

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 MARCH 31, 2000

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

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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

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Indicated below is the number of shares outstanding of the registrant's only class of common stock, as of May 7, 2000.

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

## RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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RUSH ENTERPRISES, INC., AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (In Thousands, Except Shares and Per Share Amounts)

|  | March 31,<br>2000<br>(Unaudited) | December 31,<br>1999<br>(Audited) |
|--|----------------------------------|-----------------------------------|
|  | -----                            | -----                             |
| <b>ASSETS</b>  |                                  |                                   |
| <b>CURRENT ASSETS:</b>   |                                  |                                   |
| Cash and cash equivalents  | \$ 9,888                         | \$ 20,004                         |
| Accounts receivable, net   | 24,270                           | 29,767                            |
| Inventories  | 193,325                          | 173,565                           |
| Prepaid expenses and other   | 948                              | 736                               |
|  | -----                            | -----                             |
| Total current assets   | 228,431                          | 224,072                           |
| PROPERTY AND EQUIPMENT, net  | 111,364                          | 103,426                           |
| OTHER ASSETS, net  | 37,923                           | 38,198                            |
|  | -----                            | -----                             |
| Total assets   | \$377,718                        | \$365,696                         |
|  | =====                            | =====                             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                  |                                   |
| <b>CURRENT LIABILITIES:</b>  |                                  |                                   |
| Floor plan notes payable   | \$162,036                        | \$150,862                         |
| Current maturities of long-term debt   | 8,051                            | 8,463                             |
| Advances outstanding under lines of credit   | 6,519                            | 10,953                            |
| Trade accounts payable   | 8,787                            | 9,710                             |
| Accrued expenses   | 16,049                           | 20,516                            |
| Note payable to shareholder  | 20,850                           | 20,725                            |
|  | -----                            | -----                             |
| Total current liabilities  | 222,292                          | 221,229                           |
|  | -----                            | -----                             |
| LONG-TERM DEBT, net of current maturities  | 74,717                           | 65,414                            |
| DEFERRED INCOME TAXES, net   | 4,781                            | 4,201                             |
| COMMITMENTS AND CONTINGENCIES (Note 2)   |                                  |                                   |
| <b>SHAREHOLDERS' EQUITY:</b>   |                                  |                                   |
| Preferred stock, par value \$.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2000 and 1999       | --                               | --                                |
| Common stock, par value \$.01 per share; 25,000,000 shares authorized; 7,002,044 shares outstanding in 2000 and 1999 | 70                               | 70                                |
| Additional paid-in capital   | 39,155                           | 39,155                            |
| Retained earnings  | 36,703                           | 35,627                            |
|  | -----                            | -----                             |
| Total shareholders' equity   | 75,928                           | 74,852                            |
|  | -----                            | -----                             |
| Total liabilities and shareholders' equity   | \$377,718                        | \$365,696                         |
|  | =====                            | =====                             |

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

## RUSH ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

|                                      | THREE MONTHS ENDED |           |
|--------------------------------------|--------------------|-----------|
|                                      | 2000               | 1999      |
|                                      | -----              | -----     |
| REVENUES:                            |                    |           |
| New and used truck sales             | \$133,645          | \$121,684 |
| Parts and service                    | 41,586             | 30,141    |
| Construction equipment sales         | 18,167             | 11,792    |
| Lease and rental                     | 6,894              | 5,058     |
| Finance and insurance                | 3,395              | 3,628     |
| Retail sales                         | 4,880              | 4,612     |
| Other                                | 1,385              | 928       |
|                                      | -----              | -----     |
| Total revenues                       | 209,952            | 177,843   |
| COST OF PRODUCTS SOLD                | 173,207            | 146,608   |
|                                      | -----              | -----     |
| GROSS PROFIT                         | 36,745             | 31,235    |
| SELLING, GENERAL AND ADMINISTRATIVE  | 29,466             | 22,889    |
| DEPRECIATION AND AMORTIZATION        | 2,068              | 1,330     |
|                                      | -----              | -----     |
| OPERATING INCOME                     | 5,211              | 7,016     |
| INTEREST EXPENSE, NET                | 3,418              | 1,484     |
|                                      | -----              | -----     |
| INCOME BEFORE INCOME TAXES           | 1,793              | 5,532     |
| PROVISION FOR INCOME TAXES           | 717                | 2,213     |
|                                      | -----              | -----     |
| NET INCOME                           | \$ 1,076           | \$ 3,319  |
|                                      | =====              | =====     |
| BASIC AND DILUTED INCOME PER SHARE   | \$ .15             | \$ .50    |
|                                      | =====              | =====     |
| Weighted average shares outstanding: |                    |           |
| Basic                                | 7,002              | 6,646     |
|                                      | =====              | =====     |
| Diluted                              | 7,036              | 6,706     |
|                                      | =====              | =====     |

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)

|  | THREE MONTHS ENDED |                  |
|--|--------------------|------------------|
|  | MARCH 31,          |                  |
|  | 2000               | 1999             |
|  | -----              | -----            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                    |                  |
| Net Income   | \$ 1,076           | \$ 3,319         |
| Adjustments to reconcile net income to net cash used in operating activities |                    |                  |
| Depreciation and amortization  | 2,983              | 1,678            |
| Gain on sale of property and equipment                                       | (136)              | (33)             |
| Provision for deferred income tax expense                                    | 580                | 487              |
| Change in accounts receivable, net   | 5,497              | (4,638)          |
| Change in inventories  | (19,760)           | (16,760)         |
| Change in prepaid expenses and other, net                                    | (212)              | 41               |
| Change in trade accounts payable   | (923)              | 1,018            |
| Change in accrued expenses   | (4,467)            | 843              |
|  | -----              | -----            |
| Net cash used in operating activities  | (15,362)           | (14,045)         |
|  | -----              | -----            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                    |                  |
| Acquisition of property and equipment  | (11,304)           | (11,077)         |
| Proceeds from the sale of property and equipment                             | 902                | 323              |
| Change in other assets   | (108)              | (1,607)          |
|  | -----              | -----            |
| Net cash used in investing activities  | (10,510)           | (12,361)         |
|  | -----              | -----            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                    |                  |
| Proceeds from debt issuance  | 9,607              | 7,076            |
| Principal payments on debt   | (591)              | (4,246)          |
| Payments on lines of credit, net   | (4,434)            | --               |
| Draws on floor plan notes payable, net                                       | 11,174             | 16,601           |
|  | -----              | -----            |
| Net cash provided by financing activities                                    | 15,756             | 19,431           |
|  | -----              | -----            |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                             | <b>(10,116)</b>    | <b>(6,975)</b>   |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                        | <b>20,004</b>      | <b>22,516</b>    |
|  | -----              | -----            |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                              | <b>\$ 9,888</b>    | <b>\$ 15,541</b> |
|  | =====              | =====            |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                     |                    |                  |
| Cash paid during the period for-   |                    |                  |
| Interest   | \$ 4,523           | \$ 598           |
|  | =====              | =====            |
| Income taxes   | \$ 960             | \$ 35            |
|  | =====              | =====            |

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 are, in the opinion of the Company's management, 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, 1999.

## 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 for 2000 limited to \$700,000.

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 certain individuals for an aggregate monthly payment of \$37,786. The agreements expire in 2000 through 2001.

## 3 - EARNINGS PER SHARE

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

|   | THREE MONTHS ENDED<br>2000 | MARCH 31,<br>1999 |
|---|----------------------------|-------------------|
|   | -----                      | -----             |
| Numerator:  |                            |                   |
| Net income- numerator for basic and diluted earnings per share                          | \$1,076,000                | \$3,319,000       |
| Denominator:  |                            |                   |
| Denominator for basic earnings per share-adjusted weighted average shares outstanding   | 7,002,044                  | 6,646,488         |
| Effect of dilutive securities:  |                            |                   |
| Employee and Director stock options   | 34,109                     | 59,175            |
|   | -----                      | -----             |
| Denominator for diluted earnings per share-adjusted weighted average shares outstanding | 7,036,153                  | 6,705,663         |
|   | =====                      | =====             |
| Basic earnings per share  | \$ .15                     | \$ .50            |
|   | =====                      | =====             |
| Diluted earnings per share  | \$ .15                     | \$ .50            |
|   | =====                      | =====             |

## 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" (SFAS 131). 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 two reportable segments: the Heavy-Duty Truck segment and the Construction Equipment 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, formed during 1997, 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 accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income before income taxes not including extraordinary items.

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. There were no material intersegment sales during the quarters ended March 31, 2000 and 1999.

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 quarters ended March 31, 2000 and 1999 (in thousands):

|                                    | HEAVY-DUTY<br>TRUCK<br>SEGMENT<br>----- | CONSTRUCTION<br>EQUIPMENT<br>SEGMENT<br>----- | ALL OTHER<br>----- | TOTALS<br>----- |
|------------------------------------|---|---|--------------------|-----------------|
| Three months ended March 31, 2000  |   |   |                    |                 |
| Revenues from external customers   | \$ 177,188                              | \$ 25,919                                     | \$ 6,845           | \$ 209,952      |
| Segment income (loss) before taxes | 1,489                                   | 366   | (62)               | 1,793           |
| Segment assets                     | 277,335                                 | 73,097  | 27,286             | 377,718         |
| Three months ended March 31, 1999  |   |   |                    |                 |
| Revenues from external customers   | \$ 153,469                              | \$ 17,405                                     | \$ 6,969           | \$ 177,843      |
| Segment income before taxes        | 4,902                                   | 220   | 410                | 5,532           |
| Segment assets                     | 161,968                                 | 67,617  | 16,213             | 245,798         |

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



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 27 A of the Securities Act of 1933 and Section 21E of the Exchange Act. 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, 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 two reportable segments: the Heavy Duty Truck segment, and the Construction Equipment 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 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 16.0% of all new Peterbilt truck sales in 1999, 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 year. 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 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.

In December 1999, the Company purchased substantially all the assets of Norm Pressley's Truck Center, ("Pressley"), which consisted of three dealership locations in San Diego, Escondido and El Centro, California. The transaction was valued at approximately \$4.5 million with the purchase price paid in cash. An additional \$700,000 consideration may be paid based on a performance based objective.

In October 1999, the Company purchased substantially all the assets of Southwest Peterbilt, Inc., Southwest Truck Center, Inc., and New Mexico Peterbilt, Inc., ("Southwest") a Peterbilt truck dealer, which consisted of five dealership locations in Arizona and New Mexico. The transaction was valued at \$23.9 million with the purchase price paid in a combination of cash and the Company's common stock. An additional \$4.0 million may be paid based on a performance based objective.

In September 1999, the Company acquired substantially all the assets of Calvert Sales, Inc., (Calvert), a John Deere construction equipment dealership. The acquisition encompasses 13 counties in eastern Michigan, including two full-service dealerships located in the Detroit and Flint areas. The transaction was valued at \$11.1 million with the purchase price paid in a combination of cash and notes payable.

In March 1998, the Company acquired all of the issued and outstanding capital stock of D & D Farm and Ranch Supermarket, Inc. ("D & D"), for consideration of approximately \$10.5 million. D & D operates a retail farm and ranch superstore in the Greater San Antonio, Texas area and has recently opened a second store in the Greater Houston, Texas area.

#### RESULTS OF OPERATIONS

The following discussion and analysis includes the Company's historical results of operations for the three months ended March 31, 2000 and 1999.

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

|                                     | THREE MONTHS ENDED MARCH 31, |        |
|-------------------------------------|------------------------------|--------|
|                                     | 2000                         | 1999   |
|                                     | -----                        | -----  |
| New and used truck sales            | 63.7 %                       | 68.4 % |
| Parts and service                   | 19.8                         | 17.0   |
| Construction equipment sales        | 8.6                          | 6.6    |
| Lease and rental                    | 3.3                          | 2.9    |
| Finance and insurance               | 1.6                          | 2.0    |
| Retail sales                        | 2.3                          | 2.6    |
| Other                               | 0.7                          | 0.5    |
|                                     | -----                        | -----  |
| Total revenues                      | 100.0                        | 100.0  |
| Cost of products sold               | 82.5                         | 82.4   |
|                                     | -----                        | -----  |
| Gross profit                        | 17.5                         | 17.6   |
| Selling, general and administrative | 14.0                         | 12.9   |
| Depreciation and amortization       | 1.0                          | 0.7    |
|                                     | -----                        | -----  |
| Operating income                    | 2.5                          | 4.0    |
| Interest expense, net               | 1.6                          | 0.8    |
|                                     | -----                        | -----  |
| Income before income taxes          | 0.9%                         | 3.2%   |
|                                     | =====                        | =====  |

THREE MONTHS ENDED MARCH 31, 2000 COMPARED TO THREE MONTHS ENDED MARCH 31, 1999

#### Revenues

Revenues increased by approximately \$32.1 million, or 18.0%, from \$177.9 million to \$210.0 million from the first quarter of 1999 to the first quarter of 2000. Approximately \$28.1 million in sales is attributable to the Southwest, Pressley and Calvert acquisitions, while the remaining increase of \$4.0 million or 2.3%, is attributable to same store growth. Sales of new and used trucks increased by approximately \$12.0 million, or 9.9%, from \$121.7 million to \$133.7 million from the first quarter of 1999 to the first quarter of 2000. Unit sales of new trucks increased by 9.0% and the new truck average revenue per unit increased by 6.9%. Unit sales of used trucks decreased 1.5%, and used truck average revenue per unit decreased by 18.3%. Average used truck prices decreased due to an excess supply of used inventory in the market. As a result, the Company recognized a \$1.5 million loss provision during the first quarter of 2000 to increase the Company's reserve for used truck valuation and repossession losses.

Parts and service sales increased by approximately \$11.4 million, or 37.9%, from \$30.1 million to \$41.6 million. The increase was due to same store growth of approximately 9.0% and parts and service sales associated with Southwest, Pressley and Calvert acquisitions.

Sales of new and used construction equipment increased approximately \$6.4 million or 54.2%, from \$11.8 million to \$18.2 million from the first quarter of 1999 to the first quarter of 2000. The increase was due to same store growth of approximately \$3.0 million or 25.4% and new and used equipment sales associated with Calvert acquisition.

Lease and rental revenues increased by approximately \$1.8 million, or 35.3% from \$5.1 million to \$6.9 million. Approximately \$1.0 million or 55.6% of the increase was due to the Pressley and Calvert acquisitions with the remainder attributable to same store growth.

Finance and insurance revenues decreased by approximately \$0.2 million, or 5.6%, from \$3.6 million to \$3.4 million from the first quarter of 1999 to the first quarter of 2000. The majority of the decrease resulted from the decrease in used truck deliveries. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Retail sales increased \$0.3 million or 6.5% from \$4.6 million to \$4.9 million from the first quarter of 1999 to the first quarter of 2000.

#### Gross Profit

Gross profit increased by approximately \$5.5 million, or 17.6%, from \$31.2 million to \$36.7 million from the first quarter of 1999 to the first quarter of 2000. Gross profit as a percentage of sales slightly decreased from 17.6% in the first quarter of 1999 to 17.5% in the first quarter of 2000.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately \$6.6 million, from \$22.9 million to \$29.5 million, or 28.8%, from the first quarter of 1999 to the first quarter of 2000. The increase resulted from approximately \$5.9 million or 25.8% of selling, general and administrative expense related to the Southwest, Pressley and Calvert acquisitions with the remaining attributable to same store increases. Selling, general and administrative expenses as a percentage of sales increased from 12.9% to 14.0% from the first quarter of 1999 to the first quarter of 2000.

## Interest Expense

Interest expense increased by approximately \$1.9 million or 126.7%, from \$1.5 million to \$3.4 million, from the first quarter of 1999 to the first quarter of 2000, primarily as the result of increased levels of indebtedness due to the financing of dealership properties and higher floor plan liability levels.

## Income before Income Taxes

Income before income taxes decreased by \$3.7 million, or 67.3%, from \$5.5 million to \$1.8 million from the first quarter of 1999 to the first quarter of 2000, as a result of the factors described above.

## Income Taxes

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

## Earnings Per Share

Earnings per share for the first quarter of 2000, were adversely effected compared to the first quarter of 1999, by the issuance of 355,556 shares of the Company's common stock in connection with the Southwest acquisitions.

## 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. These short-term cash needs have historically been financed with retained earnings and borrowings under credit facilities available to the Company.

At March 31, 2000, the Company had working capital of approximately \$6.1 million, including \$9.9 million in cash and cash equivalents, \$24.3 million in accounts receivable, \$193.3 million in inventories, and \$0.9 million in prepaid expenses, less \$24.8 million of accounts payable and accrued expenses, \$14.6 million of current maturities on long-term debt and advances outstanding under lines of credit, \$ 20.9 million in a note payable to a shareholder, and \$162.0 million outstanding under floor plan financing. The aggregate maximum borrowing limits under working capital lines of credit with various commercial banks are approximately \$8.0 million. The Company's floor plan agreements with its primary lender limit the aggregate amount of borrowings based on the number of new and used trucks and the book value of construction equipment inventory.

For the first three months of 2000, operating activities resulted in net cash used in operations of approximately \$15.4 million. Net income of \$1.1 million, decreases in accounts receivable of \$5.5 million, coupled with provisions for depreciation, amortization and deferred taxes totaling \$3.5 million was more than offset by increases in inventories and other current assets totaling \$20.0 million, decreases in accounts payable and accrued expenses totaling \$5.4 million and a gain on the sale of property and equipment of \$ 0.1 million.

For the first three months of 1999, operating activities resulted in net cash used in operations of approximately \$14.0 million. Net income of \$3.3 million, increases in accounts payable of \$1.0 million, and accrued liabilities of \$0.8 million, coupled with provisions for depreciation, amortization and deferred taxes totaling \$2.1 million was more than offset by increases in accounts receivable and inventories totaling \$21.4 million.

During the first three months of 2000, the Company used \$10.5 million in investing activities, including purchases of property, plant and equipment of \$11.3 million and an increase in other assets of \$0.1 million, offset by proceeds from the sale of property, plant and equipment totaling \$0.9 million.

During the first three months of 1999, the Company used \$12.4 million in investing activities, including purchases of property, plant and equipment of \$11.1 million and an increase in other assets of \$1.6 million, offset by proceeds from the sale of property, plant and equipment totaling \$0.3 million.

Net cash generated from financing activities in the first three months of 2000 amounted to \$15.8 million. Proceeds from additional floor plan financing and increased notes payable of \$20.8 million more than offset principal payments on notes payable and lines of credit of \$5.0 million.

Net cash generated from financing activities in the first three months of 1999 amounted to \$19.4 million. Proceeds from additional floor plan financing and increased notes payable of \$23.7 million more than offset principal payments on notes payable of \$4.3 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 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 to GMAC prior to the sale of new vehicles for a period of 12 months and for used vehicles for a period of three months. At March 31, 2000, the Company had approximately \$118.9 million outstanding under its floor plan financing arrangement with GMAC. GMAC permits the Company to earn, for up to 50% of the amount borrowed under its floor plan financing arrangement with GMAC, interest at the prime rate less three-quarters of one percent on overnight funds deposited by the Company with GMAC.

Substantially all of the Company's new equipment purchases are financed by either John Deere or 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 Associates Commercial Corporation floor plan arrangement. The Company makes principal payments to Associates Commercial Corporation, for sold inventory, on the 15th 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 15th 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 March 31, 2000, the Company's floor plan arrangement with Associates Commercial Corporation permits the financing of up to \$25 million in construction equipment. At March 31, 2000, the Company had \$34.4 million and \$8.7 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 six to nine months 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 March 31, 2000 and 1999, were approximately \$150 million and \$185 million, respectively. Backlogs decreased principally due to the above noted weaker demand for trucks.

### 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.

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 and construction equipment industries, are 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 and construction equipment have historically been subject to substantial cyclical variation based on such general economic conditions. Although the Company believes that its geographic expansion and diversification into truck and construction equipment 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 may be materially and 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 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 March 31, 2000, the Company had floor plan borrowings of approximately \$162,036,000. Assuming an increase in the Prime Rate of interest of 100 basis points, future cash flows could be effected up to \$1,620,360. 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

Exhibit  
Number

27.1\* Financial data schedule

\* Filed herewith

## 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: May 12, 2000

By: /s/ W. MARVIN RUSH

-----  
Name: W. Marvin Rush  
Title: Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: May 12, 2000

By: /s/ MARTIN A. NAEGELIN JR.

-----  
Name: Martin A. Naegelin, Jr.  
Title: Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)



## EXHIBIT INDEX

| Exhibit<br>Number<br>----- | Description<br>-----    |
|----------------------------|-------------------------|
| 27.1*                      | Financial data schedule |
| *                          | Filed herewith          |

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF RUSH ENTERPRISES, INC. AND SUBSIDIARIES FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

1,000

| 3-MOS       |         |
|-------------|---------|
| DEC-31-2000 |         |
| JAN-01-2000 |         |
| MAR-31-2000 |         |
|             | 9,888   |
|             | 0       |
| 24,270      | 0       |
|             | 193,325 |
| 228,431     | 130,014 |
| (18,650)    | 377,718 |
| 222,292     |         |
|             | 74,717  |
| 0           | 0       |
|             | 70      |
| 377,718     | 75,928  |
|             | 209,952 |
| 209,952     | 173,207 |
|             | 204,741 |
|             | 0       |
|             | 0       |
| 3,418       |         |
| 1,793       | 717     |
| 1,076       | 0       |
|             | 0       |
|             | 0       |
|             | 1,076   |
|             | 0.15    |
|             | 0.15    |