

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2020

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**

**74-1733016**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**555 IH 35 South, New Braunfels, TX**

**78130**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(830) 302-5200**

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

| Title of each class                    | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Class A Common Stock, \$0.01 par value | RUSHA             | NASDAQ Global Select Market               |
| Class B Common Stock, \$0.01 par value | RUSHB             | NASDAQ Global Select Market               |

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

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark if the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2020 was approximately \$1,308,563,538 based upon the last sales price on June 30, 2020 on The NASDAQ Global Select Market<sup>SM</sup> of \$27.64 for the registrant's Class A Common Stock and \$23.77 for the registrant's Class B Common Stock. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The registrant had 42,677,577 shares Class A Common Stock and 12,397,082 shares of Class B Common Stock outstanding on February 16, 2021.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

**Portions of registrant's definitive proxy statement for the registrant's 2021 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2020, are incorporated by reference into Part III of this Form 10-K.**

**RUSH ENTERPRISES, INC.**

**Index to Form 10-K**

**Year ended December 31, 2020**

|                 |   | <b><u>Page No.</u></b> |
|-----------------|---|------------------------|
| <b>Part I</b>   |   |                        |
| Item 1          | Business  | 1                      |
| Item 1A         | Risk Factors  | 18                     |
| Item 1B         | Unresolved Staff Comments   | 27                     |
| Item 2          | Properties  | 27                     |
| Item 3          | Legal Proceedings   | 27                     |
| Item 4          | Mine Safety Disclosures   | 27                     |
| <b>Part II</b>  |   |                        |
| Item 5          | Market for Registrant’s Common Equity, Related Shareholder Matters<br>and Issuer Purchases of Equity Securities | 28                     |
| Item 6          | Selected Financial Data   | 30                     |
| Item 7          | Management’s Discussion and Analysis of Financial Condition and Results<br>of Operations                        | 31                     |
| Item 7A         | Quantitative and Qualitative Disclosures about Market Risk  | 44                     |
| Item 8          | Financial Statements and Supplementary Data   | 45                     |
| Item 9          | Changes in and Disagreements with Accountants on Accounting and<br>Financial Disclosure                         | 78                     |
| Item 9A         | Controls and Procedures   | 78                     |
| Item 9B         | Other Information   | 80                     |
| <b>Part III</b> |   |                        |
| Item 10         | Directors, Executive Officers and Corporate Governance  | 80                     |
| Item 11         | Executive Compensation  | 80                     |
| Item 12         | Security Ownership of Certain Beneficial Owners and Management<br>and Related Shareholder Matters               | 80                     |
| Item 13         | Certain Relationships and Related Transactions, and Director Independence                                       | 80                     |
| Item 14         | Principal Accountant Fees and Services  | 80                     |
| <b>Part IV</b>  |   |                        |
| Item 15         | Exhibits, Financial Statement Schedules   | 81                     |
| Item 16         | Form 10-K Summary   | 84                     |

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

*Certain statements contained in this Form 10-K (or otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission ("SEC"), news releases, conferences, website postings or otherwise) that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Exchange Act of 1934, as amended (the "Exchange Act"), notwithstanding that such statements are not specifically identified. Forward-looking statements include statements about the Company's financial position, business strategy and plans and objectives of management of the Company for future operations. These forward-looking statements reflect the best judgments of the Company about the future events and trends based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Use of the words "may," "should," "continue," "plan," "potential," "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 but are not the exclusive means of identifying such statements. Forward-looking statements reflect our current view of the Company with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those in such statements. Please read Item 1A. "Risk Factors" for a discussion of certain of those risks. Other unknown or unpredictable factors could also have a material adverse effect on future results. Although the Company believes that its expectations are reasonable as of the date of this Form 10-K, it can give no assurance that such expectations will prove to be correct. The Company does not intend to update or revise any forward-looking statements unless securities laws require it to do so, and the Company undertakes no obligation to publicly release any revisions to forward-looking statements, whether because of new information, future events or otherwise.*

## NOTE REGARDING TRADEMARKS COMMONLY USED IN THE COMPANY'S FILINGS

*Peterbilt® is a registered trademark of Peterbilt Motors Company. PACCAR® is a registered trademark of PACCAR, Inc. PacLease® is a registered trademark of PACCAR Leasing Corporation. Navistar® is a registered trademark of Navistar International Corporation. International® is a registered trademark of Navistar International Transportation Corp. Idealease is a registered trademark of Idealease, Inc. aka Idealease of North America, Inc. Blue Bird® is a registered trademark of Blue Bird Investment Corporation. IC Bus® is a registered trademark of IC Bus, LLC. Hino® is a registered trademark of Hino Motors, Ltd. Isuzu® is a registered trademark of Isuzu Motors Limited. Ford Motor Credit Company® is a registered trademark of Ford Motor Company. Ford® is a registered trademark of Ford Motor Company. SAP® is a registered trademark of SAP Aktiengesellschaft. This report contains additional trade names or trademarks of other companies. Our use of such trade names or trademarks should not imply any endorsement or relationship with such companies.*

## PART I

### Item 1. Business

References herein to "the Company," "Rush Enterprises," "we," "our" or "us" mean Rush Enterprises, Inc., a Texas corporation, and its subsidiaries unless the context requires otherwise.

### Access to Company Information

We electronically file annual reports, quarterly reports, proxy statements and other reports and information statements with the SEC. You may read and copy any of the materials that we have filed with the SEC at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. You may obtain information about the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings are also available to you on the SEC's website at [www.sec.gov](http://www.sec.gov).

We make certain of our SEC filings available, free of charge, through our website, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports. These filings are available as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Our website address is [www.rushenterprises.com](http://www.rushenterprises.com). The information contained on our website, or on other websites linked to our website, is not incorporated into this report or otherwise made part of this report.

## General

Rush Enterprises, Inc. was incorporated in Texas in 1965 and consists of one reportable segment, the Truck Segment, and conducts business through its subsidiaries. Our principal offices are located at 555 IH 35 South, Suite 500, New Braunfels, Texas 78130.

We are a full-service, integrated retailer of commercial vehicles and related services. The Truck Segment includes the Company's operation of a network of commercial vehicle dealerships under the name "Rush Truck Centers." Rush Truck Centers primarily sell commercial vehicles manufactured by Peterbilt, International, Hino, Ford, Isuzu, IC Bus or Blue Bird. Through our strategically located network of Rush Truck Centers, we provide one-stop service for the needs of our commercial vehicle customers, including retail sales of new and used commercial vehicles, aftermarket parts sales, service and repair facilities, financing, leasing and rental, and insurance products.

Our Rush Truck Centers are principally located in high traffic areas throughout the United States. Since commencing operations as a Peterbilt heavy-duty truck dealer in 1966, we have grown to operate over 100 Rush Truck Centers in 22 states. In 2019, we purchased a 50% equity interest in an entity in Canada, Rush Truck Centres of Canada Limited ("RTC Canada"), which currently owns and operates 14 International locations in Ontario, Canada.

Our business strategy consists of providing solutions to the commercial vehicle industry through our network of commercial vehicle dealerships. We offer an integrated approach to meeting customer needs by providing service, parts and collision repairs in addition to new and used commercial vehicle sales and leasing, plus financial services, vehicle upfitting, CNG fuel systems and vehicle telematics products. We intend to continue to implement our business strategy, reinforce customer loyalty and remain a market leader by continuing to develop our Rush Truck Centers as we expand our product offerings and extend our dealership network through strategic acquisitions of new locations and opening new dealerships in existing areas of operations to enable us to better serve our customers.

*Rush Truck Centers.* Our Rush Truck Centers are located in Alabama, Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Missouri, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah and Virginia. The following chart reflects our franchises and parts, service and collision repair operations by location as of February 15, 2021:

| <b>Rush Truck Center Location</b> | <b>Commercial Vehicle Franchise(s)</b> | <b>Truck Sales</b> | <b>Parts and Service</b> | <b>Collision Center</b> |
|-----------------------------------|--|--------------------|--------------------------|-------------------------|
| <b>Alabama</b>                    |  |                    |                          |                         |
| Birmingham                        | None                                   | Yes                | Yes                      | No                      |
| Mobile                            | Peterbilt                              | Yes                | Yes                      | Yes                     |
| <b>Arizona</b>                    |  |                    |                          |                         |
| Flagstaff                         | Peterbilt                              | No                 | Yes                      | No                      |
| Phoenix                           | Peterbilt, Hino                        | Yes                | Yes                      | Yes                     |
| Phoenix East                      | Peterbilt                              | No                 | Yes                      | No                      |
| Tucson                            | Peterbilt, Hino                        | Yes                | Yes                      | No                      |
| Yuma                              | Peterbilt                              | Yes                | Yes                      | No                      |
| <b>California</b>                 |  |                    |                          |                         |
| Fontana Heavy-Duty                | Peterbilt                              | Yes                | Yes                      | Yes                     |
| Fontana Medium-Duty               | Peterbilt, Hino, Isuzu                 | Yes                | Yes                      | No                      |
| Fontana Vocational                | None                                   | No                 | Yes                      | No                      |
| Long Beach                        | Peterbilt                              | No                 | Yes                      | No                      |
| Ceres                             | Ford                                   | Yes                | Yes                      | No                      |
| Pico Rivera                       | Peterbilt                              | Yes                | Yes                      | Yes                     |
| San Diego                         | Peterbilt, Hino, Ford                  | Yes                | Yes                      | No                      |
| Sylmar                            | Peterbilt                              | Yes                | Yes                      | No                      |
| Whittier                          | Ford, Isuzu                            | Yes                | Yes                      | No                      |

| <b>Rush Truck Center Location</b> | <b>Commercial Vehicle Franchise(s)</b> | <b>Truck Sales</b> | <b>Parts and Service</b> | <b>Collision Center</b> |
|-----------------------------------|--|--------------------|--------------------------|-------------------------|
| <b>Colorado</b>                   |  |                    |                          |                         |
| Colorado Springs                  | Peterbilt                              | Yes                | Yes                      | No                      |
| Denver                            | Peterbilt, Ford, Isuzu                 | Yes                | Yes                      | Yes                     |
| Greeley                           | Peterbilt                              | Yes                | Yes                      | No                      |
| Pueblo                            | Peterbilt                              | Yes                | Yes                      | No                      |
| <b>Florida</b>                    |  |                    |                          |                         |
| Haines City                       | Peterbilt                              | Yes                | Yes                      | Yes                     |
| Jacksonville                      | Peterbilt, Hino                        | Yes                | Yes                      | No                      |
| Jacksonville East                 | Peterbilt                              | Yes                | Yes                      | No                      |
| Lake City                         | Peterbilt                              | Yes                | Yes                      | No                      |
| Miami                             | None                                   | No                 | Yes                      | No                      |
| Orlando Heavy-Duty                | Peterbilt, Isuzu                       | Yes                | Yes                      | No                      |
| Orlando Light & Medium-Duty       | Ford                                   | Yes                | Yes                      | No                      |
| Orlando North                     | Isuzu                                  | Yes                | Yes                      | No                      |
| Orlando South                     | Isuzu                                  | Yes                | Yes                      | No                      |
| Tampa                             | Peterbilt                              | Yes                | Yes                      | No                      |
| <b>Georgia</b>                    |  |                    |                          |                         |
| Atlanta                           | International, Hino, Isuzu, IC Bus     | Yes                | Yes                      | No                      |
| Atlanta Bus Center                | IC Bus                                 | Yes                | Yes                      | Yes                     |
| Augusta                           | International, IC Bus                  | Yes                | Yes                      | No                      |
| Columbus                          | International, Isuzu, IC Bus           | Yes                | Yes                      | No                      |
| Doraville                         | International, Hino, Isuzu, IC Bus     | Yes                | Yes                      | No                      |
| Gainesville                       | International, IC Bus                  | Yes                | Yes                      | No                      |
| Macon                             | International                          | Yes                | Yes                      | No                      |
| Smyrna                            | International, Hino, Isuzu, IC Bus     | Yes                | Yes                      | No                      |
| Tifton                            | International, IC Bus                  | Yes                | Yes                      | No                      |
| Valdosta                          | International                          | Yes                | Yes                      | No                      |
| <b>Idaho</b>                      |  |                    |                          |                         |
| Boise                             | International, Hino, IC Bus            | Yes                | Yes                      | Yes                     |
| Idaho Falls                       | International, IC Bus                  | Yes                | Yes                      | Yes                     |
| Lewiston                          | International                          | Yes                | Yes                      | No                      |
| Twin Falls                        | International                          | Yes                | Yes                      | No                      |
| <b>Illinois</b>                   |  |                    |                          |                         |
| Bloomington                       | International, Hino                    | Yes                | Yes                      | No                      |
| Carol Stream                      | International                          | Yes                | Yes                      | No                      |
| Champaign                         | International                          | Yes                | Yes                      | Yes                     |
| Chicago                           | International                          | Yes                | Yes                      | Yes                     |
| Effingham                         | International                          | Yes                | Yes                      | Yes                     |
| Huntley                           | International                          | Yes                | Yes                      | No                      |
| Joliet                            | International                          | Yes                | Yes                      | No                      |
| Quincy                            | International                          | Yes                | Yes                      | No                      |
| Springfield                       | International                          | Yes                | Yes                      | Yes                     |
| <b>Indiana</b>                    |  |                    |                          |                         |
| Gary                              | International                          | Yes                | Yes                      | No                      |
| Indianapolis                      | International                          | Yes                | Yes                      | Yes                     |
| <b>Kansas</b>                     |  |                    |                          |                         |
| Kansas City                       | Hino, Isuzu                            | Yes                | Yes                      | No                      |
| <b>Kentucky</b>                   |  |                    |                          |                         |
| Bowling Green                     | Peterbilt                              | Yes                | Yes                      | No                      |
| <b>Missouri</b>                   |  |                    |                          |                         |
| St. Peters                        | International                          | Yes                | Yes                      | No                      |
| St. Louis                         | International                          | Yes                | Yes                      | No                      |
| <b>Nevada</b>                     |  |                    |                          |                         |
| Las Vegas                         | Peterbilt                              | Yes                | Yes                      | No                      |
| <b>New Mexico</b>                 |  |                    |                          |                         |
| Albuquerque                       | Peterbilt                              | Yes                | Yes                      | Yes                     |
| Farmington                        | Peterbilt                              | No                 | Yes                      | No                      |
| Las Cruces                        | Peterbilt                              | Yes                | Yes                      | No                      |

| <b>Rush Truck Center Location</b> | <b>Commercial Vehicle Franchise(s)</b>                 | <b>Truck Sales</b> | <b>Parts and Service</b> | <b>Collision Center</b> |
|-----------------------------------|--|--------------------|--------------------------|-------------------------|
| <b>North Carolina</b>             |  |                    |                          |                         |
| Asheville                         | International  | Yes                | Yes                      | No                      |
| Charlotte                         | International, Hino, Isuzu                             | Yes                | Yes                      | Yes                     |
| Hickory                           | International  | Yes                | Yes                      | No                      |
| <b>Ohio</b>                       |  |                    |                          |                         |
| Akron                             | International, IC Bus                                  | Yes                | Yes                      | No                      |
| Cincinnati                        | International, IC Bus, Isuzu, Ford                     | Yes                | Yes                      | Yes                     |
| Cleveland                         | International, IC Bus                                  | Yes                | Yes                      | No                      |
| Columbus                          | International, IC Bus, Isuzu(1)                        | Yes                | Yes                      | No                      |
| Dayton                            | International, IC Bus, Isuzu                           | Yes                | Yes                      | No                      |
| Lima                              | International, IC Bus                                  | Yes                | Yes                      | No                      |
| <b>Oklahoma</b>                   |  |                    |                          |                         |
| Ardmore                           | Peterbilt  | Yes                | Yes                      | No                      |
| Oklahoma City                     | Peterbilt, Hino, Ford, Isuzu                           | Yes                | Yes                      | Yes                     |
| Tulsa                             | Peterbilt, Hino  | Yes                | Yes                      | Yes                     |
| <b>Pennsylvania</b>               |  |                    |                          |                         |
| Greencastle                       | None   | Yes                | Yes                      | No                      |
| <b>Tennessee</b>                  |  |                    |                          |                         |
| Memphis                           | None   | Yes                | Yes                      | No                      |
| Nashville                         | Peterbilt  | Yes                | Yes                      | Yes                     |
| <b>Texas</b>                      |  |                    |                          |                         |
| Abilene                           | Peterbilt  | Yes                | Yes                      | No                      |
| Amarillo                          | Peterbilt  | Yes                | Yes                      | No                      |
| Arlington                         | Peterbilt, Blue Bird, Micro Bird, Elkhart              | Yes                | Yes                      | No                      |
| Austin                            | Peterbilt, Hino, Isuzu, Blue Bird, Micro Bird, Elkhart | Yes                | Yes                      | No                      |
| Austin North                      | Peterbilt  | No                 | Yes                      | No                      |
| Beaumont                          | Peterbilt  | Yes                | Yes                      | No                      |
| Brownsville                       | Peterbilt, Elkhart                                     | Yes                | Yes                      | No                      |
| College Station                   | Peterbilt  | Yes                | Yes                      | No                      |
| Corpus Christi                    | Peterbilt, Hino, Isuzu, Blue Bird, Elkhart             | Yes                | Yes                      | No                      |
| Cotulla                           | Peterbilt  | No                 | Yes                      | No                      |
| Dalhart                           | Peterbilt  | No                 | Yes                      | No                      |
| Dallas Heavy-Duty                 | Peterbilt, Blue Bird, Micro Bird, Elkhart              | Yes                | Yes                      | Yes                     |
| Dallas Medium-Duty                | Peterbilt, Hino, Blue Bird, Micro Bird, Elkhart        | Yes                | Yes                      | No                      |
| Dallas Light & Medium-Duty        | Ford, Isuzu  | Yes                | Yes                      | No                      |
| Dallas South                      | Peterbilt  | Yes                | Yes                      | No                      |
| El Paso                           | Peterbilt, Hino, Isuzu                                 | Yes                | Yes                      | Yes                     |
| Fort Worth                        | Peterbilt, Blue Bird, Micro Bird, Elkhart              | Yes                | Yes                      | No                      |
| Houston                           | Peterbilt, Hino, Blue Bird, Micro Bird, Elkhart        | Yes                | Yes                      | Yes                     |
| Houston Medium-Duty               | Peterbilt, Hino  | Yes                | Yes                      | No                      |
| Laredo                            | Peterbilt, Blue Bird, Micro Bird, Elkhart              | Yes                | Yes                      | Yes                     |
| Lubbock                           | Peterbilt  | Yes                | Yes                      | No                      |
| Lufkin                            | Peterbilt, Blue Bird, Micro Bird, Elkhart              | Yes                | Yes                      | Yes                     |
| Odessa                            | Peterbilt  | Yes                | Yes                      | No                      |
| Pharr                             | Peterbilt, Hino, Blue Bird, Micro Bird, Elkhart        | Yes                | Yes                      | Yes                     |

(1) Our Isuzu franchise is operated out of our Rush Truck Leasing - Columbus location.

| <b>Rush Truck Center Location</b> | <b>Commercial Vehicle Franchise(s)</b>                 | <b>Truck Sales</b> | <b>Parts and Service</b> | <b>Collision Center</b> |
|-----------------------------------|--|--------------------|--------------------------|-------------------------|
| San Antonio                       | Peterbilt, Hino, Blue Bird, Micro Bird, Elkhart        | Yes                | Yes                      | Yes                     |
| Sealy                             | Peterbilt, Isuzu, Blue Bird, Micro Bird, Elkhart       | Yes                | Yes                      | No                      |
| Texarkana                         | Peterbilt, Hino, Isuzu, Blue Bird, Micro Bird, Elkhart | Yes                | Yes                      | No                      |
| Tyler                             | Peterbilt, Blue Bird, Micro Bird, Elkhart              | Yes                | Yes                      | No                      |
| Victoria                          | Peterbilt  | Yes                | Yes                      | No                      |
| Waco                              | Peterbilt, Hino, Isuzu, Blue Bird, Micro Bird, Elkhart | Yes                | Yes                      | No                      |
| <b>Utah</b>                       |  |                    |                          |                         |
| Ogden                             | International, IC Bus                                  | Yes                | Yes                      | No                      |
| Salt Lake City                    | International, IC Bus                                  | Yes                | Yes                      | Yes                     |
| Springville                       | International  | Yes                | Yes                      | No                      |
| St. George                        | International  | Yes                | Yes                      | No                      |
| <b>Virginia</b>                   |  |                    |                          |                         |
| Chester                           | International, Hino                                    | Yes                | Yes                      | No                      |
| Richmond                          | International  | Yes                | Yes                      | Yes                     |

*Leasing and Rental Services.* Through certain of our Rush Truck Centers and several stand-alone Rush Truck Leasing locations, we provide a broad line of product selections for lease or rent, including Class 4 through Class 8 commercial vehicles, heavy-duty cranes and refuse vehicles. Our lease and rental fleets are offered to customers on a daily, monthly or long-term basis. Substantially all of our long-term leases also contain a service provision, whereby we agree to service the vehicle through the life of the lease. The following chart reflects our leasing franchises by location:

| <b>Rush Truck Leasing Location</b> | <b>Franchise</b> | <b>Standalone or in a Rush Truck Center</b> |
|------------------------------------|------------------|---|
| <b>Alabama</b>                     |                  |   |
| Birmingham                         | PacLease         | In RTC                                      |
| <b>Arizona</b>                     |                  |   |
| Phoenix                            | PacLease         | Standalone                                  |
| <b>California</b>                  |                  |   |
| Fontana                            | PacLease         | Standalone                                  |
| Pico Rivera                        | PacLease         | Standalone                                  |
| San Diego                          | PacLease         | Standalone                                  |
| Sylmar                             | PacLease         | In RTC                                      |
| <b>Colorado</b>                    |                  |   |
| Denver                             | PacLease         | Standalone                                  |
| <b>Florida</b>                     |                  |   |
| Orlando                            | PacLease         | Standalone                                  |
| Tampa                              | PacLease         | In RTC                                      |
| Jacksonville                       | PacLease         | Standalone                                  |
| <b>Georgia</b>                     |                  |   |
| Macon                              | Idealease        | In RTC                                      |
| <b>Idaho</b>                       |                  |   |
| Boise                              | Idealease        | In RTC                                      |
| Idaho Falls                        | Idealease        | In RTC                                      |
| <b>Illinois</b>                    |                  |   |
| Carol Stream                       | Idealease        | In RTC                                      |
| Chicago                            | Idealease        | In RTC                                      |
| Effingham                          | Idealease        | In RTC                                      |
| Huntley                            | Idealease        | In RTC                                      |
| Joliet                             | Idealease        | In RTC                                      |
| Springfield                        | Idealease        | In RTC                                      |



| <b>Rush Truck Leasing<br/>Location</b> | <b>Franchise</b> | <b>Standalone or in a<br/>Rush Truck Center</b> |
|--|------------------|---|
| <b>Indiana</b>                         |                  |   |
| Indianapolis                           | Idealease        | In RTC  |
| Gary                                   | Idealease        | In RTC  |
| <b>Missouri</b>                        |                  |   |
| St. Louis                              | Idealease        | In RTC  |
| St. Peters                             | Idealease        | In RTC  |
| <b>New Mexico</b>                      |                  |   |
| Albuquerque                            | PacLease         | Standalone                                      |
| <b>Nevada</b>                          |                  |   |
| Las Vegas                              | PacLease         | Standalone                                      |
| <b>North Carolina</b>                  |                  |   |
| Charlotte                              | Idealease        | Standalone                                      |
| <b>Ohio</b>                            |                  |   |
| Cincinnati                             | Idealease        | Standalone                                      |
| Cleveland                              | Idealease        | Standalone                                      |
| Columbus                               | Idealease        | Standalone                                      |
| Dayton                                 | Idealease        | In RTC  |
| <b>Oklahoma</b>                        |                  |   |
| Oklahoma City                          | PacLease         | In RTC  |
| <b>Tennessee</b>                       |                  |   |
| Nashville                              | PacLease         | In RTC  |
| <b>Texas</b>                           |                  |   |
| Austin                                 | PacLease         | Standalone                                      |
| El Paso                                | PacLease         | In RTC  |
| Arlington                              | PacLease         | In RTC  |
| Houston                                | PacLease         | Standalone                                      |
| Houston NW                             | PacLease         | In RTC  |
| Odessa                                 | PacLease         | Standalone                                      |
| San Antonio                            | PacLease         | In RTC  |
| Tyler                                  | PacLease         | Standalone                                      |
| <b>Virginia</b>                        |                  |   |
| Richmond                               | Idealease        | Standalone                                      |
| Norfolk                                | Idealease        | Standalone                                      |
| <b>Utah</b>                            |                  |   |
| Salt Lake City                         | Idealease        | Standalone                                      |

In addition to the locations in the above table, Rush Truck Leasing also provides full-service maintenance on customers' vehicles at several of our customers' facilities.

*Financial and Insurance Products.* At our Rush Truck Centers, we offer third-party financing to assist customers in purchasing new and used commercial vehicles. Additionally, we sell, as agent through our insurance agency, a complete line of property and casualty insurance, including collision and liability insurance on commercial vehicles, cargo insurance and credit life insurance.

*Other Businesses.* Perfection Equipment offers installation of equipment, equipment repair, parts installation, and paint and body repair at our location in Oklahoma City. Perfection Equipment specializes in up-fitting trucks used by oilfield service providers and other specialized service providers.

Momentum Fuel Technologies manufactures compressed natural gas fuel systems and related component parts for commercial vehicles at its facility in Roanoke, Texas.

Custom Vehicle Solutions operates at locations in Denton, Texas and Greencastle, Pennsylvania. Custom Vehicle Solutions provides new vehicle pre-delivery inspections, truck modifications, natural gas fuel system installations, body and chassis upfitting and component installation.

The House of Trucks operates at locations in Miami, Florida, Dallas, Texas and Chicago, Illinois. The House of Trucks sells used commercial vehicles, new and used trailers and offers third-party financing and insurance products.

World Wide Tires stores operate in two locations in Texas. World Wide Tires primarily sells tires for use on commercial vehicles.

## Industry

See Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Industry” for a description of our industry and the markets in which we operate.

## Our Business Strategy

*Operating Strategy.* Our strategy is to operate an integrated nationwide dealership network that provides service solutions to the commercial vehicle industry. Our strategy includes the following key elements:

- Management by Dealership Units. At each of our dealerships, we operate one or more of the following departments: new commercial vehicle sales, used commercial vehicle sales, financial services, parts, service or a collision center. Our general managers measure and manage the operations of each dealership according to the specific departments operating at that location. We believe that this system enhances the profitability of all aspects of a dealership and increases our overall operating margins. Operating goals for each department at each of our dealerships are established annually and managers are rewarded for performance relative to these goals.
- One-Stop Centers. We have developed our larger commercial vehicle dealerships as “one-stop centers” that offer an integrated approach to meeting customer needs. We provide service, including collision repairs, parts, new and used commercial vehicles sales, leasing and rental, plus financial services including finance and insurance. We believe that this full-service strategy helps to mitigate cyclical economic fluctuations because our parts, service and collision center operations (referred to herein collectively as “Aftermarket Products and Services”) at our dealerships generally tend to be less volatile than our new and used commercial vehicle sales.
- Aftermarket Products and Services. Our aftermarket capabilities include a wide range of services and products, including a fleet of mobile service units, mobile technicians who work in our customers’ facilities, technology solutions, including vehicle telematics support, a proprietary line of parts and accessories, and factory-certified service for assembly services for specialized bodies and equipment. We believe that offering a variety of Aftermarket Products and Services at our dealerships and other locations allows us to meet the expanding needs of our customers. We continually strive to leverage our dealership network to offer more products and services to our customers.
- Branding Program. We employ a branding program at all of our dealerships through distinctive signage and uniform marketing programs to take advantage of our existing name recognition and to communicate the standardized high quality of our products and reliability of our services throughout our dealership network.

*Growth Strategy.* Through our strategic expansion and acquisition initiatives, we have grown to operate a large, multistate, full-service network of commercial vehicle dealerships. We also own a 50% equity interest in RTC Canada that owns and operates 14 International locations in Ontario, Canada. We have an option to purchase the remaining 50% through February 25, 2024. As described below, we intend to continue to grow our business by expanding our product and service offerings, through acquisitions in new geographic areas and by opening new locations to enable us to better serve our customers.

- Expansion of Product and Service Offerings. We intend to continue to expand our product lines within our existing locations by adding product categories and service capabilities that are both complementary to our existing product lines and well suited to our operating model. We will continue to take advantage of technological advances that will provide us with the opportunity to offer vehicle owners more aftermarket options and the ability to maximize the performance of vehicles in their fleets using telematics and other technologies.
- Expansion Into New Geographic Areas. We plan to continue to expand our dealership network by acquiring existing dealerships or opening new locations in areas where we do not already have

locations. We believe the geographic diversity of our Rush Truck Center network has significantly expanded our customer base while reducing the effects of local economic cycles.

- Open New Rush Truck Centers in Existing Areas of Operation. We continually evaluate opportunities to increase our market presence by adding new Rush Truck Centers within our current franchises' areas of operation.

## Management of Our Dealerships

### *Rush Truck Centers*

Our Rush Truck Centers are responsible for sales of new and used commercial vehicles, as well as related parts and services.

Aftermarket Products and Services. Revenues from Aftermarket Products and Services accounted for approximately \$1,600.5 million, or 33.8%, of our total revenues for 2020, and 66.7% of our gross profit. Rush Truck Centers carry a wide variety of commercial vehicle parts in inventory. Certain Rush Truck Centers also feature fully equipped service and collision center facilities, the combination and configuration of which varies by location, capable of handling a broad range of repairs on most commercial vehicles. Each Rush Truck Center with a service department is a warranty service center for the commercial vehicle manufacturers represented at that location, if any, and most are also authorized service centers for other vehicle component manufacturers, including Cummins, Eaton, Caterpillar and Allison. We also have mobile service technicians and technicians who staff our customers' facilities upon request.

Our service departments perform warranty and non-warranty repairs on commercial vehicles. The cost of warranty work is generally reimbursed by the applicable manufacturer at retail commercial rates. Warranty-related parts and service revenues accounted for approximately \$127.1 million, or 2.7%, of our total revenues for 2020. Additionally, we provide a wide array of services, including assembly services for specialized commercial vehicle bodies and commercial vehicle mounted equipment. Our goal is to provide our customers with any service that they need related to their commercial vehicles.

As part of our leasing and rental operations, we also enter into contracts to provide full-service maintenance on certain customers' vehicles. We had 1,407 vehicles under contract maintenance as of December 31, 2020. The full-service maintenance revenues and retail service revenues are included as Aftermarket Products and Services revenues on our Consolidated Statements of Income.

New Commercial Vehicle Sales. New commercial vehicle sales represent the largest portion of our revenues, accounting for approximately \$2,571.8 million, or 54.3%, of our total revenues in 2020. Of this total, new Class 8 heavy-duty truck sales accounted for approximately \$1,587.9 million, or 33.5%, of our total revenues for 2020, and 61.7% of our new commercial vehicle revenues for 2020.

Our Rush Truck Centers that sell new and used Class 8 heavy-duty trucks manufactured by Peterbilt or International may also sell medium-duty and light-duty commercial vehicles. Certain Rush Truck Centers sell medium-duty commercial vehicles manufactured by Peterbilt, Hino, Isuzu, Ford, or International, buses manufactured by Blue Bird, IC Bus or Elkhart and light-duty commercial vehicles manufactured by Ford (see Part I, Item 1, "General – *Rush Truck Centers*" for information on which brands we sell at each Rush Truck Center). New medium-duty commercial vehicle sales, excluding new bus sales, accounted for approximately \$811.4 million, or 17.1%, of our total revenues for 2020, and 31.5% of our new commercial vehicle revenues for 2020. New light-duty commercial vehicle sales accounted for approximately \$50.1 million, or 1.1%, of our total revenues for 2020, and 1.9% of our new commercial vehicle revenues for 2020. New bus sales accounted for approximately \$108.3 million, or 2.3%, of our total revenues for 2020, and 4.2% of our new commercial vehicle revenues for 2020.

A significant portion of our new commercial vehicle sales are to customers with large fleets of commercial vehicles. Because of the size and geographic scope of our Rush Truck Center network, our strong relationships with our fleet customers and our ability to manage large quantities of used commercial vehicle trade-ins, we are able to successfully market and sell to fleet customers nationwide. We believe that we have a competitive advantage over many dealerships because we can absorb multi-unit trade-ins often associated with fleet sales and effectively disperse the used commercial vehicles for resale throughout our dealership network. We believe that the broad range of

products and services we offer to purchasers of commercial vehicles at the time of purchase and post-purchase results in a high level of customer loyalty.

Used Commercial Vehicle Sales. Used commercial vehicle sales accounted for approximately \$291.5 million, or 6.2%, of our total revenues for 2020. We sell used commercial vehicles at most of our Rush Truck Centers and also at our non-franchised used commercial vehicle facilities. We believe that we are well positioned to market used commercial vehicles due to our ability to recondition them for resale utilizing the service and collision center departments of our Rush Truck Centers and our ability to move used commercial vehicles between our dealerships as customer demand warrants. The majority of our used commercial vehicle inventory consists of commercial vehicles taken as trade-ins from new commercial vehicle customers or retired from our lease and rental fleet, but we also supplement our used commercial vehicle inventory by purchasing used commercial vehicles from third parties for resale, as market conditions warrant.

Vehicle Leasing and Rental. Vehicle leasing and rental revenues accounted for approximately \$236.2 million, or 5.0%, of our total revenues for 2020. At our Rush Truck Leasing locations, we engage in full-service commercial vehicle leasing through PacLease and Idealease. Rental vehicles are also generally serviced at our facilities. We had 8,104 vehicles in our lease and rental fleet, including cranes, as of December 31, 2020. Generally, we sell commercial vehicles that have been retired from our lease and rental fleet through our used commercial vehicles sales operations. Historically, we have realized gains on the sale of used lease and rental commercial vehicles.

New and Used Commercial Vehicle Financing and Insurance. The sale of financial and insurance products accounted for approximately \$21.9 million, or 0.5%, of our total revenues for 2020. Finance and insurance revenues have minimal direct costs and therefore, contribute a disproportionate share to our operating profits.

Many of our Rush Truck Centers have personnel responsible for arranging third-party financing for our product offerings. Generally, commercial vehicle finance contracts involve an installment contract, which is secured by the commercial vehicle financed and requires a down payment, with the remaining balance generally financed over a two-year to seven-year period. The majority of these finance contracts are sold to third parties without recourse to us. We provide an allowance for repossession losses and early repayment penalties that we may incur under these finance contracts.

We sell, as agent, a complete line of property and casualty insurance to commercial vehicle owners. Our agency, which operates at locations around the United States outside of our Rush Truck Centers, is licensed to sell commercial vehicle liability, collision and comprehensive, workers' compensation, cargo, and credit life insurance coverage offered by a number of leading insurance companies. Our renewal rate in 2020 was approximately 79%. We also have licensed insurance agents at several Rush Truck Centers.

## **Human Capital Management**

On December 31, 2020, the company employed 6,307 people. Of these employees, less than 1% of the workforce was classified as part-time. We do not regularly use independent contractors in our business operations. We strive to provide our employees with the security of long-term employment, competitive compensation and benefits and opportunities to improve their skills and advance within the Company.

*Core Values.* Our core values define our culture and reflect who we are and the way we interact with our customers, suppliers, co-workers and shareholders. Our core values are Productivity, Fairness, Excellence and Positive Attitude.

- Productivity means constantly striving toward efficiency and success in all interactions and activities while working with a common purpose and sense of urgency.
- Fairness characterizes our honesty, integrity, truthfulness, dependability and reliability in everything we do.
- Excellence means doing it better than everyone else does. Excellence is reflected in our first-class facilities, quality products and services, motivated and talented employees, superior results for the customer and consistency throughout our organization.

- Positive Attitude means approaching every day with excitement and passion for the work and dedication to our customers with positive intensity.

Each of these core values is embodied in our code of conduct, which we call our Rush Driving Principles. Employees are required to train and certify to these Rush Driving Principles annually. We believe that our core values are the foundation of a strong culture that is a strength for us, and we intend to continue building upon that culture to improve performance across our business.

*Employee Recruitment.* We strive to attract the best talent from a variety of sources to meet the current and future needs of our business. We have established relationships with multiple trade schools and universities across the country, which we utilize as a source for entry-level talent. Additionally, we believe it is incumbent upon all our managers to continuously monitor their local markets for experienced individuals who might be successful additions to our organization.

*Compensation Programs and Employee Benefits.* Our compensation programs are designed to provide a compensation package that will attract, retain, motivate and reward employees who must operate in a highly competitive, fast-paced environment. In general, our compensation programs consist of a base salary or hourly rate, commissions for employees in front-line customer facing roles, cash performance bonuses for certain employees, equity incentive awards for senior leaders, vacation leave, sick leave and other forms of paid time off.

We are committed to fair pay. In 2020, the Company established a minimum hourly wage of \$15.00 an hour. Our employees receive a base level of monthly or hourly compensation that we believe is commensurate with their expertise, skills, knowledge and experience.

We provide our full-time employees with comprehensive benefit options that allow our employees and their families to live healthier and more secure lives. Some examples of our wide-ranging benefits offered are: Medical insurance, prescription drug benefits, dental insurance, vision insurance, hospital indemnity insurance, accident insurance, critical illness insurance, smoking cessation assistance program, life insurance, disability insurance, health savings accounts and flexible spending accounts.

*Training and Development.* Our training and development programs are designed to facilitate the development and advancement of talent from within our organization to ensure we continuously fill our ranks with qualified employees for critical positions in the organization. Members of our Learning and Development team collaborate with employees from our various operations teams to identify our strategic training needs and prioritize the development of appropriate training content.

Our Rush Foundational Leader Program is focused on developing key management and leadership skills. The Rush Foundational Leader Program consists of a series of courses ranging from basic management skills to more advanced leadership concepts and skills that are designed for managers throughout our organization. We also have a New Graduate Management Trainee Program that identifies and recruits new talent from universities across the country and provides on-the-job training for them to fill various roles within our dealership network. Employees in the New Graduate Management Trainee Program work as full-time employees for three, two-month periods at a Rush Truck Center. Program participants gain experience in the areas of new and used vehicle sales, parts operations and service operations to provide them with a working knowledge of all aspects of our dealership operations. When participants complete the New Graduate Management Trainee Program, they are equipped with the knowledge needed to contribute to the successful operations of our dealerships.

To enhance and develop the technical skills of entry-level service and body shop technicians to increase their likelihood of success in their chosen careers, we established a formal mentorship program lead by experienced service and body shop technicians who serve as mentors to newly hired, entry level service and body shop technicians. This formal mentorship program also helps us identify top performers and we believe it improves employee performance and retention for participants in the program.

*Ethics and Compliance.* We are committed to the highest standards of corporate conduct. We maintain an Ethics and Compliance Program that is designed to meet external requirements, as well as our core values and code of conduct embodied in the Rush Driving Principles. A central component of our Ethics and Compliance Program is the continuous training and education of our employees on general ethics and compliance training topics. We also regularly reinforce our commitment to ethics and integrity in communications with our employees.

*Employee Engagement and Retention.* We conduct an annual comprehensive employee engagement survey designed to measure organizational culture and engagement. The purpose of the survey is to monitor overall employee engagement with the goal of identifying actions that can be taken to continuously improve our employee engagement and lead to increased employee retention. Data collected in each annual employee engagement survey is maintained and used to track our progress against our internal goals.

Management continually monitors employee turnover data, which is supplemented with additional data from exit surveys to assist in determining the reasons for voluntary employee terminations. In 2020, our overall turnover rate was 42.62%, which is significantly higher than normal because of involuntary reductions in our workforce that were made at the onset of the COVID-19 pandemic. The turnover rate of our service and body shop technicians is also monitored closely by management, as the retention of skilled service and body shop technicians is critical to the success of the Company. Demand for service and body shop technicians across the country is very high, and turnover in this role is also traditionally high for commercial vehicle dealers. In 2020, our turnover rate for service and body shop technicians was 39.24%.

*Health and Safety.* Promoting a safe and healthy workplace is our highest priority and is embodied in our core values. We utilize a mixture of leading and lagging indicators to assess the health and safety performance of our operations. Lagging indicators include the OSHA Total Recordable Incident Rate ("TRIR") and the Lost Time (or Lost Workday) Incident Rate ("LTIR") based upon the number of incidents per 100 employees (or per 200,000 work hours). Leading indicators include training completion rates, tracking of local safety committee meeting minutes, and recording of near misses, as well as other proactive actions taken to ensure employee safety. In 2020, we had a TRIR of 4.44, a LTIR of 0.41.

Refer to "The COVID-19 Pandemic and Its Impact on Our Business" included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on Human Capital Management actions taken by the Company in response to the COVID-19 pandemic.

*Labor Relations.* We have entered into collective bargaining agreements covering certain employees in Chicago, Illinois, which will expire on May 8, 2021, Joliet, Illinois, which will expire on May 7, 2022 and Carol Stream, Illinois, which will expire on May 6, 2023. There have been no strikes, work stoppages or slowdowns during the negotiations of the foregoing collective bargaining agreements or at any time in the Company's history, although no assurances can be given that such actions will not occur. We believe that our relations with the labor unions that represent these employees are generally good.

## **Sales and Marketing**

Our established history of operations in the commercial vehicle business has resulted in a strong customer base that is diverse in terms of geography, industry and scale of operations. Our customers include regional and national truck fleets, corporations, local and state governments and owner-operators. During 2020, no single customer accounted for more than 10% of our sales by dollar volume. We generally promote our products and related services through direct customer contact by our sales personnel and advertising.

## **Facility Management**

*Personnel.* Each of our facilities is typically managed by a general manager who oversees the operations, personnel and the financial performance of the location, subject to the direction of a regional manager and personnel at our corporate headquarters. Additionally, each full-service Rush Truck Center is typically staffed by department managers, sales representatives and other employees, as appropriate, given the services offered. The sales staff of each Rush Truck Center is compensated on a salary plus commission, or a commission only basis, while department managers receive a combination of salary and performance bonus. We believe that our employees are among the highest paid in the industry, which enables us to attract and retain qualified personnel.

*Compliance with Policies and Procedures.* Each Rush Truck Center is audited regularly for compliance with corporate policies and procedures. These internal audits objectively measure dealership performance with respect to corporate expectations in the management and administration of sales, commercial vehicle inventory, parts inventory, parts sales, service sales, collision center sales, corporate policy compliance and environmental and safety compliance matters.

*Purchasing and Suppliers.* Because of our size, we benefit from volume purchases at favorable prices that permit us to achieve a competitive pricing position in the industry. We purchase our commercial vehicle inventory

and proprietary parts and accessories directly from the applicable vehicle manufacturer, wholesale distributors, or other sources that provide the most favorable pricing. Most purchasing commitments are negotiated by personnel at our corporate headquarters. Historically, we have been able to negotiate favorable pricing levels and terms, which enable us to offer competitive prices for our products.

*Commercial Vehicle Inventory Management.* We utilize our management information systems to monitor the inventory level of commercial vehicles at each of our dealerships and transfer new and used commercial vehicle inventory among Rush Truck Centers as needed.

*Parts Distribution and Inventory Management.* We utilize a parts inventory distribution and management system that allows for the prompt transfer of parts inventory among various Rush Truck Centers. The transfer of inventory reduces delays in delivery, helps maximize inventory turns and assists in controlling problems created by overstock and understock situations. Our network is linked to our major suppliers for purposes of ordering parts and managing parts inventory levels. Automated reordering and communication systems allow us to maintain proper parts inventory levels and permit us to have parts inventory delivered to our locations, or directly to customers, typically within 24 hours of an order being placed.

### **Recent Acquisitions, Dispositions and Equity Method Investment**

On October 31, 2019, we, along with our joint venture partner, sold substantially all of the assets of Central California Truck & Trailer Sales, LLC. The transaction was valued at approximately \$12.7 million, with the purchase price paid in cash.

On May 6, 2019, we acquired certain assets of Stover Sales, Inc., which included real estate and a used truck dealership in Jacksonville, Florida, along with commercial vehicle and parts inventory. The transaction was valued at approximately \$2.3 million, with the purchase price paid in cash.

On February 25, 2019, we acquired a 50% equity interest in RTC Canada, which acquired the operating assets of Tallman Group, the largest International Truck dealer in Canada. RTC Canada currently operates a network of 14 International Truck full-service dealerships throughout the Province of Ontario. We were also granted a call option in the purchase agreement that provides us with the right to acquire the remaining 50% equity interest in RTC Canada until the close of business on February 25, 2024.

On February 11, 2019, we acquired certain assets of Country Ford Trucks, which included real estate and a Ford truck franchise in Ceres, California, along with commercial vehicle and parts inventory. The transaction was valued at approximately \$7.9 million, with the purchase price paid in cash.

### **Competition**

There is, and will continue to be, significant competition both within our current markets and in new markets we may enter. We anticipate that competition between us and other dealership groups will continue to increase in our current markets and on a national level based on the following:

- the ability to keep customers' vehicles operational, which is dependent on the accessibility of dealership locations;
- the number of dealership locations representing the manufacturers that we represent and other manufacturers, which impacts manufacturers' ability to provide more consistent, higher quality service in a timely manner across their dealership networks;
- price, value, quality and design of the products sold; and
- our attention to customer service (including technical service).

Our dealerships compete with dealerships representing other manufacturers, including commercial vehicles manufactured by Mack, Freightliner, Kenworth and Volvo. We believe that our dealerships are able to compete with other franchised dealerships, independent service centers, parts wholesalers, commercial vehicle wholesalers, rental service companies and industrial auctioneers in distributing our products and providing service because of the following: the overall quality and reputation of the products we sell; the "Rush" brand name recognition and reputation for quality service; the geographic scope of our dealership network; the breadth of commercial vehicles

offered in our dealership network; and our ability to provide comprehensive Aftermarket Products and Services, as well as financing, insurance and other customer services.

## **Dealership Agreements**

*Peterbilt.* We have entered into nonexclusive dealership agreements with Peterbilt that authorize us to act as a dealer of Peterbilt heavy- and medium-duty trucks. Our Peterbilt areas of responsibility currently encompass areas in the states of Alabama, Arizona, California, Colorado, Florida, Kentucky, New Mexico, Nevada, Oklahoma, Tennessee and Texas. These dealership agreements currently have terms expiring between November 2021 and September 2022. Our dealership agreements with Peterbilt may be terminated by Peterbilt in the event that the aggregate voting power of the estate of W. Marvin Rush, W.M. “Rusty” Rush, other members of the Rush family and certain executives of the Company decreases below 22%. Sales of new Peterbilt commercial vehicles accounted for approximately 32.1% of our total revenues for 2020.

*International.* We have entered into nonexclusive dealership agreements with Navistar that authorize us to act as a dealer of International heavy- and medium-duty trucks and, in certain markets, IC buses. Our Navistar areas of responsibility currently encompass areas in the states of Georgia, Idaho, Illinois, Indiana, Missouri, North Carolina, Ohio, Utah and Virginia. These dealership agreements currently have terms expiring between March 2021 and May 2025. Sales of new International commercial vehicles accounted for approximately 12.3% of our total revenues for 2020.

*Other Commercial Vehicle Suppliers.* In addition to our dealership agreements with Peterbilt and Navistar, various Rush Truck Centers have entered into dealership agreements with other commercial vehicle manufacturers, including Blue Bird, and Micro Bird, which currently have terms expiring between March 2021 and August 2024 and Ford, Hino and Isuzu, which have perpetual terms. Sales of new non-Peterbilt and non-International commercial vehicles accounted for approximately 9.9% of our total revenues for 2020.

All of our dealership agreements impose certain operational obligations and financial requirements upon us and the relevant dealerships. In addition, each of our dealership agreements requires the consent of the relevant manufacturer for the sale or transfer of a franchise.

Any termination or nonrenewal of our dealership agreements must follow certain guidelines established by both state and federal legislation designed to protect motor vehicle dealers from arbitrary termination or nonrenewal of franchise agreements. The federal Automobile Dealers Day in Court Act and certain other similar state laws generally provide that the termination or nonrenewal of a motor vehicle dealership agreement must be done in “good faith” and upon a showing of “good cause” by the manufacturer for such termination or nonrenewal, as such terms have been defined by statute and interpreted in case law.

## **Floor Plan Financing**

Most of our commercial vehicle inventory purchases are made on terms requiring payment to the manufacturer within 15 days or less from the date the commercial vehicles are invoiced from the factory. We finance the majority of all new commercial vehicle inventory and the loan value of our used commercial vehicle inventory under our credit agreement with BMO Harris Bank N.A. (“BMO Harris”) (the “Floor Plan Credit Agreement”). The Floor Plan Credit Agreement includes an aggregate loan commitment of \$1.0 billion. Borrowings under the Floor Plan Credit Agreement bear interest at an annual rate equal to (A) the greater of (i) zero and (ii) one month London Inter-Bank Offer Rate (“LIBOR”) rate, determined on the last day of the prior month, plus (B) 1.25% and are payable monthly. Loans under the Floor Plan Credit Agreement for the purchase of used commercial vehicle inventory are limited to \$150.0 million and loans for working capital purposes are limited to \$200.0 million. The Floor Plan Credit Agreement expires June 30, 2022, although BMO Harris has the right to terminate at any time upon 360 days written notice and we may terminate at any time, subject to specified limited exceptions. On December 31, 2020, we had approximately \$451.5 million outstanding under the Floor Plan Credit Agreement. The average daily outstanding borrowings under the Floor Plan Credit Agreement were \$600.1 million during the twelve months ended December 31, 2020. We utilize our excess cash on hand to pay down our outstanding borrowings under the Floor Plan Credit Agreement, and the resulting interest earned is recognized as an offset to our gross interest expense under the Floor Plan Credit Agreement.



## **Product Warranties**

The manufacturers we represent provide retail purchasers of their products with a limited warranty against defects in materials and workmanship, excluding certain specified components that are separately warranted by the suppliers of such components. We provide a warranty on our proprietary line of parts and related service and the fuel systems manufactured by Momentum Fuel Technologies. We also provide an extended warranty beyond the manufacturer's warranty on new Blue Bird school buses that we sell in Texas, as required by state law.

We generally sell used commercial vehicles in "as is" condition without a manufacturer's warranty, although manufacturers sometimes will provide a limited warranty on their used products if such products have been properly reconditioned prior to resale or if the manufacturer's warranty on such product is transferable and has not expired. Although we do not provide any warranty on used commercial vehicles, we offer for sale third-party warranties.

## **Trademarks**

The trademarks and trade names of the manufacturers we represent, which are used in connection with our marketing and sales efforts, are subject to limited licenses included in our dealership agreements with each manufacturer. The licenses are for the same periods as our dealership agreements. These trademarks and trade names are widely recognized and are important in the marketing of our products. Each licensor engages in a continuous program of trademark and trade name protection. We hold registered trademarks from the U.S. Patent and Trademark Office for the following names used in this document: "Rush Enterprises," "Rush Truck Center" and "Momentum Fuel Technologies."

## **Seasonality**

Our Truck Segment is moderately seasonal. Seasonal effects on new commercial vehicle sales related to the seasonal purchasing patterns of any single customer type are mitigated by the diverse geographic locations of our dealerships and our diverse customer base, including regional and national fleets, local and state governments, corporations and owner-operators. However, commercial vehicle Aftermarket Products and Services operations historically have experienced higher sales volumes in the second and third quarters.

## **Backlog**

On December 31, 2020, our backlog of commercial vehicle orders was approximately \$1,247.2 million, compared to a backlog of commercial vehicle orders of approximately \$1,236.5 million on December 31, 2019. Our backlog is determined quarterly by multiplying the number of new commercial vehicles for each particular type of commercial vehicle ordered by a customer at our Rush Truck Centers by the recent average selling price for that type of commercial vehicle. We include only confirmed orders in our backlog. However, such orders are subject to cancellation. In the event of order cancellation, we have no contractual right to the total revenues reflected in our backlog. The delivery time for a custom-ordered commercial vehicle varies depending on the truck specifications and demand for the particular model ordered. We sell the majority of our new heavy-duty commercial vehicles by customer special order and we sell the majority of our medium- and light-duty commercial vehicles out of inventory. Orders from a number of our major fleet customers are included in our backlog as of December 31, 2020, and we expect to fill the majority of our backlog orders during 2021.

## **Environmental Standards and Other Governmental Regulations**

We are subject to federal, state and local environmental laws and regulations governing the following: discharges into the air and water; the operation and removal of underground and aboveground storage tanks; the use, handling, storage and disposal of hazardous substances, petroleum and other materials; and the investigation and remediation of environmental impacts. As with commercial vehicle dealerships generally, and vehicle service, parts and collision center operations in particular, our business involves the generation, use, storage, handling and contracting for recycling or disposal of hazardous materials or wastes and other environmentally sensitive materials. We have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Our operations involving the use, handling, storage and disposal of hazardous and nonhazardous materials are subject to the requirements of the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. Pursuant to these laws, federal and state environmental agencies have established approved methods

for handling, storage, treatment, transportation and disposal of regulated substances with which we must comply. Our business also involves the operation and use of aboveground and underground storage tanks. These storage tanks are subject to periodic testing, containment, upgrading and removal under RCRA and comparable state statutes. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks.

We may also have liability in connection with materials that were sent to third-party recycling, treatment, or disposal facilities under the federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, and comparable state statutes. These statutes impose liability for investigation and remediation of environmental impacts without regard to fault or the legality of the conduct that contributed to the impacts. Responsible parties under these statutes may include the owner or operator of the site where impacts occurred and companies that disposed, or arranged for the disposal, of the hazardous substances released at these sites. These responsible parties also may be liable for damages to natural resources. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances or other materials into the environment.

The federal Clean Water Act and comparable state statutes require containment of potential discharges of oil or hazardous substances, and require preparation of spill contingency plans. Water quality protection programs govern certain discharges from some of our operations. Similarly, the federal Clean Air Act and comparable state statutes regulate emissions of various air emissions through permitting programs and the imposition of standards and other requirements.

The Environmental Protection Agency (“EPA”) and the National Highway Traffic Safety Administration (“NHTSA”), on behalf of the U.S. Department of Transportation, issued rules associated with reducing greenhouse gas (“GHG”) emissions and improving the fuel efficiency of medium and heavy-duty trucks and buses for model years 2021 through 2027. We do not believe that these rules will negatively impact our business, however, future legislation or other new regulations that may be adopted to address GHG emissions or fuel efficiency standards may negatively impact our business. Additional regulations could result in increased compliance costs, additional operating restrictions or changes in demand for our products and services, which could have a material adverse effect on our business, financial condition and results of operations.

We do not believe that we currently have any material environmental liabilities or that compliance with environmental laws and regulations will have a material adverse effect on our results of operations, financial condition or cash flows. However, soil and groundwater impacts are known to exist at some of our dealerships. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with our dispositions, or prior dispositions made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material. Compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and those expenditures could be material.

## **Item 1A. Risk Factors**

An investment in our common stock is subject to certain risks inherent to our business. In addition to the other information contained in this Form 10-K, we recommend that you carefully consider the following risk factors in evaluating our business. If any of the following risks actually occur, our financial condition and results of operations could be materially adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment. This report is qualified in its entirety by these risk factors.

### **Risks Related to Our Business**

*We are dependent upon PACCAR for the supply of Peterbilt trucks and parts, the sale of which generates the majority of our revenues.*

At certain Rush Truck Centers, we operate as a dealer of Peterbilt trucks and parts pursuant to dealership agreements with Peterbilt, a division of PACCAR. We have no control over the management or operation of Peterbilt or PACCAR. During 2020, the majority of our revenues resulted from sales of trucks purchased from Peterbilt and

parts purchased from PACCAR Parts. Due to our dependence on PACCAR and Peterbilt, we believe that our long-term success depends, in large part, on the following:

- our ability to maintain our dealership agreements with Peterbilt;
- the manufacture and delivery of competitively-priced, technologically current, high-quality Peterbilt trucks in quantities sufficient to meet our requirements;
- the overall success of PACCAR and Peterbilt;
- PACCAR's continuation of its Peterbilt division; and
- the maintenance of goodwill associated with the Peterbilt brand, which can be adversely affected by decisions made by PACCAR, Peterbilt and the owners of other Peterbilt dealerships.

A negative change in any of the preceding, or a change in control of PACCAR, could have a material adverse effect on our operations, revenues and profitability.

*We are dependent upon Navistar for the supply of International trucks and parts and IC buses and parts, the sale of which generate a significant portion of our revenues.*

At certain Rush Truck Centers, we operate as a dealer of International trucks and parts and IC buses and parts pursuant to dealership agreements with International and IC Bus, each of which are divisions of Navistar. We have no control over the management or operation of International, IC Bus or Navistar. During 2020, a significant portion of our revenues resulted from sales of trucks purchased from International, buses purchased from IC Bus and parts purchased from Navistar. Due to our dependence on Navistar, International and IC Bus, we believe that our long-term success depends, in large part, on the following:

- our ability to maintain our dealership agreements with International and IC Bus;
- the manufacture and delivery of competitively-priced, technologically current, high-quality International trucks and IC buses in quantities sufficient to meet our requirements;
- the overall success of Navistar; and
- the maintenance of goodwill associated with the International and IC Bus brands, which can be adversely affected by decisions made by Navistar and the owners of other International and IC Bus dealerships.

A negative change in any of the preceding, or a change in control of Navistar, could have a material adverse effect on our operations, revenues and profitability. On November 7, 2020, Navistar and Traton SE ("Traton"), a subsidiary of Volkswagen AG, disclosed that they entered into a definitive merger agreement pursuant to which Traton will purchase all of Navistar's outstanding stock. The transaction is expected to close in mid-2021 and is subject to shareholder and regulatory approvals. Assuming the transaction is accepted by Navistar's shareholders and approved by regulatory authorities, we cannot predict how new ownership of Navistar might affect our business; provided, however, that at this time, our senior management is not aware of any circumstances associated with the proposed sale that would result in a material adverse effect on our operations, revenues or profitability.

*Our dealership agreements may be terminable upon a change of control and we cannot control whether our controlling shareholder and management maintain their current ownership positions.*

We have entered into nonexclusive dealership agreements with Peterbilt that authorize us to act as a dealer of Peterbilt trucks. Peterbilt may terminate our dealership agreements in the event of a change of control of the Company or if we violate any number of provisions in the dealership agreements. Under our Peterbilt dealership agreements, the following constitute a change of control: (i) with respect to the election of directors, the aggregate voting power held by the estate of W. Marvin Rush, W. M. "Rusty" Rush, James Thor, Scott Anderson, Derrek Weaver, Steven Keller and Corey Lowe, along with certain other persons who no longer work for the company (collectively, the "Dealer Principals") decreases below 22% (the estate of W. Marvin Rush and such persons, excluding those who no longer work for the company, controlled 39.11% of the aggregate voting power with respect to the election of directors as of December 31, 2020); or (ii) any person or entity other than the Dealer Principals

and their respective associates, or any person or entity who has been approved in writing by PACCAR, owns common stock with a greater percentage of the voting power with respect to the election of our directors than the Dealer Principals and their respective associates, in the aggregate, or any person other than W. M. “Rusty” Rush, Robin M. Rush or any person who has been approved in writing by PACCAR holds the office of Chairman of the Board, President or Chief Executive Officer of the Company. We have no control over the transfer or disposition by the estate of W. Marvin Rush or W.M. “Rusty” Rush, or his estate, of their common stock. If the estate of W. Marvin Rush or W.M. “Rusty” Rush were to sell their Class B Common Stock or bequest their Class B Common Stock to a person or entity other than the Dealer Principals, or if their estates are required to liquidate their Class B Common Stock that they own, directly or indirectly, to pay estate taxes or otherwise, the change of control provisions of the Peterbilt dealership agreements may be triggered, which would give Peterbilt the right to terminate our dealership agreements. If our dealership agreements with Peterbilt are terminated, we will lose the right to purchase Peterbilt products and operate as an authorized Peterbilt dealer, which would have a material adverse effect on our operations, revenues and profitability.

*Our dealership agreements are non-exclusive and have relatively short terms which could result in nonrenewal or imposition of less favorable terms upon renewal.*

Our dealership agreements generally do not provide us with exclusive dealerships in any of the areas of responsibility assigned in each dealer agreement. The manufacturers we represent could elect to create additional dealers in our areas of responsibility in the future, subject to restrictions imposed by state laws. While dealership agreements typically restrict dealers from operating franchised sales or service facilities outside their areas of responsibility, such agreements do not restrict sales or marketing activity outside the areas of responsibility. Accordingly, we engage in sales and other marketing activities outside our assigned areas of responsibility and other dealers engage in similar activities within our areas of responsibility.

Our dealership agreements with the manufacturers we represent have current terms expiring between March 2021 and May 2025. Upon expiration of each agreement, we must negotiate a renewal. Management expects that, consistent with in some cases decades of past practice, each of our dealership agreements will be renewed or otherwise extended before its termination date, provided that we do not breach any of the material terms of such agreement.

Management attempts to mitigate the risk that any manufacturer would not renew a dealership agreement by providing superior representation of each brand that we represent in each of our areas of responsibility. We deliver superior representation to our manufacturers by continuously investing substantial capital into our dealership locations, marketing and personnel. Senior members of our management team also communicate with management of the manufacturers that we represent on a regular basis, which we believe allows us to identify any potentially problematic issues as early as possible so that we can begin working on mutually agreeable solutions. In addition to the proactive steps that management takes, the risks that our dealership agreements will not be renewed are also mitigated by dealer protection laws that exist in each of the states that our dealerships are located. Many of these state dealer franchise laws restrict manufacturers’ ability to refuse to renew dealership agreements or to impose new terms upon renewal. However, to the extent such laws did allow for nonrenewal or the imposition of new terms, the relatively short terms would give manufacturers the opportunity to exercise such rights. Any nonrenewal or imposition of less favorable terms upon renewal could have an adverse impact on our business and in the case of the Peterbilt or Navistar dealership agreements, would have an adverse impact on our business.

*If state dealer laws are repealed or weakened, our dealerships will be more susceptible to termination, nonrenewal or renegotiation of their dealership agreements.*

We depend on our vehicle dealership agreements for a substantial portion of our revenues and profitability. State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a dealership agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or nonrenewal. Vehicle manufacturers’ lobbying efforts may lead to the repeal or revision of state motor vehicle dealer laws. If motor vehicle dealer laws are repealed or amended in the states in which we operate dealerships, the manufacturers we represent may be able to terminate our vehicle dealership agreements without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, or if such laws are weakened, we will be subject to higher risk of termination or nonrenewal of our vehicle dealership agreements. Termination or nonrenewal of our vehicle dealership agreements would have a material adverse effect on our operations, revenues and profitability.

*We may be required to obtain additional financing to maintain adequate inventory levels.*

Our business requires new and used commercial vehicle inventories held for sale to be maintained at dealer locations in order to facilitate immediate sales to customers on demand. We generally purchase new and used commercial vehicle inventories with the assistance of floor plan financing agreements. Our primary floor plan financing agreement, the Floor Plan Credit Agreement, expires on June 30, 2022, and may be terminated without cause upon 360 days' notice. In the event that our floor plan financing becomes insufficient to satisfy our future requirements or our floor plan providers are unable to continue to extend credit under our floor plan agreements, we would need to obtain similar financing from other sources. There is no assurance that such additional floor plan financing or alternate financing could be obtained on commercially reasonable terms.

*Changes in interest rates could have a material adverse effect on our profitability.*

Our Floor Plan Credit Agreement and some of our other debt are subject to variable interest rates. Therefore, our interest expense would rise with any increase in interest rates. Currently, our outstanding borrowings under our Floor Plan Credit Agreement and certain other loan agreements are borrowed at LIBOR plus an applicable margin. The U.K. Financial Conduct Authority has announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. However, it is anticipated at this time that LIBOR quotes will be available for existing credit agreements until mid-2023, which would mean that our Floor Plan Credit Agreement would not be impacted by the end of LIBOR, since it expires on June 30, 2022. Currently, it appears that the Secured Overnight Funding Rate ("SOFR") will replace LIBOR in the majority of credit agreements which currently use LIBOR. It is unclear how increased regulatory oversight and changes in the method for determining benchmark interest rates may affect our results of operations or financial conditions. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates such as SOFR, or any other reforms to benchmark interest rates that may be enacted in the United Kingdom or elsewhere, including the potential impact to our Floor Plan Credit Agreement. However, any rise in interest rates generally may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used commercial vehicle sales, because many of our customers finance such purchases. As a result, a rise in interest rates may have the effect of simultaneously increasing our costs and reducing our revenues, which could materially affect our business, financial condition and results of operations. See "Quantitative and Qualitative Disclosures about Market Risk" for a discussion regarding our interest rate sensitivity.

*COVID-19 has disrupted, and may continue to disrupt, our business, which could adversely affect our financial performance.*

In March 2020, the World Health Organization made the assessment that COVID-19 could be characterized as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The COVID-19 pandemic adversely impacted our financial performance in 2020. While our Rush Truck Centers have remained operational throughout the COVID-19 pandemic and have been classified as "essential businesses," the pandemic is a fluid and evolving situation and we cannot anticipate whether we may be forced to close any of our locations due to potential restrictions imposed by a governmental authority in one of the jurisdictions that we operate or due to a COVID-19 outbreak at one of our locations that forces us to close such affected dealership. In addition, all of the commercial vehicle manufacturers that we represent were forced to suspend manufacturing operations at certain plants, and while all of the plants are currently operating, we cannot predict with any certainty whether such plants may be forced to suspend operations again at some point in the future due to COVID-19.

Although the COVID-19 pandemic had a significant negative impact on our business in 2020, the magnitude of the impact for 2021 cannot be predicted at this time due to numerous uncertainties, the effectiveness of actions taken to contain the spread of the disease and other unintended consequences. Some of the potential impacts to our business that we believe are directly related to the COVID-19 pandemic and that we are currently monitoring include, but are not limited to:

- The impact that the pandemic will have on customer demand. For example, our parts and service business was severely impacted in the second quarter of 2020 as a result of orders from state and local governments to shut down a wide range of businesses that we support, but has since recovered gradually as those shut down orders expired or were rescinded;
- The impact that the pandemic will have on our workforce availability. For example, in the fourth quarter of 2020, as the number of COVID-19 cases increased throughout the country, we experienced our highest levels of pandemic-related employee absenteeism, which directly impacted our ability to serve customers;

- The impact that the pandemic will have on the supply chains of the commercial vehicle manufacturers and parts manufacturers that we represent. For example, production shutdowns in 2020 for some of the manufacturers we represent led to supply constraints, which negatively impacted our results for 2020. Currently, the commercial vehicle manufacturers that we represent are attempting to increase build capacity, but there is concern that component manufacturers' supply chain issues, particularly with respect to microchip manufacturers, may limit certain of our commercial vehicle manufacturers' ability to meet demand throughout the year; and
- The impact of the pandemic on global capital markets, which depending on future developments, could impact our capital resources and liquidity in the future.

The potential impacts that we list above, and other impacts of the COVID-19 pandemic, are likely to also have the effect of heightening many of the other risk factors described herein.

*Impairment in the carrying value of goodwill and other indefinite-lived intangible assets could negatively affect our operating results.*

We have a substantial amount of goodwill on our balance sheet as a result of acquisitions we have completed. Approximately 99% of this goodwill is concentrated in our Truck Segment. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. Goodwill is not amortized, but instead is evaluated for impairment at least annually, or more frequently if potential interim indicators exist that could result in impairment. In testing for impairment, if the carrying value of a reporting unit exceeds its current fair value as determined based on the discounted future cash flows of the reporting unit, the goodwill is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in impairment include weak economic activity, adverse changes in the regulatory environment, any matters that impact the ability of the manufacturers we represent to provide us with commercial vehicles or parts, issues with our franchise rights, or other factors leading to reductions in expected long-term sales or profitability. Determination of the fair value of a reporting unit includes developing estimates that are highly subjective and incorporate calculations that are sensitive to minor changes in underlying assumptions. Changes in these assumptions or a change in the Company's reportable segments could result in an impairment charge in the future, which could have a significant adverse impact on our reported earnings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Goodwill" for more information regarding the potential impact of changes in assumptions.

*Our business is subject to a number of economic risks.*

New and used commercial vehicle retail sales tend to experience periods of decline when general economic conditions worsen. We may experience sustained periods of decreased commercial vehicle sales in the future. Any decline or change of this type could materially affect our business, financial condition and results of operations. In addition, adverse regional economic and competitive conditions in the geographic markets in which we operate could materially adversely affect our business, financial condition and results of operations. Our commercial vehicle sales volume therefore may differ from industry sales fluctuations.

Economic conditions and the other factors described above also may materially adversely impact our sales of parts and repair services, and finance and insurance products.

*We depend on relationships with the manufacturers we represent and component suppliers for sales incentives, discounts and similar programs which are material to our operations.*

We depend on the manufacturers we represent and component suppliers for sales incentives, discounts, warranties and other programs that are intended to promote the sales of their commercial vehicles or our use of their components in the vehicles we sell. Most of the incentives and discounts are individually negotiated and not always the same as those made available to commercial vehicle manufacturers or our competitors. These incentives and discounts are material to our operations. A reduction or discontinuation of a commercial vehicle manufacturer's or component supplier's incentive program could have a material adverse effect on our profitability.

*We are dependent on the ongoing success of the manufacturers we represent and adverse conditions affecting the manufacturers we represent may negatively impact our revenues and profitability.*

The success of each of our dealerships is dependent on the manufacturers represented at each dealership. Our ability to sell new vehicles that satisfy our customers' demands and replacement parts is dependent on the ability of the manufacturers we represent to produce and deliver new vehicles and replacement parts to our dealerships. Additionally, our dealerships perform warranty work for vehicles under manufacturer product warranties, which are billed to the appropriate vehicle manufacturer or component supplier as opposed to invoicing our customer. We generally have significant receivables from vehicle manufacturers and component suppliers for warranty and service work performed for our customers. In addition, we rely on vehicle manufacturers and component suppliers to varying extents for product training, marketing materials, and other items for our stores. Our business, results of operations, and financial condition could be materially adversely affected as a result of any event that has a material adverse effect on the vehicle manufacturers or component suppliers we represent.

The manufacturers we represent may be adversely impacted by economic downturns, significant declines in the sales of their new vehicles, labor strikes or similar disruptions (including within their major suppliers), rising raw materials costs, rising employee benefit costs, adverse publicity that may reduce consumer demand for their products (including due to bankruptcy), product defects, vehicle recall campaigns, litigation, poor product mix or unappealing vehicle design, governmental laws and regulations, or other adverse events. Our results of operations, financial condition or cash flows could be adversely affected if one or more of the manufacturers we represent are impacted by any of the foregoing adverse events.

Actions taken in response to continued operational losses by manufacturers we represent, including bankruptcy or reorganizations, could have a material adverse effect on our sales volumes and profitability. In addition, such actions could lead to the impairment of one or more of our franchise rights, inventories, fixed assets and other related assets, which in turn could have a material adverse effect on our financial condition and results of operations. Actions taken in response to continued operational losses by manufacturers we represent, including bankruptcy or reorganizations, could also eliminate or reduce such manufacturers' indemnification obligations to our dealerships, which could increase our risk in products liability actions.

*The dollar amount of our backlog, as stated at any given time, is not necessarily indicative of our future earnings.*

As of December 31, 2020, our backlog of new commercial vehicle orders was approximately \$1,247.2 million. Our backlog is determined quarterly by multiplying the number of new commercial vehicles for each particular type of commercial vehicle ordered by a customer at our Rush Truck Centers by the recent average selling price for that type of commercial vehicle. We only include confirmed orders in our backlog. However, such orders are subject to cancellation. In the event of order cancellation, we have no contractual right to the total revenues reflected in our backlog.

Reductions in backlog due to cancellation by a customer or for other reasons will adversely affect, potentially to a material extent, the revenue and profit we actually receive from orders projected in our backlog. If we were to experience significant cancellations of orders in our backlog, our financial condition could be adversely affected.

*Our growth strategies may be unsuccessful if we are unable to successfully execute our strategic initiatives or identify and complete future acquisitions.*

Over the past few years, we have spent significant resources and efforts attempting to grow and enhance our Aftermarket Products and Services business and increase profitability through new business process management initiatives. These efforts require timely and continued investment in technology, facilities, personnel and financial and management systems and controls. We may not be successful in implementing all of the processes that are necessary to support any of our growth initiatives, which could result in our expenses increasing disproportionately to our incremental revenues, causing our operating margins and profitability to be adversely affected.

Historically, we have achieved a significant portion of our growth through acquisitions and we will continue to consider potential acquisitions on a selective basis. There can be no assurance that we will be able to identify suitable acquisition opportunities in the future or that we will be able to consummate any such transactions on terms and conditions acceptable to us. Moreover, there can be no assurance that we will obtain manufacturers' consents to acquisitions of additional franchises.

*In the long-term, technological advances in the commercial vehicle industry, including drivetrain electrification or other alternative fuel technologies, could have a material adverse effect on our business.*

The commercial vehicle industry is predicted to experience change over the long-term. We see these changes beginning to occur, as certain of the manufacturers we represent now have vehicles with electric drivetrains available for purchase. Technological advances, including with respect to drivetrain electrification or other alternative fuel technologies, could potentially have a material adverse effect on our parts and service business, as such vehicles are currently being described as potentially requiring less service and having fewer parts. The effect of these technological advances on our business is still uncertain, as there are many factors that are unknowable at this time, including when the infrastructure to support widespread adoption of such vehicles will be in place and when such vehicles may be commercially available at price points that would lead to their widespread adoption. Regardless of where the industry goes with respect to alternative fuel vehicles, we believe that, due to the geographic reach of our dealership network, relationships with both the manufacturers we represent and our customers and our access to capital, we are well-positioned to serve our customers' evolving needs.

Similarly, although we are aware of ongoing efforts to facilitate the development of autonomous commercial vehicles, the eventual timing of the availability of autonomous commercial vehicles is uncertain due to regulatory requirements and additional technological requirements. The effect of autonomous commercial vehicles on the commercial vehicle industry is uncertain and could include changes in the level of new and used commercial vehicles sales, the price of new commercial vehicles, and the role of franchised dealers, any of which could materially adversely affect our business, financial condition and results of operations.

*Our dealerships are subject to federal, state and local environmental regulations that may result in claims and liabilities, which could be material.*

We are subject to federal, state and local environmental laws and regulations governing the following: discharges into the air and water; the operation and removal of underground and aboveground storage tanks; the use, handling, storage and disposal of hazardous substances, petroleum and other materials; and the investigation and remediation of contamination. As with commercial vehicle dealerships generally, and service, parts and collision center operations in particular, our business involves the generation, use, storage, handling and contracting for recycling or disposal of hazardous materials or wastes and other environmentally sensitive materials. Any non-compliance with these laws and regulations could result in significant fines, penalties and remediation costs which could adversely affect our results of operations, financial condition or cash flows.

We may also have liability in connection with materials that were sent to third party recycling, treatment, or disposal facilities under federal and state statutes. Applicable laws may make us responsible for liability relating to the investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. In connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with dispositions of businesses, or dispositions previously made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material.

Further, environmental laws and regulations are complex and subject to change. For example, in July 2020, a group of fifteen U.S. states and the District of Columbia entered into a joint memorandum of understanding that commits each of them to work together to advance and accelerate the market for electric Class 3 through 8 commercial vehicles. Three of the states that signed are states where we sell new commercial vehicles: California, Colorado and North Carolina. The signatories to the memorandum all agreed on a goal of ensuring that 100% of new Class 3 through 8 commercial vehicles are zero emission, with an interim target of 30% zero emission by 2030. Attaining these goals would likely require the adoption of new laws and regulations and we cannot predict at this time whether such laws and regulations would have an adverse impact on our business. Compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us which could materially adversely affect our results of operations, financial condition or cash flows. In addition, such laws could affect demand for the products that we sell.

*Disruptions to our information technology systems and breaches in data or system security could adversely affect our business.*

We rely upon our information technology systems to manage all aspects of our business, including processing and recording sales to, and payments from, customers, managing inventory, communicating with



manufacturers and vendors, processing employee payroll and benefits and financial reporting. Any inability to manage these systems, including with respect to matters related to system and data security, privacy, reliability, compliance, performance and access, as well as any inability of these systems to fulfill their intended purpose within our business, could have an adverse effect on our business. In addition, in the ordinary course of business, we collect and store sensitive data and information, including our proprietary business information and that of our customers, suppliers and business partners, as well as personally identifiable information about our employees and customers. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, could be vulnerable to cyberattacks and other security breaches, computer viruses, lost or misplaced data, programming errors, human errors or other events, and such incidents can remain undetected for a period of time despite our best efforts to detect and respond to them in a timely manner. We routinely monitor our systems for cyber threats and have processes in place to detect and remediate vulnerabilities. Nevertheless, we have experienced occasional cyberattacks and attempted breaches, including phishing emails and ransomware infections. We detected and remediated all of these incidents, all of which we categorized as “commodity threats,” or general attacks common to companies connected to the internet and communicating via email. No known leakage of financial, technical or customer data occurred and none of the incidents had a material adverse effect on our business, operations, reputation, or consolidated results of operations or consolidated financial condition.

Any cyberattack, security breach or other event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information of personal identifiable information of employees or customers, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors and employees and result in litigation or regulatory actions, all of which could have a material adverse effect on our business and reputation.

*We are exposed to a variety of claims relating to our business and the liability associated with such claims may exceed the level of our insurance coverage.*

In the course of our business, we are exposed to claims for personal injury, death or property damage resulting from: (i) our customers’ use of commercial vehicles that we sell, service, lease or rent; (ii) our customers’ purchase of other products that we design, manufacture, sell or install, such as commercial vehicle parts, custom vehicle modifications and CNG fuel tank systems; and (iii) injuries caused by motor vehicle accidents that our service or delivery personnel are involved in. In addition, we have employees who work remotely from time to time at certain customers’ locations that are considered inherently dangerous, such as oil or gas well drilling sites, commercial construction sites and manufacturing facilities. We could also be subject to potential litigation associated with compliance with various laws and governmental regulations at the federal, state or local levels, such as those relating to vehicle and highway safety, health and workplace safety, security and employment-related claims.

We carry comprehensive liability insurance, subject to deductibles, at levels we believe are sufficient to cover existing and future claims. However, we may be exposed to claims for which coverage is not afforded or the damages exceed the limits of our insurance coverage or multiple claims causing us to incur significant out-of-pocket costs before reaching the deductible amount, all of which could adversely affect our financial condition and results of operations. In addition, the cost of such insurance policies may increase significantly upon renewal of those policies as a result of general rate increases for the type of insurance we carry as well as our historical experience and experience in our industry. Although we have not experienced any material losses that were not covered by insurance, our existing or future claims may exceed the coverage level of our insurance, and such insurance may not continue to be available on economically reasonable terms, or at all. If we are required to pay significantly higher premiums for insurance, are not able to maintain insurance coverage at affordable rates or if we must pay amounts in excess of claims covered by our insurance, we could experience higher costs that could adversely affect our financial condition and results of operations.

*Climate change concerns may impact our business in the future; natural disasters and adverse weather events can disrupt our business.*

The concerns over climate change may impact our business in the future. Our current business model depends on our ability to sell, and provide services to, commercial vehicles primarily powered by diesel and gasoline internal combustion engines, which result in greenhouse gas emissions. While the manufacturers we represent have made substantial progress in reducing the amount of greenhouse gas emissions that result from internal combustion engines, it is widely accepted that alternative fuel vehicles are necessary to address climate change. Reductions in the sale and use of commercial vehicles powered by internal combustion engines creates risks to our historical business operations and we cannot predict the future costs to our business resulting from these developments. However, we also believe that an industry transition away from internal combustion engines presents significant

opportunities for us. Due in large part to the geographic reach of our dealership network, relationships with both the manufacturers we represent and our customers and our access to capital, we believe we are well-positioned to serve our customers' evolving needs and help them reduce their greenhouse gas emissions by helping them integrate more alternative fuel vehicles into their fleets and providing various services related thereto.

Scientific evidence suggests that a warming climate potentially results in an environment more prone to natural disasters, such as hurricanes and flooding. To date, we have seen increases in our cost to insure against such risks, which costs could continue to increase should this trend continue. Some of our dealerships are located in regions of the United States where natural disasters and severe weather events (such as hurricanes, earthquakes, fires, floods, tornadoes and hail storms) may disrupt our operations, which may adversely impact our business, results of operations, financial condition and cash flows. In addition to business interruption, our business is subject to substantial risk of property loss due to the significant concentration of property at dealership locations. Although we have substantial insurance to cover this risk, we may be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

### **Risks Related to Our Common Stock**

*We are controlled by two shareholders and their affiliates.*

Collectively, the estate of W. Marvin Rush and W. M. "Rusty" Rush and their affiliates own approximately 0.6% of our issued and outstanding shares of Class A Common Stock and 45.8% of our issued and outstanding Class B Common Stock. The estate of W. Marvin Rush and W.M. "Rusty" Rush collectively control approximately 36.3% of the aggregate voting power of our outstanding shares, which is substantially more than any other person or group. The interests of the estate of W. Marvin Rush and W.M. "Rusty" Rush may not be consistent with the interests of all shareholders, or each other. As a result of such ownership, the estate of W. Marvin Rush and W.M. "Rusty" Rush have the power to effectively control the Company, including the election of directors, the determination of matters requiring shareholder approval and other matters pertaining to corporate governance.

*Our dealership agreements could discourage another company from acquiring us.*

Our dealership agreements with Peterbilt impose ownership requirements on certain officers of the Company. All of our dealership agreements include restrictions on the sale or transfer of the underlying franchises. These ownership requirements and restrictions may prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock.

Additionally, W. Marvin Rush and W.M. "Rusty" Rush granted Peterbilt a right of first refusal to purchase their respective shares of common stock in the event that they desire to transfer in excess of 100,000 shares in any 12-month period to any person other than an immediate family member, an associate or another Dealer Principal. However, in the case of the estate of W. Marvin Rush, certain shares of his Class B Common Stock of the Company are exempt from his rights of first refusal agreement. These rights of first refusal, the number of shares owned by the estate of W. Marvin Rush and W.M. "Rusty" Rush and their affiliates, the requirement in our dealership agreements that the Dealer Principals retain a controlling interest in us and the restrictions on the sale or transfer of our franchises contained in our dealer agreements, combined with the ability of the Board of Directors to issue shares of preferred stock without further vote or action by the shareholders, may discourage, delay or prevent a change in control without further action by our shareholders, which could adversely affect the market price of our common stock or prevent or delay a merger or acquisition that our shareholders may consider favorable.

Actions by our shareholders or prospective shareholders that would violate any of the above restrictions on our dealership agreements are generally outside of our control. If we are unable to renegotiate these restrictions, we may be forced to terminate or sell one or more of our dealerships, which could have a material adverse effect on us. These restrictions may also inhibit our ability to raise required capital or to issue our stock as consideration for future acquisitions.

*Class A Common Stock has limited voting power.*

Each share of Class A Common Stock ranks substantially equal to each share of Class B Common Stock with respect to receipt of any dividends or distributions declared on shares of common stock and the right to receive proceeds on liquidation or dissolution of us after payment of our indebtedness and liquidation preference payments to holders of any preferred shares. However, holders of Class A Common Stock have 1/20th of one vote per share on all matters requiring a shareholder vote, while holders of Class B Common Stock have one full vote per share.

*Our Class B Common Stock has a low average daily trading volume. As a result, sales of our Class B Common Stock could cause the market price of our Class B Common Stock to drop, and it may be difficult for a stockholder to liquidate its position in our Class B Common Stock quickly without adversely affecting the market price of such shares.*

The volume of trading in our Class B Common Stock varies greatly and may often be light. As of December 31, 2020, the three-month average daily trading volume of our Class B Common Stock was approximately 12,400 shares, with twenty-one days having a trading volume below 7,500 shares. If any large shareholder were to begin selling shares in the market, the added available supply of shares could cause the market price of our Class B Common Stock to drop. In addition, the lack of a robust resale market may require a shareholder to sell a large number of shares of our Class B Common Stock in increments over time to mitigate any adverse impact of the sales on the market price of our Class B Common Stock.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Our corporate headquarters are located in New Braunfels, Texas. As of December 2020, we also own or lease numerous facilities used in our operations in the following states: Alabama, Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Missouri, New Mexico, Nebraska, Nevada, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah and Virginia.

We lease a hangar in New Braunfels, Texas for the corporate aircraft. We also own and operate a guest ranch of approximately 9,500 acres near Cotulla, Texas, which is used for client development purposes.

#### **Item 3. Legal Proceedings**

From time to time, we are involved in litigation arising out of our operations in the ordinary course of business. We maintain liability insurance, including product liability coverage, in amounts deemed adequate by management. To date, aggregate costs to us for claims, including product liability actions, have not been material. However, an uninsured or partially insured claim, or claim for which indemnification is not available, could have a material adverse effect on our financial condition or results of operations. We believe that there are no claims or litigation pending, the outcome of which could have a material adverse effect on our 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 our financial condition or results of operations for the fiscal period in which such resolution occurred.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Our common stock trades on The NASDAQ Global Select Market<sup>SM</sup> under the symbols RUSHA and RUSHB. During 2020, our Board of Directors approved four quarterly cash dividends on all outstanding shares of common stock totaling \$0.54 per share. We expect to continue paying cash dividends on a quarterly basis. However, there is no assurance as to the payment of future dividends because the declaration and payment of such dividends is subject to the business judgment of our Board of Directors and will depend on historic and projected earnings, capital requirements, covenant compliance, financial conditions and such other factors as the Board of Directors deems relevant.

The following table sets forth the high and low sales prices for our Class A Common Stock and Class B Common Stock for the fiscal periods indicated and as quoted on The NASDAQ Global Select Market<sup>SM</sup> and dividends declared.

|                                    | 2020               |          |          | 2019               |          |          |
|------------------------------------|--------------------|----------|----------|--------------------|----------|----------|
|                                    | Dividends Declared | High     | Low      | Dividends Declared | High     | Low      |
| <b><i>Class A Common Stock</i></b> |                    |          |          |                    |          |          |
| First Quarter                      | \$ .09             | \$ 31.22 | \$ 18.17 | \$ .08             | \$ 29.52 | \$ 22.54 |
| Second Quarter                     | .09                | 31.23    | 18.85    | .08                | 30.66    | 23.15    |
| Third Quarter                      | .09                | 34.65    | 26.45    | .09                | 27.95    | 22.49    |
| Fourth Quarter                     | .14                | 43.08    | 33.37    | .09                | 32.85    | 23.21    |
| <b><i>Class B Common Stock</i></b> |                    |          |          |                    |          |          |
| First Quarter                      | \$ .09             | \$ 32.11 | \$ 14.43 | \$ .08             | \$ 29.62 | \$ 23.35 |
| Second Quarter                     | .09                | 27.30    | 17.40    | .08                | 30.34    | 23.68    |
| Third Quarter                      | .09                | 29.90    | 22.09    | .09                | 29.23    | 23.47    |
| Fourth Quarter                     | .14                | 38.38    | 28.67    | .09                | 32.33    | 24.45    |

As of February 5, 2021, there were approximately 18 record holders of Class A Common Stock and approximately 26 record holders of Class B Common Stock. On October 12, 2020, we effected a three-for-two stock split with respect to both our Class A and Class B Common Stock in the form of a stock dividend. The foregoing stock prices and the following share amounts have been adjusted to give retroactive effect to the stock split for all periods presented.

As of December 31, 2020, we have not sold any securities in the last three years that were not registered under the Securities Act.

A summary of our stock repurchase activity for the fourth quarter of 2020 is as follows:

| Period                         | Total Number of Shares Purchased (1)(2)(3) | Average Price Paid Per Share (1) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3) |
|--------------------------------|--|----------------------------------|--|--|
| October 1 – October 31, 2020   | 9,972                                      | \$ 30.93 (4)                     | 9,972  | \$ 76,532,409  |
| November 1 – November 30, 2020 | 500  | 31.95 (5)                        | 500  | 76,516,419   |
| December 1 – December 31, 2020 | 48,408                                     | 37.80 (6)                        | 48,408   | 98,168,939   |
| Total                          | 58,880                                     |                                  | 58,880   |  |

- (1) The calculation of the average price paid per share does not give effect to any fees, commissions or other costs associated with the repurchase of such shares.
- (2) The shares represent Class A and Class B Common Stock repurchased by us.

- (3) We repurchased shares in 2020 under a stock repurchase program announced on December 3, 2019, which authorized the repurchase of up to \$100.0 million of our shares of Class A Common Stock and/or Class B Common Stock. This plan was terminated effective December 3, 2020; we repurchased \$23.5 million shares of our Class A and Class B Common Stock under the plan prior to its termination. On December 8, 2020, we announced the approval of a new stock repurchase program authorizing management to repurchase, from time to time, up to an aggregate of \$100.0 million of our shares of Class A Common Stock and/or Class B Common Stock.
- (4) Represents 9,972 shares of Class B Common Stock at an average price paid per share of \$30.93.
- (5) Represents 500 shares of Class B Common Stock at an average price paid per share of \$31.95.
- (6) Represents 10,335 shares of Class A Common Stock at an average price paid per share of \$39.66 and 38,073 shares of Class B Common Stock at an average price paid per share of \$37.29.

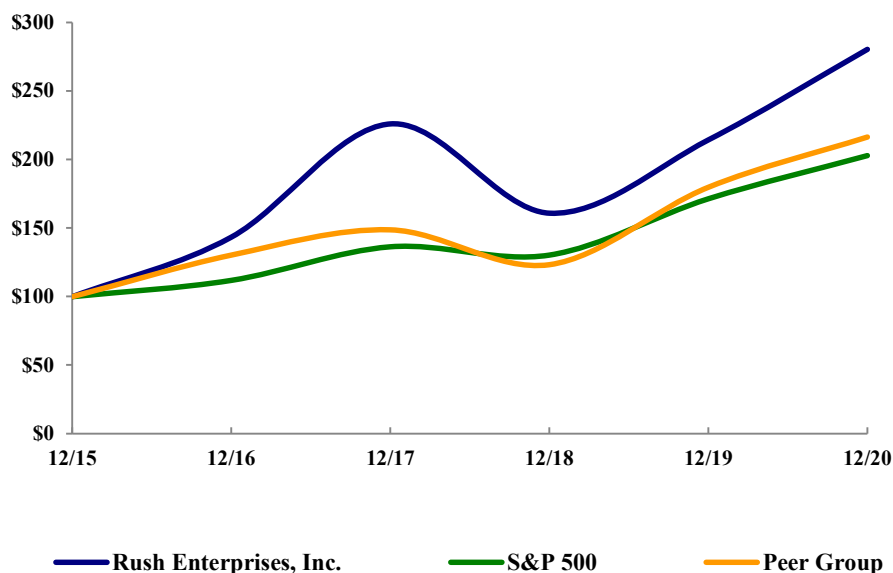
Information regarding our equity compensation plans is incorporated by reference from Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters,” of this annual report on Form 10-K and should be considered an integral part of this Item 5.

*Performance Graph*

The following graph shows the cumulative 5-Year total return as of December 31, 2020, of a \$100 investment in the Company’s common stock made on December 31, 2015 (with dividends reinvested), as compared with similar investments based on (i) the cumulative total returns of the S&P 500 Index (with dividends reinvested) and (ii) the cumulative total returns of a market-weighted Peer Group Index composed of the common stock of PACCAR, Inc., Werner Enterprises, Inc., Penske Automotive Group, Inc. and Lithia Motors, Inc., assuming reinvestment of dividends. The market-weighted Peer Group Index values were calculated from the beginning of the performance period. The historical stock price performance shown below is not necessarily indicative of future stock price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Rush Enterprises, Inc., the S&P 500 Index, and a Peer Group



\*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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|                        | December 31, |           |           |           |           |           |
|------------------------|--------------|-----------|-----------|-----------|-----------|-----------|
|                        | 2015         | 2016      | 2017      | 2018      | 2019      | 2020      |
| Rush Enterprises, Inc. | \$ 100.00    | \$ 143.34 | \$ 226.12 | \$ 160.98 | \$ 214.36 | \$ 280.50 |
| S&P 500                | 100.00       | 111.96    | 136.40    | 130.42    | 171.49    | 203.04    |
| Peer Group             | 100.00       | 130.27    | 148.68    | 123.39    | 179.84    | 216.55    |

The foregoing performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act or the Exchange Act. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

## Item 6. Selected Financial Data

The information below was derived from the audited consolidated financial statements included in this report and reports we have previously filed with the SEC. This information should be read together with those consolidated financial statements and the notes to those consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future. The selected financial data presented below may not be comparable between periods in all material respects or indicative of our future financial position or results of operations due primarily to acquisitions which occurred during the periods presented. See Note 15 to the Company’s Consolidated Financial Statements for a discussion of such acquisitions. The selected financial data presented below should be read in conjunction with our other financial information included elsewhere herein.

|   | Year Ended December 31, |              |              |              |              |
|---|-------------------------|--------------|--------------|--------------|--------------|
|   | 2020                    | 2019         | 2018         | 2017         | 2016         |
| <b>SUMMARY OF INCOME STATEMENT DATA</b>         |                         |              |              |              |              |
| <b>(in thousands, except per share amounts)</b> |                         |              |              |              |              |
| <b>Revenues</b>                                 |                         |              |              |              |              |
| New and used commercial vehicle sales           | \$ 2,863,309            | \$ 3,757,584 | \$ 3,558,637 | \$ 2,993,015 | \$ 2,640,019 |
| Aftermarket products and services sales         | 1,600,445               | 1,762,510    | 1,670,052    | 1,471,266    | 1,332,356    |
| Lease and rental                                | 236,223                 | 247,549      | 238,238      | 217,356      | 208,154      |
| Finance and insurance                           | 21,949                  | 24,443       | 20,535       | 17,988       | 18,582       |
| Other   | 14,014                  | 17,761       | 18,728       | 14,257       | 15,503       |
| Total revenues                                  | 4,735,940               | 5,809,847    | 5,506,190    | 4,713,882    | 4,214,614    |
| <b>Cost of products sold</b>                    | 3,860,473               | 4,784,219    | 4,527,921    | 3,883,946    | 3,496,602    |
| <b>Gross profit</b>                             | 875,467                 | 1,025,628    | 978,269      | 829,936      | 718,012      |
| Selling, general and administrative             | 665,258                 | 753,749      | 705,226      | 631,053      | 587,778      |
| Depreciation and amortization                   | 57,456                  | 55,372       | 70,489       | 50,069       | 51,261       |
| Gain (loss) on sale of assets                   | 1,852                   | (102)        | 297          | (105)        | 1,755        |
| <b>Operating income</b>                         | 154,605                 | 216,405      | 202,851      | 148,709      | 80,728       |
| Other income                                    | 6,132                   | 1,925        | –            | –            | –            |
| Interest expense, net                           | 9,014                   | 28,807       | 19,682       | 12,310       | 14,279       |
| <b>Income before income taxes</b>               | 151,723                 | 189,523      | 183,169      | 136,399      | 66,449       |
| Provision (benefit) for income taxes            | 36,836                  | 47,940       | 44,107       | (35,730)     | 25,867       |
| <b>Net income</b>                               | \$ 114,887              | \$ 141,583   | \$ 139,062   | \$ 172,129   | \$ 40,582    |
| <b>Net income per common share:</b>             |                         |              |              |              |              |
| Basic   | \$ 2.09                 | \$ 2.57      | \$ 2.36      | \$ 2.89      | \$ 0.68      |
| Diluted   | \$ 2.04                 | \$ 2.51      | \$ 2.30      | \$ 2.80      | \$ 0.67      |
| <b>Cash dividends declared per share</b>        | \$ 0.41                 | \$ 0.34      | \$ 0.16      | –            | –            |
| <b>Weighted average shares outstanding:</b>     |                         |              |              |              |              |
| Basic   | 54,866                  | 54,988       | 58,835       | 59,441       | 59,907       |
| Diluted   | 56,242                  | 56,356       | 60,440       | 61,470       | 60,905       |

|  | Year Ended December 31, |            |            |            |            |
|--|-------------------------|------------|------------|------------|------------|
|  | 2020                    | 2019       | 2018       | 2017       | 2016       |
| <b>OPERATING DATA</b>                                |                         |            |            |            |            |
| Unit vehicle sales –                                 |                         |            |            |            |            |
| New vehicles   | 23,113                  | 31,675     | 29,776     | 25,696     | 23,627     |
| Used vehicles  | 7,400                   | 7,741      | 8,021      | 7,060      | 7,008      |
| Total unit vehicles sales                            | 30,513                  | 39,416     | 37,797     | 32,756     | 30,635     |
| Commercial vehicle lease and rental units            | 8,104                   | 8,506      | 8,092      | 7,993      | 7,841      |
|  | December 31,            |            |            |            |            |
|  | 2020                    | 2019       | 2018       | 2017       | 2016       |
|  | (in thousands)          |            |            |            |            |
| <b>BALANCE SHEET DATA</b>                            |                         |            |            |            |            |
| Working capital                                      | \$ 330,932              | \$ 205,162 | \$ 194,649 | \$ 202,891 | \$ 118,318 |
| Inventories  | 858,291                 | 1,326,080  | 1,339,923  | 1,033,294  | 840,304    |
| Total assets   | 2,985,393               | 3,407,329  | 3,201,350  | 2,890,139  | 2,603,047  |
| Floor plan notes payable                             | 511,786                 | 996,336    | 1,023,019  | 778,561    | 646,945    |
| Long-term debt, including current portion            | 529,654                 | 627,678    | 601,173    | 611,528    | 604,003    |
| Finance lease obligations, including current portion | 117,113                 | 92,370     | 69,114     | 83,141     | 84,493     |
| Total shareholders' equity                           | 1,268,037               | 1,159,493  | 1,066,928  | 1,040,373  | 862,825    |

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are a full-service, integrated retailer of commercial vehicles and related services. We operate one segment - the Truck Segment. The Truck Segment operates a network of commercial vehicle dealerships primarily under the name "Rush Truck Centers." Most Rush Truck Centers are a franchised dealer for commercial vehicles manufactured by Peterbilt, International, Hino, Ford, Isuzu, IC Bus or Blue Bird. Through our strategically located network of Rush Truck Centers, we provide one-stop service for the needs of our commercial vehicle customers. We offer an integrated approach to meeting customer needs by providing service, parts and collision repair (collectively, "Aftermarket Products and Services") in addition to new and used commercial vehicle sales and leasing, insurance and financial services, vehicle upfitting, CNG fuel systems and vehicle telematics products.

Our goal is to continue to serve as the premier service solutions provider to the end-users of commercial vehicles. Our strategic efforts to achieve this goal include continuously expanding our portfolio of Aftermarket Products and Services, broadening the diversity of our commercial vehicle product offerings and extending our network of Rush Truck Centers. Our commitment to provide innovative solutions to service our customers' needs continues to drive our strong Aftermarket Products and Services revenues.

Our Aftermarket Products and Services include a wide range of capabilities and products such as providing parts, service and collision repairs at certain of our Rush Truck Centers, a fleet of mobile service units, technicians who work in our customers' facilities, a proprietary line of commercial vehicle parts and accessories, vehicle upfitting, a broad range of diagnostic and analysis capabilities, a suite of telematics products and assembly services for specialized bodies and equipment. Aftermarket Products and Services accounted for 66.7% of our total gross profits in 2020.

### Stock Split

On September 15, 2020, our Board of Directors declared a 3-for-2 stock split of our Class A common stock and Class B common stock, to be effected in the form of a stock dividend. On October 12, 2020, we distributed one additional share of stock for every two shares of Class A common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, held by shareholders of record as of September 28, 2020. All share and per share data in this Form 10-K have been adjusted and restated to reflect the stock split as if it occurred on the first day of the earliest period presented.

## **The COVID-19 Pandemic and Its Impact on Our Business**

Rush Truck Centers are classified as “essential businesses” and our dealership network has remained operational since the beginning of the COVID-19 pandemic, although some hours of operation have been modified. Despite our dealerships remaining open, the COVID-19 pandemic had a significant negative impact on our revenues for 2020. We expect that the negative impact of the COVID-19 pandemic on our revenues, and business in general, will be substantial for the foreseeable future. However, based on current market conditions and the steps we have taken to reduce expenses, we continue to believe the worst of the pandemic’s effect on our business may be behind us.

We are monitoring and complying with CDC guidelines for limiting the spread of COVID-19 and complying with all applicable federal, state and local executive orders. We also provide employees who are unable to work as a direct result of COVID-19 with up to two weeks of additional sick leave despite the fact that we are generally not legally obligated to do so. We are also providing our employees with an additional four hours of paid time off if they choose to obtain a COVID-19 vaccination. In accordance with CDC guidelines, we have mandated that all employees stay at least 6 feet away from each other and our customers. In addition, we are requiring all our employees to wear face coverings, regardless of whether state or local laws require face coverings, and we are cleaning and disinfecting our facilities on a regular basis. We are also providing curbside parts pick-up, online parts ordering and web-based vehicle service communication to reduce in-person interactions. Our service teams are minimizing contact with customers and taking extra precautions to keep high-touch areas on customer vehicles clean and disinfected.

### ***Commercial Vehicle Sales***

All of the commercial vehicle manufacturers that we represent have resumed operations and their plants are currently producing vehicles. Supply chain delays related to manufacturing components may limit the commercial vehicle industry’s ability to meet commercial vehicle sales demand throughout 2021.

### ***Aftermarket Products and Services***

With respect to our Aftermarket Products and Services, with only a few minor exceptions, our parts supply chain has remained uninterrupted to-date. We believe that the investments we have made over the years in our aftermarket strategic initiatives have enabled us to mitigate the impact of the COVID-19 pandemic on our Aftermarket Products and Service business.

### ***Rental and Leasing Operations***

With respect to our rental and leasing operations, we allowed certain credit-worthy customers that serve industries that have been dramatically impacted by the COVID-19 pandemic to skip up to three months of lease payments and either extended the lease term by three months or increased the remaining payments to keep the same lease term. These customers have resumed payments.

### ***Liquidity***

As of December 31, 2020, our total net liquidity was approximately \$417.2 million, including \$312.0 million in cash and \$105.2 million available under our various credit agreements, excluding our floor plan credit agreements. Our working capital facility (“the Working Capital Facility”) with BMO Harris Bank N.A. (“BMO Harris”) includes up to \$100.0 million of revolving credit loans that are available to us for working capital, capital expenditures and other general corporate purposes. We currently have no outstanding draws on this line of credit. We continue to believe that we are well positioned to navigate the economic challenges that may lie ahead as a result of the COVID-19 pandemic. For further discussion of our liquidity, see the Liquidity and Capital Resources discussion set forth herein.

## **Summary of 2020**

Our results of operations for the year ended December 31, 2020 are summarized below as follows:

- Our gross revenues totaled \$4,735.9 million in 2020, an 18.5% decrease from gross revenues of \$5,809.8 million in 2019, largely as a result of decreased commercial vehicle sales and the impact of



the COVID-19 pandemic.

- Gross profit decreased \$150.2 million, or 14.6%, in 2020, compared to 2019. Gross profit as a percentage of sales increased to 18.5% in 2020, from 17.7% in 2019.
- Our 2020 new Class 8 heavy-duty unit sales, which accounted for 5.5% of the total U.S. market, decreased 28.8% in 2020, compared to 2019.
- Our 2020 new Class 4-7 medium-duty unit sales, including buses, which accounted for 4.9% of the total U.S. market, decreased 21.8% in 2020, compared to 2019. New light-duty truck unit sales decreased 49.0% in 2020, compared to 2019.
- Aftermarket Products and Services revenues decreased \$162.1 million, or 9.2%, to \$1,600.4 million in 2020, compared to \$1,762.5 million in 2019, largely as a result of the impact of the COVID-19 pandemic.
- Lease and rental revenues decreased \$11.3 million, or 4.6%, to \$236.2 million in 2020, compared to \$247.5 million in 2019, largely as a result of the impact of the COVID-19 pandemic.
- Selling, General and Administrative expenses decreased \$88.5 million, or 11.7%, to \$665.3 million in 2020, compared to \$753.7 million in 2019.

## 2021 Outlook

According to A.C.T. Research Co., LLC (“A.C.T. Research”), a commercial vehicle industry data and forecasting service provider, new U. S. Class 8 truck retail sales are estimated to total 243,000 truck units in 2021, a 24.2% increase compared to 195,687 units sold in 2020. We expect our market share of new Class 8 truck sales to range between 5.5% and 6.0% in 2021. This market share percentage would result in the sale of approximately 12,500 to 13,500 of new Class 8 trucks in 2021, based on A.C.T. Research’s current U.S. retail sales estimate of 243,000 units.

According to A.C.T. Research, new U. S. Class 4 through 7 commercial vehicle retail sales are estimated to total 249,500 units in 2021, a 7.5% increase compared to 232,042 units sold in 2020. We expect our market share of new Class 4 through 7 commercial vehicle sales to range between 4.7% and 5.3% in 2021. This market share percentage would result in the sale of approximately 11,200 to 12,500 of new Class 4 through 7 commercial vehicles in 2021, based on A.C.T. Research’s current U.S. retail sales estimates of 249,500 units.

We expect to sell approximately 1,600 light-duty vehicles and approximately 7,000 to 7,500 used commercial vehicles in 2021. We expect lease and rental revenue to increase 6% to 9% during 2021, compared to 2020.

We continue to make progress on our strategic initiatives to increase our Aftermarket Products and Services revenues. We believe our Aftermarket Products and Services revenues will increase 8% to 10% in 2021, compared to 2020.

## Key Performance Indicator

*Absorption Ratio.* Management uses several performance metrics to evaluate the performance of our commercial vehicle dealerships and considers Rush Truck Centers’ “absorption ratio” to be of critical importance. Absorption ratio is calculated by dividing the gross profit from the parts, service and collision center departments by the overhead expenses of all of a dealership’s departments, except for the selling expenses of the new and used commercial vehicle departments and carrying costs of new and used commercial vehicle inventory. When 100% absorption is achieved, all of the gross profit from the sale of a commercial vehicle, after sales commissions and inventory carrying costs, directly impacts operating profit. Our commercial vehicle dealerships achieved a 118.7% absorption ratio for the year ended December 31, 2020 and 120.2% absorption ratio for the year ended December 31, 2019.

## **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. We believe the following accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### ***Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined by specific identification of new and used commercial vehicle inventory and by the first-in, first-out method for tires, parts and accessories. As the market value of our inventory typically declines over time, reserves are established based on historical loss experience and market trends. These reserves are charged to cost of sales and reduce the carrying value of our inventory on hand. An allowance is provided when it is anticipated that cost will exceed net realizable value less a reasonable profit margin.

### ***Goodwill***

Goodwill is tested for impairment by reporting unit utilizing a two-step process at least annually, or more frequently when events or changes in circumstances indicate that the asset might be impaired. The first step requires us to compare the fair value of the reporting unit (we consider our Truck Segment to be a reporting unit for purposes of this analysis), which is the same as the segment, to the respective carrying value. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that impairment may exist and a second step is required. In the second step of the analysis, the implied fair value of the goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

We determine the fair value of our reporting unit using the discounted cash flow method. The discounted cash flow method uses various assumptions and estimates regarding revenue growth rates, future gross margins, future selling, general and administrative expenses and an estimated weighted average cost of capital. The analysis is based upon available information regarding expected future cash flows of each reporting unit discounted at rates consistent with the cost of capital specific to the reporting unit. This type of analysis contains uncertainties because it requires us to make assumptions and to apply judgment regarding our knowledge of our industry, information provided by industry analysts and our current business strategy in light of present industry and economic conditions. If any of these assumptions change, or fail to materialize, the resulting decline in our estimated fair value could result in a material impairment charge to the goodwill associated with the reporting unit.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we used to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, or certain events occur that might adversely affect the reported value of goodwill in the future, we may be exposed to an impairment charge that could be material.

Goodwill was tested for impairment during the fourth quarter of 2020 and no impairment was required. The fair value of our reporting unit exceeded the carrying value of its net assets. As a result, we were not required to conduct the second step of the impairment test. We do not believe our reporting unit is at risk of failing step one of the impairment test.

### ***Insurance Accruals***

We are partially self-insured for a portion of the claims related to our property and casualty insurance programs, which requires us to make estimates regarding expected losses to be incurred. We engage a third-party administrator to assess any open claims and we adjust our accrual accordingly on a periodic basis. We are also partially self-insured for a portion of the claims related to our workers' compensation and medical insurance programs. We use actuarial information provided from third-party administrators to calculate an accrual for claims incurred, but not reported, and for the remaining portion of claims that have been reported.

Changes in the frequency, severity and development of existing claims could influence our reserve for claims and financial position, results of operations and cash flows. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we used to calculate our self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

### ***Accounting for Income Taxes***

Management's judgment is required to determine the provisions for income taxes and to determine whether deferred tax assets will be realized in full or in part. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When it is more likely than not that all or some portion of specific deferred income tax assets will not be realized, a valuation allowance must be established for the amount of deferred income tax assets that are determined not to be realizable. Accordingly, the facts and financial circumstances impacting deferred income tax assets are reviewed quarterly and management's judgment is applied to determine the amount of valuation allowance required, if any, in any given period.

Our income tax returns are periodically audited by tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions. In evaluating the exposures associated with our various tax filing positions, we adjust our liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

Our liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions. Our effective income tax rate is also affected by changes in tax law, the level of earnings and the results of tax audits. Although we believe that the judgments and estimates are reasonable, actual results could differ, and we may be exposed to losses or gains that could be material. An unfavorable tax settlement would generally require use of our cash and result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective income tax rate in the period of resolution. Our income tax expense includes the impact of reserve provisions and changes to reserves that we consider appropriate, as well as related interest.

### ***Revenue Recognition***

Effective January 1, 2018, we adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," using the modified retrospective transition method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Under Topic 606, we recognize revenue when our customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that we determine are within the scope of Topic 606, we perform the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. We only apply the five-step model to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services we transfer to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, we assess the goods or services promised within each contract and determine those that are performance obligations. We then assess whether each promised good or service is distinct and recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

## Results of Operations

The following discussion and analysis includes our historical results of operations for 2020, 2019 and 2018. The following table sets forth for the years indicated certain financial data as a percentage of total revenues:

|   | <b>Year Ended December 31,</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2020</b>                    | <b>2019</b>  | <b>2018</b>  |
| New and used commercial vehicle sales                 | 60.5 %                         | 64.7 %       | 64.6 %       |
| Aftermarket Products and Services sales               | 33.8                           | 30.3         | 30.3         |
| Lease and rental                                      | 5.0                            | 4.3          | 4.3          |
| Finance and insurance                                 | 0.4                            | 0.4          | 0.4          |
| Other   | 0.3                            | 0.3          | 0.4          |
| <b>Total revenues</b>                                 | <b>100.0</b>                   | <b>100.0</b> | <b>100.0</b> |
| Cost of products sold                                 | 81.5                           | 82.3         | 82.2         |
| Gross profit  | 18.5                           | 17.7         | 17.8         |
| Selling, general and administrative                   | 14.0                           | 13.0         | 12.8         |
| Depreciation and amortization                         | 1.2                            | 1.0          | 1.3          |
| Gain (loss) on sale of assets                         | 0.0                            | 0.0          | 0.0          |
| Operating income                                      | 3.3                            | 3.7          | 3.7          |
| Other income  | 0.1                            | 0.0          | 0.0          |
| Interest expense, net                                 | 0.2                            | 0.5          | 0.4          |
| Income from continuing operations before income taxes | 3.2                            | 3.2          | 3.3          |
| Provision (benefit) for income taxes                  | 0.8                            | 0.8          | 0.8          |
| <b>Net income</b>                                     | <b>2.4 %</b>                   | <b>2.4 %</b> | <b>2.5 %</b> |

The following table sets forth the unit sales and revenue for new heavy-duty, new medium-duty, new light-duty and used commercial vehicles and the absorption ratio for the years indicated (revenue in millions):

|                                     | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>% Change</b>             |                             |
|-------------------------------------|-------------|-------------|-------------|-----------------------------|-----------------------------|
|                                     |             |             |             | <b>2020<br/>vs<br/>2019</b> | <b>2019<br/>vs<br/>2018</b> |
| <b>Vehicle unit sales:</b>          |             |             |             |                             |                             |
| New heavy-duty vehicles             | 10,670      | 14,986      | 14,666      | -28.8%                      | 2.2%                        |
| New medium-duty vehicles            | 11,311      | 14,470      | 12,949      | -21.8%                      | 11.7%                       |
| New light-duty vehicles             | 1,132       | 2,219       | 2,161       | -49.0%                      | 2.7%                        |
| Total new vehicle unit sales        | 23,113      | 31,675      | 29,776      | -27.0%                      | 6.4%                        |
| Used vehicles sales                 | 7,400       | 7,741       | 8,021       | -4.4%                       | -3.5%                       |
| <b>Vehicle revenue:</b>             |             |             |             |                             |                             |
| New heavy-duty vehicles             | \$ 1,587.9  | \$ 2,192.3  | \$ 2,120.5  | -27.6%                      | 3.4%                        |
| New medium-duty vehicles            | 919.7       | 1,124.0     | 971.3       | -18.2%                      | 15.7%                       |
| New light-duty vehicles             | 50.1        | 90.6        | 86.7        | -44.7%                      | 4.5%                        |
| Total new vehicle revenue           | \$ 2,557.7  | \$ 3,406.9  | \$ 3,178.5  | -24.9%                      | 7.2%                        |
| Used vehicle revenue                | \$ 291.5    | \$ 330.3    | \$ 360.1    | -11.7%                      | -8.3%                       |
| Other vehicle revenue:(1)           | \$ 14.1     | \$ 20.4     | \$ 20.0     | -30.9%                      | 2.0%                        |
| <b>Dealership absorption ratio:</b> | 118.7%      | 120.2%      | 122.4%      | -1.2%                       | -1.8%                       |

(1) Includes sales of truck bodies, trailers and other new equipment.

The following table sets forth for the periods indicated the percent of gross profit by revenue source:

|   | <u>2020</u>    | <u>2019</u>    | <u>2018</u>    |
|---|----------------|----------------|----------------|
| Gross Profit:                           |                |                |                |
| New and used commercial vehicle sales   | 25.3 %         | 27.0 %         | 28.4 %         |
| Aftermarket Products and Services sales | 66.7           | 64.9           | 63.4           |
| Lease and rental                        | 3.9            | 4.0            | 4.2            |
| Finance and insurance                   | 2.5            | 2.4            | 2.1            |
| Other                                   | 1.6            | 1.7            | 1.9            |
| Total gross profit                      | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |

## Industry

We operate in the commercial vehicle market. There has historically been a high correlation between new product sales in the commercial vehicle market and the rate of change in U.S. industrial production and the U.S. gross domestic product.

### *Heavy-Duty Truck Market*

The U.S. retail heavy-duty truck market is affected by a number of factors, including general economic conditions, fuel prices, other methods of transportation, environmental and other government regulation, interest rate fluctuations and customer business cycles. According to data published by A.C.T. Research, over the last 10 years, total U.S. retail sales of new Class 8 trucks have ranged from a low of approximately 110,000 in 2010 to a high of approximately 281,440 in 2019. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds.

Typically, Class 8 trucks are assembled by manufacturers utilizing certain components that may be manufactured by other companies, including engines, transmissions, axles, wheels and other components. As commercial vehicles and certain commercial vehicle components have become increasingly complex, the ability to provide service for commercial vehicles has become an increasingly competitive factor in the industry. The ability to provide such service requires a significant capital investment in diagnostic and other equipment, parts inventory and highly trained service personnel. EPA and Department of Transportation regulatory guidelines for service processes, including collision center, paint work and waste disposal, require sophisticated equipment to ensure compliance with environmental and safety standards. Differentiation between commercial vehicle dealers has become less dependent on price competition and is increasingly based on a dealer's ability to offer a wide variety of services to their clients in a timely manner to minimize vehicle downtime. Such services include the following: efficient, conveniently located and easily accessible commercial vehicle service centers with an adequate supply of replacement parts; financing for commercial vehicle purchases; leasing and rental programs; and the ability to accept multiple unit trade-ins related to large fleet purchases. We believe our one-stop center concept and the size and geographic diversity of our dealership network gives us a competitive advantage in providing these services.

A.C.T. Research currently estimates approximately 243,000 new Class 8 trucks will be sold in the United States in 2021, compared to approximately 195,687 new Class 8 trucks sold in 2020. A.C.T. Research currently forecasts sales of new Class 8 trucks in the U.S. to be approximately 275,000 in 2022.

### *Medium-Duty Truck Market*

Many of our Rush Truck Centers sell medium-duty commercial vehicles manufactured by Peterbilt, International, Hino, Ford or Isuzu, and provide parts and service for medium-duty commercial vehicles. Medium-duty commercial vehicles are principally used in short-haul, local markets as delivery vehicles; they typically operate locally and generally do not leave their service areas overnight. We also sell light-duty vehicles (Class 3 and under) at several of our Ford dealerships.

A.C.T. Research currently forecasts sales of new Class 4 through 7 commercial vehicles in the U.S. to be approximately 249,500 units in 2021, compared to 232,042 units in 2020. A.C.T. Research currently forecasts sales of new Class 4 through 7 commercial vehicles in the U.S. to be approximately 257,000 in 2022.

## Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

### *Revenues*

Total revenues decreased \$1,073.9 million, or 18.5%, in 2020, compared to 2019. This decline was primarily due to a substantial decrease in new commercial vehicle sales resulting from the anticipated downturn in demand for new commercial vehicles due to the record to near-record sales of commercial vehicles in 2018 and 2019 and the effects of the COVID-19 pandemic.

Our Aftermarket Products and Services revenues decreased \$162.1 million, or 9.2%, in 2020, compared to 2019. This decline was primarily due to weak demand from the energy sector and the effects of the COVID-19 pandemic.

Our revenues from sales of new and used commercial vehicles decreased \$894.3 million, or 23.8%, in 2020, compared to 2019. This decline was a result of the anticipated downturn in new commercial vehicle sales.

We sold 10,670 new heavy-duty trucks in 2020, a 28.8% decrease compared to 14,986 new heavy-duty trucks in 2019. Our share of the new U.S. Class 8 commercial vehicle sales market increased to approximately 5.5% in 2020, from 5.3% in 2019.

We sold 11,311 new medium-duty commercial vehicles, including 1,097 buses, in 2020, a 21.8% decrease compared to 14,470 new medium-duty commercial vehicles, including 1,272 buses, in 2019. In 2020, we achieved a 4.9% share of the Class 4 through 7 commercial vehicle market in the U.S., compared to 5.4% in 2019.

We sold 1,132 new light-duty vehicles in 2020, a 49.0% decrease compared to 2,219 new light-duty vehicles in 2019.

We sold 7,400 used commercial vehicles in 2020, a 4.4% decrease compared to 7,741 used commercial vehicles in 2019.

Commercial vehicle lease and rental revenues decreased \$11.3 million, or 4.6%, in 2020, compared to 2019. This decrease is primarily related to the decrease in size and utilization of the rental fleet, especially during lockdowns put in place by state governments during the onset of the COVID-19 pandemic.

Finance and insurance revenues decreased \$2.5 million, or 10.2%, in 2020, compared to 2019. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of our operating profits.

Other revenues decreased \$3.7 million, or 21.1% in 2020, compared to 2019. Other revenues consist primarily of document fees related to commercial vehicle sales.

### *Gross Profit*

Gross profit decreased \$150.2 million, or 14.6%, in 2020, compared to 2019. This decline was a result of both the COVID-19 pandemic and the anticipated downturn in demand for new commercial vehicles resulting from record to near-record sales of commercial vehicles in 2018 and 2019. Gross profit as a percentage of sales increased to 18.5% in 2020, from 17.7% in 2019. This increase in gross profit as a percentage of sales is a result of a change in our product sales mix. Commercial vehicle sales, a lower margin revenue item, decreased as a percentage of total revenues to 60.5% in 2020, from 64.7% in 2019. Aftermarket Products and Services revenues, a higher margin revenue item, increased as a percentage of total revenues to 33.8% in 2020, from 30.3% in 2019.

Gross margins from our Aftermarket Products and Services operations decreased to 36.5% in 2020, from 37.7% in 2019. This decrease is primarily related to the decrease in parts rebates from parts suppliers and the increase in inventory obsolescence reserves in 2020. Gross profit for Aftermarket Products and Services decreased to \$583.9 million in 2020, from \$665.2 million in 2019. This decrease in gross profit is consistent with the decrease in Aftermarket Products and Services revenues, primarily due to weak demand from the energy sector and the effects of the COVID-19 pandemic. Historically, parts operations' gross margins range from 27% to 29% and service and collision center operations range from 66% to 68%. Gross profits from parts sales represented 59.4% of total gross profit for Aftermarket Products and Services operations in 2020 and 59.3% in 2019. Service and collision center

operations represented 40.6% of total gross profit for Aftermarket Products and Services operations in 2020 and 40.7% 2019. We expect blended gross margins on Aftermarket Products and Services operations to range from 36.0% to 37.0% in 2021.

Gross margins on new heavy-duty truck sales increased to 8.2% in 2020, from 8.1% in 2019. In 2021, we expect overall gross margins from new heavy-duty truck sales of approximately 7.5% to 8.0%.

Gross margins on new medium-duty commercial vehicle sales increased to 6.3% in 2020, from 5.7% in 2019. For 2021, we expect overall gross margins from new medium-duty commercial vehicle sales of approximately 5.5% to 6.3%, but this will largely depend upon the mix of purchasers and types of vehicles sold.

Gross margins on used commercial vehicle sales increased to 9.9% in 2020, from 8.9% in 2019. This increase is due to the unanticipated increased demand for used commercial vehicles resulting from the COVID-19 pandemic. We expect margins on used commercial vehicles to range between 9.0% and 10.0% during 2021.

Gross margins from commercial vehicle lease and rental sales decreased to 14.3% in 2020, from 16.7% in 2019. This decrease is primarily related to decreased rental fleet utilization. We expect gross margins from lease and rental sales of approximately 16.5% to 17.0% during 2021. Our policy is to depreciate our lease and rental fleet using a straight-line method over each customer's contractual lease term. The lease unit is depreciated to a residual value that approximates fair value at the expiration of the lease term. This policy results in us realizing reasonable gross margins while the unit is in service and a corresponding gain or loss on sale when the unit is sold at the end of the lease term.

Finance and insurance revenues and other revenues, as described above, have limited direct costs and, therefore, contribute a disproportionate share of gross profit.

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

Selling, General and Administrative ("SG&A") expenses decreased \$88.5 million, or 11.7%, in 2020, compared to 2019. This decrease resulted from expense reductions that began in the fourth quarter of 2019 due to the anticipated downturn in demand for new commercial vehicles and subsequent expense reductions necessitated by the COVID-19 pandemic and decreased selling expense, compared to 2020. SG&A expenses as a percentage of total revenues increased to 14.0% in 2020, from 13.0% in 2019. Annual SG&A expenses as a percentage of total revenues have ranged from 12.4% to 14.0% over the last five years. In general, when new and used commercial vehicle revenues decrease as a percentage of total revenues, SG&A expenses as a percentage of total revenues will be at the higher end of this range. For 2021, we expect SG&A expenses as a percentage of total revenues to range from 13.0% to 14.0%, due to the increase in revenues from sales of new and used commercial vehicle and Aftermarket Products and Services. For 2021, we expect the selling portion of SG&A expenses to be approximately 25.0% to 30.0% of new and used commercial vehicle gross profit.

#### *Depreciation and Amortization Expense*

Depreciation and amortization expense increased \$2.1 million, or 3.8%, in 2020, compared to 2019.

#### *Interest Expense, Net*

Net interest expense decreased \$19.8 million, or 68.7%, in 2020, compared to 2019. This decrease in interest expense is a result of the decrease in inventory levels and lower floor plan interest rates in 2020, compared to 2019. We expect net interest expense in 2021 to decrease, but the amount of the decrease will depend on inventory levels, interest rate fluctuations and the amount of cash available to make prepayments on our floor plan arrangements.

#### *Income before Income Taxes*

Income before income taxes decreased \$37.8 million, or 19.9%, in 2020, compared to 2019, as a result of the factors described above.

## *Income Taxes*

Income tax expense decreased \$11.1 million, or 23.2%, in 2020, compared to 2019, as a result of the factors described above.

We provided for taxes at a 24.3% effective rate in 2020, compared to an effective rate of 25.3% in 2019. We expect our effective tax rate to be approximately 24.0% to 25.5% of pretax income in 2021.

## **Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

For a discussion of information on the year ended December 31, 2019, refer to Part II Item 7 in the 2019 Annual Report on Form 10-K. [https://www.sec.gov/ix?doc=/Archives/edgar/data/1012019/000143774920003589/rusha20191119\\_10k.htm](https://www.sec.gov/ix?doc=/Archives/edgar/data/1012019/000143774920003589/rusha20191119_10k.htm)

## **Liquidity and Capital Resources**

Our short-term cash requirements are primarily for working capital, inventory financing, the renovation and expansion of existing facilities and the construction or purchase of new facilities. Historically, these cash requirements have been met through the retention of profits, borrowings under our floor plan arrangements and bank financings. As of December 31, 2020, we had working capital of approximately \$330.9 million, including \$312.0 million in cash, available to fund our operations. From time to time, we utilize our excess cash on hand to pay down our outstanding borrowings under our floor plan credit agreement with BMO Harris Bank N.A. (“BMO Harris”) (the “Floor Plan Credit Agreement”), and the resulting interest earned is recognized as an offset to our gross interest expense under the Floor Plan Credit Agreement.

We continually evaluate our liquidity and capital resources based upon (i) our cash and cash equivalents on hand, (ii) the funds that we expect to generate through future operations, (iii) current and expected borrowing availability under our secured line of credit, our Working Capital Facility and our Floor Plan Credit Agreement, and (iv) the potential impact of our capital allocation strategy and any contemplated or pending future transactions, including, but not limited to, acquisitions, equity repurchases, dividends, or other capital expenditures. We believe we will have sufficient liquidity to meet our debt service and working capital requirements, commitments and contingencies, debt repayments, acquisitions, capital expenditures and any operating requirements for at least the next twelve months.

We have a secured line of credit that provides for a maximum borrowing of \$17.5 million. There were no advances outstanding under this secured line of credit at December 31, 2020, however, \$12.3 million was pledged to secure various letters of credit related to self-insurance products, leaving \$5.2 million available for future borrowings as of December 31, 2020.

The Working Capital Facility with BMO Harris includes up to \$100.0 million of revolving credit loans available to us for working capital, capital expenditures and other general corporate purposes. The amount of the borrowings under the Working Capital Facility are subject to borrowing base limitations based on the value of our eligible parts inventory and company vehicles. The Working Capital Facility includes a \$20 million letter of credit sublimit. Borrowings under the Working Capital Facility bear interest at rates based on LIBOR or the Base Rate (as such terms are defined in the Working Capital Facility), plus an applicable margin determined based on outstanding borrowing under the Working Capital Facility. In addition, we are required to pay a commitment fee on the amount unused under the Working Capital Facility. The Working Capital Facility expires on the earlier of (i) June 30, 2022 and (ii) the date on which all commitments under the Working Capital Facility shall have terminated, whether as a result of the occurrence of the Commitment Termination Date (as defined in the Working Capital Facility) or otherwise. There were no advances outstanding under the Working Capital Facility as of December 31, 2020.

Our long-term real estate debt, floor plan financing agreements and the Working Capital Facility require us to satisfy various financial ratios such as the debt-to-worth ratio, leverage ratio and the fixed charge coverage ratio and certain requirements for tangible net worth and Generally Accepted Accounting Principles (“GAAP”) net worth. As of December 31, 2020, we were in compliance with all debt covenants related to debt secured by real estate, lease and rental units, our floor plan credit agreements and the Working Capital Facility. We do not anticipate any breach of the covenants in the foreseeable future.

We expect to purchase or lease commercial vehicles worth approximately \$150.0 million to \$180.0 million for our leasing operations during 2021, depending on customer demand, all of which will be financed. We also



expect to make capital expenditures for recurring items such as computers, shop tools and equipment and vehicles of approximately \$30.0 million to \$35.0 million during 2021.

During the fourth quarter of 2020, we paid a cash dividend of \$7.6 million. Additionally, on February 10, 2021, our Board of Directors declared a cash dividend of \$0.18 per share of Class A and Class B Common Stock, to be paid on March 16, 2021, to all shareholders of record as of February 25, 2021. The total dividend disbursement is estimated at approximately \$10.1 million. We expect to continue paying cash dividends on a quarterly basis. However, there is no assurance as to future dividends because the declaration and payment of such dividends is subject to the business judgment of our Board of Directors and will depend on historic and projected earnings, capital requirements, covenant compliance and financial conditions and such other factors as our Board of Directors deem relevant.

On December 8, 2020, we announced that our Board of Directors approved a new stock repurchase program authorizing management to repurchase, from time to time, up to an aggregate of \$100.0 million of our shares of Class A Common Stock and/or Class B Common Stock. In connection with the adoption of the new stock repurchase plan, we terminated the prior stock repurchase plan, which was scheduled to expire on December 31, 2020. Repurchases, if any, will be made at times and in amounts as we deem appropriate and may be made through open market transactions at prevailing market prices, privately negotiated transactions or by other means in accordance with federal securities laws. The actual timing, number and value of repurchases under the stock repurchase program will be determined by management at its discretion and will depend on a number of factors, including market conditions, stock price and other factors, including those related to the ownership requirements of our dealership agreements with Peterbilt. As of December 31, 2020, we had repurchased \$1.8 million of our shares of common stock under the current stock repurchase program. The current stock repurchase program expires on December 31, 2021, and may be suspended or discontinued at any time.

We anticipate funding the capital expenditures for the improvement and expansion of existing facilities and recurring expenses through our operating cash flows. We have the ability to fund the construction or purchase of new facilities through our operating cash flows or by financing.

We have no other material commitments for capital expenditures as of December 31, 2020. However, we will continue to purchase vehicles for our lease and rental operations and authorize capital expenditures for the improvement or expansion of our existing dealership facilities and construction or purchase of new facilities based on market opportunities.

## **Cash Flows**

Cash and cash equivalents increased by \$130.4 million during the year ended December 31, 2020, compared to the year ended December 31, 2019, and increased by \$49.9 million during the year ended December 31, 2019, compared to the year ended December 31, 2018. The major components of these changes are discussed below.

### *Cash Flows from Operating Activities*

Cash flows from operating activities include net income adjusted for non-cash items and the effects of changes in working capital. During 2020, operating activities resulted in net cash provided by operations of \$763.0 million. Net cash provided by operating activities primarily consisted of \$114.9 million in net income, as well as non-cash adjustments related to depreciation and amortization of \$177.3 million, deferred income tax of \$37.9 million and stock-based compensation of \$19.4 million. Cash used in operating activities included an aggregate of \$495.9 million net change in operating assets and liabilities. Included in the net change in operating assets and liabilities were cash inflows of \$11.2 million from a decrease in accounts receivable, \$536.7 million from a decrease in inventory, \$5.8 million from the decrease in other current assets, \$31.5 million from the increase in customer deposits and \$49.0 million from the increase in accrued liabilities, which were offset by cash outflows of \$23.3 million from the decreases in accounts payable and \$115.0 million from the net payments on floor plan (trade). The majority of commercial vehicle inventory is financed through our floor plan credit agreements.

During 2019, operating activities resulted in net cash provided by operations of \$421.3 million. Net cash provided by operating activities primarily consisted of \$141.6 million in net income, as well as non-cash adjustments related to depreciation and amortization of \$175.5 million, deferred income tax of \$23.0 million and stock-based compensation of \$19.0 million. Cash used in operating activities included an aggregate of \$62.1 million net change in operating assets and liabilities. Included in the net change in operating assets and liabilities were cash inflows of \$19.8 million from a decrease in accounts receivable, \$81.7 million from a decrease in inventory and \$6.5 million

from the increase in customer deposits, which were offset by cash outflows of \$10.5 million from the decreases in accounts payable and accrued liabilities, \$26.6 million from the net payments on floor plan (trade) and \$7.9 million from the increase in other current assets.

#### *Cash Flows from Investing Activities*

During 2020, cash used in investing activities totaled \$127.5 million. Cash flows used in investing activities consist primarily of cash used for capital expenditures. Capital expenditures totaled \$136.2 million during 2020 and consisted primarily of purchases of property and equipment, improvements to our existing dealership facilities and \$93.0 million for purchases of rental and lease vehicles for the rental and leasing operations, which were directly offset by borrowings of long-term debt.

During 2019, cash used in investing activities totaled \$320.5 million. Cash flows used in investing activities consist primarily of cash used for capital expenditures. Capital expenditures totaled \$293.5 million during 2019 and consisted primarily of purchases of property and equipment, improvements to our existing dealership facilities and \$209.3 million for purchases of rental and lease vehicles for the rental and leasing operations, which were directly offset by borrowings of long-term debt. Business acquisitions of \$10.2 million consisted of the purchase of a Ford dealership in Ceres, California, and a used truck dealership in Jacksonville, Florida, including the real estate associated with each dealership. In addition, we purchased 50% of the equity interest in RTC Canada for \$22.5 million, which is treated as an equity method investment.

#### *Cash Flows from Financing Activities*

Cash flows provided by (used in) financing activities include borrowings and repayments of long-term debt and net payments of floor plan notes payable. During 2020, our financing activities resulted in net cash used in financing of \$505.1 million. The cash outflows consisted primarily of \$266.5 million used for principal repayments of long-term debt and capital lease obligations, \$369.6 million from net payments on floor plan notes payable (non-trade), and \$24.9 million used to purchase 843,020 shares of Rush Class A common stock and 225,444 shares of Rush Class B common stock during 2020. Additionally, during 2020, we paid cash dividends of \$22.5 million. These cash outflows were partially offset by borrowings of \$157.3 million of long-term debt for the purchase of additional units for our rental and leasing operations and \$21.0 million from the issuance of shares related to equity compensation plans.

During 2019, our financing activities resulted in net cash used in financing of \$50.9 million. The cash outflows consisted primarily of \$191.9 million used for principal repayments of long-term debt and capital lease obligations, \$135.0 million for payments on a line of credit, \$104,000 from net payments on floor plan notes payable (non-trade), and \$58.2 million used to purchase 1,264,032 shares of Rush Class A common stock and 275,554 shares of Rush Class B common stock during 2019. Additionally, during 2019, we paid cash dividends of \$18.3 million. These cash outflows were partially offset by borrowings of \$210.0 million of long-term debt for the purchase of additional units for our rental and leasing operations, \$135.0 million from draws on a line of credit and \$8.2 million from the issuance of shares related to equity compensation plans.

Most of our commercial vehicle inventory purchases are made on terms requiring payment to the manufacturer within 15 days or less from the date the commercial vehicles are invoiced from the factory. We finance the majority of all new commercial vehicle inventory and the loan value of our used commercial vehicle inventory under the Floor Plan Credit Agreement. The Floor Plan Credit Agreement includes an aggregate loan commitment of \$1.0 billion. Borrowings under the Floor Plan Credit Agreement bear interest at an annual rate equal to (A) the greater of (i) zero and (ii) one month LIBOR rate, determined on the last day of the prior month, plus (B) 1.25% and are payable monthly. Loans under the Floor Plan Credit Agreement for the purchase of used commercial vehicle inventory are limited to \$150.0 million and loans for working capital purposes are limited to \$200.0 million. The Floor Plan Credit Agreement expires June 30, 2022, although BMO Harris has the right to terminate at any time upon 360 days written notice and we may terminate at any time, subject to specified limited exceptions. On December 31, 2020, we had approximately \$451.5 million outstanding under the Floor Plan Credit Agreement. The average daily outstanding borrowings under the Floor Plan Credit Agreement were \$600.1 million during the year ended December 31, 2020. We utilize our excess cash on hand to pay down our outstanding borrowings under the Floor Plan Credit Agreement, and the resulting interest earned is recognized as an offset to our gross interest expense under the Floor Plan Credit Agreement.

Navistar Financial Corporation and Peterbilt offer trade terms that provide an interest-free inventory stocking period for certain new commercial vehicles. This interest-free period is generally 15 to 60 days. If the commercial vehicle is not sold within the interest-free period, we then finance the commercial vehicle under the Floor Plan Credit Agreement.

### Cyclicality

Our business is dependent on a number of factors including general economic conditions, fuel prices, interest rate fluctuations, credit availability, environmental and other government regulations and customer business cycles. Unit sales of new commercial vehicles have historically been subject to substantial cyclical variation based on these general economic conditions. According to data published by A.C.T. Research, in recent years, total U.S. retail sales of new Class 8 commercial vehicles have ranged from a low of approximately 110,000 in 2010, to a high of approximately 281,440 in 2019. Through geographic expansion, concentration on higher margin Aftermarket Products and Services and diversification of our customer base, we have attempted to reduce the negative impact of adverse general economic conditions or cyclical trends affecting the Class 8 commercial vehicle industry on our earnings.

### Off-Balance Sheet Arrangements

Other than operating leases entered into prior to the adoption of ASU No. 2016-02, "Leases (*Topic 842*)" on January 1, 2019, we do not have any obligation under any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the Company is a party, that has or is reasonably likely to have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### Contractual Obligations

We have certain contractual obligations that will impact both our short and long-term liquidity. As of December 31, 2020, such obligations were as follows (in thousands):

| <u>Contractual Obligations</u> | <u>Payments Due by Period</u> |                         |                   |                  |                          |
|--------------------------------|-------------------------------|-------------------------|-------------------|------------------|--------------------------|
|                                | <u>Total</u>                  | <u>Less than 1 year</u> | <u>1-3 years</u>  | <u>3-5 years</u> | <u>More than 5 years</u> |
|                                | (in thousands)                |                         |                   |                  |                          |
| Long-term debt obligations (1) | \$ 529,654                    | \$ 141,672              | \$ 232,656        | \$ 128,694       | \$ 26,632                |
| Finance lease obligations(2)   | 134,411                       | 31,579                  | 47,267            | 38,634           | 16,931                   |
| Operating lease obligations(2) | 78,927                        | 13,055                  | 21,223            | 16,076           | 28,573                   |
| Floor plan debt obligation     | 511,786                       | 511,786                 | –                 | –                | –                        |
| Interest obligations (3)       | 56,069                        | 26,797                  | 21,911            | 6,806            | 555                      |
| Purchase obligations (4)       | –                             | –                       | –                 | –                | –                        |
| Total                          | <u>\$1,310,847</u>            | <u>\$ 724,889</u>       | <u>\$ 323,057</u> | <u>\$190,210</u> | <u>\$ 72,691</u>         |

- (1) Refer to Note 8 of Notes to Consolidated Financial Statements.
- (2) Refer to Note 10 of Notes to Consolidated Financial Statements. Amounts include interest.
- (3) In computing interest expense, we used our weighted average interest rate outstanding on fixed rate debt to estimate our interest expense on fixed rate debt. We used our weighted average variable interest rate on outstanding variable rate debt as of December 31, 2020, and added 0.25 percent per year to estimate our interest expense on variable rate debt.
- (4) The Company does not have any material purchase obligations as of December 31, 2020.

## **Item 7A. 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.

We are exposed to market risk through interest rates related to our floor plan financing agreements, the Working Capital Facility, variable rate real estate debt and discount rates related to finance sales. The majority of our floor plan debt and variable rate real estate debt is based on LIBOR. As of December 31, 2020, we had floor plan borrowings of \$511.8 million and variable interest rate real estate debt of approximately \$41.0 million. Assuming an increase or decrease in LIBOR of 100 basis points, annual interest expense could correspondingly increase or decrease by approximately \$5.5 million.

## **Item 8. Financial Statements and Supplementary Data**

|  |    |
|--|----|
| Report of Independent Registered Public Accounting Firm  | 46 |
| Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting | 79 |
| Consolidated Balance Sheets as of December 31, 2020 and 2019   | 48 |
| Consolidated Statements of Income for the Years Ended December 31, 2020, 2019 and 2018               | 49 |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018 | 50 |
| Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2020, 2019 and 2018 | 51 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018           | 52 |
| Notes to Consolidated Financial Statements   | 53 |

## Report of Independent Registered Public Accounting Firm

The Shareholders and the Board of Directors of Rush Enterprises, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Rush Enterprises, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated February 24, 2021, expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

#### *New and Used Commercial Vehicle Inventory Reserves*

##### *Description of the Matter*

At December 31, 2020, the Company's new and used commercial vehicle inventory balance is approximately \$613.0 million, which is net of management's estimate of inventory reserves. As described in Note 6 to the consolidated financial statements, management adjusts the value of its inventory to net realizable value to the extent it determines inventory cost cannot be recovered. Management estimates future demand and sales prices to calculate the inventory reserves and to

make corresponding adjustments to the carrying value of these inventories to reflect the lower of cost or net realizable value.

Auditing management's estimate of the inventory excess reserves involved auditor subjective judgment because the estimate is sensitive to changes in management's assumptions for forecasted product demand and future sales prices.

*How We  
Addressed the  
Matter in Our  
Audit*

We evaluated and tested the design and operating effectiveness of controls over the Company's processes to estimate the inventory reserves, which included management's review of the underlying significant assumptions.

Our substantive audit procedures included, among others, evaluating the significant assumptions described above, and we tested the completeness and accuracy of underlying data used in the estimation calculations and evaluating significant assumptions. We also compared the cost of on-hand inventories to customer demand forecasts and historical sales. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the inventory reserves that would result from changes in the assumptions.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

San Antonio, Texas  
February 24, 2021

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

|   | <b>December 31,<br/>2020</b> | <b>December 31,<br/>2019</b> |
|---|------------------------------|------------------------------|
| <b>Assets</b>   |                              |                              |
| Current assets:   |                              |                              |
| Cash and cash equivalents   | \$ 312,048                   | \$ 181,620                   |
| Accounts receivable, net  | 172,481                      | 183,704                      |
| Inventories, net  | 858,291                      | 1,326,080                    |
| Prepaid expenses and other  | 14,906                       | 20,728                       |
| Assets held for sale  | —                            | 419                          |
| Total current assets  | 1,357,726                    | 1,712,551                    |
| Property and equipment, net   | 1,203,719                    | 1,279,931                    |
| Operating lease right-of-use assets, net  | 60,577                       | 57,197                       |
| Goodwill, net   | 292,142                      | 292,142                      |
| Other assets, net   | 71,229                       | 65,508                       |
| <b>Total assets</b>   | <b>\$ 2,985,393</b>          | <b>\$ 3,407,329</b>          |
| <b>Liabilities and shareholders' equity</b>   |                              |                              |
| Current liabilities:  |                              |                              |
| Floor plan notes payable  | \$ 511,786                   | \$ 996,336                   |
| Current maturities of long-term debt  | 141,672                      | 189,265                      |
| Current maturities of finance lease obligations   | 26,373                       | 22,892                       |
| Current maturities of operating lease obligations   | 10,196                       | 10,114                       |
| Trade accounts payable  | 110,728                      | 133,697                      |
| Customer deposits   | 74,209                       | 42,695                       |
| Accrued expenses  | 151,830                      | 112,390                      |
| Total current liabilities   | 1,026,794                    | 1,507,389                    |
| Long-term debt, net of current maturities   | 387,982                      | 438,413                      |
| Finance lease obligations, net of current maturities  | 90,740                       | 69,478                       |
| Operating lease obligations, net of current maturities  | 51,155                       | 47,555                       |
| Other long-term liabilities   | 34,246                       | 20,704                       |
| Deferred income taxes, net  | 126,439                      | 164,297                      |
| Shareholders' equity:   |                              |                              |
| Preferred stock, par value \$.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2020 and 2019  | —                            | —                            |
| Common stock, par value \$.01 per share; 60,000,000 Class A shares and 20,000,000 Class B shares authorized; 42,503,925 Class A shares and 12,470,308 Class B shares outstanding in 2020; and 41,930,472 Class A shares and 12,360,729 Class B shares outstanding in 2019 | 551                          | 465                          |
| Additional paid-in capital  | 437,646                      | 397,267                      |
| Treasury stock, at cost: 10,335 Class A shares and 73,437 Class B shares in 2020 and 7,583,674 Class A shares and 7,959,511 Class B shares in 2019  | (2,879)                      | (304,129)                    |
| Retained earnings   | 831,850                      | 1,065,553                    |
| Accumulated other comprehensive income  | 869                          | 337                          |
| Total shareholders' equity  | 1,268,037                    | 1,159,493                    |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 2,985,393</b>          | <b>\$ 3,407,329</b>          |

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)

|  | <b>Year Ended December 31,</b> |              |              |
|--|--------------------------------|--------------|--------------|
|  | <b>2020</b>                    | <b>2019</b>  | <b>2018</b>  |
| <b>Revenues</b>                                |                                |              |              |
| New and used commercial vehicle sales          | \$ 2,863,309                   | \$ 3,757,584 | \$ 3,558,637 |
| Aftermarket products and services sales        | 1,600,445                      | 1,762,510    | 1,670,052    |
| Lease and rental                               | 236,223                        | 247,549      | 238,238      |
| Finance and insurance                          | 21,949                         | 24,443       | 20,535       |
| Other  | 14,014                         | 17,761       | 18,728       |
| Total revenue                                  | 4,735,940                      | 5,809,847    | 5,506,190    |
| <b>Cost of products sold</b>                   |                                |              |              |
| New and used commercial vehicle sales          | 2,641,487                      | 3,480,682    | 3,280,966    |
| Aftermarket products and services sales        | 1,016,574                      | 1,097,337    | 1,049,684    |
| Lease and rental                               | 202,412                        | 206,200      | 197,271      |
| Total cost of products sold                    | 3,860,473                      | 4,784,219    | 4,527,921    |
| <b>Gross profit</b>                            | 875,467                        | 1,025,628    | 978,269      |
| Selling, general and administrative            | 665,258                        | 753,749      | 705,226      |
| Depreciation and amortization                  | 57,456                         | 55,372       | 70,489       |
| Gain (loss) on sale of assets                  | 1,852                          | (102)        | 297          |
| <b>Operating income</b>                        | 154,605                        | 216,405      | 202,851      |
| Other income                                   | 6,132                          | 1,925        | -            |
| Interest income (expense):                     |                                |              |              |
| Interest income                                | 713                            | 1,680        | 1,376        |
| Interest expense                               | (9,727)                        | (30,487)     | (21,058)     |
| Total interest expense, net                    | 9,014                          | 28,807       | 19,682       |
| <b>Income before taxes</b>                     | 151,723                        | 189,523      | 183,169      |
| Income tax provision                           | 36,836                         | 47,940       | 44,107       |
| <b>Net income</b>                              | \$ 114,887                     | \$ 141,583   | \$ 139,062   |
| <br><b>Earnings per common share</b>           |                                |              |              |
| Basic  | \$ 2.09                        | \$ 2.57      | \$ 2.36      |
| Diluted  | \$ 2.04                        | \$ 2.51      | \$ 2.30      |
| <br><b>Dividends declared per common share</b> | \$ 0.41                        | \$ 0.34      | \$ 0.16      |

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

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In Thousands)

|  | <b>Year Ended December 31,</b> |                   |                   |
|--|--------------------------------|-------------------|-------------------|
|  | <b>2020</b>                    | <b>2019</b>       | <b>2018</b>       |
| <b>Net income</b>  | \$ 114,887                     | \$ 141,583        | \$ 139,062        |
| Other comprehensive income net of tax and net of reclassification adjustments: |                                |                   |                   |
| Change in currency translation   | <u>532</u>                     | <u>337</u>        | <u>—</u>          |
| <b>Comprehensive income</b>  | <u>\$ 115,419</u>              | <u>\$ 141,920</u> | <u>\$ 139,062</u> |

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

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In Thousands)

|   | Common Stock                     |               | \$0.01<br>Par<br>Value | Additional<br>Paid-In<br>Capital | Treasury<br>Stock   | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total              |
|---|----------------------------------|---------------|------------------------|----------------------------------|---------------------|----------------------|---|--------------------|
|   | Shares<br>Outstanding<br>Class A | Class B       |                        |                                  |                     |                      |   |                    |
| <b>Balance, December 31, 2017</b>   | <b>47,017</b>                    | <b>12,703</b> | <b>\$ 454</b>          | <b>\$348,044</b>                 | <b>\$ (120,682)</b> | <b>\$ 812,557</b>    | <b>\$ –</b>                                     | <b>\$1,040,373</b> |
| Stock options exercised and stock awards  | 207                              | –             | 1                      | 2,742                            | –                   | –                    | –   | 2,743              |
| Stock-based compensation related to stock options, restricted shares and employee stock purchase plan | –                                | –             | –                      | 18,059                           | –                   | –                    | –   | 18,059             |
| Vesting of restricted share awards  | –                                | 340           | 2                      | (1,749)                          | –                   | –                    | –   | (1,747)            |
| Issuance of common stock under employee stock purchase plan   | 126                              | –             | 1                      | 2,929                            | –                   | –                    | –   | 2,930              |
| Common stock repurchases  | (4,285)                          | (608)         | –                      | –                                | (125,160)           | –                    | –   | (125,160)          |
| Cash dividends declared on Class A common stock   | –                                | –             | –                      | –                                | –                   | (7,324)              | –   | (7,324)            |
| Cash dividends declared on Class B common stock   | –                                | –             | –                      | –                                | –                   | (2,008)              | –   | (2,008)            |
| Net income  | –                                | –             | –                      | –                                | –                   | 139,062              | –   | 139,062            |
| <b>Balance, December 31, 2018</b>   | <b>43,065</b>                    | <b>12,435</b> | <b>\$ 458</b>          | <b>\$370,025</b>                 | <b>\$ (245,842)</b> | <b>\$ 942,287</b>    | <b>\$ –</b>                                     | <b>\$1,066,928</b> |
| Stock options exercised and stock awards  | 586                              | –             | 4                      | 7,585                            | –                   | –                    | –   | 7,589              |
| Stock-based compensation related to stock options, restricted shares and employee stock purchase plan | –                                | –             | –                      | 19,005                           | –                   | –                    | –   | 19,005             |
| Vesting of restricted share awards  | –                                | 339           | 2                      | (2,834)                          | –                   | –                    | –   | (2,832)            |
| Issuance of common stock under employee stock purchase plan   | 175                              | –             | 1                      | 3,486                            | –                   | –                    | –   | 3,487              |
| Common stock repurchases  | (1,896)                          | (414)         | –                      | –                                | (58,287)            | –                    | –   | (58,287)           |
| Cash dividends declared on Class A common stock   | –                                | –             | –                      | –                                | –                   | (14,037)             | –   | (14,037)           |
| Cash dividends declared on Class B common stock   | –                                | –             | –                      | –                                | –                   | (4,280)              | –   | (4,280)            |
| Other comprehensive income  | –                                | –             | –                      | –                                | –                   | –                    | 337   | 337                |
| Net income  | –                                | –             | –                      | –                                | –                   | 141,583              | –   | 141,583            |
| <b>Balance, December 31, 2019</b>   | <b>41,930</b>                    | <b>12,360</b> | <b>\$ 465</b>          | <b>\$397,267</b>                 | <b>\$ (304,129)</b> | <b>\$1,065,553</b>   | <b>\$ 337</b>                                   | <b>\$1,159,493</b> |
| Stock options exercised and stock awards  | 1,247                            | –             | 10                     | 19,582                           | –                   | –                    | –   | 19,592             |
| Stock-based compensation related to stock options, restricted shares and employee stock purchase plan | –                                | –             | –                      | 19,356                           | –                   | –                    | –   | 19,356             |
| Vesting of restricted share awards  | –                                | 339           | 2                      | (2,459)                          | –                   | –                    | –   | (2,457)            |
| Issuance of common stock under employee stock purchase plan   | 177                              | –             | 2                      | 3,900                            | –                   | –                    | –   | 3,902              |
| Common stock repurchases  | (843)                            | (225)         | –                      | –                                | (24,807)            | –                    | –   | (24,807)           |
| Cancellation of treasury stock  | (7)                              | (4)           | 72                     | –                                | 326,057             | (326,129)            | –   | –                  |
| Cash dividends declared on Class A common stock   | –                                | –             | –                      | –                                | –                   | (17,062)             | –   | (17,062)           |
| Cash dividends declared on Class B common stock   | –                                | –             | –                      | –                                | –                   | (5,399)              | –   | (5,399)            |
| Other comprehensive income  | –                                | –             | –                      | –                                | –                   | –                    | 532   | 532                |
| Net income  | –                                | –             | –                      | –                                | –                   | 114,887              | –   | 114,887            |
| <b>Balance, December 31, 2020</b>   | <b>42,504</b>                    | <b>12,470</b> | <b>\$ 551</b>          | <b>\$437,646</b>                 | <b>\$ (2,879)</b>   | <b>\$ 831,850</b>    | <b>\$ 869</b>                                   | <b>\$1,268,037</b> |

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

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands)

|  | <b>Year Ended December 31,</b> |                          |                          |
|--|--------------------------------|--------------------------|--------------------------|
|  | <b>2020</b>                    | <b>2019</b>              | <b>2018</b>              |
| <b>Cash flows from operating activities:</b>   |                                |                          |                          |
| Net income   | \$ 114,887                     | \$ 141,583               | \$ 139,062               |
| Adjustments to reconcile net income to net cash provided by operating activities                 |                                |                          |                          |
| Depreciation and amortization  | 177,347                        | 175,484                  | 185,122                  |
| (Gain) loss on sale of property and equipment, net   | (1,852)                        | 102                      | (297)                    |
| Stock-based compensation expense related to employee stock options and employee stock purchases  | 19,356                         | 19,005                   | 18,059                   |
| (Benefit) provision for deferred income tax expense  | (37,858)                       | 22,989                   | 5,997                    |
| Change in accounts receivable, net   | 11,223                         | 19,831                   | (7,746)                  |
| Change in inventories  | 536,682                        | 81,722                   | (255,040)                |
| Change in prepaid expenses and other, net  | 5,822                          | (10,237)                 | 1,907                    |
| Change in trade accounts payable   | (23,336)                       | 2,241                    | 18,490                   |
| (Payments) draws on floor plan notes payable – trade, net  | (114,958)                      | (26,579)                 | 76,646                   |
| Change in customer deposits  | 31,514                         | 6,512                    | 8,833                    |
| Change in accrued expenses   | 48,974                         | (12,757)                 | 24,331                   |
| Other, net   | (4,819)                        | 1,376                    | –                        |
| Net cash provided by operating activities  | <u>762,982</u>                 | <u>421,272</u>           | <u>215,364</u>           |
| <b>Cash flows from investing activities:</b>   |                                |                          |                          |
| Acquisition of property and equipment  | (136,200)                      | (293,493)                | (238,260)                |
| Proceeds from the sale of property and equipment   | 5,783                          | 2,310                    | 6,325                    |
| Business acquisitions  | –                              | (10,168)                 | –                        |
| Purchase of equity method investment and call option   | –                              | (22,499)                 | –                        |
| Proceeds from the sale of available for sale securities  | –                              | –                        | 6,375                    |
| Other  | 2,960                          | 3,394                    | (1,683)                  |
| Net cash used in investing activities  | <u>(127,457)</u>               | <u>(320,456)</u>         | <u>(227,243)</u>         |
| <b>Cash flows from financing activities:</b>   |                                |                          |                          |
| (Payments) draws on floor plan notes payable – non-trade, net                                    | (369,592)                      | (104)                    | 167,812                  |
| Proceeds from long-term debt   | 157,255                        | 210,043                  | 156,751                  |
| Principal payments on long-term debt   | (255,279)                      | (183,538)                | (167,106)                |
| Principal payments on finance lease obligations  | (11,192)                       | (8,331)                  | (12,429)                 |
| Draws on line of credit  | –                              | 135,000                  | –                        |
| Payments on line of credit   | –                              | (135,000)                | –                        |
| Proceeds from issuance of shares relating to employee stock options and employee stock purchases | 21,037                         | 8,244                    | 3,926                    |
| Payments of cash dividends   | (22,461)                       | (18,317)                 | (9,332)                  |
| Common stock repurchased   | (24,865)                       | (58,188)                 | (120,558)                |
| Debt issuance costs  | –                              | (731)                    | –                        |
| Net cash (used in) provided by financing activities  | <u>(505,097)</u>               | <u>(50,922)</u>          | <u>19,064</u>            |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                      | <b>130,428</b>                 | <b>49,894</b>            | <b>7,185</b>             |
| Cash and cash equivalents, beginning of year   | <u>181,620</u>                 | <u>131,726</u>           | <u>124,541</u>           |
| <b>Cash and cash equivalents, end of year</b>  | <b><u>\$ 312,048</u></b>       | <b><u>\$ 181,620</u></b> | <b><u>\$ 131,726</u></b> |
| <b>Supplemental disclosure of cash flow information:</b>   |                                |                          |                          |
| Cash paid during the year for:   |                                |                          |                          |
| Interest   | \$ 38,806                      | \$ 57,373                | \$ 42,752                |
| Income taxes paid, net   | \$ 36,364                      | \$ 42,440                | \$ 28,674                |
| Noncash investing and financing activities:  |                                |                          |                          |
| Assets acquired under finance leases   | \$ 49,523                      | \$ 44,904                | \$ 4,914                 |
| Guaranty agreement   | –                              | \$ 5,025                 | –                        |

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

RUSH ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS:

Rush Enterprises, Inc. (the “Company”) was incorporated in 1965 under the laws of the State of Texas. The Company operates a network of commercial vehicle dealerships that primarily sell commercial vehicles manufactured by Peterbilt, International, Hino, Ford, Isuzu, IC Bus or Blue Bird. Through its strategically located network of Rush Truck Centers, the Company provides one-stop service for the needs of its commercial vehicle customers, including retail sales of new and used commercial vehicles, aftermarket parts sales, service and repair facilities, financing, leasing and rental, and insurance products.

*Stock Split*

On September 15, 2020, the Board of Directors of the Company declared a 3-for-2 stock split of the Company’s Class A common stock and Class B common stock, to be effected in the form of a stock dividend. On October 12, 2020, the Company distributed one additional share of stock for every two shares of Class A common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, held by shareholders of record as of September 28, 2020. All share and per share data in this Form 10-K have been adjusted and restated to reflect the stock split as if it occurred on the first day of the earliest period presented.

*COVID-19 Risks and Uncertainties*

In March 2020, the World Health Organization made the assessment that COVID-19 could be characterized as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The Company’s nationwide network of commercial vehicle dealerships are classified as “essential businesses” and have remained operational across the Company’s dealership network. Despite the dealerships remaining open, the COVID-19 pandemic had a significant negative impact on the Company’s financial results during the year ended December 31, 2020. The Company is unable to predict the impact that the COVID-19 pandemic will have on its future business and operating results due to numerous uncertainties, including the duration and severity of the outbreak.

2. SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements presented herein include the accounts of Rush Enterprises, Inc. together with its consolidated subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Estimates in Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash and other money market instruments. The Company considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents.

### Allowance for Credit Losses and Repossession Losses

The Company maintains an allowance for credit losses based on the probability of default, its historical rate of losses, aging and current economic conditions. Accounts receivable consists primarily of commercial vehicle sales receivables, manufacturers' receivables, leasing and parts and service receivables and other trade receivables. The Company writes off account balances when it has exhausted reasonable collection efforts and determined that the likelihood of collection is remote. These write-offs are charged against the allowance for credit losses.

The Company provides an allowance for repossession losses after considering historical loss experience and other factors that might affect the ability of customers to meet their obligations on finance contracts sold by the Company when the Company has a potential liability.

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by specific identification of new and used commercial vehicle inventory and by the first-in, first-out method for tires, parts and accessories. As the market value of the Company's inventory typically declines over time, reserves are established based on historical loss experience and market trends. These reserves are charged to cost of sales and reduce the carrying value of the Company's inventory on hand. An allowance is provided when it is anticipated that cost will exceed net realizable value less a reasonable profit margin.

### Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the useful life of the improvement, or the term of the lease, whichever is shorter. Provision for depreciation of property and equipment is calculated primarily on a straight-line basis. The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest, when incurred, is added to the cost of underlying assets and is amortized over the estimated useful life of such assets. The Company recorded capitalized interest of approximately \$163,500 related to major capital projects during 2020. The cost, accumulated depreciation and amortization and estimated useful lives of certain of the Company's property and equipment are summarized as follows (in thousands):

|   | 2020                | 2019                | Estimated Life<br>(Years) |
|---|---------------------|---------------------|---------------------------|
| Land                                      | \$ 136,024          | \$ 137,416          | –                         |
| Buildings and improvements                | 495,808             | 474,106             | 10 – 39                   |
| Leasehold improvements                    | 38,767              | 34,350              | 2 – 39                    |
| Machinery and shop equipment              | 87,090              | 82,594              | 5 – 20                    |
| Furniture, fixtures and computers         | 81,834              | 73,846              | 3 – 15                    |
| Transportation equipment                  | 96,319              | 99,127              | 3 – 15                    |
| Lease and rental vehicles                 | 905,465             | 968,121             | 1 – 8                     |
| Construction in progress                  | 2,989               | 16,874              |                           |
| Accumulated depreciation and amortization | <u>(640,577)</u>    | <u>(606,503)</u>    |                           |
| Total                                     | <u>\$ 1,203,719</u> | <u>\$ 1,279,931</u> |                           |

The Company recorded depreciation expense of \$157.8 million and amortization expense of \$19.5 million for the year ended December 31, 2020, depreciation expense of \$158.7 million and amortization expense of \$16.8 million for the year ended December 31, 2019, and depreciation expense of \$149.1 million and amortization expense of \$36.0 million for the year ended December 31, 2018.

As of December 31, 2020, the Company had \$109.5 million in lease and rental vehicles under various finance leases included in property and equipment, net of accumulated amortization of \$40.2 million. The Company recorded depreciation and amortization expense of \$119.9 million related to lease and rental vehicles in lease and rental cost of products sold for the year ended December 31, 2020, \$120.1 million for the year ended December 31, 2019 and \$114.6 million for the year ended December 31, 2018.

## Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. The Company tests goodwill for impairment annually during the fourth quarter, or when indications of potential impairment exist. These indicators would include a significant change in operating performance, or a planned sale or disposition of a significant portion of the business, among other factors. The Company tests for goodwill impairment utilizing a fair value approach at the reporting unit level. The Company has deemed its reporting unit to be the Truck Segment, as all components of the Truck Segment are similar.

The impairment test for goodwill involves comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. The second step includes hypothetically valuing all the tangible and intangible assets of the reporting unit as if the reporting unit had been acquired in a business combination and comparing the hypothetical implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the hypothetical implied fair value of the goodwill, the Company would recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount. The Company determines the fair values calculated in an impairment test using the discounted cash flow method, which requires assumptions and estimates regarding future revenue, expenses and cash flow projections. The analysis is based upon available information regarding expected future cash flows of its reporting unit discounted at rates consistent with the cost of capital specific to the reporting unit.

No impairment write down was required in the fourth quarter of 2020. However, the Company cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill in the future.

The carrying amount of goodwill for the Company for the years ended December 31, 2020 and 2019 was \$292.1 million.

## Other Assets

### *ERP Platform*

The total capitalized costs of the Company's SAP enterprise resource planning software platform ("the ERP Platform") of \$7.0 million are recorded on the Consolidated Balance Sheet in Other Assets. Amortization expense relating to the ERP Platform, which is recognized in depreciation and amortization expense in the Consolidated Statements of Income and Comprehensive Income, was \$1.9 million for the year ended December 31, 2020 and \$1.9 million for the year ended December 31, 2019. The Company estimates that amortization expense relating to the ERP Platform will be approximately \$1.2 million for each of the next five years.

In the first quarter of 2018, as part of an assessment that involved a technical feasibility study of the then current ERP Platform, the Company determined that a majority of the components of this ERP Platform would require replacement earlier than originally anticipated; in prior disclosures, the Company had referred to the ERP Platform separately as the SAP enterprise software and SAP dealership management system. In accordance with Accounting Standards Codification ("ASC") Topic 350-40, in the first quarter of 2018, the Company adjusted the useful life of these components that were replaced so that the respective net book values of the components were fully amortized upon replacement in May 2018. The Company amortized the remaining net book value of the components that were replaced on a straight-line basis in February 2018 through May 2018. The Company recorded amortization expense of \$19.9 million in 2018 related to the components of the ERP Platform that were replaced. The ERP Platform asset and related amortization are reflected in the Truck Segment.

### *Franchise Rights*

The Company's only significant identifiable intangible assets, other than goodwill, are rights under franchise agreements with manufacturers. The fair value of the franchise right is determined at the acquisition date by discounting the projected cash flows specific to each acquisition. The carrying value of the Company's manufacturer franchise rights was \$7.0 million at December 31, 2020 and 2019, and is included in Other Assets on the accompanying Consolidated Balance Sheet. The Company has determined that manufacturer franchise rights have an indefinite life, as there are no economic or other factors that limit their useful lives and they are expected to generate cash flows indefinitely due to the historically long lives of the manufacturers' brand names. Furthermore, to the extent that any agreements evidencing manufacturer franchise rights have

expiration dates, the Company expects that it will be able to renew those agreements in the ordinary course of business. Accordingly, the Company does not amortize manufacturer franchise rights.

Due to the fact that manufacturer franchise rights are specific to a geographic region, the Company has determined that evaluating and including all locations acquired in the geographic region is the appropriate level for purposes of testing franchise rights for impairment. Management reviews indefinite-lived manufacturer franchise rights for impairment annually during the fourth quarter, or more often if events or circumstances indicate that an impairment may have occurred. The Company is subject to financial statement risk to the extent that manufacturer franchise rights become impaired due to decreases in the fair market value of its individual franchises.

The significant estimates and assumptions used by management in assessing the recoverability of manufacturer franchise rights include estimated future cash flows, present value discount rate and other factors. Any changes in these estimates or assumptions could result in an impairment charge. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgment. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluations of manufacturer franchise rights can vary within a range of outcomes.

No impairment write-down was required in the period presented. The Company cannot predict the occurrence of certain events that might adversely affect the reported value of manufacturer franchise rights in the future.

#### *Equity Method Investment and Call Option*

On February 25, 2019, the Company acquired 50% of the equity interest in Rush Truck Centres of Canada Limited ("RTC Canada"), which acquired the operating assets of Tallman Group, the largest International Truck dealer in Canada. The Company was also granted a call option in the purchase agreement that provides the Company with the right to acquire the remaining 50% equity interest in RTC Canada until the close of business on February 25, 2024. The value of the Company's call option was \$3.6 million as of December 31, 2020, and is reported in Other Assets on the Consolidated Balance Sheet.

On April 25, 2019, the Company entered into a Guaranty Agreement ("Guaranty") with Bank of Montreal ("BMO"), pursuant to which the Company agreed to guaranty up to CAD250 million (the "Guaranty Cap") of certain credit facilities entered into by and between Tallman Truck Centre Limited ("TTCL") and BMO. The Company owned a 50% equity interest in TTCL, which was the sole owner of RTC Canada. Later in 2019, RTC Canada and TTCL were amalgamated into RTC Canada. Interest, fees and expenses incurred by BMO to enforce its rights with respect to the guaranteed obligations and its rights against the Company under the Guaranty are not subject to the Guaranty Cap. In exchange for the Guaranty, RTC Canada is receiving a reduced rate of interest on its credit facilities with BMO. The Guaranty was valued at \$5.2 million as of December 31, 2020 and \$5.1 million as of December 31, 2019, and is included in the investment in RTC Canada. As of December 31, 2020, the Company's investment in RTC Canada is \$32.0 million. The Company's equity income in RTC Canada is included in Other income on the Consolidated Statements of Income.

#### Income Taxes

Management's judgment is required to determine the provisions for income taxes and to determine whether deferred tax assets will be realized in full or in part. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When it is more likely than not that all or some portion of specific deferred income tax assets will not be realized, a valuation allowance must be established for the amount of deferred income tax assets that are determined not to be realizable. Accordingly, the facts and financial circumstances impacting deferred income tax assets are reviewed quarterly and management's judgment is applied to determine the amount of valuation allowance required, if any, in any given period.

In determining its provision for income taxes, the Company uses an annual effective income tax rate based on annual income, permanent differences between book and tax income, and statutory income tax rates. The effective income tax rate also reflects its assessment of the ultimate outcome of tax audits. The Company adjusts its annual effective income tax rate as additional information on outcomes or events becomes available. Discrete events such as audit settlements or changes in tax laws are recognized in the period in which they occur.

The Company's income tax returns are periodically audited by tax authorities. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions. In evaluating the exposures associated with



its various tax filing positions, the Company adjusts its liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

The Company's liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with its various filing positions. The Company's effective income tax rate is also affected by changes in tax law, the level of earnings and the results of tax audits. Although the Company believes that the judgments and estimates are reasonable, actual results could differ, and the Company may be exposed to losses or gains that could be material. An unfavorable tax settlement would generally require use of the Company's cash and result in an increase in its effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in the Company's effective income tax rate in the period of resolution. The Company's income tax expense includes the impact of reserve provisions and changes to reserves that it considers appropriate, as well as related interest.

### Revenue Recognition Policies

Effective January 1, 2018, the Company adopted ASU 2014-09, "*Revenue from Contracts with Customers* ("*Topic 606*")," using the modified retrospective transition method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Under Topic 606, the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that it will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations. The Company then assesses whether each promised good or service is distinct and recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. For a complete discussion of accounting for revenue, see Note 18 – Revenue of the Notes to Consolidated Financial Statements.

### Cost of Sales

For the Company's new and used commercial vehicle operations, cost of sales consists primarily of the Company's actual purchase price, plus make-ready expenses, less any applicable manufacturers' incentives. For the Company's parts operations, cost of sales consists primarily of the Company's actual purchase price, less any applicable manufacturers' incentives. For the Company's service and collision center operations, technician labor cost is the primary component of cost of sales. For the Company's rental and leasing operations, cost of sales consists primarily of depreciation and amortization, rent, maintenance costs, license costs and interest expense on the lease and rental fleet owned and leased by the Company. There are no costs of sales associated with the Company's finance and insurance revenue or other revenue.

### Leases

The Company leases commercial vehicles and real estate under finance and operating leases. The Company determines whether an arrangement is a lease at its inception. For leases with terms greater than twelve months, the Company records a lease asset and liability at the present value of lease payments over the term. Many of the Company's leases include renewal options and termination options that are factored into its determination of lease payments when appropriate.

When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of its leases do not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental borrowing rate to discount the lease payments based on information available at lease commencement.

The Company leases commercial vehicles that the Company owns to customers. Lease and rental revenue is recognized over the period of the related lease or rental agreement. Variable rental revenue is recognized when it is earned.

### Taxes Assessed by a Governmental Authority

The Company accounts for sales taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction on a net (excluded from revenues) basis.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of incentive based compensation for sales, finance and general management personnel, salaries for administrative personnel and expenses for rent, marketing, insurance, utilities, research and development and other general operating purposes.

### Stock Based Compensation

The Company applies the provisions of ASC topic 718-10, "Compensation – Stock Compensation," which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including grants of employee stock options, restricted stock units, restricted stock awards and employee stock purchases under the Employee Stock Purchase Plan, based on estimated fair values.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods.

Compensation expense for all share-based payment awards is recognized using the straight-line single-option method. Stock-based compensation expense is recognized based on awards expected to vest. Accordingly, stock based compensation expense has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company determines the fair value of share-based payment awards on the date of grant using an option-pricing model that is affected by the Company's stock price, as well as assumptions regarding a number of highly complex and subjective variables. These variables include the Company's expected stock price volatility over the term of the awards and actual and projected stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's stock options have characteristics that are significantly different from traded options and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of fair value and it may not be indicative of the fair value observed in a market transaction between a willing buyer and a willing seller.

The following table reflects the weighted-average fair value of stock options granted during each period using the Black-Scholes option valuation model with the following weighted-average assumptions used:

|  | 2020    | 2019    | 2018     |
|--|---------|---------|----------|
| Expected stock volatility                            | 33.11%  | 31.29%  | 31.68%   |
| Weighted-average stock volatility                    | 33.11%  | 31.29%  | 31.68%   |
| Expected dividend yield                              | 1.20%   | 1.13%   | 0.00%    |
| Risk-free interest rate                              | 0.80%   | 2.45%   | 2.69%    |
| Expected life (years)                                | 6.0     | 6.0     | 6.0      |
| Weighted-average fair value of stock options granted | \$ 6.36 | \$ 8.37 | \$ 10.31 |

The Company computes its historical stock price volatility in accordance with ASC Topic 718-10. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The expected life of stock options represents the weighted-average period the stock options are expected to remain outstanding.

### Advertising Costs

Advertising costs are expensed as incurred. Advertising and marketing expense was \$7.9 million for 2020, \$11.5 million for 2019 and \$10.4 million for 2018. Advertising and marketing expense is included in selling, general and administrative expense.

### Accounting for Internal Use Software

The Company's accounting policy with respect to accounting for computer software developed or obtained for internal use is consistent with ASC topic 350-40, which provides guidance on accounting for the costs of computer software developed or obtained for internal use and identifies characteristics of internal-use software. The Company has capitalized software costs, including capitalized interest, of approximately \$7.0 million as of December 31, 2020, net of accumulated amortization of \$12.1 million, and had \$8.9 million as of December 31, 2019, net of accumulated amortization of \$10.2 million.

### Insurance

The Company is partially self-insured for a portion of the claims related to its property and casualty insurance programs. Accordingly, the Company is required to estimate expected losses to be incurred. The Company engages a third-party administrator to assess any open claims and the Company adjusts its accrual accordingly on an annual basis. The Company is also partially self-insured for a portion of the claims related to its worker's compensation and medical insurance programs. The Company uses actuarial information provided from third-party administrators to calculate an accrual for claims incurred, but not reported, and for the remaining portion of claims that have been reported.

### Fair Value Measurements

The Company has various financial instruments that it must measure at fair value on a recurring basis. See Note 9 – Financial Instruments and Fair Value of the Notes to Consolidated Financial Statements, for further information. The Company also applies the provisions of fair value measurement to various nonrecurring measurements for its financial and nonfinancial assets and liabilities.

Applicable accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Company measures its assets and liabilities using inputs from the following three levels of the fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect the Company's assumptions about what factors market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including its own data.

### Acquisitions

The Company uses the acquisition method of accounting for the recognition of assets acquired and liabilities assumed through acquisitions at their estimated fair values as of the date of acquisition. Any excess consideration transferred over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. While the Company uses its best estimates and assumptions to measure the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which is not to exceed one year from the date of acquisition, any changes in the estimated fair values of the net assets recorded for the acquisitions will result in an adjustment to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Consolidated Statements of Income.

### Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, “*Financial Instruments - Credit Losses (Topic 326)*,” which modified the measurement of expected credit losses of certain financial instruments. Credit losses on trade and other receivables, held-to-maturity debt securities, and other instruments reflect the Company's current estimate of the expected credit losses and generally results in the earlier recognition of allowance for losses. The Company adopted the standard effective January 1, 2020. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, “*Reference Rate Reform (Topic 848)*,” which provides temporary optional guidance to ease the potential financial reporting burden of the expected market transition away from LIBOR. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contract modifications, hedge accounting, and other transactions affected by reference rate reform if certain criteria are met through December 31, 2022. The Company is currently evaluating the effect this standard will have on its financial position, results of operations and related disclosures.

### 3. SUPPLIER CONCENTRATION:

#### Major Suppliers and Dealership Agreements

The Company has entered into dealership agreements with various manufacturers of commercial vehicles and buses (“Manufacturers”). These agreements are nonexclusive agreements that allow the Company to stock, sell at retail and service commercial vehicles and sell parts from the Manufacturers in the Company’s defined market. The agreements allow the Company to use the Manufacturers’ names, trade symbols and intellectual property and expire as follows:

| <u>Manufacturer</u> | <u>Expiration Dates</u>              |
|---------------------|--------------------------------------|
| Peterbilt           | November 2021 through September 2022 |
| International       | March 2021 through May 2025          |
| Isuzu               | Indefinite                           |
| Hino                | Indefinite                           |
| Ford                | Indefinite                           |
| Blue Bird           | August 2024                          |
| IC Bus              | March 2021 through May 2025          |

These agreements, as well as agreements with various other Manufacturers, impose a number of restrictions and obligations on the Company, including restrictions on a change in control of the Company and the maintenance of certain required levels of working capital. Violation of these restrictions could result in the loss of the Company’s right to purchase the Manufacturers’ products and use the Manufacturers’ trademarks.

The Company purchases its new Peterbilt vehicles from Peterbilt and most of the parts sold at its Peterbilt dealerships from PACCAR, Inc, the parent company of Peterbilt, at prevailing prices charged to all franchised dealers. Sales of new Peterbilt trucks accounted for approximately 59.0% of the Company’s new vehicle sales revenue for the year ended December 31, 2020, 61.6% of the Company’s new vehicle sales revenue for the year ended December 31, 2019, and 62.5% of the Company’s new vehicle sales revenue for the year ended December 31, 2018.

#### Primary Lenders

The Company purchases its new and used commercial vehicle inventories with the assistance of floor plan financing programs as described in Note 7 to these Notes to Consolidated Financial Statements. The Company’s floor plan financing agreements provide that the occurrence of certain events will be considered events of default. In the event that the Company’s floor plan financing becomes insufficient, or its relationship with any of its current primary lenders terminates, the Company would need to obtain similar financing from other sources. Management believes it can obtain additional floor plan financing or alternative financing if necessary.

The Company also acquires lease and rental vehicles with the assistance of financing agreements with PACCAR Leasing Company and Bank of America. The financing agreements are secured by a lien on the acquired vehicle. The terms of the financing agreements are similar to the corresponding lease agreements with the Company’s customers.

### Concentrations of Credit Risks

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with what it considers to be quality financial institutions based on periodic assessments of such institutions. The Company's cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

The Company controls credit risk through credit approvals and by selling a majority of its trade receivables, other than vehicle accounts receivable, without recourse. Concentrations of credit risk with respect to trade receivables are reduced because a large number of geographically diverse customers make up the Company's customer base; however, substantially all of the Company's business is concentrated in the United States commercial vehicle markets and related aftermarkets.

The Company generally sells finance contracts it enters into with customers to finance the purchase of commercial vehicles to third parties. These finance contracts are sold by the Company both with and without recourse. A majority of the Company's finance contracts are sold without recourse. The Company provides an allowance for doubtful receivables and a reserve for repossession losses related to finance contracts sold with recourse. Historically, the Company's allowances and reserves have covered losses inherent in these receivables.

#### 4. ACCOUNTS RECEIVABLE:

The Company's accounts receivable, net, consisted of the following (in thousands):

|   | <u>December 31,</u> |                   |
|---|---------------------|-------------------|
|   | <u>2020</u>         | <u>2019</u>       |
| Trade accounts receivable from sale of vehicles | \$ 82,338           | \$ 82,991         |
| Trade receivables other than vehicles           | 58,689              | 68,376            |
| Warranty claims                                 | 9,032               | 16,819            |
| Other accounts receivable                       | 24,027              | 16,942            |
| Less allowance for credit losses                | <u>(1,605)</u>      | <u>(1,424)</u>    |
| Total   | <u>\$ 172,481</u>   | <u>\$ 183,704</u> |

#### 5. INVENTORIES:

The Company's inventories, net, consisted of the following (in thousands):

|                          | <u>December 31,</u> |                     |
|--------------------------|---------------------|---------------------|
|                          | <u>2020</u>         | <u>2019</u>         |
| New commercial vehicles  | \$ 563,097          | \$ 967,785          |
| Used commercial vehicles | 56,214              | 84,610              |
| Parts and accessories    | 238,195             | 273,185             |
| Other                    | 16,175              | 17,763              |
| Less allowance           | <u>(15,390)</u>     | <u>(17,263)</u>     |
| Total                    | <u>\$ 858,291</u>   | <u>\$ 1,326,080</u> |

6. VALUATION ACCOUNTS:

Valuation and allowance accounts include the following (in thousands):

|  | Balance<br>Beginning<br>of Year | Net<br>Charged to<br>Costs and<br>Expenses | Net Write-<br>Offs | Balance<br>End<br>of Year |
|--|---------------------------------|--|--------------------|---------------------------|
| <b>2020</b>                              |                                 |  |                    |                           |
| Reserve for parts inventory              | \$ 7,661                        | \$ 4,501                                   | \$ (2,847)         | \$ 9,315                  |
| Reserve for commercial vehicle inventory | 9,602                           | 9,598                                      | (13,125)           | 6,075                     |
| <b>2019</b>                              |                                 |  |                    |                           |
| Reserve for accounts receivable          | \$ 987                          | \$ 2,065                                   | \$ (2,038)         | \$ 1,014                  |
| Reserve for warranty receivables         | 429                             | 1,661                                      | (1,680)            | 410                       |
| Reserve for parts inventory              | 7,050                           | 4,460                                      | (3,849)            | 7,661                     |
| Reserve for commercial vehicle inventory | 4,587                           | 12,489                                     | (7,474)            | 9,602                     |
| <b>2018</b>                              |                                 |  |                    |                           |
| Reserve for accounts receivable          | \$ 616                          | \$ 2,183                                   | \$ (1,812)         | \$ 987                    |
| Reserve for warranty receivables         | 210                             | 2,031                                      | (1,812)            | 429                       |
| Reserve for parts inventory              | 6,230                           | 2,744                                      | (1,924)            | 7,050                     |
| Reserve for commercial vehicle inventory | 5,953                           | 3,550                                      | (4,916)            | 4,587                     |

*Accounts Receivable and Allowance for Credit Losses*

The Company adopted Topic 326 on January 1, 2020. The Company did not recognize an adjustment to the beginning balance of retained earnings because the new accounting standard did not have a material impact on its consolidated financial statements. The Company establishes an allowance for credit losses to present the net amount of accounts receivable expected to be collected. Under Topic 326, the Company is required to remeasure expected credit losses for financial instruments held on the reporting date based on historical experience, current conditions and reasonable forecasts.

Accounts receivable consists primarily of commercial vehicle sales receivables, manufacturers' receivables and leasing, parts and service sales receivables and other trade receivables. The Company maintains an allowance for credit losses based on the probability of default, its historical rate of losses, aging and current economic conditions. The Company's assessment of future losses in 2020 considered the impact of the COVID-19 pandemic on forecasted economic trends. The Company writes off account balances when it has exhausted reasonable collection efforts and determined that the likelihood of collection is remote. These write-offs are charged against the allowance for credit losses.

The following table summarizes the changes in the allowance for credit losses (in thousands):

|  | Balance<br>December 31,<br>2019 | Provision for<br>the Year<br>Ended<br>December 31,<br>2020 | Write offs<br>Against<br>Allowance, net<br>of Recoveries | Balance<br>December 31,<br>2020 |
|--|---------------------------------|--|--|---------------------------------|
| Commercial vehicle receivables         | \$ 11                           | \$ 161   | \$ -   | \$ 172                          |
| Manufacturers' receivables             | 410                             | 1,169  | (1,443)  | 136                             |
| Leasing, parts and service receivables | 989                             | 1,852  | (1,563)  | 1,278                           |
| Other receivables                      | 14                              | 21   | (16)   | 19                              |
| Total                                  | \$ 1,424                        | \$ 3,203   | \$ (3,022)   | \$ 1,605                        |

*Inventory*

The Company provides a reserve for obsolete and slow moving parts. The reserve is reviewed and, if necessary, adjustments are made on a quarterly basis. The Company relies on historical information to support its reserve. Once the inventory is written down, the Company does not reverse any reserve balance until the inventory is sold.

The valuation for new and used commercial vehicle inventory is based on specific identification. A detail of new and used commercial vehicle inventory is reviewed and, if necessary, adjustments to the value of specific vehicles are made on a quarterly basis.

## 7. FLOOR PLAN NOTES PAYABLE AND LINES OF CREDIT:

### Floor Plan Notes Payable

Floor plan notes are financing agreements to facilitate the Company's purchase of new and used commercial vehicle inventory. These notes are collateralized by the inventory purchased and accounts receivable arising from the sale thereof. The Company's Floor Plan Credit Agreement provides for a loan commitment of up to \$1.0 billion and has the interest rate benchmarked to LIBOR, as defined in the agreement. The interest rate under the Company's Floor Plan Credit Agreement is the one month LIBOR rate plus 1.25%. The effective interest rate applicable to the Company's Floor Plan Credit Agreement was approximately 1.4% as of December 31, 2020. The Company utilizes its excess cash on hand to pay down its outstanding borrowings under its Floor Plan Credit Agreement, and the resulting interest earned is recognized as an offset to the Company's gross interest expense under the Floor Plan Credit Agreement. The Company is required to pay a monthly working capital fee equal to 0.16% per annum multiplied by the amount of voluntary prepayments of new and used inventory loans.

The Company finances substantially all of the purchase price of its new commercial vehicle inventory and the loan value of its used commercial vehicle inventory under its Floor Plan Credit Agreement, under which BMO Harris pays the manufacturer directly with respect to new commercial vehicles. Amounts borrowed under the Company's Floor Plan Credit Agreement are due when the related commercial vehicle inventory (collateral) is sold and the sales proceeds are collected by the Company. The Company's Floor Plan Credit Agreement expires June 30, 2022, although BMO Harris has the right to terminate the Floor Plan Credit Agreement at any time upon 360 days written notice and the Company may terminate at any time, subject to specified limited exceptions. On December 31, 2020, the Company had approximately \$451.5 million outstanding under its Floor Plan Credit Agreement.

In June 2012, the Company entered into a wholesale financing agreement with Ford Motor Credit Company that provides for the financing of, and is collateralized by, the Company's new Ford vehicle inventory. This wholesale financing agreement bore interest at a rate of Prime plus 150 basis points minus certain incentives and rebates. As of December 31, 2020, the Company had did not have an outstanding balance under the Ford Motor Credit Company wholesale financing agreement.

The Company's weighted average interest rate for floor plan notes payable was 1.2% for the year ended December 31, 2020, and 2.6% for the year ended December 31, 2019, which is net of interest related to prepayments of new and used inventory loans.

Assets pledged as collateral were as follows (in thousands):

|  | December 31,      |                     |
|--|-------------------|---------------------|
|  | 2020              | 2019                |
| Inventories, new and used vehicles at cost based on specific identification,<br>net of allowance | \$ 613,236        | \$ 1,042,794        |
| Vehicle sale related accounts receivable   | 82,338            | 82,991              |
| Total  | <u>\$ 695,574</u> | <u>\$ 1,125,785</u> |
| Floor plan notes payable related to vehicles   | <u>\$ 511,786</u> | <u>\$ 996,336</u>   |

### Lines of Credit

The Company has a secured line of credit that provides for a maximum borrowing of \$17.5 million. There were no advances outstanding under this secured line of credit at December 31, 2020; however, \$12.3 million was pledged to secure various letters of credit related to self-insurance products, leaving \$5.2 million available for future borrowings as of December 31, 2020.

The Company's Working Capital Facility with BMO Harris includes up to \$100.0 million of revolving credit loans available to it for working capital, capital expenditures and other general corporate purposes. The amount of the borrowings under the

Working Capital Facility are subject to borrowing base limitations based on the value of the Company's eligible parts inventory and company vehicles. The Working Capital Facility includes a \$20 million letter of credit sublimit. Borrowings under the Working Capital Facility bear interest at rates based on LIBOR or the Base Rate (as such terms are defined in the Working Capital Facility), plus an applicable margin determined based on outstanding borrowing under the Working Capital Facility. In addition, the Company is required to pay a commitment fee on the amount unused under the Working Capital Facility. The Working Capital Facility expires on the earlier of (i) June 30, 2022 and (ii) the date on which all commitments under the Working Capital Facility shall have terminated, whether as a result of the occurrence of the Commitment Termination Date (as defined in the Working Capital Facility) or otherwise. There were no advances outstanding under the Working Capital Facility as of December 31, 2020.

8. LONG-TERM DEBT:

Long-term debt was comprised of the following (in thousands):

|   | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2020              | 2019              |
| Variable interest rate term notes               | \$ 40,975         | \$ 58,416         |
| Fixed interest rate term notes                  | 488,679           | 569,262           |
| Total debt                                      | 529,654           | 627,678           |
| Less: current maturities                        | (141,672)         | (189,265)         |
| Total long-term debt, net of current maturities | <u>\$ 387,982</u> | <u>\$ 438,413</u> |

As of December 31, 2020, long-term debt maturities were as follows (in thousands):

|            |                   |
|------------|-------------------|
| 2021       | 141,672           |
| 2022       | 125,511           |
| 2023       | 107,145           |
| 2024       | 81,916            |
| 2025       | 46,778            |
| Thereafter | <u>26,632</u>     |
| Total      | <u>\$ 529,654</u> |

The interest rates on the Company's variable interest rate notes are based on various LIBOR and Prime benchmark rates. The interest rates on the notes ranged from approximately 1.6% to 3.5% on December 31, 2020. Payments on the notes range from approximately \$5,330 to \$522,636 per month, plus interest. Maturities of these notes range from October 2022 to October 2025.

The Company's fixed interest rate notes had interest rates that ranged from approximately 2.0% to 6.19% on December 31, 2020. Payments on the notes range from \$254 to \$72,316 per month. Maturities of these notes range from January 2021 to May 2029.

The proceeds from the issuance of the notes were used primarily to acquire land, buildings and related property improvements, in addition to vehicles for the Company's lease and rental fleet. The notes are secured by the assets acquired with the proceeds of such notes.

The Company's long-term real estate debt agreements, floor plan financing arrangements and the Working Capital Facility require the Company to satisfy various financial ratios such as the debt to worth ratio, leverage ratio, the fixed charge coverage ratio and certain requirements for tangible net worth and GAAP net worth. As of December 31, 2020, the Company was in compliance with all debt covenants. The Company does not anticipate any breach of the covenants in the foreseeable future.



9. FINANCIAL INSTRUMENTS AND FAIR VALUE:

The Company measures certain financial assets and liabilities at fair value on a recurring basis. Financial instruments consist primarily of cash, accounts receivable, accounts payable and floor plan notes payable. The carrying values of the Company's financial instruments approximate fair value due either to their short-term nature or existence of variable interest rates, which approximate market rates. Certain methods and assumptions were used by the Company in estimating the fair value of financial instruments as of December 31, 2020, and 2019. The carrying value of current assets and current liabilities approximates the fair value due to the short maturity of these items.

The fair value of the Company's long-term debt is based on secondary market indicators. Because the Company's debt is not quoted, estimates are based on each obligation's characteristics, including remaining maturities, interest rate, credit rating, collateral and liquidity. Accordingly, the Company concluded that the valuation measurement inputs of its long-term debt represent, at its lowest level, current market interest rates available to the Company for similar debt and the Company's current credit standing. The Company has categorized such debt within Level 2 of the hierarchy framework. The carrying amount approximates fair value.

10. LEASES:

In February 2016, the FASB issued ASU No. 2016-02, "*Leases ("Topic 842")*," which was intended to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard requires lessees to record assets and liabilities on the balance sheet for all leases with terms longer than twelve months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

A lease is classified as a finance lease if any of the following conditions exist on the date of lease commencement:

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease provides the lessee an option to purchase the underlying asset, and that option is reasonably certain to be exercised.
- The lease term is for the major part of the remaining economic life of the underlying asset.
- The present value of the lease payments equals or exceeds substantially all of the fair value of the underlying asset.
- The underlying asset is of such a specialized nature that only the lessee can use it without major modifications.
- The lessor expects to have no alternative use for the leased asset at the end of the lease.

The Company adopted Topic 842 on January 1, 2019. The Company applied a modified retrospective transition approach for all leases existing at, or entered into after, January 1, 2019. The Consolidated Financial Statements for the year ended December 31, 2020 and December 31, 2019 are presented under the new standard, while the comparative year ended December 31, 2018 is not adjusted and continues to be reported in accordance with the Company's historical accounting policy. The Company applied the practical expedients permitted within Topic 842, which among other things, allowed it to retain its existing assessment of whether an arrangement is, or contains, a lease and whether such lease is classified as an operating or finance lease. The Company made an accounting policy election that keeps leases with an initial term of twelve months or less off of the balance sheet and results in recognizing those lease payments in the Consolidated Statements of Income and Comprehensive Income on a straight-line basis over the lease term.

The Company leases commercial vehicles and real estate under finance and operating leases. The Company determines whether an arrangement is a lease at its inception. For leases with terms greater than twelve months, the Company records the related asset and obligation at the present value of lease payments over the term. Many of the Company's leases include renewal options and/or termination options that are factored into its determination of lease payments when appropriate. The Company has elected not to account for lease and nonlease components as a single combined lease component as lessee. When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of its leases do not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental borrowing rate to discount the lease payments based on information available at lease commencement.

### *Lease of Vehicles as Lessee*

The Company leases commercial vehicles as the lessee under finance leases and operating leases. The lease terms vary from one month to ten years. Commercial vehicle finance leases continue to be reported on the Consolidated Balance Sheet, while operating leases were added to the Consolidated Balance Sheet in 2019 with the adoption of Topic 842. These vehicles are then subleased or rented by the Company to customers under various agreements. The Company received sublease income under non-cancelable subleases of \$26.9 million for the year ended December 31, 2020 and \$24.0 million for the year ended December 31, 2019.

The Company usually guarantees the residual value of vehicles under operating lease and finance lease arrangements. As of December 31, 2020, the Company guaranteed commercial vehicle residual values of approximately \$59.5 million under operating lease and finance lease arrangements.

### *Lease of Facilities as Lessee*

The Company's facility leases are classified as operating and finance leases and primarily reflect its use of dealership facilities and office space. The lease terms vary from one year to 83 years, some of which include options to extend the lease term, and some of which include options to terminate the lease within one year. The Company considers these options in determining the lease term used to establish its right-of-use assets and lease liabilities.

### *Lease costs and Supplemental Information*

Components of lease cost are as follows (in thousands):

| Component  | Classification                    | Twelve Months Ended  |                      |
|--|-----------------------------------|----------------------|----------------------|
|  |                                   | December 31,<br>2020 | December 31,<br>2019 |
| Operating lease cost                                     | SG&A expense                      | \$ 9,986             | \$ 9,479             |
| Operating lease cost                                     | Lease and rental cost of products | 4,654                | 4,154                |
| Finance lease cost – amortization of right-of-use assets | Lease and rental cost of products | 16,791               | 14,312               |
| Finance lease cost – interest on lease liabilities       | Lease and rental cost of products | 4,678                | 3,372                |
| Short-term lease cost                                    | SG&A expense                      | 66                   | 594                  |

Supplemental cash flow information and non-cash activity related to operating and finance leases are as follows (in thousands):

|  | Twelve Months Ended  |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2020 | December 31,<br>2019 |
| Operating cash flow information:                                       |                      |                      |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 19,318            | \$ 17,005            |
| Financing cash flow information:                                       |                      |                      |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 11,192            | \$ 8,331             |
| Non-cash activity:   |                      |                      |
| Operating lease right-of-use assets obtained in exchange for lease     | \$ 16,545            | \$ 57,197            |

Weighted-average remaining lease term and discount rate for operating and finance leases as of December 31, 2020 are as follows:

|                                       |           |
|---------------------------------------|-----------|
| Weighted-average remaining lease term | 68 months |
| Weighted-average discount rate        | 5.3%      |

Maturities of lease liabilities by fiscal year for finance leases and operating leases as of December 31, 2020 are as follows (in thousands):

|                                    | Finance<br>Leases | Operating<br>Leases |
|------------------------------------|-------------------|---------------------|
| 2021                               | \$ 31,579         | \$ 13,055           |
| 2022                               | 25,714            | 11,333              |
| 2023                               | 21,553            | 9,890               |
| 2024                               | 22,797            | 9,835               |
| 2025                               | 15,837            | 6,242               |
| 2026 and beyond                    | 16,931            | 28,572              |
| Total lease payments               | \$ 134,411        | \$ 78,927           |
| Less: Imputed interest             | (17,298)          | (17,576)            |
| Present value of lease liabilities | <u>\$ 117,113</u> | <u>\$ 61,351</u>    |

*Lease of Vehicles as Lessor*

The Company leases commercial vehicles that the Company owns to customers primarily over periods of one to ten years. The Company applied the practical expedient permitted within Topic 842 that allows it not to separate lease and nonlease components. Nonlease components typically consist of maintenance and licensing for the commercial vehicle. The variable nonlease components are generally based on mileage. Some leases contain an option for the lessee to purchase the commercial vehicle.

The Company's policy is to depreciate its lease and rental fleet using a straight-line method over each customer's contractual lease term. The lease unit is depreciated to a residual value that approximates fair value at the expiration of the lease term. This policy results in the Company realizing reasonable gross margins while the unit is in service and a corresponding gain or loss on sale when the unit is sold at the end of the lease term.

Sales-type leases are recognized by the Company as lease receivables. The lessee obtains control of the underlying asset and the Company recognizes sales revenue upon lease commencement. The receivable for sales-type leases as of December 31, 2020 in the amount of \$5.6 million is reflected in Other Assets on the Consolidated Balance Sheet.

Minimum rental payments to be received for non-cancelable leases and subleases in effect as of December 31, 2020, are as follows (in thousands):

|            |    |                |
|------------|----|----------------|
| 2021       | \$ | 130,063        |
| 2022       |    | 105,791        |
| 2023       |    | 82,312         |
| 2024       |    | 57,813         |
| 2025       |    | 32,112         |
| Thereafter |    | 17,927         |
| Total      | \$ | <u>426,018</u> |

Rental income during the year ended December 31, 2020, and 2019, consisted of the following (in thousands):

|                   | 2020              | 2019              |
|-------------------|-------------------|-------------------|
| Minimum rental    | \$ 205,640        | \$ 215,288        |
| Nonlease payments | 30,583            | 32,261            |
| Total             | <u>\$ 236,223</u> | <u>\$ 247,549</u> |

11. SHARE BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS:

*Employee Stock Purchase Plan*

The Company's 2004 Employee Stock Purchase Plan, as amended and restated (the "Employee Stock Purchase Plan") allows eligible employees to contribute up to \$10,625 of their base earnings every six months toward the semi-annual purchase of the Company's Class A Common Stock. The employee's purchase price is 85% of the lesser of the closing price of the Class A Common Stock on the first business day or the last business day of the semi-annual offering period, as reported by The NASDAQ Global Select Market. Employees may purchase shares having a fair market value of up to \$25,000 (measured as of the first day of each semi-annual offering period) for each calendar year. On May 12, 2020, the Company's shareholders approved the amendment and restatement of the Employee Stock Purchase Plan to increase the number of shares of Class A Common Stock authorized for issuance thereunder by 600,000 shares. Under the Employee Stock Purchase Plan, there are approximately 743,716 shares remaining of the 2,700,000 shares of the Company's Class A Common Stock that were reserved for issuance. The Company issued 176,807 shares under the Employee Stock Purchase Plan during the year ended December 31, 2020 and 175,925 shares during the year ended December 31, 2019. Of the 6,307 employees eligible to participate, approximately 1,650 elected to participate in the plan as of December 31, 2020.

*Non-Employee Director Stock Option Plan*

The Rush Enterprises, Inc. 2006 Non-Employee Director Stock Option Plan, as amended and restated (the "Director Plan"), reserved 750,000 shares of Class A Common Stock for issuance upon exercise of any awards granted under the plan. The Director Plan is designed to attract and retain highly qualified non-employee directors. Currently, each non-employee director receives a grant of the Company's Class A Common Stock, or up to 40% cash, equivalent to a compensation value of \$125,000. In 2020, three non-employee directors received a grant of 5,235 shares of the Company's Class A Common Stock and three non-employee directors received a grant of 3,141 shares of the Company's Class A Common Stock and \$50,000 cash, for total compensation equivalent to \$125,000 each. In 2019, three non-employee directors received a grant of 4,756 shares of the Company's Class A Common Stock, two non-employee directors received a grant of 2,854 shares of the Company's Class A Common Stock and \$50,000 cash, for total compensation equivalent to \$125,000 each. In 2019, one director who was appointed to the Company's Board of Directors in October of 2019 received 1,584 shares of the Company's Class A Common Stock and \$18,750 cash, for total compensation equivalent to \$62,500. Under the Director Plan, there are approximately 163,878 shares remaining for issuance of the 750,000 shares of the Company's Class A Common Stock that were reserved for issuance. The Company granted 25,128 shares of Class A Common Stock under the Director Plan during the year ended December 31, 2020 and 21,560 shares of Class A Common Stock under the Director Plan during the year ended December 31, 2019.

*Employee Incentive Plans*

In May 2007, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. 2007 Long-Term Incentive Plan (the "2007 Incentive Plan"). The 2007 Incentive Plan provides for the grant of stock options (which may be nonqualified stock options or incentive stock options for tax purposes), stock appreciation rights issued independent of or in tandem with such options ("SARs"), restricted stock awards and performance awards. The 2007 Incentive Plan was amended and restated on May 20, 2014, May 16, 2017 and again on May 12, 2020 to increase the number of shares available for issuance under the plan to 13,200,000 shares of Class A Common Stock and 4,800,000 shares of Class B Common Stock and to make certain other changes intended to bring the 2007 Incentive Plan into conformance with current best practices.

The aggregate number of shares of common stock subject to stock options or SARs that may be granted to any one participant in any year under the 2007 Incentive Plan is 150,000 shares of Class A Common Stock or 150,000 shares of Class B Common Stock. Each option granted pursuant to the 2007 Incentive Plan has a ten year term from the grant date and vests in three equal annual installments beginning on the third anniversary of the grant date. The Company has 13,200,000 shares of Class A Common Stock and 4,800,000 shares of Class B Common Stock reserved for issuance under the Company's 2007 Incentive Plan. As of December 31, 2020, approximately 2,736,479 shares of Class A Common Stock and 1,648,275 shares of Class B Common Stock are available for issuance under the Company's 2007 Incentive Plan. The Company issues new shares of its Class A or Class B Common Stock upon the exercise of stock options or vesting of restricted stock units and upon the issuance of restricted stock awards. During the year ended December 31, 2020, the Company granted to employees 753,600 options to purchase Class A Common Stock and 518,400 restricted Class B Common Stock awards under the 2007 Incentive Plan. Restricted stock awards are issued when granted, but are subject to vesting requirements. During the year ended

December 31, 2019, the Company granted to employees 723,995 options to purchase Class A Common Stock and 476,385 restricted Class B Common Stock awards under the 2007 Incentive Plan.

#### *Valuation and Expense Information*

Stock-based compensation expense related to stock options, restricted stock awards, restricted stock units and employee stock purchases was \$19.4 million for the year ended December 31, 2020, \$19.0 million for the year ended December 31, 2019, and \$18.1 million for the year ended December 31, 2018. Cash received from options exercised and shares purchased under all share-based payment arrangements was \$23.5 million for the year ended December 31, 2020, \$11.1 million for the year ended December 31, 2019, and \$5.7 million for the year ended December 31, 2018.

The following table presents a summary of the Company's stock option activity and related information for the year ended December 31, 2020:

| Options   | Shares           | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in Years) | Aggregate<br>Intrinsic<br>Value |
|---|------------------|--|--|---------------------------------|
| Balance of Outstanding Options at January 1, 2020   | 4,601,438        | \$ 20.41                                 |  |                                 |
| Granted   | 753,600          | 22.28                                    |  |                                 |
| Exercised   | (1,221,594)      | 16.04                                    |  |                                 |
| Forfeited   | (52,500)         | 24.63                                    |  |                                 |
| Balance of Outstanding Options at December 31, 2020 | <u>4,080,944</u> | <u>\$ 22.01</u>                          | <u>6.4</u>   | <u>\$ 79,205,864</u>            |
| Expected to vest after December 31, 2020            | <u>2,705,026</u> | <u>\$ 24.31</u>                          | <u>7.7</u>   | <u>\$ 46,284,768</u>            |
| Vested and exercisable at December 31, 2020         | <u>1,343,187</u> | <u>\$ 17.31</u>                          | <u>3.8</u>   | <u>\$ 32,378,174</u>            |

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the closing price of the Company's Class A Common Stock on December 31, 2020, which was \$41.42. The total intrinsic value of options exercised was \$20.8 million during the year ended December 31, 2020, \$8.7 million during the year ended December 31, 2019, and \$2.7 million during the year ended December 31, 2018.

The following table presents a summary of the status of the number of shares underlying Company's non-vested stock options as of December 31, 2020, and changes during the year ended December 31, 2020:

| Non-vested Shares               | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---------------------------------|---------------------|---|
| Non-vested at January 1, 2020   | 2,712,147           | \$ 8.07   |
| Granted                         | 753,600             | 6.36  |
| Vested                          | (675,490)           | 6.69  |
| Forfeited                       | <u>(52,500)</u>     | 7.91  |
| Non-vested at December 31, 2020 | <u>2,737,757</u>    | \$ 7.95   |

The total fair value of vested options was \$4.5 million during the year ended December 31, 2020, \$5.0 million during the year ended December 31, 2019, and \$5.7 million during the year ended December 31, 2018. The weighted-average grant date fair value of options granted was \$6.36 per share during the year ended December 31, 2020, \$8.37 per share during the year ended December 31, 2019, and \$10.31 per share during the year ended December 31, 2018.

#### *Stock Awards*

The Company granted restricted stock awards to certain of its employees under the 2007 Incentive Plan and unrestricted stock awards to its non-employee directors under the Director Plan during the year ended December 31, 2020. The restricted stock awards and previously granted restricted stock units granted to employees vest in three equal installments on the first,

second and third anniversary of the grant date and are forfeited in the event the recipient's employment or relationship with the Company is terminated prior to vesting, except as a result of retirement or under certain circumstances associated with a change of control or involuntary termination, as further described in the Company's executive transition plan. The fair value of the restricted stock awards and restricted stock unit awards granted to the Company's employees is amortized to expense on a straight-line basis over the restricted stock's vesting period. The shares granted to non-employee directors are expensed on the grant date.

The following table presents a summary of the Company's non-vested restricted stock awards and restricted stock unit awards outstanding at December 31, 2020:

| Stock Awards and Units                           | Shares           | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in Years) | Aggregate<br>Intrinsic<br>Value | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--|------------------|--|---------------------------------|---|
| Outstanding non-vested shares at January 1, 2020 | 915,604          |  |                                 | \$ 26.04  |
| Granted  | 543,528          |  |                                 | 21.98   |
| Vested   | <u>(471,404)</u> |  |                                 | 25.04   |
| Outstanding non-vested at December 31, 2020      | <u>987,728</u>   | <u>8.6</u>   | <u>\$37,425,013</u>             | \$ 24.28  |
| Expected to vest after December 31, 2020         | <u>986,332</u>   | <u>8.6</u>   | <u>\$37,372,147</u>             |   |

The total fair value of the shares issued upon the vesting of restricted and unrestricted stock awards and restricted stock unit awards during the year ended December 31, 2020 was \$11.8 million. The weighted-average grant date fair value of stock awards and units granted was \$21.98 per share during the year ended December 31, 2020, \$26.91 per share during the year ended December 31, 2019 and \$26.97 per share during the year ended December 31, 2018.

As of December 31, 2020, the Company had \$8.0 million of unrecognized compensation expense related to non-vested employee stock options to be recognized over a weighted-average period of 2.1 years and \$7.8 million of unrecognized compensation cost related to non-vested restricted stock awards and restricted stock unit awards to be recognized over a weighted-average period of 1.3 years.

#### *Defined Contribution Plan*

The Company has a defined contribution plan (the "Rush 401k Plan"), which is available to all Company employees. Each employee who has completed 30 days of continuous service is entitled to enter the Rush 401k Plan on the first day of the following month. Participating employees may contribute from 1% to 50% of their total gross compensation. However, certain highly compensated employees are limited to a maximum contribution of 15% of total gross compensation. Effective February 1, 2012, for the first 10% of an employee's contribution, the Company contributed an amount equal to 20% of the employees' contributions for those employees with less than five years of service and an amount equal to 40% of the employees' contributions for those employees with more than five years of service. Effective June 16, 2020, for the first 10% of an employee's contribution, the Company contributed an amount equal to 5% of the employees' contributions for those employees with less than five years of service and an amount equal to 10% of the employees' contributions for those employees with more than five years of service. The Company incurred expenses related to the Rush 401k Plan of approximately \$6.0 million during the year ended December 31, 2020, \$9.4 million during the year ended December 31, 2019 and \$8.9 million during the year ended December 31, 2018.

#### *Deferred Compensation Plan*

On November 6, 2010, the Board of Directors of the Company adopted the Rush Enterprises, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan") pursuant to which certain employees and directors may elect to defer a portion of their annual compensation. The Deferred Compensation Plan also provides the Company with the discretion to make matching contributions to participants' accounts. The Company established a rabbi trust to finance obligations under the Deferred Compensation Plan with corporate-owned variable life insurance contracts. Participants are 100% vested in their respective deferrals and the earnings thereon. The first deferral election period began on January 1, 2011. The Company's liability related to the Deferred Compensation Plan was \$19.5 million on December 31, 2020 and \$15.6 million on December 31, 2019. The related cash surrender value of the life insurance contracts was \$11.5 million on December 31, 2020 and \$10.6 million on December 31, 2019.

The Company currently does not provide any post-retirement benefits nor does it provide any post-employment benefits.

12. EARNINGS PER SHARE:

Basic earnings per share (“EPS”) were computed by dividing income from continuing operations by the weighted average number of shares of common stock outstanding during the period. Diluted EPS differs from basic EPS due to the assumed conversions of potentially dilutive options, restricted shares awards and restricted stock unit awards that were outstanding during the period.

Each share of Class A Common Stock ranks equal to each share of Class B Common Stock with respect to receipt of any dividends or distributions declared on shares of common stock and the right to receive proceeds on liquidation or dissolution of the Company after payment of its indebtedness and liquidation preference payments to holders of any preferred shares. However, holders of Class A Common Stock have 1/20th of one vote per share on all matters requiring a shareholder vote, while holders of Class B Common Stock have one full vote per share.

The following is a reconciliation of the numerators and the denominators of the basic and diluted per share computations for income from continuing operations (in thousands, except per share amounts):

|   | <u>2020</u>      | <u>2019</u>      | <u>2018</u>      |
|---|------------------|------------------|------------------|
| Numerator-  |                  |                  |                  |
| Numerator for basic and diluted earnings per share –            |                  |                  |                  |
| Net income available to common shareholders                     | <u>\$114,887</u> | <u>\$141,583</u> | <u>\$139,062</u> |
| Denominator-  |                  |                  |                  |
| Denominator for basic earnings per share –                      |                  |                  |                  |
| weighted average shares   | 54,866           | 54,988           | 58,835           |
| Effect of dilutive securities–                                  |                  |                  |                  |
| Employee and director stock options and restricted share awards | <u>1,376</u>     | <u>1,368</u>     | <u>1,605</u>     |
| Denominator for diluted earnings per share – adjusted weighted  |                  |                  |                  |
| average shares outstanding and assumed conversions              | <u>56,242</u>    | <u>56,356</u>    | <u>60,440</u>    |
| Basic earnings per common share                                 | <u>\$ 2.09</u>   | <u>\$ 2.57</u>   | <u>\$ 2.36</u>   |
| Diluted earnings per common share and common share equivalents  | <u>\$ 2.04</u>   | <u>\$ 2.51</u>   | <u>\$ 2.30</u>   |

Options to purchase shares of common stock that were outstanding for the years ended December 31, 2020, 2019 and 2018 that were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive are as follows (in thousands):

|  | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|-------------|
| Anti-dilutive options – weighted average | 1,349       | 1,663       | 769         |

13. INCOME TAXES:

The tax provisions are summarized as follows (in thousands):

|                                      | Year Ended December 31, |                  |                  |
|--------------------------------------|-------------------------|------------------|------------------|
|                                      | 2020                    | 2019             | 2018             |
| Income before income taxes:          |                         |                  |                  |
| Domestic                             | \$ 146,055              | \$ 188,174       | \$ 183,169       |
| Foreign                              | 5,668                   | 1,349            | –                |
| Total                                | <u>151,723</u>          | <u>189,523</u>   | <u>183,169</u>   |
| Current provision                    |                         |                  |                  |
| Federal                              | \$ 67,988               | \$ 20,303        | \$ 31,819        |
| State                                | 6,706                   | 4,648            | 6,291            |
| Total                                | <u>74,694</u>           | <u>24,951</u>    | <u>38,110</u>    |
| Deferred provision                   |                         |                  |                  |
| Federal                              | (37,683)                | 20,925           | 6,082            |
| State                                | (1,254)                 | 2,064            | (85)             |
| Foreign                              | 1,079                   | –                | –                |
| Total                                | <u>(37,858)</u>         | <u>22,989</u>    | <u>5,997</u>     |
| Provision (benefit) for income taxes | <u>\$ 36,836</u>        | <u>\$ 47,940</u> | <u>\$ 44,107</u> |

A reconciliation of taxes based on the federal statutory rates and the provisions (benefits) for income taxes are summarized as follows (in thousands):

|  | Year Ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2020                    | 2019             | 2018             |
| Income taxes at the federal statutory rate | \$ 31,862               | \$ 39,530        | \$ 38,469        |
| State income taxes, net of federal benefit | 4,487                   | 5,303            | 4,913            |
| Tax effect of permanent differences        | 283                     | 1,562            | 596              |
| Foreign tax rate differential              | (111)                   | –                | –                |
| Other, net                                 | 315                     | 1,545            | 129              |
| Provision (benefit) for income taxes       | <u>\$ 36,836</u>        | <u>\$ 47,940</u> | <u>\$ 44,107</u> |

The following summarizes the components of net deferred income tax liabilities included in the balance sheet (in thousands):

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2020              | 2019              |
| Deferred income tax (assets) liabilities:                            |                   |                   |
| Inventory  | \$ (4,329)        | \$ (5,086)        |
| Accounts receivable  | (168)             | (140)             |
| Finance lease obligations  | (27,522)          | (21,618)          |
| Finance and operating leases   | (13,607)          | (12,726)          |
| Stock options  | (7,463)           | (8,749)           |
| Accrued liabilities  | (7,680)           | (2,989)           |
| State net operating loss carry forward                               | (1,101)           | (2,381)           |
| State tax credit   | (193)             | (196)             |
| Other  | (3,302)           | (3,817)           |
| Difference between book and tax basis- Operating lease assets        | 13,444            | 12,628            |
| Difference between book and tax basis- Depreciation and amortization | 178,360           | 209,250           |
|  | <u>126,439</u>    | <u>164,176</u>    |
| Valuation allowance  | –                 | 121               |
| Net deferred income tax liability                                    | <u>\$ 126,439</u> | <u>\$ 164,297</u> |

As of December 31, 2020, the Company had approximately \$22.8 million in state net operating loss carry forwards that expire from 2020 to 2039, which result in a deferred tax asset of \$1.1 million. The Company has evaluated whether its state



net operating losses are realizable and has not recorded a valuation allowance against them. The valuation allowance decreased \$121,000 over the prior year ending December 31, 2019.

The Company had unrecognized income tax benefits totaling \$3.3 million as a component of accrued liabilities as of December 31, 2020, and \$3.0 million at December 31, 2019, the total of which, if recognized, would impact the Company's effective tax rate. An unfavorable settlement would require a charge to income tax expense and a favorable resolution would be recognized as a reduction to income tax expense. The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2020, 2019 and 2018, the Company recognized approximately \$6,150, \$5,220, and \$(27,450) in interest expense (income). No amounts were accrued for penalties. The Company had approximately \$150,000, \$144,000 and \$139,000 of interest accrued as of December 31, 2020, 2019 and 2018, respectively.

Undistributed earnings of certain of the Company's foreign subsidiaries amounted to approximately \$7.0 million at December 2020. Those earnings are considered to be indefinitely reinvested. Upon repatriation of those earnings in the form of dividends or otherwise, the Company may be subject to state and local taxes, and/or withholding taxes payable to the various foreign countries. The Company expects to be able to take a 100% dividends received deduction to offset any U.S. federal income tax liability on the undistributed earnings.

The Company does not anticipate a significant change in the amount of unrecognized tax benefits in the next 12 months. As of December 31, 2020, the tax years ended December 31, 2017 through 2020 remained subject to audit by federal tax authorities and the tax years ended December 31, 2016 through 2020, remained subject to audit by state tax authorities.

The table below presents the reconciliation of the change in the unrecognized tax benefits (in thousands):

|   | <u>2020</u>     | <u>2019</u>     | <u>2018</u>     |
|---|-----------------|-----------------|-----------------|
| Unrecognized tax benefits at beginning of period  | \$ 3,007        | \$ 2,389        | \$ 2,555        |
| Gross increases – tax positions in current year   | 651             | 1,188           | 504             |
| Reductions due to lapse of statute of limitations | (353)           | (570)           | (670)           |
| Unrecognized tax benefits at end of period        | <u>\$ 3,306</u> | <u>\$ 3,007</u> | <u>\$ 2,389</u> |

#### 14. COMMITMENTS AND CONTINGENCIES:

From time to time, the Company is involved in litigation arising out of its operations in the ordinary course of business. The Company maintains liability insurance, including product liability coverage, in amounts deemed adequate by management. To date, aggregate costs to the Company for claims, including product liability actions, have not been material. However, an uninsured or partially insured claim, or claim for which indemnification is not available, could have a material adverse effect on the Company's financial condition or results of operations. The Company believes that there are no claims or litigation pending, the outcome of which could have a material adverse effect on its 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 financial condition or results of operations for the fiscal period in which such resolution occurred.

#### 15. ACQUISITIONS, DISPOSITIONS AND EQUITY METHOD INVESTMENT:

On October 31, 2019, the Company and its joint venture partner sold substantially all of the assets of Central California Truck & Trailer Sales, LLC. The transaction was valued at approximately \$12.7 million, with the purchase price paid in cash.

On May 6, 2019, the Company acquired certain assets of Stover Sales, Inc., which included real estate and a used truck dealership in Jacksonville, Florida, along with commercial vehicle and parts inventory. The transaction was valued at approximately \$2.3 million, with the purchase price paid in cash.

On February 25, 2019, the Company acquired 50% of the equity interest in RTC Canada, which acquired the operating assets of Tallman Group, the largest International Truck dealer in Canada. RTC Canada currently operates a network of 14 International Truck full-service dealerships throughout the Province of Ontario. The Company does not consolidate RTC Canada. RTC Canada is accounted for as an equity method investment. As of December 31, 2020, the Company's investment in RTC Canada is \$32.0 million and is reported in Other Assets on the Consolidated Balance Sheet.

On February 11, 2019, the Company acquired certain assets of Country Ford Trucks, which included real estate and a Ford truck franchise in Ceres, California, along with commercial vehicle and parts inventory. The transaction was valued at approximately \$7.9 million, with the purchase price paid in cash.

16. UNAUDITED QUARTERLY FINANCIAL DATA:  
(In thousands, except per share amounts.)

|                            | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|----------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| <b>2020</b>                |                          |                           |                          |                           |
| Revenues                   | \$ 1,286,663             | \$ 1,002,512              | \$ 1,178,568             | \$ 1,268,197              |
| Gross profit               | 234,501                  | 192,331                   | 212,452                  | 236,183                   |
| Operating income           | 35,197                   | 23,001                    | 42,868                   | 53,539                    |
| Income before income taxes | 31,669                   | 22,512                    | 43,928                   | 53,614                    |
| Net income                 | \$ 23,107                | \$ 16,816                 | \$ 33,939                | \$ 41,025                 |
| Earnings per share:        |                          |                           |                          |                           |
| Basic                      | \$ 0.42                  | \$ 0.31                   | \$ 0.62                  | \$ 0.74                   |
| Diluted                    | \$ 0.41                  | \$ 0.30                   | \$ 0.60                  | \$ 0.72                   |
| <b>2019</b>                |                          |                           |                          |                           |
| Revenues                   | \$ 1,348,317             | \$ 1,544,561              | \$ 1,599,265             | \$ 1,317,704              |
| Gross profit               | 256,916                  | 269,506                   | 264,768                  | 234,438                   |
| Operating income           | 56,867                   | 61,792                    | 58,323                   | 39,423                    |
| Income before income taxes | 49,558                   | 54,410                    | 52,210                   | 33,345                    |
| Net income                 | \$ 37,104                | \$ 41,621                 | \$ 39,104                | \$ 23,754                 |
| Earnings per share:        |                          |                           |                          |                           |
| Basic                      | \$ 0.67                  | \$ 0.75                   | \$ 0.71                  | \$ 0.43                   |
| Diluted                    | \$ 0.65                  | \$ 0.74                   | \$ 0.70                  | \$ 0.42                   |

17. SEGMENTS:

The Company currently has one reportable business segment - the Truck Segment. The Truck Segment includes the Company's operation of a nationwide network of commercial vehicle dealerships that provide an integrated one-stop source for the commercial vehicle needs of its customers, including retail sales of new and used commercial vehicles; aftermarket parts, service and collision center facilities; and financial services, including the financing of new and used commercial vehicle purchases, insurance products and truck leasing and rentals. The commercial vehicle dealerships are deemed a single reporting unit because they have similar economic characteristics. The Company's chief operating decision maker considers the entire Truck Segment, not individual dealerships or departments within its dealerships, when making decisions about resources to be allocated to the segment and assessing its performance.

The Company also has revenues attributable to three other operating segments. These segments include a retail tire company, an insurance agency and a guest ranch operation and are included in the All Other column below. None of these segments has ever met any of the quantitative thresholds for determining reportable segments.

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 operating income.

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 years ended December 31, 2020, 2019 or 2018.

The following table contains summarized information about reportable segment revenue, segment income or loss from continuing operations and segment assets for the periods ended December 31, 2020, 2019 and 2018 (in thousands):

|   | <b>Truck<br/>Segment</b> | <b>All<br/>Other</b> | <b>Totals</b> |
|---|--------------------------|----------------------|---------------|
| <b>2020</b>   |                          |                      |               |
| Revenues from external customers                              | \$ 4,721,058             | \$ 14,882            | \$ 4,735,940  |
| Interest income   | 713                      | –                    | 713           |
| Interest expense  | 9,444                    | 283                  | 9,727         |
| Depreciation and amortization                                 | 57,162                   | 294                  | 57,456        |
| Segment operating income                                      | 153,841                  | 764                  | 154,605       |
| Segment income from continuing operations before taxes        | 151,222                  | 501                  | 151,723       |
| Segment assets  | 2,939,390                | 46,003               | 2,985,393     |
| Goodwill  | 289,582                  | 2,560                | 292,142       |
| Expenditures for segment assets                               | 135,956                  | 244                  | 136,200       |
| <b>2019</b>   |                          |                      |               |
| Revenues from external customers                              | \$ 5,794,155             | \$ 15,692            | \$ 5,809,847  |
| Interest income   | 1,680                    | –                    | 1,680         |
| Interest expense  | 30,201                   | 286                  | 30,487        |
| Depreciation and amortization                                 | 55,036                   | 336                  | 55,372        |
| Segment operating income (loss)                               | 216,691                  | (286)                | 216,405       |
| Segment income from continuing operations before taxes        | 188,122                  | 1,401                | 189,523       |
| Segment assets  | 3,369,517                | 37,812               | 3,407,329     |
| Goodwill  | 289,582                  | 2,560                | 292,142       |
| Expenditures for segment assets                               | 292,980                  | 513                  | 293,493       |
| <b>2018</b>   |                          |                      |               |
| Revenues from external customers                              | \$ 5,488,787             | \$ 17,403            | \$ 5,506,190  |
| Interest income   | 1,376                    | –                    | 1,376         |
| Interest expense  | 20,850                   | 208                  | 21,058        |
| Depreciation and amortization                                 | 70,170                   | 319                  | 70,489        |
| Segment operating income                                      | 202,725                  | 126                  | 202,851       |
| Segment income (loss) from continuing operations before taxes | 183,251                  | (82)                 | 183,169       |
| Segment assets  | 3,166,174                | 35,176               | 3,201,350     |
| Goodwill  | 288,831                  | 2,560                | 291,391       |
| Expenditures for segment assets                               | 238,229                  | 31                   | 238,260       |

18. REVENUE:

The Company's revenues are primarily generated from the sale of finished products to customers. Those sales predominantly contain a single delivery element and revenue for such sales is recognized when the customer obtains control, which is typically when the finished product is delivered to the customer. The Company's material revenue streams have been identified as the following: the sale of new and used commercial vehicles, arrangement of associated commercial vehicle financing and insurance contracts, the performance of commercial vehicle repair services and the sale of commercial vehicle parts. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues.

The following table summarizes the Company's disaggregated revenue by revenue source for the years ended December 31, 2020, December 31, 2019 and December 31, 2018 (in thousands):

|                                   | 2020                | 2019                | 2018                |
|-----------------------------------|---------------------|---------------------|---------------------|
| Commercial vehicle sales revenue  | \$ 2,863,309        | \$ 3,757,584        | \$ 3,558,637        |
| Parts revenue                     | 911,102             | 993,288             | 937,241             |
| Commercial vehicle repair service | 689,343             | 769,222             | 732,811             |
| Finance revenue                   | 12,047              | 14,618              | 10,795              |
| Insurance revenue                 | 9,902               | 9,825               | 9,740               |
| Other revenue                     | 14,014              | 17,761              | 18,728              |
| Total                             | <u>\$ 4,499,717</u> | <u>\$ 5,562,298</u> | <u>\$ 5,267,952</u> |

All of the Company's performance obligations are generally transferred to customers at a point in time. The Company does not have any material contract assets or contract liabilities on the balance sheet as of December 31, 2020 or December 31, 2019. Revenues related to commercial vehicle sales, parts sales, commercial vehicle repair service, finance and the majority of other revenues are related to the Truck Segment.

For the sale of new and used commercial vehicles, revenue is recognized at a point in time when control is transferred to the customer, which is when delivery of the commercial vehicle occurs. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring the commercial vehicle. When control is transferred to the customer, the Company has an unconditional right to payment and a receivable is recorded for any consideration not received.

The Company controls the commercial vehicle before it is transferred to the customer and it obtains all of the remaining benefits from the commercial vehicle relating to the sale, ability to pledge the asset or hold the asset. The Company is a principal in all commercial vehicle transactions. The Company retains inventory risk, determines the selling price to the customer and delivers the commercial vehicle to the customer. The Company generally pays a commission to internal sales representatives for the sale of a commercial vehicle. The Company will continue to expense the commission and recognize it concurrently with the respective commercial vehicle sale revenue upon delivery of the commercial vehicle to a customer.

Revenue from the sale of parts is recognized when the Company transfers control of the goods to the customer and consideration has been received in the form of cash or a receivable from the customer. The Company provides its customers the right to return certain eligible parts, estimates the expected returns based on an analysis of historical experience and records an allowance for estimated returns, which has historically not been material.

Revenue from the sale of commercial vehicle repair service is recognized when the service performed by the Company on a customer's vehicle is complete and the customer accepts the repair. Because the Company does not have an enforceable right to payment while the repair is being performed, revenue is recognized when the repair is complete. After a customer's acceptance, the Company has no remaining obligations to transfer goods or services to the customer and consideration has been received in the form of cash or a receivable from the customer.

Any remaining performance obligations represent service orders for which work has not been completed. The Company's service contracts are predominantly short-term in nature with a contract term of one month or less. For those contracts, the Company has utilized the practical expedient in Topic 606 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

The Company receives commissions from third-party lenders for arranging customer financing for the purchase of commercial vehicles. The receipt of such commissions is deemed to be a single performance obligation that is satisfied when a financing agreement is executed and accepted by the financing provider. Once the contract has been accepted by the financing provider, the Company's performance obligation has been satisfied and the Company generally has no further obligations under the contract. The Company is the agent in this transaction, as it does not have control over the acceptance of the customer's financing arrangement by the financing provider. Consideration paid to the Company by the financing provider is based on the agreement between the Company and the financing provider.

The Company receives commissions from third-party insurance companies for arranging insurance coverage for customers. The receipt of such commissions is deemed to be a single performance obligation that is satisfied when the insurance coverage is bound. The Company has no further obligations under the contract. The Company is the agent in this transaction because it does not have control over the insurance coverage provided by the insurance carrier. Consideration paid to the Company by the insurance provider is based on the agreement between the Company and the insurance provider.

The Company records revenues from finance and insurance products at the net commission amount, which includes estimates of chargebacks that can occur if the underlying contract is not fulfilled. Chargeback amounts for commissions from financing companies are estimated assuming financing contracts are terminated before the customer has made six monthly payments. Chargeback amounts for commissions from insurance companies are estimated assuming insurance contracts are terminated before the underlying insurance contractual term has expired. Chargeback reserve amounts are based on historical chargebacks and have historically been immaterial. The Company does not have any right to retrospective commissions based on future profitability of finance and insurance contracts arranged.

Other revenue is mostly documentation fees that are charged to customers in connection with the sale of a commercial vehicle and recognized as other revenue when a truck is sold. The Company recognizes the documentation fees at the point in time when the commercial vehicle is delivered to the customer.

19. ACCUMULATED OTHER COMPREHENSIVE INCOME:

The following table shows the components of accumulated other comprehensive income (in thousands):

|   |               |
|---|---------------|
| Balance as of December 31, 2019         | \$ 337        |
| Foreign currency translation adjustment | <u>532</u>    |
| Balance as of December 31, 2020         | <u>\$ 869</u> |

The equity method investment in RTC Canada was valued using the exchange rate of one US Dollar to 1.27 Canadian dollars as of December 31, 2020. The adjustment is reflected in Other Assets on the Consolidated Balance Sheet.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures were effective as of December 31, 2020, to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### *Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### *Management's Annual Report on Internal Control over Financial Reporting*

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's President and Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2020, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (2013 Framework). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2020, based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this annual report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, is included in this Item 9A under the heading "Attestation Report of Independent Registered Public Accounting Firm."

## **Report of Independent Registered Public Accounting Firm**

The Shareholders and Board of Directors of Rush Enterprises, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited Rush Enterprises, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Rush Enterprises, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 24, 2021, expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Antonio, Texas  
February 24, 2021

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information called for by Item 10 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 2021 Annual Meeting of Shareholders.

**Item 11. Executive Compensation**

The information called for by Item 11 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 2021 Annual Meeting of Shareholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

The information called for by Item 12 of Form 10-K, other than the equity compensation plan information set forth below, is incorporated herein by reference to such information included in the Company's Proxy Statement for the 2021 Annual Meeting of Shareholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information called for by Item 13 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 2021 Annual Meeting of Shareholders.

**Item 14. Principal Accountant Fees and Services**

The information called for by Item 14 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 2021 Annual Meeting of Shareholders.



## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a)(1) Financial Statements

Included in Item 8 of Part II of this annual report on Form 10-K are the following:

Report of Independent Registered Public Accounting Firm;  
Consolidated Balance Sheets as of December 31, 2020, and 2019;  
Consolidated Statements of Income for the years ended December 31, 2020, 2019, and 2018;  
Consolidated Statements of Comprehensive Income for the years ended December 31, 2020, 2019, and 2018;  
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2020, 2019, and 2018;  
Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018; and  
Notes to Consolidated Financial Statements.

#### (a)(2) Financial Statement Schedules

These schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

#### (a)(3) Exhibits

##### Index to Exhibits:

| <b>Exhibit No.</b> | <b><u>Identification of Exhibit</u></b>  |
|--------------------|--|
| 3.1                | Restated Articles of Incorporation of Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q (File No. 000-20797) for the quarter ended June 30, 2008)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/000110465908051789/a08-18770_1ex3d1.htm">https://www.sec.gov/Archives/edgar/data/1012019/000110465908051789/a08-18770_1ex3d1.htm</a>                            |
| 3.2                | Rush Enterprises, Inc. Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 21, 2013)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/000143774913006455/rusha20130517_8kex3-1.htm">https://www.sec.gov/Archives/edgar/data/1012019/000143774913006455/rusha20130517_8kex3-1.htm</a>  |
| 4.1                | Specimen of certificate representing Common Stock (now Class B Common Stock), \$.01 par value, of Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/0000950129-96-000812-index.html">https://www.sec.gov/Archives/edgar/data/1012019/0000950129-96-000812-index.html</a> |
| 4.2                | Specimen of certificate representing Class A Common Stock, \$.01 par value, of the Registrant (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A filed July 9, 2002)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/000091205702026743/a2083861zex-4_1.htm">https://www.sec.gov/Archives/edgar/data/1012019/000091205702026743/a2083861zex-4_1.htm</a>                              |
| 4.3                | Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated herein by reference to Exhibit 4.3 of the Company's Form 10-K filed February 26, 2020 (File No. 000-20797) for the year ended December 31, 2019)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/000143774912013051/ex10-2.htm">ex_174053.htm (sec.gov)</a>  |
| 10.1               | Right of First Refusal dated December 19, 2012 between Peterbilt Motors Company and W. Marvin Rush (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 000-20797) filed December 20, 2012)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/000143774912013051/ex10-2.htm">https://www.sec.gov/Archives/edgar/data/1012019/000143774912013051/ex10-2.htm</a>                        |
| 10.2               | Right of First Refusal dated December 19, 2012 between Peterbilt Motors Company and W.M. "Rusty" Rush (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K (File No. 000-20797) filed December 20, 2012)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/000143774912013051/ex10-3.htm">https://www.sec.gov/Archives/edgar/data/1012019/000143774912013051/ex10-3.htm</a>                     |

- 10.3+ Rush Enterprises, Inc. 2004 Employee Stock Purchase Plan (Amended and Restated on May 12, 2020) (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 15, 2020)  
[ex\\_186990.htm \(sec.gov\)](https://www.sec.gov/Archives/edgar/data/1012019/000095012311024520/c13928exv10w10.htm)
- 10.4+ Rush Enterprises, Inc. Amended and Restated 2006 Non-Employee Director Stock Plan (incorporated herein by reference to Exhibit 10.10 of the Company's Form 10-K (File No. 000-20797) for the year ended December 31, 2010)  
<https://www.sec.gov/Archives/edgar/data/1012019/000095012311024520/c13928exv10w10.htm>
- 10.5+ Form of Rush Enterprises, Inc. 2006 Non-Employee Director Stock Option Agreement (incorporated herein by reference to Exhibit 4.4 of the Company's Registration Statement No. 333-138556 on Form S-8 filed November 9, 2006)  
[https://www.sec.gov/Archives/edgar/data/1012019/000110465906073551/a06-23617\\_2ex4d4.htm](https://www.sec.gov/Archives/edgar/data/1012019/000110465906073551/a06-23617_2ex4d4.htm)
- 10.6+ Form of Rush Enterprises, Inc. 2006 Non-Employee Director Stock Plan Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-Q (File No. 000-20797) for the quarter ended June 30, 2012)  
<https://www.sec.gov/Archives/edgar/data/1012019/000143774912008036/ex10-1.htm>
- 10.7+ Rush Enterprises, Inc. Amended and Restated 2007 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 15, 2020)  
[ex\\_186989.htm \(sec.gov\)](https://www.sec.gov/Archives/edgar/data/1012019/000095012311024520/c13928exv10w10.htm)
- 10.8+ Form of Rush Enterprises, Inc. 2007 Long-Term Incentive Plan Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed March 14, 2012)  
<https://www.sec.gov/Archives/edgar/data/1012019/000119312512114188/d315042dex101.htm>
- 10.9+ Form of Rush Enterprises, Inc. 2007 Long-Term Incentive Plan Stock Option Agreement (incorporated herein by reference to Exhibit 4.4 of the Company's Form S-8 (File No. 333-144821) filed July 24, 2007)  
[https://www.sec.gov/Archives/edgar/data/1012019/000110465907055737/a07-20147\\_1ex4d4.htm](https://www.sec.gov/Archives/edgar/data/1012019/000110465907055737/a07-20147_1ex4d4.htm)
- 10.10+ Form of Rush Enterprises, Inc. Amended and Restated 2007 Long-Term Incentive Plan Stock Option Agreement (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed March 8, 2019)  
[https://www.sec.gov/Archives/edgar/data/1012019/000143774919004483/ex\\_137075.htm](https://www.sec.gov/Archives/edgar/data/1012019/000143774919004483/ex_137075.htm)
- 10.11+ Form of Rush Enterprises, Inc. Amended and Restated 2007 Long-Term Incentive Plan Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 000-20797) filed March 8, 2019)  
[https://www.sec.gov/Archives/edgar/data/1012019/000143774919004483/ex\\_137076.htm](https://www.sec.gov/Archives/edgar/data/1012019/000143774919004483/ex_137076.htm)
- 10.12+ Rush Enterprises, Inc. Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed November 12, 2010)  
<https://www.sec.gov/Archives/edgar/data/1012019/000095012310104889/c08447exv10w1.htm>
- 10.13+ Form of Indemnity Agreement (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed January 7, 2015)  
<https://www.sec.gov/Archives/edgar/data/1012019/000143774915000385/ex10-1.htm>
- 10.14+ Rush Enterprises, Inc. Executive Transition Plan (as Amended and Restated Effective as of February 20, 2018) (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed February 26, 2018)  
[https://www.sec.gov/Archives/edgar/data/1012019/000110465908047652/a08-20031\\_1ex10d1.htm](https://www.sec.gov/Archives/edgar/data/1012019/000110465908047652/a08-20031_1ex10d1.htm)
- 10.15 Form of dealer agreement between Peterbilt Motors Company and Rush Truck Centers (incorporated herein by reference to Exhibit 10.18 of the Company's Form 10-K (File No. 000-20797) for the year ended December 31, 1999)  
<https://www.sec.gov/Archives/edgar/data/1012019/000095013400002832/0000950134-00-002832.txt>

- 10.16 Amended and Restated Amendment to Dealer Sales and Service Agreements, dated December 19, 2012, by and among Peterbilt Motors Company, a division of PACCAR, Inc., Rush Enterprises, Inc. and the subsidiaries of Rush Enterprises, Inc. named a party therein (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K (File No. 000-20797) filed December 20, 2012)  
<https://www.sec.gov/Archives/edgar/data/1012019/000143774912013051/ex10-1.htm>
- 10.17 Guaranty Agreement, dated December 31, 2010, by Rush Enterprises, Inc. and each other Guarantor party thereto in favor of General Electric Capital Corporation. (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 000-20797) filed January 6, 2011)  
<https://www.sec.gov/Archives/edgar/data/1012019/000095012311001052/c10658exv10w2.htm>
- 10.18 Credit Agreement, dated as of March 21, 2017 by and among the Company, the Lenders signatory thereto and BMO Harris Bank N.A., as Administrative Agent incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K (File No. 000-20797) filed March 27, 2017)  
<https://www.sec.gov/Archives/edgar/data/1012019/000143774917005336/ex10-1.htm>
- 10.19 First Amendment to Credit Agreement, dated as of April 25, 2019 by and among the Company, the Lenders signatory thereto and BMO Harris Bank N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 1, 2019)  
[https://www.sec.gov/Archives/edgar/data/1012019/000143774919008424/ex\\_142493.htm](https://www.sec.gov/Archives/edgar/data/1012019/000143774919008424/ex_142493.htm)
- 10.20 Second Amendment and Joinder to Credit Agreement, dated as of March 19, 2020 by and among the Company, the Lenders signatory thereto and BMO Harris Bank N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed March 25, 2020)  
[ex\\_178665.htm \(sec.gov\)](https://www.sec.gov/Archives/edgar/data/1012019/000143774919008424/ex_178665.htm)
- 10.21 Security Agreement, dated as of March 21, 2017, made by the Company in favor of BMO Harris Bank N.A., as Administrative Agent incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K (File No. 000-20797) filed March 27, 2017)  
<https://www.sec.gov/Archives/edgar/data/1012019/000143774917005336/ex10-2.htm>
- 10.22 Intercreditor Agreement, dated as of March 21, 2017, by and among BMO Harris Bank N.A., as Administrative Agent under the Credit Agreement, BMO Harris Bank N.A., as Administrative Agent and Collateral Agent under the Third Amended and Restated Credit Agreement, dated as of July 7, 2016, and the Company incorporated herein by reference to Exhibit 10.3 of the Company's Form 8-K (File No. 000-20797) filed March 27, 2017)  
<https://www.sec.gov/Archives/edgar/data/1012019/000143774917005336/ex10-3.htm>
- 10.23 Fourth Amended and Restated Credit Agreement, dated as of April 25, 2019 by and among the Company, the Lenders signatory thereto and BMO Harris Bank N.A., as Administrative Agent and Collateral Agent (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 1, 2019)  
[https://www.sec.gov/Archives/edgar/data/1012019/000143774919008424/ex\\_142492.htm](https://www.sec.gov/Archives/edgar/data/1012019/000143774919008424/ex_142492.htm)
- 10.24 First Amendment to Fourth Amended and Restated Credit Agreement, dated as of June 28, 2019, Company, the Lenders signatory thereto and BMO Harris Bank N.A., as Administrative Agent and (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 000-20797) filed August 9, 2019)  
[https://www.sec.gov/Archives/edgar/data/1012019/000143774919016186/ex\\_153546.htm](https://www.sec.gov/Archives/edgar/data/1012019/000143774919016186/ex_153546.htm)
- 10.25 Consent and Third Amendment to Credit Agreement, dated April 17, 2020 by and among the Company, the Lenders signatory thereto and BMO Harris Bank N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.0 of the Company's Quarterly Report on Form 10-Q (File No. 000-20797) filed August 7, 2020)  
[ex\\_197438.htm \(sec.gov\)](https://www.sec.gov/Archives/edgar/data/1012019/000143774919016186/ex_197438.htm)

|          |   |
|----------|---|
| 10.26    | Guaranty Agreement, dated as of April 25, 2019 between Rush and the Bank of Montreal (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 1, 2019)<br><a href="https://www.sec.gov/Archives/edgar/data/1012019/000143774919008424/ex_142494.htm">https://www.sec.gov/Archives/edgar/data/1012019/000143774919008424/ex_142494.htm</a> |
| 21.1*    | Subsidiaries of the Company   |
| 23.1*    | Consent of Ernst & Young LLP  |
| 31.1*    | Certification of President and Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2*    | Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1++   | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2++   | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS  | XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document  |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document.   |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document   |
| 104      | Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)  |

\* Filed herewith.

+ Management contract or compensatory plan or arrangement.

++ This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

#### Item 16. Form 10-K Summary

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RUSH ENTERPRISES, INC.

By: /s/ W. M. "RUSTY" RUSH  
W. M. "Rusty" Rush  
President, Chief Executive Officer and  
Chairman of the Board

Date: February 24, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the dates indicated:

| <u>Signature</u>  | <u>Capacity</u>  | <u>Date</u>       |
|---|--|-------------------|
| <u>/s/ W. M. "RUSTY" RUSH</u><br>W. M. "Rusty" Rush     | President, Chief Executive Officer and<br>Chairman of the Board<br>(Principal Executive Officer) | February 24, 2021 |
| <u>/s/ STEVEN L. KELLER</u><br>Steven L. Keller         | Chief Financial Officer and Treasurer<br>(Principal Financial and Accounting Officer)            | February 24, 2021 |
| <u>/s/ THOMAS A. AKIN</u><br>Thomas A. Akin             | Director   | February 24, 2021 |
| <u>/s/ JAMES C. UNDERWOOD</u><br>James C. Underwood     | Director   | February 24, 2021 |
| <u>/s/ RAYMOND J. CHESS</u><br>Raymond J. Chess         | Director   | February 24, 2021 |
| <u>/s/ DR. KENNON GUGLIELMO</u><br>Dr. Kennon Guglielmo | Director   | February 24, 2021 |
| <u>/s/ WILLIAM H. CARY</u><br>William H. Cary           | Director   | February 24, 2021 |
| <u>/s/ ELAINE MENDOZA</u><br>Elaine Mendoza             | Director   | February 24, 2021 |

## SUBSIDIARIES OF THE COMPANY

| <u>Name</u>  | <u>State of Incorporation</u> | <u>Names Under Which Subsidiary Does Business</u> |
|--|-------------------------------|---|
| Rush Truck Centers of Alabama, Inc.                | Delaware                      | Rush Truck Center, Mobile                         |
| Rush Truck Centers of Arizona, Inc.                | Delaware                      | Rush Peterbilt Truck Center, Mobile               |
|  |                               | Rush Truck Center, Phoenix                        |
|  |                               | Rush Peterbilt Truck Center, Phoenix              |
|  |                               | Rush Truck Center, Phoenix East                   |
|  |                               | Rush Peterbilt Truck Center, Phoenix East         |
|  |                               | Rush Truck Center, Flagstaff                      |
|  |                               | Rush Peterbilt Truck Center, Flagstaff            |
|  |                               | Rush Truck Center, Tucson                         |
|  |                               | Rush Peterbilt Truck Center, Tucson               |
|  |                               | Rush Truck Center, Yuma                           |
|  |                               | Rush Peterbilt Truck Center, Yuma                 |
| Rush Medium Duty Truck Centers of California, Inc. | Delaware                      | Rush Truck Center, Ceres                          |
| Rush Truck Centers of California, Inc.             | Delaware                      | Rush Peterbilt Truck Center, Pico Rivera          |
|  |                               | Rush Truck Center, Pico Rivera                    |
|  |                               | Rush Peterbilt Truck Center, Fontana              |
|  |                               | Rush Truck Center, Fontana                        |
|  |                               | Rush Peterbilt Truck Center, Fontana Medium Duty  |
|  |                               | Rush Isuzu Trucks, Fontana                        |
|  |                               | Rush Medium Duty Truck Center, Fontana            |
|  |                               | Rush Towing Systems, Fontana                      |
|  |                               | Rush Truck Center, Fontana Used Trucks            |
|  |                               | Rush Truck Center, Fontana Vocational Service     |
|  |                               | Rush Truck Center, Long Beach                     |
|  |                               | Rush Peterbilt Truck Center, Long Beach           |
|  |                               | Rush Truck Center, Sylmar                         |
|  |                               | Rush Peterbilt Truck Center, Sylmar               |
|  |                               | Rush Truck Center, San Diego                      |
|  |                               | Rush Peterbilt Truck Center, San Diego            |
|  |                               | Rush Truck Center, Whittier                       |
|  |                               | Rush Isuzu Trucks, Whittier                       |
|  |                               | Rush Peterbilt Truck Center, Whittier             |
|  |                               | Rush Peterbilt Truck Center, Los Angeles          |
|  |                               | Rush Truck Center, Los Angeles                    |
|  |                               | Rush Truck Center, Fontana Collision Center       |
| Rush Medium Duty Truck Centers of Colorado, Inc.   | Delaware                      | Rush Medium Duty Truck Center, Denver             |
|  |                               | Rush Medium Duty Ford Trucks, Denver              |
|  |                               | Rush Towing Systems, Denver                       |
| Rush Truck Centers of Colorado, Inc.               | Delaware                      | Rush Peterbilt Truck Center, Denver               |
|  |                               | Rush Truck Center, Denver                         |
|  |                               | Rush Peterbilt Truck Center, Greeley              |
|  |                               | Rush Truck Center, Greeley                        |
|  |                               | Rush Peterbilt Truck Center, Pueblo               |
|  |                               | Rush Truck Center, Pueblo                         |
|  |                               | Rush Truck Center, Colorado Springs               |
|  |                               | Rush Peterbilt Truck Center, Colorado Springs     |
|  |                               | Rush Isuzu Trucks, Denver                         |
| Rush Truck Centers of Florida, Inc.                | Delaware                      | Rush Isuzu Trucks, Orlando                        |
|  |                               | Rush Truck Center, Orlando                        |
|  |                               | Rush Isuzu Truck Center, Orlando                  |

|                                      |          |  |
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|                                      |          | Rush Peterbilt Truck Center, Orlando           |
|                                      |          | Rush Truck Center, Orlando Light & Medium Duty |
|                                      |          | Rush Isuzu Trucks, Orlando North               |
|                                      |          | Rush Truck Center, Orlando North               |
|                                      |          | Rush Truck Center, Orlando South               |
|                                      |          | Rush Peterbilt Truck Center, Orlando South     |
|                                      |          | Rush Truck Center, Orlando Used Trucks         |
|                                      |          | Rush Truck Center, Haines City                 |
|                                      |          | Rush Peterbilt Truck Center, Haines City       |
|                                      |          | Rush Truck Center, Tampa                       |
|                                      |          | Rush Peterbilt Truck Center, Tampa             |
|                                      |          | Rush Truck Center, Jacksonville                |
|                                      |          | Rush Peterbilt Truck Center, Jacksonville      |
|                                      |          | Rush Truck Center, Jacksonville East           |
|                                      |          | Rush Peterbilt Truck Center, Jacksonville East |
|                                      |          | Rush Truck Center, Lake City                   |
|                                      |          | Rush Peterbilt Truck Center, Lake City         |
|                                      |          | Rush Truck Center, Miami                       |
|                                      |          | House of Trucks, Miami                         |
| Rush Truck Centers of Georgia, Inc.  | Delaware | Rush Medium Duty Truck Center, Atlanta         |
|                                      |          | Rush Isuzu Trucks, Atlanta                     |
|                                      |          | Rush Truck Center, Atlanta                     |
|                                      |          | Rush Bus Center, Atlanta                       |
|                                      |          | Rush Truck Center, Atlanta Collision Center    |
|                                      |          | Rush Truck Center, Doraville                   |
|                                      |          | Rush Isuzu Trucks, Doraville                   |
|                                      |          | Rush Truck Center, Smyrna                      |
|                                      |          | Rush Truck Center, Tifton                      |
|                                      |          | Rush Bus Center, Tifton                        |
|                                      |          | Rush Truck Center, Columbus                    |
|                                      |          | Rush Truck Center, Gainesville                 |
|                                      |          | Rush Truck Center, Augusta                     |
|                                      |          | Rush Truck Center, Macon                       |
|                                      |          | Rush Truck Center, Valdosta                    |
| Rush Truck Centers of Idaho, Inc.    | Delaware | Rush International Truck Center, Boise         |
|                                      |          | Rush International Truck Center, Idaho Falls   |
|                                      |          | Rush International Truck Center, Lewiston      |
|                                      |          | Rush International Truck Center, Twin Falls    |
|                                      |          | Rush Truck Center, Boise                       |
|                                      |          | Rush Truck Center, Idaho Falls                 |
|                                      |          | Rush Truck Center, Lewiston                    |
|                                      |          | Rush Truck Center, Twin Falls                  |
| Rush Truck Centers of Illinois, Inc. | Delaware | Rush Truck Center, Bloomington                 |
|                                      |          | Rush Truck Center, Carol Stream                |
|                                      |          | Rush Truck Center, Champaign                   |
|                                      |          | Rush Truck Center, Chicago                     |
|                                      |          | Rush Truck Center, Effingham                   |
|                                      |          | Rush Truck Center, Huntley                     |
|                                      |          | Rush Truck Center, Joliet                      |
|                                      |          | Rush Truck Center, Quincy                      |
|                                      |          | Rush Truck Center, Springfield                 |
|                                      |          | House of Trucks, Willowbrook                   |
| Rush Truck Centers of Indiana, Inc.  | Delaware | Rush Truck Center, Gary                        |
|                                      |          | Rush Truck Center, Indianapolis                |
| Rush Truck Centers of Kansas, Inc.   | Delaware | Rush Truck Center, Kansas City                 |
| Rush Truck Centers of Kentucky, Inc. | Delaware | Rush Truck Center, Bowling Green               |
| Rush Truck Centers of Missouri, Inc. | Delaware | Rush Truck Center, St. Peters                  |

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| Rush Truck Centers of Nebraska, Inc.       | Delaware | Rush Truck Center, St. Louis                      |
| Rush Truck Centers of Nevada, Inc.         | Delaware | Rush Truck Center, Omaha                          |
|  |          | Rush Truck Center, Las Vegas                      |
| Rush Truck Centers of New Mexico, Inc.     | Delaware | Rush Peterbilt Truck Center, Las Vegas            |
|  |          | Rush Truck Center, Albuquerque                    |
|  |          | Rush Peterbilt Truck Center, Albuquerque          |
|  |          | Rush Truck Center, Farmington                     |
|  |          | Rush Peterbilt Truck Center, Farmington           |
|  |          | Rush Truck Center, Las Cruces                     |
| Rush Truck Centers of North Carolina, Inc. | Delaware | Rush Peterbilt Truck Center, Las Cruces           |
|  |          | Rush International Truck Center, Charlotte        |
|  |          | Rush Isuzu Trucks, Charlotte                      |
|  |          | Rush Truck Center, Charlotte                      |
|  |          | Rush Truck Center, Charlotte Collision Center     |
|  |          | Rush Truck Center, Hickory                        |
| Rush Truck Centers of Ohio, Inc.           | Delaware | Rush Truck Center, Asheville                      |
|  |          | Rush Truck Center, Akron                          |
|  |          | Rush Truck Center, Cincinnati                     |
|  |          | Rush Isuzu Trucks, Cincinnati                     |
|  |          | Rush Truck Center, Cleveland                      |
|  |          | Rush Truck Center, Columbus                       |
|  |          | Rush Truck Center, Columbus West                  |
|  |          | Rush Isuzu Trucks, Columbus West                  |
|  |          | Rush Truck Center, Dayton                         |
|  |          | Rush Isuzu Trucks, Dayton                         |
|  |          | Rush Truck Center, Lima                           |
|  |          | Rush Bus Center, Cincinnati                       |
|  |          | Rush Bus Center, Akron                            |
|  |          | Rush Bus Center, Cleveland                        |
|  |          | Rush Bus Center, Columbus                         |
|  |          | Rush Bus Center, Dayton                           |
|  |          | Rush Bus Center, Lima                             |
| Rush Truck Centers of Oklahoma, Inc.       | Delaware | Rush Peterbilt Truck Center, Ardmore              |
|  |          | Rush Peterbilt Truck Center, Oklahoma City        |
|  |          | Rush Peterbilt Truck Center, Tulsa                |
|  |          | Rush Truck Center, Ardmore                        |
|  |          | Rush Truck Center, Oklahoma City                  |
|  |          | Rush Truck Center, Tulsa                          |
|  |          | Rush Isuzu Trucks, Oklahoma City                  |
|  |          | Rush Used Truck Center, Tulsa                     |
|  |          | Rush Truck Rigging                                |
|  |          | Perfection Equipment                              |
|  |          | Perfection Truck Parts & Equipment, Oklahoma City |
|  |          | Perfection Crane Repair                           |
| Rush Truck Centers of Pennsylvania, Inc.   | Delaware | Custom Vehicle Solutions                          |
| Rush Truck Centers of Tennessee, Inc.      | Delaware | Rush Truck Center, Greencastle                    |
|  |          | Rush Truck Center, Nashville                      |
|  |          | Rush Peterbilt Truck Center, Nashville            |
|  |          | Rush Towing Systems, Nashville                    |
|  |          | Rush Truck Center, Memphis                        |
| Rush Truck Centers of Texas, L.P.          | Texas    | Custom Vehicle Solutions                          |
|  |          | Rig Tough Used Trucks, Dallas                     |
|  |          | Rush Bus Center, Arlington                        |
|  |          | Rush Bus Center, Austin                           |
|  |          | Rush Bus Center, Corpus Christi                   |
|  |          | Rush Bus Center, Dallas                           |
|  |          | Rush Bus Center, Fort Worth                       |



Rush Bus Center, Houston  
Rush Bus Center, Laredo  
Rush Bus Center, Lufkin  
Rush Bus Center, Pharr  
Rush Bus Center, San Antonio  
Rush Bus Center, Sealy  
Rush Bus Center, Texarkana  
Rush Bus Center, Tyler  
Rush Bus Center, Waco  
Rush Isuzu Trucks, Austin  
Rush Isuzu Trucks, College Station  
Rush Isuzu Trucks, Corpus Christi  
Rush Isuzu Trucks, Dallas  
Rush Isuzu Trucks, El Paso  
Rush Isuzu Trucks, Sealy  
Rush Isuzu Trucks, Waco  
Rush Medium Duty Truck Center, Dallas  
Rush Medium Duty Truck Center, Waco  
Rush Peterbilt Truck Center, Abilene  
Rush Peterbilt Truck Center, Amarillo  
Rush Peterbilt Truck Center, Arlington  
Rush Peterbilt Truck Center, Austin  
Rush Peterbilt Truck Center, Beaumont  
Rush Peterbilt Truck Center, Brownsville  
Rush Peterbilt Truck Center, College Station  
Rush Peterbilt Truck Center, Corpus Christi  
Rush Peterbilt Truck Center, Cotulla  
Rush Peterbilt Truck Center, Dalhart  
Rush Peterbilt Truck Center, Dallas  
Rush Peterbilt Truck Center, Dallas South  
Rush Peterbilt Truck Center, El Paso  
Rush Peterbilt Truck Center, Fort Worth  
Rush Peterbilt Truck Center, Houston  
Rush Peterbilt Truck Center, Houston Northwest  
Rush Peterbilt Truck Center, Laredo  
Rush Peterbilt Truck Center, Lubbock  
Rush Peterbilt Truck Center, Lufkin  
Rush Peterbilt Truck Center, Odessa  
Rush Peterbilt Truck Center, Pharr  
Rush Peterbilt Truck Center, San Antonio  
Rush Peterbilt Truck Center, Sealy  
Rush Peterbilt Truck Center, Texarkana  
Rush Peterbilt Truck Center, Tyler  
Rush Peterbilt Truck Center, Victoria  
Rush Peterbilt Truck Center, Waco  
Rush Refuse Systems  
Rush Towing Systems, Houston  
Rush Towing Systems, San Antonio  
Rush Truck Center, Abilene  
Rush Truck Center, Amarillo  
Rush Truck Center, Arlington  
Rush Truck Center, Austin  
Rush Truck Center, Austin North  
Rush Truck Center, Beaumont  
Rush Truck Center, Bryan  
Rush Truck Center, Brownsville  
Rush Truck Center, College Station

|                                      |          |   |
|--------------------------------------|----------|---|
|                                      |          | <ul style="list-style-type: none"> <li>Rush Truck Center, Corpus Christi</li> <li>Rush Truck Center, Cotulla</li> <li>Rush Truck Center, Dalhart</li> <li>Rush Truck Center, Dallas</li> <li>Rush Truck Center, Dallas Medium Duty</li> <li>Rush Truck Center, Dallas Light and Medium Duty</li> <li>Rush Truck Center, Dallas South</li> <li>Rush Truck Center, Denton</li> <li>Rush Truck Center, El Paso</li> <li>Rush Truck Center, Fort Worth</li> <li>Rush Truck Center, Houston</li> <li>Rush Truck Center, Houston Medium Duty</li> <li>Rush Truck Center, Houston Northwest</li> <li>Rush Truck Center, Laredo</li> <li>Rush Truck Center, Lubbock</li> <li>Rush Truck Center, Lufkin</li> <li>Rush Truck Center, Odessa</li> <li>Rush Truck Center, Pharr</li> <li>Rush Truck Center, San Antonio</li> <li>Rush Truck Center, Sealy</li> <li>Rush Truck Center, Texarkana</li> <li>Rush Truck Center, Tyler</li> <li>Rush Truck Center, Victoria</li> <li>Rush Truck Center, Waco</li> <li>Rush Crane and Refuse Systems International</li> <li>World Wide Tires</li> </ul> |
| Rush Truck Centers of Utah, Inc.     | Delaware | <ul style="list-style-type: none"> <li>House of Trucks, Dallas</li> <li>Rush International Truck Center, Salt Lake City</li> <li>Rush International Truck Center, Springville</li> <li>Rush International Truck Center, St. George</li> <li>Rush International Truck Center, Ogden</li> <li>Rush Truck Center, Salt Lake City</li> <li>Rush Truck Center, Springville</li> <li>Rush Truck Center, St. George</li> <li>Rush Truck Center, Ogden</li> </ul>   |
| Rush Truck Centers of Virginia, Inc. | Delaware | <ul style="list-style-type: none"> <li>Rush Truck Center, Farr West</li> <li>Rush Truck Center, Richmond</li> <li>Rush Truck Center, Chester</li> </ul>   |
| Rush Truck Leasing, Inc.             | Delaware | <ul style="list-style-type: none"> <li>Rush Crane Systems</li> <li>Rush Idealease, Charlotte</li> <li>Rush Refuse Systems</li> <li>Augusta Idealease</li> <li>Asheville Idealease</li> <li>Boise Idealease</li> <li>Champaign Idealease</li> <li>Charlotte Idealease</li> <li>Chicago Idealease</li> <li>Cincinnati Idealease</li> <li>Cleveland Idealease</li> <li>Columbus Idealease</li> <li>Dayton Idealease</li> <li>Effingham Idealease</li> <li>Hickory Idealease</li> <li>Indianapolis Idealease</li> <li>Indy Idealease</li> <li>Lima Idealease</li> </ul>   |

|   |            |                                     |
|---|------------|-------------------------------------|
|   |            | Macon Idealease                     |
|   |            | Norfolk Idealease                   |
|   |            | Quincy Idealease                    |
|   |            | Richmond Idealease                  |
|   |            | Salt Lake City Idealease            |
|   |            | Springfield Idealease               |
|   |            | St. Louis Idealease                 |
| Advance Premium Finance, Inc.           | California | None                                |
| AiRush, Inc.                            | Delaware   | None                                |
| Associated Acceptance, Inc.             | Texas      | Automotive Industry Insurance       |
|   |            | Associated Truck Insurance Services |
|   |            | Rush Truck Insurance Services       |
| Associated Acceptance of Florida, Inc.  | Delaware   | None                                |
| Associated Acceptance of Georgia, Inc.  | Delaware   | None                                |
| Associated Acceptance of Illinois, Inc. | Delaware   | None                                |
| Associated Acceptance of Oklahoma, Inc. | Delaware   | None                                |
| Commercial Fleet Technologies, Inc.     | Delaware   | Partsriver, Inc.                    |
| Idealease of Chicago LLC                | Illinois   | None                                |
| International General Agency, Inc.      | Texas      | None                                |
| Los Cuernos, Inc.                       | Delaware   | Los Cuernos Ranch                   |
| Natural Gas Fuel Systems, Inc.          | Delaware   | Momentum Fuel Technologies          |
| Rig Tough, Inc.                         | Delaware   | Rush Truck Center, Birmingham       |
| RTC Central San Antonio, Inc.           | Delaware   | None                                |
| RTC Nevada, LLC                         | Delaware   | None                                |
| Rush Accessories Corporation            | Delaware   | Chrome Country                      |
| Rush Administrative Services, Inc.      | Delaware   | None                                |
| Rushcare, Inc.                          | Delaware   | None                                |
| Rushco, Inc.                            | Delaware   | None                                |
| Rush Logistics, Inc.                    | Delaware   | None                                |
| Rush Real Estate Holdings, Inc.         | Delaware   | None                                |
| Rush Retail Centers, Inc.               | Delaware   | None                                |
| Rushtex, Inc.                           | Delaware   | None                                |
| Truck & Trailer Finance, Inc.           | Delaware   | None                                |
| 1187394B.C. Ltd.                        | Canada     | None                                |

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

1. Form S-8 No. 333-242488 pertaining to the Rush Enterprises, Inc. Amended and Restated 2007 Long-Term Incentive Plan and Rush Enterprises, Inc. Amended and Restated 2004 Employee Stock Purchase Plan,
2. Form S-8 No. 333-219878 pertaining to the Rush Enterprises, Inc. Amended and Restated 2007 Long-Term Incentive Plan,
3. Form S-8 No. 333-198080 pertaining to the Rush Enterprises, Inc. 2007 Long-Term Incentive Plan,
4. Form S-8 No. 333-170732 pertaining to the Rush Enterprises, Inc. Deferred Compensation Plan,
5. Form S-8 No. 333-138556 pertaining to the Rush Enterprises, Inc. 2006 Non-Employee Director Stock Plan, and
6. Form S-8 No. 333-121355 pertaining to the Rush Enterprises, Inc. Long-Term Incentive Plan, the Rush Enterprises, Inc. 2004 Employee Stock Purchase Plan and Certain Non-Plan Options

of our reports dated February 24, 2021, with respect to the consolidated financial statements of Rush Enterprises, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Rush Enterprises, Inc. and subsidiaries, included in this Annual Report (Form 10-K) of Rush Enterprises, Inc. for the year ended December 31, 2020.

/s/ Ernst & Young LLP

San Antonio, Texas  
February 24, 2021

**CERTIFICATION**

I, W. M. “Rusty” Rush, certify that:

1. I have reviewed this annual report on Form 10-K of Rush Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 24, 2021

By: /S/ W. M. “RUSTY” RUSH  
W. M. “Rusty” Rush

President, Chief Executive Officer and  
Chairman of the Board  
(Principal Executive Officer)

**CERTIFICATION**

I, Steven L. Keller, certify that:

1. I have reviewed this annual report on Form 10-K of Rush Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

By: /S/ STEVEN L. KELLER  
Steven L. Keller  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this annual report of Rush Enterprises, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, W. M. “Rusty” Rush, President, Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /S/ W. M. “RUSTY” RUSH  
Name: W. M. “Rusty” Rush  
Title: President, Chief Executive Officer and  
Chairman of the Board  
Date: February 24, 2021

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this annual report of Rush Enterprises, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Steven L. Keller, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /S/ STEVEN L. KELLER  
Name: Steven L. Keller  
Title: Chief Financial Officer and  
Treasurer  
Date: February 24, 2021