,298
Net cash (used in) provided by financing activities	(63,614)	21,148
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,372	(6,559)
CASH AND CASH EQUIVALENTS, beginning of period	18,892	20,004
CASH AND CASH EQUIVALENTS, end of period	\$ 21,264	\$ 13,445
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for-		
Interest	\$ 10,762	\$ 13,933
Income taxes	\$ 376	\$ 3,155

The accompanying notes are an integral part of these consolidated financial statements.  
**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1 - Principles of Consolidation and Basis of Presentation**

The interim consolidated financial statements included herein have been prepared by Rush Enterprises, Inc. and its subsidiaries (collectively referred to as the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). All adjustments have been made to the accompanying interim consolidated financial statements, which, in the opinion of the Company's management, are necessary for a fair presentation of the Company's operating results. All adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. It is recommended that these interim consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Results of operations for interim periods are not necessarily indicative of results that may be expected for any other interim periods or the full fiscal year.

**2 - Commitments and Contingencies**

The Company is contingently liable to certain finance companies for certain promissory notes and finance contracts, related to the sale of trucks and construction equipment, sold to such finance companies. The Company's recourse liability related to sold finance contracts is limited to 15 to 25 percent of the outstanding balance of each note sold to a finance company, with the aggregate recourse liability, net of interest chargebacks, limited to \$1,250,000. In addition, the Company provides an allowance for repossession losses and early repayment penalties.

The Company is involved in various claims and legal actions arising in the ordinary course of business. The Company believes it is unlikely that the final outcome of any of the claims or proceedings to which the Company is a party would have a material adverse effect on the Company's financial position or results of operations; however, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company's results of operations for the fiscal period in which such resolution occurred.

The Company has consulting agreements with individuals for an aggregate monthly payment of approximately \$36,000. The agreements expire in December 2001.

**3 - Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Numerator:				
Net income- numerator for basic and diluted earnings per share	\$ 1,066,000	\$ 2,098,000	\$ 2,682,000	\$ 4,907,000
Denominator:				
Denominator for basic earnings per share- weighted average shares	7,002,044	7,002,044	7,002,044	7,002,044
Effect of dilutive securities:				
Employee and Director stock options	139,636	-	67,250	27,508
Denominator for diluted earnings per share-adjusted weighted average shares	7,141,680	7,002,044	7,069,294	7,029,552
Basic earnings per share	\$ .15	\$ .30	\$ .38	\$ .70
Diluted earnings per share	\$ .15	\$ .30	\$ .38	\$ .70

#### 4 - Segment Information

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information". This statement requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise and in condensed financial statements of interim periods issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers.

The Company has three reportable segments: the Heavy-Duty Truck segment, the Construction Equipment segment and the Retail Center segment. The Heavy-duty Truck segment operates a regional network of truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks, after-market parts, service and body shop facilities, and a wide array of financial services, including the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Construction Equipment segment, operates full-service John Deere dealerships that serve the Houston, Texas Metropolitan and surrounding areas and a majority of the counties in Michigan. Dealership operations include the retail sale of new and used equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used equipment. The Retail Center segment (D&D) operates three farm and ranch retail locations in the San Antonio, Houston and Dallas/Fort Worth, Texas areas, and offers its products through both catalogue and online sales. D&D, a one-stop shopping center for farm and ranch supplies, sells inventory which includes hardware, lawn and garden tools and machines, tack, veterinary supplies, fencing, livestock feed, guards, gates, shoots and trailers, saddles, boots and designer western wear and jewelry as well as many other farm and ranch supplies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. The Company evaluates performance based on income before income taxes not including extraordinary items.

The Company accounts for inter-segment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. There were no material inter-segment sales during the nine months ended September 30, 2001 and 2000.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Business units were maintained through expansion and acquisitions. The following table contains summarized information about reportable segment profit or loss and segment assets, for the three and nine months ended September 30, 2001 and 2000 (in thousands):

	<b>Heavy-Duty Truck Segment</b>	<b>Construction Equipment Segment</b>	<b>Retail Center Segment</b>	<b>All Other</b>	<b>Totals</b>
<i>Three months ended September 30, 2001</i>					
Revenues from external customers	\$ 154,770	\$ 28,386	\$ 10,007	\$ 2,004	\$ 195,167
Segment income (loss) before taxes	2,040	237	(557)	57	1,777
Segment assets	243,433	48,728	31,326	8,919	332,406
<i>Nine months ended September 30, 2001</i>					
Revenues from external customers	\$ 488,314	\$ 74,905	\$ 29,645	\$ 6,084	\$ 598,948
Segment income (loss) before taxes	5,658	158	(1,858)	512	4,470
Segment assets	243,433	48,728	31,326	8,919	332,406
<i>Three months ended September 30, 2000</i>					
Revenues from external customers	\$ 189,805	\$ 27,419	\$ 7,334	\$ 2,366	\$ 226,924
Segment income (loss) before taxes	3,768	73	(531)	187	3,497
Segment assets	290,263	66,221	25,947	8,577	391,008
<i>Nine months ended September 30, 2000</i>					
Revenues from external customers	\$ 577,376	\$ 82,041	\$ 19,381	\$ 6,547	\$ 685,345
Segment income (loss) before taxes	8,375	422	(1,220)	602	8,179
Segment assets	290,263	66,221	25,947	8,577	391,008

Revenues from segments below the reportable quantitative thresholds are attributable to three operating segments of the Company. Those segments include a tire company, an insurance company, and a hunting lease operation. None of these segments have ever met any of the quantitative thresholds for determining reportable segments.

#### 5 - Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, "Business Combinations." Statement No. 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations," and Statement No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of Statement No. 141 are to be accounted for using the purchase method. The provisions of Statement No. 141 apply to all business combinations initiated after June 30, 2001 and applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. We have reviewed the requirements of Statement No. 141 and will implement the Statement effective July 1, 2001.

Also in June 2001, the FASB issued Statement NO. 143, "Accounting for Asset Retirement Obligations." FASB 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The statement requires that the amount recorded as a liability be capitalized by increasing the carrying amount of the related long-lived asset. Subsequent to initial measurement, the liability is accreted to the ultimate amount anticipated to be paid, and is also adjusted for revisions to the timing or amount of estimated cash flows. The capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. FASB 143 will be effective for financial statements beginning January 1, 2003, with earlier application encouraged. The Company is currently evaluating the impact on its financial statements of adopting of this statement.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and establishes accounting standards for the impairment and disposal of long-lived assets and criteria for determining when a long-lived asset is held for sale. The statement removes the requirement to allocate goodwill to long-lived assets to be tested for impairment, requires that the depreciable life of a long-lived asset to be abandoned be revised in accordance with APB Opinion No. 20, "Accounting Changes," provides that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired and broadens the presentation of discontinued operations to include more disposal transactions. FASB 144 will be effective for financial statements beginning January 1, 2002, with earlier application encouraged. The Company is currently evaluating the impact on its financial statements of adopting this statement.

Also in June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." Statement No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of Statement No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001. This Statement is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of Statement No. 142 are to be reported as resulting from a change in accounting principle. We have reviewed the requirements of Statement No. 142 and the impact of adoption effective January 1, 2002 will result in the cessation of goodwill amortization which approximates \$1.4 million annually. In addition, we believe that future reported net income may be more volatile because impairment losses related to goodwill could occur irregularly and in varying amounts.

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

Certain statements contained in this Form 10-Q are "forward-looking statements" within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. Specifically, all statements other than statements of historical fact included in this Form 10-Q regarding the Company's financial position, business strategy and plans and objectives of management of the Company for future operations are forward-looking statements. These forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, cyclicalities, economic conditions in the new and used truck and equipment markets, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in the Company's Registration Statement on Form S-1 (File No. 333-03346) and in the Company's annual, quarterly and other reports filed with the Securities and Exchange Commission (collectively, "cautionary statements"). Although the Company believes that its expectations are reasonable, it can give no assurance that such expectations will prove to be correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, or intended. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements. The Company does not intend to update these forward-looking statements.

The following comments should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

### **General**

Rush Enterprises, Inc. was incorporated in Texas in 1965 and currently consists of three reportable segments: the Heavy Duty Truck segment, the Construction Equipment segment and the Retail Center segment.

The Heavy Duty Truck segment operates a regional network of 38 truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; after-market parts, service and body shop facilities; and a wide array of financial services, including the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Company's truck centers are strategically located in high truck traffic areas on or near major highways in Texas, California, Oklahoma, Colorado, Louisiana, Arizona and New Mexico. The Company is the largest Peterbilt truck dealer in the United States, representing approximately 17.8% of all new Peterbilt truck sales in 2000, and is the sole authorized vendor for new

Peterbilt trucks and replacement parts in its market areas. The Company was named Peterbilt Dealer of the Year for North America for the 1993-1994 and 2000-2001 years. The criteria used to determine the recipients of this award include, among others, image, customer satisfaction, sales activity and profitability.

Since commencing operations as a John Deere construction equipment dealer in 1997, the Company has grown to operate seven Rush Equipment Centers located in Texas and Michigan. The Company provides a full line of construction equipment for light to medium sized applications, with the primary products including John Deere backhoe loaders, hydraulic excavators, crawler dozers and four wheel drive loaders. Dealership operations include the retail sale of new and used construction equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used construction equipment. The Company believes the construction equipment industry is highly-fragmented and offers opportunities for consolidation. As a result, the Company's growth strategy is to realize economies of scale, favorable purchasing power, and cost savings by developing a network of John Deere dealerships through acquisitions and growth inside existing territories. There can be no assurance that, as the Company continues to develop a network of construction equipment dealerships, that it will realize economies of scale, favorable purchasing power or cost savings.

Since acquiring D & D Farm and Ranch Supermarket, Inc. in 1998, the Company has grown to operate three Rush Retail Centers located in the greater San Antonio, Houston and Dallas/Fort Worth, Texas areas, as well as offering its products through both catalogue and online sales. D&D, a one-stop shopping center for farm and ranch supplies, sells inventory which includes hardware, lawn and garden tools and machines, tack, veterinary supplies, fencing, livestock feed, guards, gates, shoots and trailers, saddles, boots and designer western wear and jewelry as well as many other farm and ranch supplies.

In August 2001, the Company purchased substantially all the assets of El Paso Great Basin Trucks, Inc., which consisted of two dealership locations in El Paso, Texas and Las Cruces, New Mexico. The transaction was valued at approximately \$2.5 million with the purchase price paid in cash.

In September 2000, the Company purchased the assets of Smith Brothers Catalogs, Inc., and its' online western superstore located at Smithbros.com. The acquisition provides Rush with Smith Brothers' inventory, fixed assets, list of over 120,000 customers and the technology to offer D&D's expansive inventory through a catalogue and online sales. Smith Brothers is located in the greater Dallas/Fort Worth area. The transaction was valued at approximately \$2.3 million with the purchase price paid in cash.

## Results of Operations

The following discussion and analysis includes the Company's historical results of operations for the three and nine months ended September 30, 2001 and 2000.

The following table sets forth for the periods indicated certain financial data as a percentage of total revenues:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
New and used truck sales	52.6%	63.5%	56.7%	64.9%
Parts and service	26.8	21.0	25.0	19.5
Construction equipment sales	10.6	8.1	8.8	8.3
Lease and rental	3.6	3.5	3.5	3.2
Finance and insurance	0.8	0.6	0.7	0.9
Retail sales	5.1	3.2	4.9	2.8
Other	0.5	0.1	0.4	0.4
Total revenues	100.0	100.0	100.0	100.0
Cost of products sold	80.3	82.0	81.2	82.9
Gross profit	19.7	18.0	18.8	17.1
Selling, general and administrative expenses	16.1	13.6	15.3	13.3
Depreciation and amortization	1.4	1.1	1.3	1.0
Operating income	2.2	3.3	2.2	2.8
Interest expense	1.3	2.0	1.6	1.7
Gain on sale of assets	0.0	(0.2)	(0.1)	(0.1)
Income before income taxes	0.9	1.5	0.7	1.2
Provision for income taxes	0.4	0.6	0.3	0.5
Net income	0.5%	0.9%	0.4%	0.7%

### Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

#### Revenues

Revenues decreased by approximately \$31.8 million, or 14.0%, from \$226.9 million to \$195.2 million from the third quarter of 2000 to the third quarter of 2001. Sales of new and used trucks decreased by approximately \$41.5 million, or 28.8%, from \$144.1 million to \$102.7 million from the third quarter of 2000 to the third quarter of 2001. Unit sales of new trucks decreased by 36.0% while the new truck average revenue per unit increased slightly. The decrease in unit sales is due primarily to industry conditions. United States heavy-duty truck registrations have declined approximately 40% in 2001 compared to 2000. Unit sales of used trucks decreased 9.1%, and used truck average revenue per unit decreased by 2.5%. Average used truck prices decreased due to an excess supply of used truck inventory in the market.

Parts and service sales increased by approximately \$4.7 million, or 9.9%, from \$47.7 million to \$52.4 million. The increase was primarily related to same store growth.

Sales of new and used construction equipment increased approximately \$2.2 million, or 12.0%, from \$18.4 million to \$20.6 million from the third quarter of 2000 to the third quarter of 2001. The increase is primarily due to a large fleet sale made during the third quarter of 2001. Construction equipment unit sales in the United States have declined approximately 17% in 2001 compared to 2000.

Lease and rental revenues decreased by approximately \$0.8 million, or 10.3% from \$7.8 million to \$7.0 million. Lease and rental revenues related to the truck segment were up approximately \$0.5 million while construction equipment segment lease and rental revenues decreased \$1.3 million due to the Company's planned rental fleet reduction in its construction equipment operations.

Finance and insurance revenues increased by approximately \$0.2 million, or 15.4%, from \$1.3 million to \$1.5 million from the third quarter of 2000 to the third quarter of 2001. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Retail sales increased \$2.6 million or 35.6% primarily due to the opening of a Rush Retail Center in the greater Houston, Texas area during the second quarter of 2000.

#### *Gross Profit*

Gross profit decreased by approximately \$2.5 million, or 6.1%, from \$40.9 million to \$38.4 million from the third quarter of 2000 to the third quarter of 2001. Gross profit as a percentage of sales increased from 18.0% in the third quarter of 2000 to 19.7% in the third quarter of 2001. This increase is the result of a change in product mix. Increases in higher margin revenue categories, such as parts and service, and retail sales revenues, grew as a percentage of total revenues, while a lower margin revenue category, truck sales, decreased as a percentage of total revenues.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative, or SG&A, expenses increased by approximately \$0.5 million, from \$30.9 million to \$31.4 million, or 1.6%, from the third quarter of 2000 to the third quarter of 2001. Approximately \$1.6 million of 2001 SG&A expenses are directly related to new stores and facility expansions made subsequent to or during the third quarter of 2000. SG&A expenses, net of new store openings and facility expansions, decreased \$1.1 million or 3.5% from the third quarter of 2000 due to expense reduction actions taken in the latter half of 2000. Selling, general and administrative expenses as a percentage of sales increased from 13.6% to 16.1% from the third quarter of 2000 to the third quarter of 2001.

#### *Interest Expense*

Interest expense decreased by approximately \$1.8 million or 40.9%, from \$4.4 million to \$2.6 million, from the third quarter of 2000 to the third quarter of 2001, primarily as the result of decreased levels of floorplan indebtedness coupled with lower interest rates on the Company's variably financed debt.

#### *Gain on Sale of Assets*

The Company recorded a pretax gain of approximately \$0.4 million, during the third quarter of 2000. These gains are primarily related to the sale of excess real estate not needed for the operation of the business.

#### *Income before Income Taxes*

Income before income taxes decreased by \$1.7 million, or 48.6%, from \$3.5 million to \$1.8 million from the third quarter of 2000 to the third quarter of 2001, as a result of the factors described above.

#### *Income Taxes*

The Company has provided for taxes at a 40% effective rate.

### **Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000**

#### *Revenues*

Revenues decreased by approximately \$86.4 million, or 12.6%, from \$685.3 million to \$598.9 million from the first nine months of 2000 to the first nine months of 2001. Sales of new and used trucks decreased by approximately \$105.2 million, or 23.7%, from \$444.7 million to \$339.4 million from the first nine months of 2000 to the first nine months of 2001. Unit sales of new trucks decreased by 25.6% and new truck average revenue per unit increased by 1.8%. The decrease in unit sales is due primarily to industry conditions. United States heavy-duty truck registrations have declined approximately 40% in 2001 compared to 2000. Unit sales of used trucks decreased by 9.8% and used truck average revenue per unit decreased by 10.6%. Average used truck prices decreased due to an excess supply of used inventory in the market. The Company recognized a \$0.9 million loss provision during the first nine months of 2001 to increase the Company's reserve for truck valuation and repossession losses.

Parts and service sales increased by approximately \$16.3 million, or 12.2%, from \$133.3 million to \$149.6 million. The increase was primarily related to same store growth.

Sale of new and used construction equipment decreased approximately \$4.2 million, or 7.4% from \$56.8 million to \$52.6 million from the first nine months of 2000 to the first nine months of 2001. The decrease is primarily due to the construction equipment market declines in Texas and Michigan. Construction equipment unit sales in the United States have declined approximately 17% in 2001 compared to 2000.

Lease and rental revenues decreased by approximately \$1.5 million, or 6.8% from \$22.2 million to \$20.8 million. Lease and rental revenues related to the truck segment were up approximately \$0.8 million while construction equipment segment lease and rental revenues decreased \$2.3 million due to the Company's planned rental fleet reduction in its construction equipment operations.

Finance and insurance revenues decreased by approximately \$2.2 million, or 33.8%, from \$6.5 million to \$4.3 million from the first nine months of 2000 to the first nine months of 2001. The decrease is a result of there being proportionately fewer truck deliveries to owner operators, who are the customers most likely to purchase finance and insurance contracts, in comparison to truck deliveries to fleet customers. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Retail sales increased \$10.2 million or 52.6% from \$19.4 million to \$29.6 million from the first nine months of 2000 to the first nine months of 2001. The increase is primarily due to the opening of two Rush Retail Centers in the greater Houston and greater Dallas/Fort Worth, Texas areas, during the second quarter and third quarter of 2000, respectively.

#### *Gross Profit*

Gross profit decreased by approximately \$4.2 million, or 3.6%, from \$117.1 million to \$112.9 million from the first nine months of 2000 to the first nine months of 2001. Gross profit as a percentage of sales increased from 17.1% in the first nine months of 2000 to 18.8% in the first nine months of 2001. This increase is the result of a change in product mix. Increases in higher margin revenue categories, such as parts and service, and retail sales revenues, grew as a percentage of total revenues, while a lower margin revenue category, truck sales, decreased as a percentage of total revenues.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by approximately \$0.8 million, from \$91.0 million to \$91.8 million, or 0.9%, from the first nine months of 2000 to the first nine months of 2001. Approximately \$7.0 million of 2001 SG&A expenses are directly related to new stores and facility expansions made subsequent to or during the first nine months of 2000. SG&A expenses, net of new store openings and facility expansions, decreased \$6.2 million or 6.8% from the first nine months of 2000 due to expense reduction actions taken in the latter half of 2000. Selling, general and administrative expenses as a percentage of sales increased from 13.3% to 15.3% from the third quarter of 2000 to the third quarter of 2001.

#### *Interest Expense*

Interest expense decreased by approximately \$2.1 million from \$11.6 million to \$9.5 million, or 18.1%, from the first nine months of 2000 to the first nine months of 2001, primarily as the result of decreased levels of floorplan indebtedness coupled with lower interest rates on the Company's variably financed debt.

#### *Gain on Sale of Assets*

The Company recorded a pretax gain of approximately \$0.9 million and \$0.5 million during the first nine months of 2001 and 2000, respectively. These gains are primarily related to the sale of excess real estate not needed for the operation of the business.

#### *Income before Income Taxes*

Income before income taxes decreased by \$3.7 million, or 45.1% from \$8.2 million to \$4.5 million from the first nine months of 2000 to the first nine months of 2001, as a result of the factors described above.

#### *Income Taxes*

The Company has provided for taxes at a 40% effective rate.

### **Liquidity and Capital Resources**

The Company's short-term cash needs are primarily for working capital, including inventory requirements, expansion of existing facilities and the acquisition of new facilities. The Company currently has no plans to expand its existing facilities or acquire any new facilities. These short-term cash needs have historically been financed with retained earnings and borrowings under credit facilities available to the Company.

At September 30, 2001, the Company had working capital of approximately \$8.6 million, including \$21.2 million in cash and cash equivalents, \$19.4 million in accounts receivable, \$122.8 million in inventories, \$1.3 million in prepaid expenses, and \$1.3 million in deferred income taxes, less \$31.3 million of accounts payable and accrued expenses, \$35.1 million of current maturities on long-term debt and advances outstanding under lines of credit, and \$91.0 million outstanding under floor plan financing. The aggregate maximum borrowing limits under working capital lines of credit with its primary truck lender are approximately \$13.5 million. Advances on this line were \$12.7 million as of September 30, 2001. The Company has four separate secured lines-of-credit that provide for an aggregate maximum borrowing of \$26.5 million. Advances outstanding under these secured lines-of-credit in aggregate were \$13.3 million, leaving \$13.2 million available for future borrowings as of September 30, 2001.

For the first nine months of 2001, operating activities resulted in net cash provided by operations of approximately \$75.3 million. Net income of \$2.7 million, decreases in inventory, accounts receivable and other current assets of \$56.5 million, \$1.0 million and \$2.6 million, respectively, coupled with provisions for depreciation, amortization and deferred taxes totaling \$14.2 million more than offset a decrease in trade accounts payable totaling \$0.4 million and a gain on sale of property and equipment of \$1.3 million.

For the first nine months of 2000, operating activities resulted in net cash provided by operations of \$1.5 million. Net income of \$4.9 million, a decrease in accounts receivable of \$1.3 million, an increase in trade accounts payable of \$0.8 million coupled with

provisions for depreciation, amortization and deferred income taxes totaling \$12.4 million offset an increase in inventories and prepaid expenses and other of \$12.9 million, a decrease in accrued expenses of \$4.2 million and a gain on sale of property and equipment of \$0.8 million.

During the first nine months of 2001, the Company used \$9.3 million in investing activities, including fixed asset purchases of \$11.5 million, business acquisitions of \$2.8 million and an increase in other assets of \$0.1 million, offset by proceeds from the sale of property and equipment totaling \$5.1 million.

During the first nine months of 2000, the Company used \$29.2 million in investing activities, including purchases of property and equipment of \$29.3 million, business acquisitions of \$2.2 million, and an increase in other assets of \$0.5 million, offset by proceeds from the sale of property and equipment of \$2.8 million.

Net cash used in financing activities in the first nine months of 2001 amounted to \$63.6 million. Proceeds from additional notes payable of \$16.7 million was more than offset by decreases in floor plan notes payable of \$56.6 million, principal payments on notes payable of \$15.9 million and payments on lines of credit of \$7.8 million.

Net cash generated from financing activities in the first nine months of 2000 amounted to \$21.1 million. Proceeds from increased notes payable and advances outstanding on lines of credit of \$42.8 million and draws on floor plan notes payable of \$11.3 million was more than offset principal payments on notes payable of \$33.0 million.

Substantially all of the Company's truck purchases from PACCAR are made on terms requiring payment within 15 days or less from the date of shipment of the trucks from the factory. The Company finances all, or substantially all, of the purchase price of its new truck inventory, and 75% of the loan value of its used truck inventory, under a floor plan arrangement with GMAC under which GMAC pays PACCAR directly with respect to new trucks. The Company makes monthly interest payments on the amount financed but is not required to commence loan principal repayments prior to sale on new vehicles to GMAC for a period of 12 months and for used vehicles for a period of three months. At September 30, 2001, the Company had approximately \$57.6 million outstanding under its floor plan financing arrangement with GMAC. GMAC permits the Company to earn, for up to 15.0% of the amount borrowed under its floor plan financing arrangement with GMAC, interest at the prime rate, less 0.95%, on overnight funds deposited by the Company with GMAC.

Substantially all of the Company's new equipment purchases are financed by John Deere and Associates Commercial Corporation. The Company finances all, or substantially all, of the purchase price of its new equipment inventory, under its floor plan facilities. The agreement with John Deere provides interest free financing for four months after which time the amount financed is required to be paid in full, or an immediate 2.25% discount with payment due in 30 days. When the equipment is sold prior to the expiration of the four-month period, the Company is required to repay the principal within approximately 10 days of the sale. Should the equipment financed by John Deere not be sold within the four month period, it is transferred to the John Deere or the Associates Commercial Corporation floor plan arrangements. The Company makes principal payments to Associates Commercial Corporation, for sold inventory, on the 15<sup>th</sup> day of each month. Used and rental equipment, to a maximum of book value, is financed under a floor plan arrangement with Associates Commercial Corporation. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on rental equipment as book value reduces. Principal payments, for sold used equipment, are made the 15<sup>th</sup> day of each month following the sale. The loans are collateralized by a lien on the equipment. The Company's floor plan agreements limit the aggregate amount of borrowings based on the book value of new and used equipment units. As of September 30, 2001, the Company's floor plan arrangement with Associates Commercial Corporation permits the financing of up to \$20 million in construction equipment. At September 30, 2001, the Company had \$22.6 million and \$10.8 million outstanding under its floor plan financing arrangements with John Deere and Associates Commercial Corporation, respectively.

#### *Backlogs*

The Company enters firm orders into its backlog at the time the order is received. Currently, customer orders are being filled in approximately one month and customers have historically placed orders expecting delivery within three to six months. However, certain customers, including fleets and governments, typically place orders up to one year in advance of their desired delivery date. The Company in the past has typically allowed customers to cancel orders at any time prior to delivery, and the Company's level of cancellations is affected by general economic conditions, economic recessions and customer business cycles. As a percentage of orders, cancellations historically have ranged from 5% to 12% of annual order volume. The Company's backlogs as of September 30, 2001 and 2000, were approximately \$75 million and \$100 million, respectively. Backlogs decreased principally due to the above noted 40% decline in United States heavy-duty truck registrations during 2001.

#### *Seasonality*

The Company's heavy-duty truck business is moderately seasonal. Seasonal effects on new truck sales related to the seasonal purchasing patterns of any single customer type are mitigated by the Company's diverse customer base, which includes small and large fleets, governments, corporations and owner operators. However, truck, parts and service operations historically have experienced higher volumes of sales in the second and third quarters. The Company has historically received benefits from volume purchases and meeting vendor sales targets in the form of cash rebates, which are typically recognized when received. Approximately 40% of such rebates are typically received in the fourth quarter, resulting in a seasonal increase in gross profit margin.

Seasonal effects in the construction equipment business are primarily driven by the weather. Seasonal effects on construction equipment sales related to the seasonal purchasing patterns of any single customer type are mitigated by the Company's diverse customer base that includes contractors, for both residential and commercial construction, utility companies, federal, state and local government agencies, and various petrochemical, industrial and material supply type businesses that require construction equipment in their daily operations.

#### *Cyclicality*

The Company's business, as well as the entire retail heavy-duty truck industry, is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, economic recessions and customer business cycles. In

addition, unit sales of new trucks have historically been subject to substantial cyclical variation based on such general economic conditions. According to R.L. Polk, industry-wide domestic retail sales of heavy-duty trucks exceeded 200,000 units for only the fifth time, recording approximately 231,000 new truck registrations in 2000. The industry forecasts a decrease ranging from 40% to 50% in heavy-duty new truck sales in 2001. Although the Company believes that its geographic expansion and diversification into truck-related services, including financial services, leasing, rentals and service and parts, will reduce the overall impact to the Company resulting from general economic conditions affecting heavy-duty truck sales, the Company's operations will continue to be adversely affected by any continuation or renewal of general downward economic pressures or adverse cyclical trends.

#### *Effects of Inflation*

The Company believes that the relatively moderate inflation over the last few years has not had a significant impact on the Company's revenue or profitability. The Company does not expect inflation to have any near-term material effect on the sales of its products, although there can be no assurance that such an effect will not occur in the future.

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

Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of the Company due to adverse changes in financial market prices, including interest rate risk, and other relevant market rate or price risks.

The Company is exposed to some market risk through interest rates, related to its floor plan borrowing arrangements, variable rate debt and discount rates related to finance sales. Floor plan borrowings are based on the prime rate of interest and are used to meet working capital needs. As of September 30, 2001, the Company had floor plan borrowings of approximately \$90,952,000. Assuming an increase in the prime rate of interest of 100 basis points, interest expense could increase by \$909,520. The interest rate variability on all other debt would not have a material adverse effect on the Company's financial statements. The Company provides all customer financing opportunities to various finance providers. The Company receives all finance charges, in excess of a negotiated discount rate, from the finance providers within 30 days. The negotiated discount rate is variable, thus subject to interest rate fluctuations. This interest rate risk is mitigated by the Company's ability to pass discount rate increases to customers through higher financing rates.

### **PART II. OTHER INFORMATION**

#### Item 1. Legal Proceedings

Not Applicable

#### Item 2. Changes in Securities

Not Applicable

#### Item 3. Defaults upon Senior Securities

Not Applicable

#### Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

#### Item 5. Other Information

Not Applicable

#### Item 6. Exhibits and Reports on Form 8-K

##### a) Exhibits

None

##### b) Reports on Form 8-K

None

### **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RUSH ENTERPRISES, INC.

Date: November 13, 2001

By: /S/ W. MARVIN RUSH

Name: W. Marvin Rush

Title: Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: November 13, 2001

By: /S/ MARTIN A. NAEGELIN, JR.

Name: Martin A. Naegelin, Jr.

Title: Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)