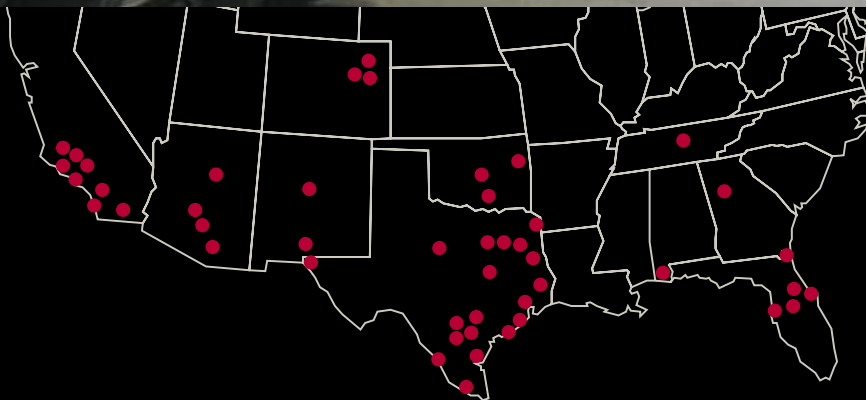


Expanding the vision



highlights

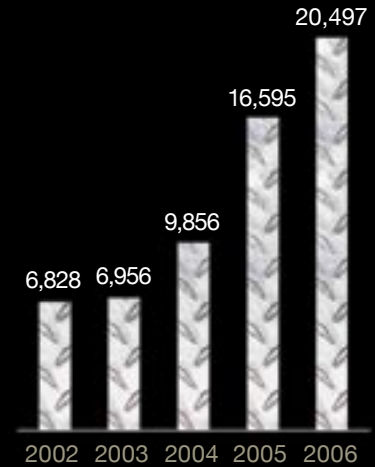
**TOTAL
REVENUE**
(In Billions)



**INCOME FROM
CONTINUING
OPERATIONS**
(In Millions)



**NEW & USED
TRUCKS SOLD**
(Units)



**EARNINGS PER SHARE
FROM CONTINUING
OPERATIONS**
(Diluted)



**SHAREHOLDERS'
EQUITY**
(In Millions)



**PARTS AND SERVICE
REVENUE**
(In Millions)



RUSH ENTERPRISES (NASDAQ RUSHA & RUSHB)

operates the largest network of Peterbilt heavy-duty truck dealerships in North America. Rush also operates dealerships that offer an extensive line-up of medium-duty trucks, including Peterbilt, Hino, GMC, Isuzu, UD and Ford, as well as a John Deere construction equipment dealership in Houston, Texas. Our current operations include a network of dealerships located in Alabama, Arizona, California, Colorado, Florida, Georgia, New Mexico, Oklahoma, Tennessee and Texas. These dealerships provide an integrated, one-stop source for the retail sale of new and used heavy- and medium-duty trucks and construction equipment; aftermarket parts, service and body shop facilities; and a wide array of financial services, including the financing of truck and equipment sales, insurance products and leasing and rentals.



vision

TO OUR SHAREHOLDERS:

What a year! It always amazes me what people can accomplish when they put their mind to it. Our team exceeded every goal we set. We topped the \$2 billion revenue mark for the first time in the company's history and profits reached record levels as well. We sold over 20,000 trucks, which included major gains in our medium-duty efforts. Our absorption rate also rose significantly. We performed well in vocational truck markets and our finance and insurance businesses. Finally, we were also able to profitably expand market share at our construction equipment store.

These results would not have been possible if not for the dedicated, talented and motivated people that make

up our organization. They are Rush Enterprises. We continue to invest in our people through training, personal development and succession planning. Recognition of performance has been and always will be central to the culture of our organization. Our future is dependent on fostering this belief in people and integrating this philosophy throughout all levels of the company.

As I mentioned in last year's letter, Rusty Rush was promoted to the position of Chief Executive Officer last spring. While I'm still active in the business, Rusty has taken on more of the strategic role than in the past. I could not be more pleased with his leadership and the company's performance since he assumed the role. He is not only successfully overseeing daily operations, but is actively implementing his vision for the future, which includes unprecedented revenue growth and shareholder return.

Rusty will share more detail with you regarding our 2006 performance and strategy for the coming years.



W. Marvin Rush
Chairman

Since joining the company in 1982, I have seen us evolve from a single-point dealer into a \$2.4 billion distribution and services company with more than 50 locations across the southern U.S. This expansion has been by design, not accident. Our strategy is to provide premier service solutions for commercial truck and equipment users throughout our contiguous geographic network of dealerships. Acquisitions, greenfield expansion, continued focus on medium-duty growth and the strong performance of our existing dealerships contributed to record truck sales, absorption rate and profits in 2006.

Many of you have heard me outline our goal of reaching \$5 billion in revenue by 2011 while achieving a 20% average return on equity. These are aggressive goals considering the impact economic cycles have on our business, but we are a goal-oriented, results-driven company, and I believe our people can achieve these goals.

In keeping with our strategy to expand and improve our contiguous geographic network, in 2006 we acquired dealerships in Jacksonville, Denver, and Atlanta. The Jacksonville acquisition strengthened our presence in the Southeast, expanded our core network of Peterbilt dealerships and added another important Hino franchise to our network. The Denver acquisition increased our Isuzu presence and added the Ford nameplate to our premier truck brand offerings. The Denver medium-duty dealership is located near our existing heavy-duty dealership, which allows us to share best practices and maximize operational capacity. Our Atlanta acquisition gives us a strategic foothold in one of the country's largest truck markets. We believed the Atlanta market can support a stand-alone, medium-duty dealership offering GMC, Hino, Isuzu and UD trucks, and so far we have been pleased with the results.

These acquisitions further our strategy to grow our medium-duty business. Since implementing our medium-duty focus in 2003, sales have grown from 900 trucks to nearly 4,700 trucks per year. While truck sales are important, the real benefit of selling these trucks is the incremental parts, service



and body shop work our shops realize when these trucks are serviced. Ultimately, we expect to sell as many medium-duty trucks as we do heavy-duty trucks. Our medium-duty growth is a good example of how we achieve our goals by leveraging off our network. In other words, growth by design.

In recent years, we have placed greater focus on vocational markets such as concrete mixers, cranes, refuse, and oil field service trucks in a continuing effort to diversify our customer base. As a result, our sales mix is more diversified than ever, reducing our dependence on the truckload carrier market and lessening the impact of its cyclical nature.

Our diverse customer base is critical to our success as we move through 2007, as it is no secret that truck sales will slow as truckload carriers wait to integrate new engine technology into their fleets. But, with even more stringent emissions regulations taking effect in 2010, carriers will not wait long to replace their trucks prior to the 2010 regulations. We expect strong truck markets beginning in the latter stages of 2007 and continuing through 2009.

Our goal to be the premier service provider in our industry requires us to offer the best levels of service to support our customers' needs. We have a saying in our organization: *"Trucks don't sell service, service sells trucks."* We must support our customers and drive efficiencies into their organization through our service solutions. Ultimately, making our customers more profitable benefits our organization. In 2006, our approach to total after-the-sale support translated into a parts, service, and body shop revenue growth rate of more than 15%. And, we've been able to maintain that double digit revenue growth rate for the past six years.

So we grew our revenues, but what about profits? The dealership business measures efficiency with a ratio known as absorption rate. I would argue that absorption rate is the most important measure we use to evaluate our business. Absorption rate is defined as the gross profits from parts, service, and body shop functions divided by the total costs of running a dealership. The only costs not included are commissions on truck sales and the interest costs of owning inventory. If a dealership is over 100% absorbed, every dollar of gross profit from a truck sale, less commissions and carry costs, goes to the bottom line.



W. Marvin Rush, Chairman (seated); W.M. "Rusty" Rush, President & CEO

In 2006, our absorption rate exceeded 105%. Truck sales will always be cyclical, but the best way to minimize the effect of this cyclical nature is to maintain a high absorption rate.

The last peak in the truck sales cycle was 1999. At that time, our organization relied too much on truck sales. Our absorption rate was only 80%. Consequently, we suffered when truck sales dropped off in 2000. Today we are better prepared for a downturn. Over the last six years, we have increased our absorption rate to mitigate the impact that 2007 emissions regulations will have on profits. We are a stronger company than we were six years ago. We look forward to proving this in 2007.

Our strategy of creating a diversified earnings base includes growing our finance and insurance, leasing and construction equipment businesses. We continuously look for new ways to foster organic growth. Examples of this include our World Wide Tire stores, Perfection Equipment, and Chrome Country. These businesses allow us to provide an array of services to commercial truck and equipment users and diversify our profit base.

I believe our performance in 2006 was exceptional and our people can be proud of their accomplishments. In any business people make the difference. I believe our people are the best in the industry, and

I would match them against any other organization. We value performance, hard work and integrity, and we have fun. Our people are working in a multi-state publicly-traded organization whose principal competition is entrepreneurial single-location operators. We give our people the freedom of thought and action. They are the decision makers who run our business. Our culture is the most coveted asset we possess and we believe it is what separates us from our competition. One of my major focuses is to maintain the culture that has gotten us where we are today.

We have become a premier distribution and services provider to commercial truck and equipment users. We will continue to leverage off our existing network of stores by offering additional products and services to expand our customer base and increase shareholder return. While it's hard for me to say I am looking forward to a slow truck sales year in 2007, I am looking forward to proving that we are a different company. We're ready.

W. M. "Rusty" Rush
President & Chief Executive Officer



GOALS REACHED. AND EXCEEDED.

Due to new diesel engine emissions requirements that became effective in 2007, we anticipated that 2006 would be a record truck sales year. We were correct, and as a result, Rush Enterprises performed very well. In fact, we exceeded our own aggressive goals.

Rush topped two billion dollars in revenue for the first time ever, with 2.4 billion dollars in total revenues. This beat the previous record, 2005's 1.9 billion dollars, by a solid 26%. In addition, net profit reached 58.8 million dollars, which represented a very substantial 32% gain over 2005's record 44.6 million dollars.

Perhaps even more significant is the fact that in 2006 we achieved an absorption rate of 105%, exceeding the goal of 100% absorption that we set for 2006 as part of our three-year plan created in 2003. We believe this is a key measurement of Rush's operating

efficiency. Absorption rate is calculated by dividing the gross profits from our parts, service and body shop business by the fixed costs of all our dealerships' departments. A 100% absorption rate means that every dollar of gross profit on the sale of a truck, after sales commission and carrying costs, goes directly to the bottom line. By increasing our absorption rate, we reduce the impact that the cyclical nature of heavy-duty truck sales has on our business when the market has a downturn. To that end, we have set an absorption rate goal of 110% for 2008.

Most important, however, is the

fact that Rush continued to build upon our vision of offering the ultimate in complete service and sales for commercial truck and equipment owners and operators. Of particular note is our expanded presence in the Class 4-7, medium-duty truck market. In 2006, we acquired medium-duty truck centers in the Denver and Atlanta markets, as well as a center in Jacksonville, Florida that includes both Class 4-7 and Class 8 trucks. Our reputation as a complete one-stop center is a key advantage over our competition, and will continue to be a major point of emphasis in our future.



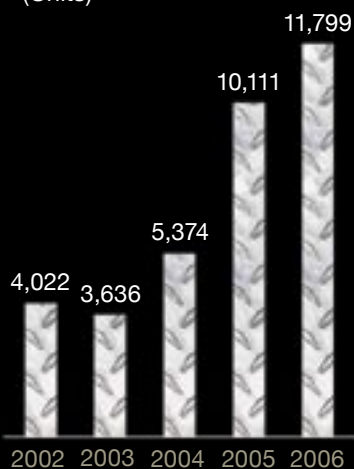
In 2006 Rush truck sales topped the 20,000 mark, an all-time high.



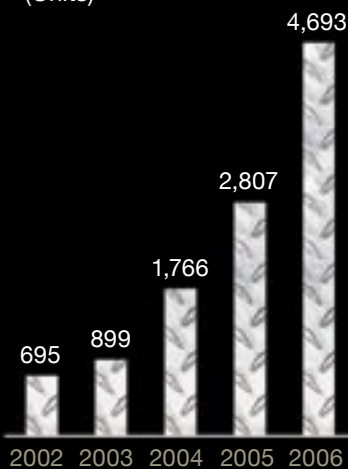


performance

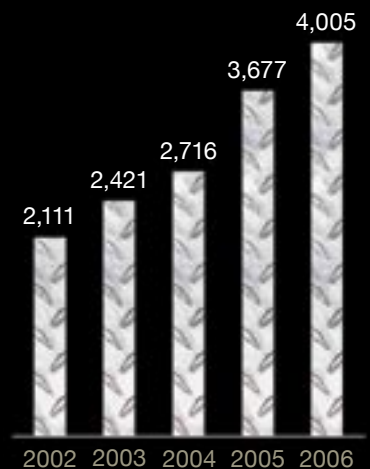
**NEW HEAVY-DUTY
TRUCK SALES**
(Units)



**NEW MEDIUM-DUTY
TRUCK SALES**
(Units)



USED TRUCK SALES
(Units)



**Everything
we do,
everything
we are and
everything
we will be
is driven by
our focus on
customer
service.**

CUSTOMER SERVICE: THE CORNERSTONE OF OUR BRAND.

To this day, we still give each new Rush employee a coin that spells out our corporate values: positive attitude, excellence, productivity and fairness. On the face of the coin is the phrase “The customer is the boss.” We do this so that every person at every level in our company is keenly aware that our primary focus is to serve the needs of our customer.

A phrase that you will hear quite often around Rush is “*Trucks don’t sell service. Service sells trucks.*” This focus on service drives the strategies and tactics we develop at Rush. It led directly to the establishment of our coast-to-coast network of truck centers, comprised of service and parts departments, body shop and sales centers. Rush has the largest truck sales and service network in the U.S. with a total of 45 truck centers. Our industry is highly fragmented, with most other dealers typically having only a few stores. Our network is a significant point of differentiation from most of our competition because it allows us

to provide contiguous service points for our long-haul customers. As a further refinement, we developed an internal system that enables all of our truck centers to access and update the service records of each of our customer’s trucks as they make repairs. In effect, we have created a single virtual service center that now stretches across the entire country.

Our goal to provide superior service also generated the need for mobile technicians. When a customer’s repair shop is shorthanded, we can provide technicians at a competitive rate until the shop is back to full staff. We even had a customer who needed technicians

on site, in Mexico. Shortly, two of our people were in the field, making repairs. At every possible point of contact, we work to provide superior service. It is why we offer our customers financing, insurance and leasing. It is also why many of our truck centers have amenities such as showers, laundry facilities and televisions. People may look at the Peterbilt truck on the pole outside our centers as being emblematic of our brand. But the true essence of our company is service.



At Rush, our focus on customer service reaches down to the finest of details. We even offer the ability to develop and apply custom graphics to our customers’ trucks.



INVESTING IN OUR ULTIMATE RESOURCE: PEOPLE.

As much effort as we devote to improving systems at Rush, we realize that our people are the ultimate determining factor for delivering our standards of superior customer service. We are a goal-oriented, results-driven organization.

Our corporate philosophy places emphasis on empowering individuals at all levels to initiate measures that will increase levels of productivity, customer service, and ultimately profitability.

Our senior management team has made a serious commitment to attract, develop and retain the best people



Quality service permeates every level of our operation.

available for every position in our company. We have a dedicated recruiter on staff that selects college graduates from several campuses each year and brings them in to join our management trainee program. As new employees, they learn our business literally from the ground up. From sweeping the floors to answering the phones, to helping manage millions in assets, they learn firsthand the importance of every job. Within our own ranks, we constantly identify people who are candidates for middle and upper levels of management and assist them in

developing their skills. We encourage individual initiative at Rush, and by establishing and facilitating career paths for our people, we help keep them motivated and achieving at a high level.

Rush's annual management conference with executives and general managers is another opportunity we have to reinforce our corporate culture and goals. A two-day planning and training event, it involves group problem solving and gives our general managers clear, direct communication with upper management. The trust and friendships that are built during this conference have resulted in a strong team-oriented culture, where general managers often consult each other on ways to solve challenges they are facing.

Increasingly tighter environmental regulations and technological advances

have led to sophisticated engines that demand highly specialized knowledge, so we also invest heavily in our technicians. We have several recruiters dedicated to identifying and hiring the top people in the field. In addition, we devote millions each year to keep our technicians abreast of the latest technologies in diagnostics and repair. We held our first annual competitive event we call the "Technician Skills Rodeo," which puts our technicians in the spotlight and recognizes the significance of their contributions. To demonstrate our emphasis on technical excellence, we awarded a first place prize of \$10,000 and a pay increase. Our commitment to superior service depends upon the abilities of our technicians to deliver, and we want to ensure that ours



Our emphasis on team-oriented problem solving results in faster solutions and more highly motivated employees.





One key component to our success is the superiority of our technicians. Each year we spend millions to keep our technicians abreast of the latest technologies to ensure that they are the best in the industry.

We provide our employees with the tools and environment necessary to succeed. Moreover, we have very aggressive incentive programs in place for our people that are goal-driven. One important distinction is

that many of our programs reward team performance in addition to individual performance. We have found this to be very effective in building teamwork and strengthening our corporate culture.

At Rush, we believe that our success is a direct by-product of corporate culture. We consider our culture to be our most precious asset. Judging from our performance to date, we would say that our priorities are in the proper order.

culture

**We will
extend our
leadership
position in
medium-duty
sales, parts
and service.**



network

LEVERAGING THE NETWORK.

Rush Enterprises has firmly established its position as the leading provider of Class 8 truck sales and service, and we will continue to strengthen our position in that market. Additionally, we have become a leader in the Class 4–7 truck market, a category strategy launched in 2003.



Medium-duty trucks are comprised of a wide range of truck types, including pick-up and delivery, beverage, towing and recovery, landscaping and light construction. By utilizing the network we have in place to sell and service heavy-duty trucks, we are presented with several opportunities to increase business in the medium-duty truck market. The Class 4–7 market is easily as large as the Class 8 market in sales, and it is much less vulnerable to cyclicalities. In fact, we believe that medium-duty truck sales will soon equal our Class 8 truck sales. Class 4–7 truck sales for 2006 were 4,693 compared to 2,807 in 2005, an increase of 67%. Moreover,

the Class 4 – 7 market gives us the ability to increase our absorption rate by using parts and service assets that we already have in place, without adding significant inventory or personnel. We are also able to increase utilization of our service bays by adding more business to our night shift operation. Most medium-duty trucks are typically used during daytime hours, so they are usually serviced at night. We can even pick up a customer's truck at the end of the workday, service it overnight and return it in time for work the next morning.

In 2006, we expanded our presence in the truck market with the acquisition of centers in Jacksonville,

Denver and Atlanta. Atlanta is our largest medium-duty acquisition to-date and marks our first entry into the substantial Georgia truck market. Our Colorado acquisition is particularly significant because it was the first addition of the Ford brand to our network. Other medium-duty brands that Rush carries include Peterbilt, Hino, GMC, Isuzu and UD. We see the Class 4–7 truck market as another important component of our strategy to assure that Rush will perform well even in a down truck sales cycle, and we will continue to add medium-duty truck centers to our network as appropriate opportunities present themselves.

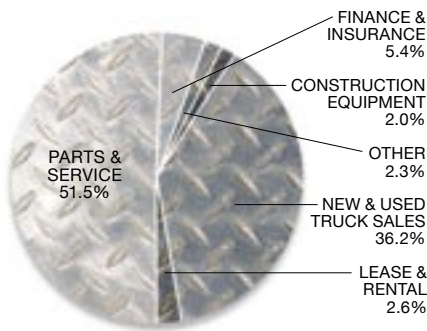


FINE-TUNING PERFORMANCE FOR THE LONG HAUL.

We continue to build on our vision of being the premier provider of sales and service to the commercial truck industry. In addition to increasing our share of the Class 4–7 truck market, our new Jacksonville store “dotted the i” on our network, giving us a coast-to-coast presence along Interstate 10.

We also saw continued solid performance from other areas of our company. The Rush Equipment Center in Houston, which sells and services John Deere construction equipment, turned in another very

GROSS PROFIT BY PROFIT CENTERS



strong year. Because its operations are similar to our truck dealerships, we see an opportunity to leverage our expertise and expand this operation into other markets. Our refuse and crane divisions have performed well in the vocational truck market. Complementing the refuse and crane divisions is our Perfection Equipment operation, which upfits equipment for the vocational truck market. Our insurance agency continues to grow both in size and geographically. We also had strong contributions this year from our World Wide Tire stores and Chrome Country, which sells chrome parts and accessories for all makes of heavy-duty trucks.

As always, we are devoting significant time and energy to achieving greater efficiencies in our operations. One of the major decisions we made was to adopt SAP Enterprise Resource Planning and SAP Dealer Business Management software and integrate it with our own proprietary management systems. The combination of the two will enhance our reporting and control capabilities significantly and allow us to take the quality of our service to a higher level. We also held HIKE's (High Impact Kaizen Events) at several of our centers to analyze our operations and develop new best practice approaches for our business.

The results are being implemented now, and the most successful strategies will be disseminated throughout the rest of our centers.

But even as we search for efficiencies in our operations and expand our categories of business, we remain firmly focused on the conviction that beyond facilities, beyond trucks, parts and even brands, our customers are buying a relationship and level of service that is second to none. We are a goal-oriented, results-driven company, and we embrace change. But our focus on superior service is one aspect of our company that will never change.



Rush continues to build on our leadership position in Class 8 truck sales and service.





opportunities

**We will
continue to
expand our
vision of being
the premier,
nationwide
provider of
commercial
truck and
equipment
sales and
service.**

A LOOK AHEAD.

Even though 2007 is forecasted to be a down year for truck sales due to new environmental regulations requiring cleaner burning diesel engines, we are well positioned to work through this short term event.

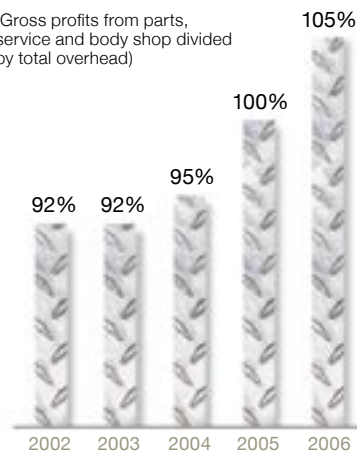
The forecast for 2008 and 2009 indicates a considerably more robust market due to increased pre-buy activity prior to the introduction of 2010's even more stringent environmental regulations. In addition, we anticipate a large supply of used Class 8 trucks coming into the market, which presents a great opportunity to offset a portion of the impact of lower new Class 8 sales through used heavy-duty truck sales. Another reason we don't see either 2007 or 2010 to be significant obstacles is that we have focused on making sure that Rush Enterprises is prepared to weather these slowdowns. Our emphasis on diversifying our

revenue streams is already paying off, and we expect this to continue to be the case. We have grown to become a service and distribution organization, not just a truck sales organization. Our management team is extremely experienced, and our growth strategy incorporates very strong three-year, five-year and long-term strategic plans. We are much less vulnerable to the cyclical nature of truck sales, and we look forward to building on our reputation of performing well even in slow cycles. Others in our industry may be concerned about the future. At Rush we are confident that we are well prepared to more than hold our own during the downturns and are

well positioned to take maximum advantage of the up cycles. We are excited about the future and look forward to the opportunities it will present us.

ABSORPTION RATE

(Gross profits from parts, service and body shop divided by total overhead)



In 2006, Rush realized significant gains in the strategic growth market of vocational trucks, which includes oil field service trucks, concrete mixers, dump trucks, cranes and refuse trucks. Today, our sales mix is more diverse than ever.



financial review

Selected Consolidated Financial and Operating Data	17
Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Report of Independent Registered Public Accounting Firm	30
Consolidated Balance Sheets	31
Consolidated Statements of Operations	32
Consolidated Statements of Shareholders' Equity	33
Consolidated Statements of Cash Flows	34
Notes to Consolidated Financial Statements	35
Stock Trading, Price Ranges, Dividends and Performance Graph	51
Note Regarding Forward-looking Statements	52
Corporate and Shareholder Information	inside back cover

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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 the Company's future financial position or results of operations due primarily to acquisitions and discontinued operations which occurred during the periods presented. See Note 17 to the Company's Consolidated Financial Statements for a discussion of such acquisitions and Note 3 to the Company's Consolidated Financial Statements for a discussion of such discontinued operations. The selected financial data presented below should be read in conjunction with the Company's other financial information included elsewhere herein.

Year Ended December 31,

(in thousands, except per share amounts)

	2006	2005	2004	2003	2002
SUMMARY OF INCOME STATEMENT DATA					
Revenues					
New and used truck sales	\$ 1,780,418	\$ 1,400,736	\$ 738,225	\$ 501,757	\$ 488,456
Parts and service	441,424	365,908	285,206	249,818	211,478
Construction equipment sales	59,545	41,692	32,305	28,263	24,324
Lease and rental	41,776	33,975	27,193	25,847	25,277
Finance and insurance	19,197	15,356	7,909	6,286	5,448
Other	8,163	7,103	4,141	3,361	2,164
Total revenues	2,350,523	1,864,770	1,094,979	815,332	757,147
Cost of products sold	1,997,856	1,582,078	909,837	662,082	615,942
Gross profit	352,667	282,692	185,142	153,250	141,205
Selling, general and administrative	230,056	188,667	141,947	124,207	111,721
Depreciation and amortization	12,889	10,487	9,119	8,929	8,594
Operating income from continuing operations	109,722	83,538	34,076	20,114	20,890
Interest expense, net	15,718	12,895	5,950	6,348	6,499
Gain on sale of assets	54	495	624	1,984	155
Income from continuing operations before income taxes	94,058	71,138	28,750	15,750	14,546
Provision for income taxes	35,272	26,513	11,574	6,300	5,818
Income from continuing operations	58,786	44,625	17,176	9,450	8,728
Income (loss) from discontinued operations, net	0	0	(260)	(621)	(10,472)
Net income	\$ 58,786	\$ 44,625	\$ 16,916	\$ 8,829	\$ (1,744)

Earnings Per Share:

Earnings per Common Share – Basic

Income from continuing operations	\$ 2.35	\$ 1.84	\$ 1.10	\$ 0.67	\$ 0.62
Net income (loss)	\$ 2.35	\$ 1.84	\$ 1.08	\$ 0.63	\$ (0.12)

Earnings per Common Share – Diluted

Income from continuing operations	\$ 2.33	\$ 1.79	\$ 1.03	\$ 0.63	\$ 0.60
Net income (loss)	\$ 2.33	\$ 1.79	\$ 1.02	\$ 0.59	\$ (0.12)

Basic weighted average shares	24,984	24,202	15,684	14,042	14,004
Diluted weighted average shares and assumed conversions	25,260	24,957	16,607	15,024	14,461

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,				
	2006	2005	2004	2003	2002
OPERATING DATA					
Number of locations	52	48	39	38	41
Unit truck sales					
New trucks	16,492	12,918	7,140	4,535	4,717
Used trucks	4,005	3,677	2,716	2,421	2,111
Total unit trucks sales	20,497	16,595	9,856	6,956	6,828
Truck lease and rental units	2,345	1,798	1,427	1,397	1,363

	Year Ended December 31,				
	2006	2005	2004	2003	2002
BALANCE SHEET DATA					
Working capital	\$ 156,297	\$ 126,137	\$ 138,241	\$ 14,113	\$ 7,995
Inventories	484,696	338,212	189,792	137,423	115,333
Inventory included in assets held for sale	—	—	—	2,496	10,218
Fixed assets included in assets held for sale	—	—	—	6,328	6,744
Total assets	1,128,410	840,234	565,933	366,878	345,110
Floor plan notes payable	446,354	315,985	168,002	108,235	89,288
Line-of-credit borrowings	—	2,755	2,434	17,732	22,395
Long-term debt, including current portion	192,124	133,152	96,056	90,028	94,916
Capital lease obligations, including current portion	17,732	16,905	—	—	—
Shareholders' equity	339,608	273,620	222,807	88,706	79,695

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

General

We took advantage of the largest Class 8 truck market in history to make 2006 a record year for Rush Enterprises, but other factors also contributed to our success in 2006. We experienced significant growth in our medium-duty truck business, we continued to improve our absorption rate (see "Key Performance Indicator" below), we expanded our finance and insurance businesses, and we increased our market share in our equipment business. The Class 8 truck market is expected to decrease significantly in 2007, but historically speaking, 2007 should still be a relatively strong Class 8 truck market.

New emissions standards governing diesel engines went into effect on January 1, 2007. We believe first quarter Class 8 truck deliveries will remain strong compared to the first quarter of 2006, due to the continued high demand for trucks with engines built before the new emissions standards took effect. We expect Class 8 truck deliveries to decrease significantly in the second and third quarters of 2007 compared to the second and third quarters of 2006 as the industry transitions into the new engines. We anticipate Class 8 truck deliveries will begin to rebound in the fourth quarter of 2007. We expect strong Class 8 markets in 2008 and 2009 as customers purchase Class 8 trucks in advance of even more stringent diesel engine emissions standards that are expected to go into effect in 2010. If additional standards are implemented in 2010, deliveries of Class 8 trucks may significantly decrease in 2010. If lawmakers do not implement additional engine emissions standards, then sales of Class 8 trucks after 2010 should be driven solely by new freight demand and the need to replace aging equipment.

We have implemented changes throughout our organization in the last few years to put Rush Enterprises in the best possible position entering 2007. Most importantly, we have added medium-duty franchises across our dealer network. Although industry experts expect medium-duty truck sales to decrease approximately 12% in 2007, we expect to increase our medium-duty truck sales in 2007 as our recently added franchises continue to mature. We also made every effort to have the best possible truck inventory going into 2007. We deliberately increased our inventory of trucks with engines built before the new emissions standards went into effect. We believe we entered 2007 with sufficient levels of these highly preferred trucks in stock to soften the impact of the expected market slowdown.

As always, we remain focused on increasing our absorption rate. For the year ended December 31, 2006, the Company's absorption rate was 105.2% compared to 100.4% for 2005. We expect to maintain or slightly increase our absorption rate in 2007, despite the decrease in truck sales, while keeping our eye on our previously stated goal of achieving an absorption rate of 110% by 2008.

By continuing to increase our medium-duty truck sales and remaining focused on increasing our absorption rate coupled with our large inventory of truck with engines built before the new emissions standard went into effect, we believe we are prepared to soften the earnings impact that will result from the expected market slowdown in 2007. We remain alert for opportunities to

deploy capital when an attractively priced investment opportunity presents itself and continue to evaluate such opportunities.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires the Company 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. The Company believes the following accounting policies, which are also described in Note 2 of the Notes to the Consolidated Financial Statements, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by specific identification for new and used truck and construction equipment inventory and by the first-in, first-out method for tires, parts and accessories. An allowance is provided when it is anticipated that cost will exceed net realizable value.

Goodwill

Other assets consist primarily of goodwill related to acquisitions and other intangible assets. As stated in Note 2 of the Notes to the Consolidated Financial Statements, Financial Accounting Standards Board Statement No. 142 ("SFAS 142") provides that goodwill and other intangible assets that have indefinite useful lives will not be amortized, but instead must be tested at least annually for impairment, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. SFAS 142 also provides specific guidance for testing goodwill and other nonamortized intangible assets for impairment. SFAS 142 requires management to make certain estimates and assumptions in order to allocate goodwill to reporting units and to determine the fair value of a reporting unit's net assets and liabilities, including, among other things, an assessment of market condition, projected cash flows, interest rates and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. SFAS 142 requires, in lieu of amortization, an annual impairment review of goodwill. The Company did not record an impairment charge related to the goodwill for its continuing operations as a result of its December 31, 2006 impairment review.

Revenue Recognition Policies

Income on the sale of a vehicle or a piece of construction equipment is recognized when the customer executes a purchase contract with us, the unit has been delivered to the customer and there are no significant uncertainties related to financing or collectibility. Lease

and rental income is recognized over the period of the related lease or rental agreement. Parts and service revenue is earned at the time the Company sells the parts to its customers or at the time the Company completes the service work order related to service provided to the customer's unit. Payments received on prepaid maintenance plans are deferred as a component of accrued expenses and recognized as income when the maintenance is performed.

Finance and Insurance Revenue Recognition

Finance income related to the sale of a unit is recognized when the finance contract is sold to a finance company. During 2004, 2005 and 2006, finance contracts were not retained by the Company for any significant length of time because finance contracts are generally sold to finance companies concurrent with the sale of the related unit. The majority of finance contracts are sold without recourse against the Company. A majority of the Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. However, in 2003 the Company instituted a finance program that accepts 100% liability, with some restrictions, for the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed; consequently, less than 1% of the Company's portfolio balance related to finance contracts sold by the Company are under this 100% liability finance program and the Company does not expect to finance a significant percentage of its truck sales under this 100% liability finance program in the future. The Company provides for an allowance for repossession losses and early repayment penalties that it may be liable for under finance contracts sold without recourse.

As part of the acquisition of certain assets of American Truck Source, Inc. ("ATS"), the Company assumed contingent liabilities to finance companies for notes that ATS initiated on behalf of such finance companies related to the sale of trucks. ATS's portfolio to which the contingent liability relates is made up of contracts sold with and without recourse, and the Company expects a majority of the portfolio to be liquidated by January 1, 2008. The Company has provided a specific allowance for repossession losses and early repayment penalties related to ATS's portfolio.

The Company arranges financing for customers through various financial institutions and receives a commission from the lender equal to either the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. The Company also receives commissions from the sale of various insurance products and extended service contracts to customers. Revenue is recognized by the Company upon the sale of such finance and insurance contracts to the finance and insurance companies net of a provision for estimated repossession losses and interest charge backs. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay, or fail to pay, thereby terminating the contract. If the customer

terminates a retail finance contract or insurance contract prior to scheduled maturity, a portion of the commissions previously paid to the Company may be charged back to the Company based on the relevant terms of the contract. The estimate of ultimate charge back exposure is based on the Company's historical charge back expense arising from similar contracts, including the impact of refinancing and default rates on retail finance contracts and cancellation rates on insurance contracts. The actual amount of historical charge backs has not been significantly different from the Company's estimates.

Insurance Accruals

The Company is partially self-insured for medical, workers compensation, and property and casualty insurance and calculates a reserve for those claims that have been incurred but not reported and for the remaining portion of those claims that have been reported. The Company uses information provided by third-party administrators to determine the reasonableness of the calculations it performs.

Accounting for Income Taxes

Significant management 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. The Company has a valuation allowance related to deferred tax assets in certain states. Accordingly, the facts and financial circumstances impacting state deferred income tax assets are reviewed quarterly and management's judgment is applied to determine the amount of valuation allowance required in any given period.

Additionally, despite the Company's belief that its tax return positions are consistent with applicable tax law, management believes that certain positions may be challenged by taxing authorities. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations. Significant judgment is required in evaluating the Company's tax contingencies. The Company's tax contingencies are adjusted in light of changing facts and circumstances. 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. Unfavorable settlement of any particular issue would require use of the Company's cash and a charge to income tax expense. Favorable resolution would be recognized as a reduction to income tax expense at the time of resolution.

Stock Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based

Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including grants of stock options and employee stock purchases under the Company's Employee Stock Purchase Plan based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company's Consolidated Financial Statements as of December 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). As a result of adopting SFAS 123(R), the Company's income before income taxes is \$2.6 million lower for the year ended December 31, 2006 and net income is \$1.7 million lower for the year ended December 31, 2006, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the year ended December 31, 2006 are each \$0.7 lower than if the Company had continued to account for share-based compensation under APB 25.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The fair value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Operations because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the year ended December 31, 2006 is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations for the year ended December 31, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In

conjunction with the adoption of SFAS 123(R), compensation expense for all share-based payment awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized in the Consolidated Statement of Operations for the year ended December 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

Upon adoption of SFAS 123(R), the Company continues to use the Black-Scholes option-pricing model which was previously used for the Company's pro forma information required under SFAS 123. For additional information, see Note 13. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, 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 certain 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 the fair value of the Company's stock options. Although the fair value of stock options is determined in accordance with SFAS 123(R) using an option-pricing model, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and a willing seller.

Key Performance Indicator

Absorption Rate. The management of the Company uses several performance metrics to evaluate the performance of its dealerships. The Company considers its "absorption rate" to be of critical importance. Absorption rate is calculated by dividing the gross profit from the parts, service and body shop departments by the overhead expenses of all of a dealership's departments, except for the selling expenses of the new and used truck departments and carrying costs of new and used truck inventory. When 100% absorption is achieved, then gross profit from the sale of a truck, after sales commissions and inventory carrying costs, directly impacts operating profit. In 1999, the Company's absorption rate was approximately 80%. The Company has made a concerted effort to increase its absorption rate since then. Management believes that maintaining an absorption rate in excess of 100% is critical to the Company's ability to generate consistent earnings in a cyclical business. The Company achieved a 105.2% absorption rate in 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Results of Operations

The following discussion and analysis includes the Company's historical results of operations for 2006, 2005 and 2004.

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

	Year Ended December 31,		
	2006	2005	2004
New and used truck sales	75.8 %	75.1 %	67.4 %
Parts and service	18.8	19.6	26.0
Construction equipment sales	2.5	2.3	3.0
Lease and rental	1.8	1.8	2.5
Finance and insurance	0.8	0.8	0.7
Other	0.3	0.4	0.4
Total revenues	100.0	100.0	100.0
Cost of products sold	85.0	84.8	83.1
Gross profit	15.0	15.2	16.9
Selling, general and administrative	9.8	10.1	13.0
Depreciation and amortization	0.5	0.6	0.8
Operating income from continuing operations	4.7	4.5	3.1
Interest expense, net	0.7	0.7	0.6
Gain on sale of assets	0.0	0.0	0.1
Income before income taxes from continuing operations	4.0	3.8	2.6
Income taxes	1.5	1.4	1.1
Income from continuing operations	2.5	2.4	1.5
(Loss) from discontinued operations, net of taxes	0.0	0.0	0.0
Net income	2.5 %	2.4 %	1.5 %

The following table sets forth the unit sales and revenue for new heavy-duty, new medium-duty and used trucks and the absorption rate for the years indicated (revenue in thousands):

	2006	2005	2004	2006 vs 2005	2005 vs 2004
Truck unit sales:					
New heavy-duty trucks	11,799	10,111	5,374	16.7%	88.1%
New medium-duty trucks	4,693	2,807	1,766	67.2%	58.9%
Total new truck unit sales	16,492	12,918	7,140	27.7%	80.9%
Used truck unit sales	4,005	3,677	2,716	8.9%	35.4%
Truck revenue:					
New heavy-duty trucks	\$ 1,317.9	\$ 1,074.4	\$ 544.2	22.7%	97.4%
New medium-duty trucks	253.0	158.0	93.5	60.1%	69.0%
Total new truck revenue	\$ 1,570.9	\$ 1,232.4	\$ 637.7	27.5%	93.3%
Used truck revenue	\$ 191.9	\$ 160.5	\$ 96.9	19.6%	65.6%
Absorption rate:	105.2%	100.4%	94.6%		

Industry

We currently operate in the heavy-duty truck, medium duty truck and construction equipment markets. There has historically been a high correlation in both of these markets between new product sales and the rate of change in U.S. industrial production and the U.S. gross domestic product.

Heavy-Duty Truck Market

The Company serves the southern U.S. retail heavy-duty truck market, which is affected by a number of factors relating to general economic conditions, including fuel prices, government regulation, interest rate fluctuations, economic recessions and customer business cycles. In addition, unit sales of new trucks have historically been subject to substantial cyclical variation based on such general economic conditions. According to data published by A.C.T. Research Co., LLC ("A.C.T. Research"), a heavy-duty truck industry data and forecasting services provider, total domestic retail sales of new Class 8 trucks in recent years have ranged from a low of approximately 140,000 in 2001 to a high of approximately 291,000 in 2006. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds. Domestic Class 8 unit sales are expected to decrease to approximately 176,000 units during 2007 according to A.C.T. Research. The Company's primary Class 8 product line is Peterbilt heavy-duty trucks, which, according to A.C.T. Research, accounted for approximately 11.3% of all new heavy-duty truck sales in the U.S. during 2006. The Company's share of the U.S. Class 8 truck sales market was approximately 4.1% in 2006.

Typically, Class 8 trucks are assembled by manufacturers utilizing certain components manufactured by other companies, including engines, transmissions, axles, wheels and other components. As trucks and truck components have become increasingly complex, the ability to provide state-of-the-art service for a wide variety of truck equipment has become a 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. Environmental Protection Agency ("EPA") and U.S. Department of Transportation ("DOT") regulatory guidelines for service processes, including body shop, paint work and waste disposal, require sophisticated operating and testing equipment to ensure compliance with environmental and safety standards. Additionally, we believe that more of our customers will lease Class 8 trucks, particularly private fleets, who seek to establish full-service leases or rental contracts, which provide for turnkey service including parts, maintenance and, potentially, fuel, fuel tax reporting and other services. Differentiation between truck dealers has become less dependent on pure price competition and is increasingly based on a dealer's ability to offer a wide variety of services to their clients. Such services include the following:

efficient, conveniently located and easily accessible truck service centers with an adequate supply of replacement parts; financing for truck 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 dealer network gives us a competitive advantage in providing these services.

The EPA mandated that heavy-duty engine manufacturers meet new, stricter emissions guidelines regarding nitrous oxides for all engines built subsequent to October 1, 2002. These new guidelines increased the price of new heavy-duty trucks by approximately \$3,000 to \$8,000 per unit and reduced the operating efficiency and life cycle of heavy-duty trucks. In 2002, the heavy-duty truck industry experienced an increased demand for trucks, as it historically has, in the months preceding the effective date of a change in EPA engine emission guidelines; this period of increased demand was followed by a decrease in demand in the months subsequent to the change.

A.C.T. Research currently estimates approximately 176,000 new Class 8 trucks will be sold in the United States in 2007, compared to approximately 291,000 new trucks sold in 2006. The 2006 new heavy-duty truck sales totals were the highest in history. A.C.T. Research and other industry experts expect Class 8 truck sales to rebound in 2008 and 2009. A.C.T. Research currently forecasts sales of Class 8 trucks in the U.S. to be approximately 214,000 in 2008 and 289,000 in 2009.

Medium-Duty Truck Market

Many of our Rush Truck Centers sell medium-duty trucks manufactured by Peterbilt, GMC, Hino, UD, Ford or Isuzu, and all of our Rush Truck Centers provide parts and service for medium-duty trucks. Medium-duty trucks are principally used in short haul, local markets as delivery vehicles. Medium-duty trucks typically operate locally and generally do not venture out of their service areas overnight. The nature of the medium-duty truck market promotes the use of our service facilities during our evening shift, which is traditionally a slow period for heavy-duty truck service.

A.C.T. Research estimates that U.S. retail sales of Class 4 through 7 medium duty trucks totaled approximately 278,000 units in 2006 and forecasts 2007 U.S. retail sales to be approximately 244,000 units. Notwithstanding the predicted decline in medium-duty truck sales in 2007, the Company expects to increase its medium-duty truck sales in 2007 as this facet of our business continues to mature. A.C.T. Research currently forecasts sales of Class 4 through 7 trucks in the U.S. to be approximately 276,000 in 2008 and 280,000 in 2009. The Company plans to continue to expand its share of the medium-duty market by adding new product lines to existing dealerships, adding dealership locations and adding sales personnel. See Note 17 to the Company's Consolidated Financial Statements for a discussion of the Company's medium-duty acquisitions in 2006.

Construction Equipment Market

Our Rush Equipment Center is an authorized John Deere construction equipment dealer serving Houston, Texas and the surrounding area. According to data compiled by John Deere, approximately 2,500 units of construction equipment were put into use in our area of responsibility in 2006 compared to 2,700 in 2005. In 2007, we expect new construction equipment unit sales to decrease approximately 5% - 10% in our area of responsibility. John Deere's market share in the Houston area was 22.7% in 2006 and 19.9% in 2005. Our Rush Equipment Center has the right to sell new John Deere construction equipment and parts within its assigned area of responsibility, which means competition within its market comes primarily from dealers of competing manufacturers and rental companies.

John Deere equipment users are a diverse group that includes residential and commercial construction businesses, independent rental companies, utility companies, government agencies, and various petrochemical, industrial and material supply businesses. Industry statistics suggest that a majority of all construction equipment is owned by a relatively small percentage of the customer base. Accordingly, John Deere and its dealer group, including the Rush Equipment Center, are aggressively developing more sophisticated ways to serve large equipment fleet owners.

Market factors affecting the construction equipment industry include the following:

- levels of commercial, residential, and public construction activities; and
- state and federal highway and road construction appropriations.

Year Ended December 31, 2006**Compared to Year Ended December 31, 2005****Revenues**

Revenues increased \$485.8 million, or 26.0%, in 2006 compared to 2005. Sales of new and used trucks increased \$379.7 million, or 27.1%, in 2006 compared to 2005. This increase in new and used truck revenue is due to strong demand for Class 8 trucks, increased sales of medium-duty trucks due to acquisitions and strong demand, and strong demand for used trucks.

Unit sales of new Class 8 trucks increased 16.7% in 2006 compared to 2005. The Class 8 truck sales market in the U.S increased 12.4% in 2006 compared to 2005. In 2006, the Company retained a 4.1% share of the Class 8 truck sales market in the U.S. The Company expects its share to range between 4.1% and 4.5% of the U.S. Class 8 truck sales market in 2007, which would result in the sale of approximately 7,200 – 8,000 Class 8 trucks based on retail sales of 176,000 units as estimated by A.C.T. Research.

Unit sales of new medium-duty trucks increased 67.2% in 2006 compared to 2005. The Company continues its concerted effort to improve its medium-duty truck sales by adding experienced medium-duty sales personnel and introducing new medium-duty franchises

at some of the Company's Rush Truck Centers to complement the existing medium-duty lines sold at such dealerships. Since July of 2005, the Company has acquired medium-duty truck franchises in Dallas and Texarkana, Texas, Orlando and Jacksonville, Florida, Fontana, California, Denver, Colorado and Atlanta, Georgia. Overall, new medium-duty truck sales revenue increased approximately \$95.0 million, or 60.1%, in 2006 compared to 2005. A.C.T. Research currently expects a 12% decline in United States retail sales of Class 4, 5, 6, and 7 medium-duty trucks, however, the Company expects to continue to add medium-duty franchises to its network and to increase same store medium-duty sales and market share in 2007 compared to 2006. The Company expects to sell approximately 6,000 medium-duty trucks in 2007.

Unit sales of used trucks increased 8.9% in 2006 compared to 2005. Used truck average revenue per unit increased by approximately 9.8%. Historically, used truck demand is consistent with new truck demand. In 2007, used truck sales volumes and prices will be primarily driven by the number of trade-in units we receive which will depend upon potential new truck purchaser's willingness to purchase the new diesel engines in 2007. The Company expects to sell approximately 4,000 used trucks in 2007.

Parts and service sales increased \$75.5 million, or 20.6%, in 2006 compared to 2005. Same store parts and service sales increased \$62.6 million, or 17.1%, in 2006 compared to 2005. The parts and service sales increase was consistent with management's expectations, which take into account general economic conditions, successful business development, acquisitions and price increases for parts and labor. The Company expects parts and service sales to maintain a 10% to 12% same store growth level during 2007.

Sales of new and used construction equipment increased \$17.9 million, or 42.8%, in 2006 compared to 2005. During 2006, the Company made a concerted effort to increase its market share in the Houston area. Approximately 2,500 units of construction equipment were put into use in the Company's area of responsibility in 2006 compared to approximately 2,700 in 2005. The construction equipment industry expects to sell approximately 2,300 units of new construction equipment in the Houston area in 2007. John Deere's market share in the Houston area construction equipment market increased to 22.7% in 2006 from 19.9% in 2005. The Company believes it can maintain John Deere's market share, in the Houston area, at approximately 25.0% in 2007.

Truck lease and rental revenues increased \$7.6 million, or 22.3%, in 2006 compared to 2005. This increase in lease and rental revenue is consistent with management's expectations considering the pre-buy related to the new emission law. The lease and rental fleet increased approximately 30.4% to 2,345 units at December 31, 2006 from 1,798 units at December 31, 2005. The Company expects lease and rental revenue to increase 13% in 2007 compared to 2006. The recent fleet additions, coupled with an expected 8% increase in our fleet during 2007, is driving the overall projected revenue growth of 13%.

Finance and insurance revenues increased \$3.8 million, or 25.0%, in 2006 compared to 2005. This increase is primarily related to the

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

increase in truck sales during 2006. The Company expects finance income from new Class 8 truck sales to decrease during 2007 compared to 2006 because of the expected decline in new Class 8 truck sales. The decrease in finance income will be mitigated by increases in medium-duty truck sales and insurance revenue due to their product expansion and recent acquisitions. The Company expects overall finance revenue to decrease approximately 5% - 10% in 2007 compared to 2006. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

Other income increased \$1.1 million, or 14.9%, in 2006 compared to 2005. The increase in other income revenue is primarily related to document fees related to truck sales. Other income also consists of the gain on sale realized on trucks from the lease and rental fleet, commissions earned from John Deere for direct manufacturer sales into our area of responsibility and purchase discounts.

Gross Profit

Gross profit increased \$70.0 million, or 24.8%, in 2006 compared to 2005. Gross profit as a percentage of sales decreased to 15.0% in 2006 from 15.2% in 2005. This decrease is primarily a result of a change in our product sales mix. Truck sales, a lower margin revenue item, increased as a percentage of total revenue to 75.8% in 2006 from 75.1% in 2005. Parts and service revenue, a higher margin revenue item, decreased as a percentage of total revenue to 18.8% in 2006 from 19.6% in 2005.

Gross margins on Class 8 truck sales increased to 7.2% in 2006 from 6.7% in 2005. For 2007, the Company expects overall gross margins from Class 8 truck sales of approximately 6.5% to 7.5%. The Company continually evaluates its reserve for new truck valuation losses. The Company recorded an expense of \$1.3 million to increase its new heavy-duty truck valuation allowance in 2006 and did not record a similar expense in 2005.

Gross margins on medium-duty truck sales decreased to 5.7% in 2006 from 6.2% in 2005. For 2007, the Company expects overall gross margins from medium-duty truck sales of approximately 6.0% to 7.0%. Gross margins on medium-duty truck sales are impacted by market and the mix of models sold. The Company's 2007 gross margins on medium-duty trucks could vary significantly depending upon the ultimate product mix of medium-duty trucks sold. The Company recorded an expense of \$1.6 million to increase its new medium-duty truck valuation allowance in 2006 and did not record a similar expense in 2005.

Gross margins on used truck sales remained relatively constant with a slight decrease to 9.1% in 2006 from 9.2% in 2005. The challenge for the Company's used truck business is always procuring a sufficient quantity of quality used trucks for resale at acceptable prices. The Company believes it will be able to continue to achieve margins of approximately 8.5% to 9.5% during 2007. The Company continually evaluates its reserve for used truck valuation losses. The Company recorded an expense of \$350,000 to increase its used truck valuation allowance in 2006 and \$150,000 in 2005.

Gross margins from the Company's parts, service and body shop

operations remained constant at 41.1% in 2006 and 2005. Gross profit for the parts, service and body shop departments increased to \$181.6 million in 2006 from \$150.5 million in 2005. The Company expects to maintain gross margins of approximately 40.0% to 42.0% during 2007.

Gross margins on new and used construction equipment sales decreased to 11.8% in 2006 from 12.4% in 2005. The lower gross margins for 2006 are due to the Company's efforts to increase its market share in the Houston area. The Company expects 2007 gross margins to remain in a range of 10.0% to 12.0% depending on the mix of products sold.

Gross margins from truck lease and rental sales decreased to 21.2% in 2006 from approximately 23.5% in 2005. The Company expects to maintain gross margins from lease and rental sales of approximately 22.0% to 24.0% during 2007. The decrease in gross margin from lease and rental sales is primarily due to the increase in interest rates and the increase in the cost of new trucks for use in the lease and rental fleet. The Company's policy is to depreciate its lease and rental fleet using a straight line method over the 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.

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

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses increased \$41.4 million, or 33.0%, in 2006 compared to 2005. The increase in SG&A in 2006 is due in large part to increased variable compensation as a result of the 32.2% increase in truck gross profit over 2005, expansion of dealership facilities in Mobile, Alabama and Nashville, Tennessee, opening a new dealership in Alice, Texas and acquisitions of new dealerships in Texarkana, Texas, Orlando and Jacksonville, Florida, Atlanta, Georgia and Denver, Colorado from July of 2005 through November of 2006. Additionally, on January 1, 2006, the Company implemented SFAS 123(R), which resulted in stock-based compensation expense of \$2.6 million for 2006. SG&A expenses as a percentage of sales decreased to 9.8% in 2006 from 10.1% in 2005. SG&A expenses as a percentage of sales have historically ranged from 10.0% to 16.0%; however, when new and used truck revenue is high, SG&A expenses as a percentage of sales are low. In 2007, the Company expects the selling portion of SG&A expenses to be approximately 30% - 33% of new and used truck gross profit. The general and administrative portion of SG&A will increase approximately 10% - 12% due to the full year effect of 2006 acquisitions and inflation.

Interest Expense, Net

Net interest expense increased \$2.8 million, or 21.9%, in 2006 compared to 2005. In 2006, floor plan interest expense increased

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

compared to 2005 primarily due to the increase in floor plan notes payable and an increase in the Company's borrowing rate. To take advantage of increased truck demand in 2006, the Company maintained higher levels of truck inventory than it has traditionally maintained, which increases the Company's floor plan notes payable. The increase in net interest expense in 2006 was offset by earnings on the Company's investment of available cash. The Company expects net interest expense in 2007 to increase approximate 10.0% compared to 2006.

Income From Continuing Operations Before Income Taxes

Income from continuing operations before income taxes increased \$22.9 million, or 32.2%, in 2006 compared to 2005, as a result of the factors described above. The Company believes that income from continuing operations in 2007 will decrease compared to 2006 based on the factors described above.

Income Taxes From Continuing Operations

Income taxes from continuing operations increased \$8.8 million, or 33.0%, in 2006 compared to 2005. The Company provided for taxes at a 37.5% effective rate in 2006 and expects the effective tax rate to be approximately 37.5% to 38% in 2007.

Year Ended December 31, 2005

Compared to Year Ended December 31, 2004

Revenues

Revenues increased \$769.8 million, or 70.3%, in 2005 compared to 2004. Sales of new and used trucks increased \$662.5 million, or 89.7%, from 2004 to 2005.

Unit sales of new Class 8 trucks increased 88.1%, in 2005 compared to 2004 due to increasing demand and the ATS acquisition. The Company's average sales price per Class 8 truck increased to \$106,300 in 2005 from \$101,200 in 2004. This price increase is primarily attributable to an increase in the manufacturing costs.

Unit sales of new medium-duty trucks increased 58.9%, in 2005 compared to 2004. In 2004, the Company continued its concerted effort to improve its medium-duty truck sales by adding experienced medium-duty sales personnel and introducing new medium-duty franchises at some of our Rush Truck Centers to complement the existing medium-duty lines sold at such dealerships. Overall, new medium-duty truck sales revenue increased \$64.5 million in 2005 compared to 2004.

Unit sales of used trucks increased 35.4%, in 2005 compared to 2004. Used truck average revenue per unit increased by 22.3%.

Parts and service sales increased \$80.7 million, or 28.3%, in 2005 compared to 2004. The parts and service sales increase in 2005 was due to business development activities combined with price increases for parts and labor and acquisitions throughout the year.

Sales of new and used construction equipment increased \$9.4 million, or 29.1%, in 2005 compared to 2004. The construction equipment sales increase was primarily attributable to the

improved market conditions in Houston, Texas and the need to replace aging equipment.

Truck lease and rental revenues increased \$7.0 million, or 26.1%, in 2005 compared to 2004. The increase in truck lease and rental revenue was due to the increase in our customer base during 2005.

Finance and insurance revenues increased 94.9%, in 2005 compared to 2004. Finance and insurance revenues typically increase as sales of new and used trucks increase. Finance and insurance revenues have minimal direct costs and, therefore, contribute a disproportionate share of operating profits.

Gross Profit

Gross profit increased \$97.6 million, or 52.7%, in 2005 compared to 2004. Gross profit as a percentage of sales decreased to 15.2% in 2005 from 16.9% in 2004. This decrease is primarily a result of a change in our product mix. Truck sales, a lower margin revenue item, increased as a percentage of total revenue to 75.1% in 2005 from 67.4% in 2004. Parts and service revenue, a higher margin revenue item, decreased as a percentage of total revenue to 19.6% in 2005 from 26.0% in 2004.

Gross margins on Class 8 truck sales decreased to 6.7% in 2005 from 7.0% in 2004. This decrease in gross margin was primarily a result of an increase in truck sales to large fleet customers in 2005 compared to 2004. Large fleet sales typically result in lower margins than small fleet sales and sales to owner operators. Each year the Company evaluates its reserve for new truck valuation losses. The Company did not record a loss provision in 2005 or 2004.

Gross margins on medium-duty truck sales remained constant at 6.2% in 2005 and 2004.

Gross margins on used truck sales decreased to 9.2% in 2005 from 9.8% in 2004. Margins on used trucks will vary depending on the mix of used trucks that are acquired from either owner-operators or fleet owners at trade-in. Used trucks acquired as trade-ins from fleet owners normally result in lower margins when the truck is sold. The Company recorded a \$150,000 loss provision to the Company's reserve for used truck valuation in 2005 and recognized a \$350,000 loss provision during 2004.

Gross margins from the Company's parts, service and body shop operations increased to 41.1% in 2005 from 37.9% in 2004. Gross profit dollars for the parts, service and body shop departments increased to \$150.5 million in 2005 from \$108.0 million in 2004.

Gross margins on new and used construction equipment sales decreased to 12.4% in 2005 from 13.0% in 2004. The decrease was attributable to a change in the mix of products sold during 2005.

Gross margins generated from truck lease and rental sales decreased to 23.5% in 2005 from 26.5% in 2004. The decrease in gross margin from lease and rental sales is primarily due to the increase in the Company's borrowing rates and the increase in the cost of new trucks for use in the lease and rental fleet.

The increase in finance and insurance revenues and other income, as described above, has minimal direct cost and, therefore contributes a disproportionate share of gross profit.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses increased \$46.8 million, or 33.0%, in 2005 compared to 2004. The increase in SG&A in 2005 is due in large part to increased variable compensation as a result of the 80.3% increase in truck gross profit over 2004 and acquisitions completed in 2005. SG&A expenses as a percentage of sales decreased from 13.0% in 2004 to 10.1% in 2005.

Interest Expense, Net

Net interest expense increased \$6.9 million, or 115.0%, in 2005 compared to 2004. Net interest expense increased as a result of increased floor plan notes payable borrowing rate, increased truck inventory and floor plan notes payable due to increased demand for trucks and the increased levels of indebtedness associated with the real estate acquired from ATS and other real estate financings.

Income From Continuing Operations Before Income Taxes

Income from continuing operations before income taxes increased by \$42.3 million, or 146.9%, in 2005 compared to 2004, as a result of the factors described above.

Income Taxes From Continuing Operations

Income taxes from continuing operations increased \$14.9 million, or 128.4%, in 2005 compared to 2004. The Company provided for taxes at a 37.3% effective rate in 2005.

Liquidity and Capital Resources

The Company's short-term cash requirements are primarily for working capital, inventory financing, the improvement and expansion of existing facilities, and the construction of new facilities. Historically, these cash requirements have been met through the retention of profits and borrowings under our floor plan arrangements. As of December 31, 2006, the Company had working capital of approximately \$156.3 million, including \$161.6 million in cash available to fund our operations.

The Company may request working capital advances in the minimum amount of \$100,000 from GE Capital, its primary truck lender. However, such working capital advances may not cause the total indebtedness owed GE Capital to exceed an amount equal to the wholesale advances made against the then current inventory less any payment reductions then due. There were no working capital advances outstanding under this agreement at December 31, 2006.

The Company has a secured line of credit that provides for a maximum borrowing of \$8.0 million. There were no advances outstanding under this secured line of credit at December 31, 2006, however, \$6.3 million was pledged to secure various letters of credit related to self-insurance products, leaving \$1.7 million available for future borrowings as of December 31, 2006.

The Company signed an agreement with Titan Technology Partners to implement SAP enterprise software and a new SAP dealership management system. The cost of the SAP software

and implementation is estimated at \$10.0 million. The Company has no other material commitments for capital expenditures as of December 31, 2006. However, the Company will continue to purchase vehicles that are necessary to operate its lease and rental division. Furthermore, management will continue to authorize capital expenditures for improvement and expansion of dealership facilities based on market opportunities.

Cash Flows

Cash and cash equivalents increased by \$28.5 million during the year ended December 31, 2006 and decreased by \$25.1 million during the year ended December 31, 2005. 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 2006, operating activities resulted in net cash used in operations of \$6.9 million. Cash used in operating activities was primarily impacted by the increased levels of new truck inventory. The majority of truck inventory is financed through the Company's floor plan financing provider. The Company maintained higher levels of new truck inventory in 2006 than it has traditionally maintained, in order to take advantage of increased demand for new trucks. During 2005, operating activities resulted in net cash used in operations of \$52.2 million.

The Company believes that changes in aggregate floor plan liabilities are directly linked to changes in vehicle inventory and, therefore, are an integral part of understanding changes in our working capital and operating cash flow. Consequently, the Company has provided below a reconciliation of cash flow from operating activities as reported in our consolidated statement of cash flows as if changes in vehicle floor plan were classified as an operating activity (in thousands).

	Year ended December 31,	
	2006	2005
Net cash provided by (used in) operating activities as reported	\$ (6,862)	\$ (52,160)
Draws on floor plan notes payable as reported	120,003	113,345
Net cash provided by operating activities including all floor plan notes payable	\$ 113,141	\$ 61,185

Cash Flows from Investing Activities

Cash flows from investing activities consist primarily of cash used for capital expenditures and business acquisitions. During 2006, the Company used \$145.2 million in investing activities. Capital expenditures consist of purchases of property and equipment, and improvements to our existing dealership facilities of \$116.1 million. \$73.6 million of this was used to purchase additional units for the rental and leasing operations during 2006 which was directly offset by borrowings of long-term debt. The Company expects

truck purchases of \$40.0 million to \$50.0 million for its leasing operations in 2007 depending on customer demand. During 2007, the Company expects to make capital expenditures for recurring items such as computers, shop equipment and vehicles of approximately \$12.0 million in 2007 in addition to \$6.1 million for the SAP software implementation described above. Cash used in business acquisitions was \$36.1 million during the year ended December 31, 2006. See Note 17 of the Notes to Consolidated Financial Statements for a detailed discussion of these acquisitions.

During 2005, cash used in investing activities was \$123.5 million. Capital expenditures consisted of purchases of property and equipment, and improvements to our existing dealership facilities of \$65.8 million. \$46.2 million of this was used to purchase additional units for the rental and leasing operations during the year ended December 31, 2005. Cash used in business acquisitions was \$66.0 million during the year ended December 31, 2005. See Note 17 of the Notes to Consolidated Financial Statements for a detailed discussion of these acquisitions.

Cash Flows from Financing Activities

Cash flows from financing activities include borrowings and repayments of long-term debt and net proceeds of floor plan notes payable. Cash provided by financing activities was \$180.5 million during the year ended December 31, 2006. The Company had borrowings of long-term debt of \$102.4 million and repayments of long-term debt of \$44.3 million during the year ended December 31, 2006. The Company had net borrowings of floor plan notes payable of \$120.0 million during the year ended December 31, 2006. The borrowings of long-term debt are primarily related to the increase in the lease and rental fleet and real estate financing.

Cash provided by financing activities was \$150.6 million during the year ended December 31, 2005. The Company had borrowings of long-term debt of \$52.1 million and repayments of long-term debt of \$35.0 million during the year ended December 31, 2005. The Company had net borrowings of floor plan notes payable of \$113.3 million during the year ended December 31, 2005. The borrowings of long-term debt are primarily related to the increase in the lease and rental fleet, real estate financing and debt acquired in the ATS acquisition.

The Company arranges financing for customers through various financial institutions including GE Capital and PACCAR Financial. The Company financed approximately 26% of new and used truck sales in 2006. The Company receives a commission from the lender equal to either the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. A majority of finance contracts are sold without recourse to the Company. The Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. However, in 2003 the Company instituted finance program that accepts 100% liability, with some restrictions, for the outstanding amount of each note initiated on behalf of the finance company. In order for a

contract to be accepted into this finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed; consequently, less than 1% of the Company's portfolio balance related to finance contracts sold by the Company are under this 100% liability finance program and the Company does not expect to finance a significant percentage of its truck sales under this 100% liability finance program in the future. The Company provides an allowance for repossession losses and early repayment penalties that it may be liable for under finance contracts sold without recourse.

In addition, through The CIT Group, Inc., CitiCapital, John Deere Credit and others, the Company arranged customer financing for approximately \$31.8 million of our new and used construction equipment sales in 2006. Generally, construction equipment financings are memorialized through the use of installment or lease contracts, which are secured by the construction equipment financed, and generally require a down payment up to 10% of the value of the financed piece of construction equipment, with the remaining balance being financed over a three to five-year period. The Company experiences no repossession loss on construction equipment financings because such financings are sold to third parties without recourse.

Substantially all of the Company's truck purchases are made on terms requiring payment within 15 days or less from the date the trucks are invoiced from the factory. On September 20, 2005, the Company entered into a three-year floor plan financing agreement with GE Capital. Interest under the floor plan financing agreement is payable monthly at a rate equal to LIBOR plus 1.68%. The Company finances substantially all of the purchase price of its new truck inventory, and the loan value of its used truck inventory under the floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new trucks. The Company makes monthly interest payments to GE Capital on the amount financed, but is not required to commence loan principal repayments on any vehicle until such vehicle has been floor planned for 12 months or is sold. The agreement allows for prepayments and working capital advances with monthly adjustments to the interest due on outstanding advances. On December 31, 2006, the Company had approximately \$434.0 million outstanding under its floor plan financing agreement with GE Capital.

Substantially all of the Company's new construction equipment purchases are financed by John Deere and CitiCapital. The Company finances substantially all of the purchase price of its new construction equipment inventory under its floor plan facilities. The agreement with John Deere provides an interest free financing period after which time the amount financed is required to be paid in full. When construction equipment is sold prior to the expiration of the interest free finance period, the Company is required to repay the principal within approximately ten days of the sale. If the construction equipment financed by John Deere is not sold within the interest free finance period, it is transferred to the CitiCapital floor plan arrangement. The Company makes principal payments for sold inventory to CitiCapital on the 15th day of each

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

month. Used and rental construction equipment is financed to a maximum of book value under a floor plan arrangement with CitiCapital. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on rental construction equipment as book value reduces. Principal payments for sold used construction equipment are made no later than the 15th day of each month following the sale. The loans are collateralized by a lien on the construction equipment. The Company's floor plan agreements limit the aggregate amount of borrowings based on the book value of new and used construction equipment units. As of December 31, 2006, the Company's floor plan arrangement with CitiCapital permits the financing of up to \$13.5 million in construction equipment. On December 31, 2006, the Company had \$1.2 million outstanding under its floor plan financing arrangements with John Deere and \$11.2 million outstanding under its floor plan financing arrangement with CitiCapital.

Cyclicality

The Company's business is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, economic recessions, environmental and other government regulations and customer business cycles. Unit sales of new trucks have historically been subject to substantial cyclical variation based on these general economic conditions. According to A.C.T. Research, industry-wide domestic retail sales of Class 8 trucks in 2006 totaled approximately 291,000 units. A.C.T. Research currently forecasts U.S. heavy-duty new truck sales to decrease to approximately 176,000 units in 2007 and then increase to 214,000 units in 2008. Through geographic expansion, concentration on higher margin parts and service operations and diversification of its customer base, the Company believes it can reduce the negative impact on the Company's earnings of adverse general economic conditions or cyclical trends affecting the heavy-duty truck industry.

Effects of Inflation

The Company believes that the relatively moderate rates of inflation over the last few years have not had a significant impact on revenues or profitability. The Company does not expect inflation to have any near-term material effects on the sale of its products and services.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements as of December 31, 2006.

Contractual Obligations

The Company has certain contractual obligations that will impact its short and long-term liquidity. At December 31, 2006, such obligations were as follows:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations(1)	\$192,124	\$25,999	\$65,454	\$83,712	\$16,959
Capital lease obligations(2)	21,706	4,268	8,434	6,879	2,125
Operating lease obligations(2)	40,826	8,249	13,029	8,151	11,397
Purchase obligations	12,062	6,092	3,786	1,248	936
Interest expense on debt (3)	36,018	11,356	16,964	7,160	538
Total	\$302,736	\$55,964	\$107,667	\$107,150	\$31,955

- (1) Refer to Note 9 of Notes to Consolidated Financial Statements.
- (2) Refer to Note 12 of Notes to Consolidated Financial Statements.
- (3) In computing interest expense, the Company used its weighted average interest rate outstanding on fixed rate debt and capital lease obligations to estimate its interest expense on fixed rate debt and capital lease obligations. The Company did not have variable rate debt as of December 31, 2006.

Quantitative and Qualitative Disclosures about Market Risk

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

The Company is exposed to some market risk through interest rates related to our floor plan borrowing arrangements, variable rate debt and discount rates related to finance sales. Floor plan borrowings are based on the LIBOR rate of interest and are used to meet working capital needs. As of December 31, 2006, the Company had floor plan borrowings of approximately \$446.4 million. Assuming an increase in the LIBOR rate of interest of 100 basis points, interest expense could increase by approximately \$4.5 million. The Company provides all customer financing opportunities to various finance providers. The Company receives all finance charges in excess of a negotiated discount rate from the finance providers in the month following the date of the financing. The negotiated discount rate is variable, thus subject to interest rate fluctuations. This interest rate risk is mitigated by the Company's ability to pass discount rate increases to customers through higher financing rates.

The Company is also exposed to some market risk through interest rates related to the investment of our current cash and cash equivalents of \$161.6 million at December 31, 2006. These funds are generally invested in highly liquid money market accounts, government-sponsored enterprises and corporate bonds that do not expose the Company to a loss of principal. As such instruments mature and the funds are reinvested, we are exposed to changes in market interest rates. This risk is mitigated by management's ongoing evaluation of the best investment rates available for current and noncurrent high quality investments. If market interest rates were to increase or decrease immediately and uniformly by 100 basis points, the Company's interest income could correspondingly increase or decrease by approximately \$1.6 million. We have not used derivative financial instruments in our investment portfolio.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

To the Board of Directors and Shareholders of Rush Enterprises, Inc.:

We have audited the accompanying consolidated balance sheets of Rush Enterprises, Inc. (a Texas corporation) and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rush Enterprises, Inc. and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2006, the Company changed its method of accounting for share based compensation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Rush Enterprises, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP
San Antonio, Texas
March 12, 2007

CONSOLIDATED BALANCE SHEETS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,	
(in thousands, except shares and per share amounts)	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 161,558	\$ 133,069
Accounts receivable, net	74,441	63,473
Inventories	484,696	338,212
Prepaid expenses and other	2,128	1,829
Deferred income taxes, net	7,496	3,856
Total current assets	730,319	540,439
Property and equipment, net	278,690	196,161
Goodwill, net	117,071	100,725
Other assets, net	2,330	2,909
Total assets	\$ 1,128,410	\$ 840,234
Liabilities and shareholders' equity		
Current liabilities:		
Floor plan notes payable	\$ 446,354	\$ 315,985
Current maturities of long-term debt	25,999	18,807
Current maturities of capital lease obligations	2,933	2,277
Advances outstanding under lines of credit	—	2,755
Trade accounts payable	37,449	23,327
Accrued expenses	61,287	51,151
Total current liabilities	574,022	414,302
Long-term debt, net of current maturities	166,125	114,345
Capital lease obligations, net of current maturities	14,799	14,628
Deferred income taxes, net	33,856	23,339
Shareholders' equity:		
Preferred stock, par value \$.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2006 and 2005	—	—
Common stock, par value \$.01 per share; 40,000,000 class A shares and 10,000,000 class B shares authorized; 17,069,494 class A shares and 8,072,226 class B shares outstanding in 2006; 16,770,060 class A shares and 7,895,863 class B shares outstanding in 2005	251	247
Additional paid-in capital	169,801	162,603
Retained earnings	169,556	110,770
Total shareholders' equity	339,608	273,620
Total liabilities and shareholders' equity	\$ 1,128,410	\$ 840,234

CONSOLIDATED STATEMENTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,		
(in thousands, except per share amounts)	2006	2005	2004
Revenues:			
New and used truck sales	\$ 1,780,418	\$ 1,400,736	\$ 738,225
Parts and service	441,424	365,908	285,206
Construction equipment sales	59,545	41,692	32,305
Lease and rental	41,776	33,975	27,193
Finance and insurance	19,197	15,356	7,909
Other	8,163	7,103	4,141
Total revenues	2,350,523	1,864,770	1,094,979
Cost of products sold:			
New and used truck sales	1,652,913	1,304,290	684,724
Parts and service	259,801	215,419	177,250
Construction equipment sales	52,527	36,509	28,114
Lease and rental	32,615	25,860	19,749
Total cost of products sold	1,997,856	1,582,078	909,837
Gross profit	352,667	282,692	185,142
Selling, general and administrative	230,056	188,667	141,947
Depreciation and amortization	12,889	10,487	9,119
Operating income	109,722	83,538	34,076
Interest income (expense):			
Interest income	2,162	2,508	782
Interest expense	(17,880)	(15,403)	(6,732)
Total interest expense, net	(15,718)	(12,895)	(5,950)
Gain on sale of assets	54	495	624
Income from continuing operations before taxes	94,058	71,138	28,750
Provision for income taxes	35,272	26,513	11,574
Income from continuing operations	58,786	44,625	17,176
Loss from discontinued operations, net	—	—	(260)
Net income	\$ 58,786	\$ 44,625	\$ 16,916
Earnings per share:			
Earnings per common share – Basic			
Income from continuing operations	\$ 2.35	\$ 1.84	\$ 1.10
Net income	\$ 2.35	\$ 1.84	\$ 1.08
Earnings per common share – Diluted			
Income from continuing operations	\$ 2.33	\$ 1.79	\$ 1.03
Net income	\$ 2.33	\$ 1.79	\$ 1.02

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

<i>(in thousands)</i>	Common Stock Shares Issued and Outstanding		\$.01 Par Value	Additional Paid-In Capital	Retained Earnings	Total
	Class A	Class B				
Balance, December 31, 2003	7,021	7,021	\$ 140	\$ 39,337	\$ 49,229	\$ 88,706
Exercise of employee stock options (including tax benefit of \$3,364)	571	534	11	7,976		7,987
Issuance of Class A common stock	8,750		88	109,110		109,198
Net income					16,916	16,916
Balance, December 31, 2004	16,342	7,555	239	156,423	66,145	222,807
Exercise of employee stock options (including tax benefit of \$3,076)	398	341	8	5,912		5,920
Employee stock purchase plan	30			339		339
Issuance cost of Class A common stock				(71)		(71)
Net income					44,625	44,625
Balance, December 31, 2005	16,770	7,896	247	162,603	110,770	273,620
Exercise of employee stock options (including tax benefit of \$2,349)	261	176	4	4,091		4,095
Stock-based compensation related to employee stock options and employee stock purchases				2,647		2,647
Employee stock purchase plan	38			460		460
Net income					58,786	58,786
Balance, December 31, 2006	17,069	8,072	\$ 251	\$ 169,801	\$ 169,556	\$ 339,608

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,		
(in thousands)	2006	2005	2004
Cash flows from operating activities:			
Income from continuing operations	\$ 58,786	\$ 44,625	\$ 17,176
Adjustments to reconcile net income to net cash used in operating activities, net of acquisitions-			
(Loss) from discontinued operations	—	—	(260)
Depreciation and amortization	27,074	21,010	15,923
Gain on sale of property and equipment	(825)	(1,669)	(1,801)
Stock-based compensation expense related to employee stock options and employee stock purchases	2,647	—	—
Provision for deferred income tax expense	6,877	1,286	4,149
Tax benefit realized from exercise of stock options	—	3,076	3,364
Excess tax benefits from stock-based compensation	(2,349)	—	—
Net charges related to discontinued operations	—	—	400
Change in accounts receivable, net	(10,133)	(32,844)	(5,804)
Change in inventories	(114,380)	(102,308)	(49,692)
Change in prepaid expenses and other, net	(280)	(230)	(296)
Change in trade accounts payable	14,039	6,357	800
Change in accrued expenses	11,682	8,537	10,399
Net cash used in operating activities	(6,862)	(52,160)	(5,642)
Cash flows from investing activities:			
Acquisition of property and equipment	(116,105)	(65,801)	(44,566)
Proceeds from the sale of property and equipment	6,333	8,457	14,129
Business acquisitions	(36,087)	(66,026)	(3,500)
Change in other assets	664	(139)	(897)
Net cash used in investing activities	(145,195)	(123,509)	(34,834)
Cash flows from financing activities:			
Draws on floor plan notes payable, net	120,003	113,345	59,767
(Payments) borrowings on lines of credit, net	(2,755)	321	(15,298)
Proceeds from long-term debt	102,448	52,099	40,463
Proceeds from capital lease obligations	3,339	18,416	—
Payments on long-term debt	(44,334)	(34,979)	(34,435)
Payments on capital lease obligations	(2,512)	(1,511)	—
Issuance of shares relating to employee stock options and employee stock purchase plan	2,206	3,183	4,623
Excess tax benefits from stock-based compensation	2,349	—	—
Issuance of 8,750,000 shares relating to the public offering, net of the related expenses	—	(71)	109,198
Debt issuance costs	(198)	(240)	(56)
Net cash provided by financing activities	180,546	150,563	164,262
Net increase (decrease) in cash and cash equivalents	28,489	(25,106)	123,786
Cash and cash equivalents, beginning of year	133,069	158,175	34,389
Cash and cash equivalents, end of year	\$ 161,558	\$ 133,069	\$ 158,175
Supplemental disclosure of cash flow information:			
Cash paid during the year for-			
Interest	\$ 20,761	\$ 15,274	\$ 7,807
Income taxes	\$ 31,758	\$ 21,703	\$ 4,788

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

NOTE 1. ORGANIZATION AND OPERATIONS:

Rush Enterprises, Inc. (the "Company") was incorporated in 1965 under the laws of the State of Texas. The Company now operates a Truck segment and a Construction Equipment segment. The Truck segment operates a regional network of Rush Truck Centers. Rush Truck Centers sell trucks manufactured by Peterbilt, GMC, Hino, UD, Ford or Isuzu. Through its strategically located network of Rush Truck Centers, the Company provides one-stop service for the needs of its customers, including retail sales of new and used trucks, aftermarket parts sales, service and repair facilities, financing, leasing and rental, and Insurance products. The Company's truck centers are located in areas on or near major highways in Alabama, Arizona, California, Colorado, Florida, Georgia, New Mexico, Oklahoma, Tennessee and Texas. The Construction Equipment segment, formed during 1997, operates a John Deere equipment center in Houston, Texas. Dealership operations include the retail sale of new and used construction equipment, aftermarket parts and service facilities, equipment rentals and the financing of new and used equipment (see Note 19).

As part of the Company's corporate reorganization in connection with its initial public offering ("Offering") in June 1996, the Company acquired, as a wholly owned subsidiary, a managing general agent (the "MGA") to manage all of the operations of Associated Acceptance, Inc. ("AA"). W. Marvin Rush, the sole shareholder of AA, is prohibited from the sale or transfer of the capital stock of AA under the MGA agreement, except as designated by the Company. Therefore, the financial position and operations of AA have been included as part of the Company's consolidated financial position and results of operations for all periods presented.

Effective at the close of business on July 9, 2002 (the "Record Date"), pursuant to action taken by the shareholders at the Annual Meeting of the Company held July 9, 2002, and described in the Proxy Statement dated May 15, 2002, the Board of Directors of the Company reclassified the outstanding common stock, \$0.01 par value per share (the "Old Common Stock"), as Class B Common Stock, \$0.01 par value per share (the "Class B Common Stock"), and declared a stock dividend of one share of a new Class A Common Stock, \$0.01 par value per share (the "Class A Common Stock"), for each share of Class B Common Stock held by shareholders of record on the Record Date. 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 the Company after payment of the Company's indebtedness and liquidation preference payments to holders of 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 vote per share on all matters requiring a shareholder vote. The Company's stock trades

on The NASDAQ National Market® under the symbols RUSHA and RUSHB. Prior to the reclassification and stock dividend, the Company had 7,002,044 shares of Old Common Stock outstanding. The adjustment caused each option outstanding prior to July 9, 2002 to become an option to purchase Class A Common Stock and an option to purchase Class B Common Stock, each with an exercise price of 50% of the exercise price of the option originally granted.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements presented herein include the account of Rush Enterprises, Inc. together with our consolidated subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. Certain reclassifications of amounts related to prior years have been made to conform to the 2006 presentation.

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.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by specific identification for new and used truck and construction equipment inventory and by the first-in, first-out method for tires, parts and accessories. An allowance is provided when it is anticipated that cost will exceed net realizable value.

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 did not incur any capitalized interest related to major capital projects in the periods presented. The cost, accumulated depreciation and amortization and estimated useful lives are summarized as follows (in thousands):

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	2006	2005	Estimated Life (Years)
Land	\$ 36,117	\$ 23,744	—
Buildings and improvements	72,328	62,362	31 - 39
Leasehold improvements	13,590	10,512	2 - 35
Machinery and shop equipment	25,748	22,765	5 - 15
Furniture, fixtures and computers	25,033	23,459	3 - 7
Transportation equipment	27,352	24,159	2 - 15
Leasing vehicles	154,416	98,962	2 - 8
Construction in progress	4,813	895	
Accumulated depreciation and amortization	(80,707)	(70,697)	
Total	\$ 278,690	\$ 196,161	

As of December 31, 2006, the Company had \$17.1 million (net of accumulated depreciation of \$3.8 million) in leasing vehicles under various capital leases included in property and equipment. The charge to income resulting from amortization of these assets recorded under capital leases is included with depreciation expense.

Allowance for Doubtful Receivables and Repossession Losses

The Company provides an allowance for doubtful receivables and repossession losses after considering historical loss experience and other factors that might affect the collection of accounts receivable and the ability of customers to meet their obligations on finance contracts sold by the Company.

Goodwill

Goodwill related to acquisitions was approximately \$117.1 million as of December 31, 2006 and \$100.7 million as of December 31, 2005. Goodwill increased \$16.3 million in 2006 and \$57.1 million in 2005. Accumulated amortization of goodwill was approximately \$3.8 million at December 31, 2006 and December 31, 2005.

Goodwill represents the excess purchase price over the fair value of net assets acquired. The Company applies the provisions of Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), in our accounting for goodwill. SFAS 142 requires that goodwill and other intangible assets that have indefinite lives not be amortized but instead be tested at least annually by reporting unit for impairment, or more frequently when events or changes in circumstances indicate that the asset might be impaired. For indefinite lived intangible assets, impairment is tested by comparing the carrying value of the asset to the fair value of the reporting unit to which they are assigned. Goodwill was tested for impairment at December 31, 2006 and no impairment write down was required. However, the Company is exposed to the possibility that changes in market conditions could result in significant impairment charges in the future, thus resulting in a potential increase in earnings volatility.

Other Assets

Other assets include the long-term portion of notes receivable of \$1.3 million at December 31, 2006 and \$1.6 million at December 31, 2005. The Company recognizes interest income on notes receivable monthly as earned. Accumulated amortization of other assets was approximately \$0.8 million at December 31, 2006 and \$0.7 million at December 31, 2005. The Company annually assesses the appropriateness of the asset valuations of other assets and the related amortization period as applicable.

Income Taxes

Income taxes are accounted for under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in a company's financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse.

Revenue Recognition Policies

Income on the sale of a vehicle or a piece of construction equipment (each a "unit") is recognized when the seller and customer execute a purchase contract, delivery has occurred and there are no significant uncertainties related to financing or collectibility. Finance income related to the sale of a unit is recognized over the period of the respective finance contract, based on the effective interest rate method, if the finance contract is retained by the Company. During 2004, 2005 and 2006, no finance contracts were retained for any significant length of time by the Company but were generally sold, with limited recourse, to certain finance companies concurrent with the sale of the related unit. Gain or loss is recognized by the Company upon the sale of such finance contracts to the finance companies, net of a provision for estimated repossession losses and early repayment penalties. Lease and rental income is recognized over the period of the related lease or rental agreement. Parts and services revenue is earned at the time the Company sells the parts to its customers or at the time the Company completes the service work order related to service provided to the customer's unit. Payments received on prepaid maintenance plans are deferred as a component of accrued expenses and recognized as income when the maintenance is performed.

Cost of Sales

For the Company's new and used truck and construction equipment operations and its parts operations, cost of sales consists primarily of the Company's actual purchase price, less manufacturer's incentives, for new and used trucks and construction equipment and parts. The Company is subject to a chargeback of manufacturer incentives for trucks that are not sold to the customer for which they were ordered. The Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

records a liability for potential chargebacks of manufacturer incentives in its financial statements. For the Company's service and body shop 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, rent and interest expense on the lease and rental fleet owned and leased by the Company, and the maintenance cost of the lease and rental fleet. There are no costs of sales associated with the Company's finance and insurance revenue or other revenue.

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, shipping and handling costs and other general operating purposes.

Stock Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including grants of stock options and employee stock purchases under the Company's Employee Stock Purchase Plan based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company's Consolidated Financial Statements as of December 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). As a result of adopting SFAS 123(R), the Company's income before income taxes is \$2.6 million lower for the year ended December 31, 2006 and net income is \$1.7 million lower for the year ended December 31, 2006, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the year ended December 31, 2006 are each \$0.7 lower than if the Company had continued to account for share-based compensation under APB 25.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The fair value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and

directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Operations because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the year ended December 31, 2006 is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations for the year ended December 31, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), compensation expense for all share-based payment awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized in the Consolidated Statement of Operations for the year ended December 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

Upon adoption of SFAS 123(R), the Company continues to use the Black-Scholes option-pricing model which was previously used for the Company's pro forma information required under SFAS 123. For additional information, see Note 13. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, 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 certain 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 the fair value of the Company's stock options. Although the fair value of stock options is determined in accordance with SFAS 123(R)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

using an option-pricing model, that value 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:

	2006	2005	2004
Expected stock volatility	25.5-32.2%	22.5-34.5%	29.9-49.9%
Weighted-average stock volatility	26.86%	31.89%	44.49%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	4.69%	4.03%	3.21%
Expected life (years)	5-7	7	7
Weighted-average fair value of stock options granted	\$ 7.42	\$ 6.53	\$ 6.01

The Company computes its historical stock price volatility in accordance with SFAS 123(R). 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.

Prior to January 1, 2006, as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company measured compensation costs for employee stock compensation plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Because the Company elected to continue to follow APB 25, SFAS 123 required disclosure of pro forma net income and earnings per share as if the new fair value accounting method were adopted.

If the Company had adopted the fair value accounting method under SFAS 123, the Company's income from continuing operations, net income and earnings per share would have been reduced to the pro forma amounts indicated below for the years ended December 31, 2005 and December 31, 2004 (in thousands, except per share amounts):

	2005	2004
Income from continuing operations		
Income from continuing operations as reported for the prior period (1)	\$ 44,625	\$ 17,176
Stock-based compensation expense related to stock options and employee stock purchases	1,737	1,632
Tax benefit	684	653
Stock-based compensation expense related to stock options and employee stock purchases, net of tax	1,053	979
Pro forma income from continuing operations, including the effect of stock-based compensation expense	\$ 43,572	\$ 16,197
Basic earnings per share – as reported for the prior period (1)	\$ 1.84	\$ 1.10
Pro forma basic earnings per share, including the effect of stock-based compensation expense	1.80	1.03
Diluted earnings per share – as reported for the prior period (1)	\$ 1.79	\$ 1.03
Pro forma diluted earnings per share, including the effect of stock-based compensation expense	1.75	0.98
Net income		
Net income as reported for the prior period (1)	\$ 44,625	\$ 16,916
Stock-based compensation expense related to stock options and employee stock purchases	1,737	1,632
Tax benefit	684	653
Stock-based compensation expense related to stock options and employee stock purchases, net of tax	1,053	979
Pro forma net income, including the effect of stock-based compensation expense	\$ 43,572	\$ 15,937
Basic earnings per share – as reported for the prior period (1)	\$ 1.84	\$ 1.08
Pro forma basic earnings per share, including the effect of stock-based compensation expense	1.80	1.02
Diluted earnings per share – as reported for the prior period (1)	\$ 1.79	\$ 1.02
Pro forma diluted earnings per share, including the effect of stock-based compensation expense	1.75	0.96

(1) Net income and net income per share prior to 2006 did not include stock-based compensation expense for stock options and employee stock purchases under SFAS 123(R) because the Company did not adopt the recognition provisions of SFAS 123(R).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Advertising Costs

Advertising costs are expensed as incurred. Advertising and marketing expense related to operations was \$3.1 million for 2006, \$2.5 million for 2005 and \$1.5 million for 2004. Advertising and marketing expense is included in selling, general and administrative expense.

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.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is required to adopt the provisions of FIN 48 during the first fiscal year beginning after December 15, 2006. The Company does not expect that the adoption of FIN 48 will have a significant impact on its consolidated results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect that the adoption of SFAS No. 157 will have a significant impact on its consolidated results of operations and financial position.

In June 2006, the FASB ratified EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" ("EITF 06-3"). EITF 06-3 is applicable for any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value added, and some excise taxes. EITF 06-3 requires companies to disclose whether they present such taxes on a gross basis (included in revenues and costs) or a net basis. In addition, for any such taxes that are reported on a gross basis, companies are required to disclose the amounts of those taxes in interim and annual financial statements for each period for which an

income statement is presented if those amounts are significant. The Company is required to adopt the provisions of EITF Issue No. 06-3 during the first fiscal year beginning after December 15, 2006. The Company does not expect that the adoption of EITF Issue No. 06-3 will have a significant impact on its consolidated results of operations and financial position.

NOTE 3. DISCONTINUED OPERATIONS:

On November 12, 2002 the Company decided to discontinue its Retail segment, which operated three farm and ranch retail stores in Seguin, Hockley and Denton, Texas. The Company decided that the Retail segment did not fit into its long-term plans of growing its core heavy-duty truck and construction equipment businesses. The Denton store was closed in December 2002; the Hockley store began liquidating inventory during November 2002 and completed the liquidation on March 9, 2003. The Company sold the Seguin store and the Hockley real estate in the fourth quarter of 2004. As a result of these actions, the Retail segment will no longer be reported as a separate business segment.

The results of operations of these businesses have been classified as discontinued operations in the Company's consolidated statements of income for all periods presented. Net sales and income (loss) before income taxes related to the discontinued businesses were as follows (in thousands):

	2006	2005	2004
Retail Segment Stores (D&D)			
Net Sales	\$ —	\$ —	\$ 11,746
Earnings (loss) before income taxes:			
Results of operations from discontinued operations	—	—	209
Charges related to discontinued operations	—	—	(58)
Income (loss) before income taxes	—	—	151
Income tax (expense)	—	—	(411)
Net (loss) from discontinued operations	\$ —	\$ —	\$ (260)

There was no activity related to these discontinued operations in 2006 and 2005.

NOTE 4. SUPPLIER AND CUSTOMER CONCENTRATION:

Major Suppliers and Dealership Agreements

The Company has entered into dealership agreements with various companies ("Manufacturers"). These agreements are nonexclusive agreements that allow the Company to stock, sell at retail and service trucks, equipment and products of 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Distributor	Expiration Dates
Peterbilt	January 2008 through January 2010
Volvo	August 2010
General Motors Corporation	October 2010
Isuzu	Indefinite
Hino	June 2007 through December 2008
UD	September 2008 through indefinite
Ford	Indefinite
John Deere	Indefinite

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 and most of its parts from PACCAR, the maker of Peterbilt trucks and parts, at prevailing prices charged to all franchised dealers. Sales of new Peterbilt trucks accounted for 90% of the Company's new vehicle sales for the year ended December 31, 2006 and 93% of the Company's new vehicle sales for the year ended December 31, 2005.

The Company purchases most of its new construction equipment and parts from John Deere at prevailing prices charged to all franchised dealers. Sales of new John Deere equipment accounted for 91% of the Company's new equipment sales for the year ended December 31, 2006, 92% of the Company's new equipment sales for the year ended December 31, 2005 and 94% of the Company's new equipment sales for the year ended December 31, 2004.

Primary Lenders

The Company purchases its new and used truck and construction equipment inventories with the assistance of floor plan financing programs offered by various financial institutions and John Deere. The floor plan agreement with one of the financial institutions used for construction equipment purchases expires in January 2008. Additional floor plan financing is provided by John Deere pursuant to the Company's equipment dealership agreement. These agreements provide that the occurrence of certain events will be considered events of default. There were no known events of default as of December 31, 2006. In the event that the Company's financing becomes insufficient, or its relationship with the 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's debt agreements include certain restrictive covenants. The Company was in compliance with these and all debt covenants as of December 31, 2006.

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. As of December 31, 2006, the Company had deposits in excess of federal insurance protection totaling approximately \$185.0 million.

The Company controls credit risk through credit approvals and by selling a majority of its trade receivables 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, thus spreading the trade credit risk. A majority of the Company's business, however, is concentrated in the United States medium-duty and heavy-duty trucking and construction equipment markets and related aftermarkets. After the Company enters into a finance contract, the Company generally sells the contracts to a third party. These finance contracts are sold 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. Historically, the Company's allowance and reserve have covered future losses.

NOTE 5. ACCOUNTS RECEIVABLE:

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

	December 31,	
	2006	2005
Trade accounts receivable from sale of vehicles and construction equipment	\$ 52,157	\$ 46,293
Other trade receivables	5,874	4,184
Warranty claims	5,677	3,745
Other accounts receivable	11,202	9,524
Less allowance for warranty receivable	(469)	(273)
Total	\$ 74,441	\$ 63,473

For the years ended December 31, 2006, 2005 and 2004, the Company had no significant related-party sales.

6. INVENTORIES:

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

	December 31,	
	2006	2005
New vehicles	\$ 362,881	\$ 242,469
Used vehicles	33,979	21,010
New construction equipment	11,584	12,919
Used construction equipment	807	587
Parts and accessories	74,832	59,339
Other	3,652	3,486
Less allowance	(3,039)	(1,598)
Total	\$ 484,696	\$ 338,212

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

NOTE 7. VALUATION ACCOUNTS:

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

	Balance Beginning of Year	Net Charge to Costs and Expenses	Acquisitions	Net Write-Offs	Balance End of Year
2006					
Reserve for warranty receivable	273	676		(480)	469
Reserve for parts inventory	1,448	2,183	710	(2,315)	2,025
Reserve for truck inventory	150	3,223		(2,359)	1,014
2005					
Reserve for warranty receivable	350	147		(224)	273
Reserve for parts inventory	1,126	1,201	234	(1,113)	1,448
Reserve for truck inventory	350	150		(350)	150
2004					
Reserve for warranty receivable	450	569		(669)	350
Reserve for parts inventory	415	1,029		(318)	1,126
Reserve for truck inventory	608	(194)		(64)	350

Allowance for Doubtful Receivables

The Company provides an allowance for uncollectible warranty receivables. The Company evaluates the collectibility of its warranty claims receivable based on a combination of factors, including aging and correspondence with the applicable manufacturer. Management reviews the warranty claims receivable aging and adjusts the allowance based on historical experience. The Company records charge-offs related to warranty receivables on an as-needed basis. The Company sells a majority of its customer accounts receivable to a third party that is responsible for qualifying the customer for credit at the point of sale. All credit risk is assumed by the third party; therefore, the Company provides no allowance for customer accounts receivable.

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 adjust the reserve balance until the inventory is sold.

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

NOTE 8. 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 trucks and construction

equipment. These notes are collateralized by the inventory purchased and accounts receivable arising from the sale thereof. The Company's floor plan notes have interest rates based on the prime rate or LIBOR, as defined in the agreements. The interest rates applicable to these agreements ranged from approximately 7.03% to 9.75% as of December 31, 2006. Amounts borrowed under these agreements are due when the related truck or construction equipment inventory (collateral) is sold and the sales proceeds are collected by the Company, or in the case of construction equipment rentals, when the carrying value of the equipment is reduced. These agreements may be modified, suspended or terminated by the lender as described in Note 4.

The Company finances substantially all of the purchase price of its new truck inventory, and the loan value of its used truck inventory under a floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new trucks. The Company's floor plan agreement with GE Capital expires in September 2008. On December 31, 2006, the Company had approximately \$434.0 million outstanding under its floor plan financing agreement with GE Capital.

The Company's floor plan agreement with CitiCapital is based on the book value of the Company's construction equipment inventory. As of December 31, 2006, the aggregate amount of borrowing capacity with this lender was \$13.5 million, with approximately \$11.2 million outstanding. Additional amounts are available under the Company's John Deere dealership agreement. At December 31, 2006, approximately \$1.2 million was outstanding pursuant to the John Deere dealership agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Assets pledged as collateral as of December 31, 2006 and 2005 were as follows (in thousands):

	December 31,	
	2006	2005
Inventories, new and used trucks and construction equipment at cost based on specific identification	\$ 409,251	\$ 276,985
Truck and construction equipment sale related accounts receivable	52,157	46,293
Total	\$ 461,408	\$ 323,278
Floor plan notes payable	\$ 446,354	\$ 315,985
Accounts payable – truck manufacturer	7,579	—
Total borrowings related to truck and construction equipment	\$ 453,933	\$ 315,985

Lines of Credit

The Company may request working capital advances in the minimum amount of \$100,000 from GE Capital, its primary truck lender. However, such working capital advances may not cause the total indebtedness owed GE Capital to exceed an amount equal to the wholesale advances made against the then current inventory less any payment reductions owed to GE Capital. There were no working capital advances outstanding under this agreement at December 31, 2006. The Company has a secured line of credit that provides for a maximum borrowing of \$8.0 million. There were no advances outstanding under this secured line of credit at December 31, 2006, however, \$6.3 million was pledged to secure various letters of credit related to self-insurance products, leaving \$1.7 million available for future borrowings as of December 31, 2006.

NOTE 9. LONG-TERM DEBT:

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

	December 31,	
	2006	2005
Variable interest rate term notes	\$ —	\$ 12,375
Fixed interest rate term notes	192,124	120,777
Total debt	192,124	133,152
Less- current maturities	(25,999)	(18,807)
Total	\$ 166,125	\$ 114,345

As of December 31, 2006, debt maturities were as follows (in thousands):

2007	\$ 25,999
2008	31,952
2009	33,502
2010	46,544
2011	37,168
Thereafter	16,959
Total	\$ 192,124

The Company did not have any variable interest rate term notes as of December 31, 2006.

The Company's fixed interest rate notes are primarily with financial institutions and had interest rates that range from approximately 4.01% to 9.68% on December 31, 2006. Payments on the notes range from \$219 to \$76,196 per month, plus interest. Maturities of these notes range from January 2007 to January 2016.

The proceeds from the issuance of the notes were used primarily to acquire land, buildings and improvements, transportation equipment and lease vehicles. The notes are secured by the assets acquired with the proceeds of such notes.

NOTE 10. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument held by the Company:

Current assets and current liabilities – The carrying value approximates fair value due to the short maturity of these items.

Long-term debt – The fair value of the Company's long-term debt is based on secondary market indicators. Since the Company's debt is not quoted, estimates are based on each obligation's characteristics, including remaining maturities, interest rate, credit rating, collateral, amortization schedule and liquidity. The carrying amount approximates fair value.

NOTE 11. DEFINED CONTRIBUTION PLAN:

The Company has a defined contribution plan (the "Rush Plan"), which is available to all Company employees and the employees of certain affiliates. Each employee who has completed 90 days of continuous service is entitled to enter the Rush Plan on the first day of the following month. Participating employees may contribute from 1% to 50% of total gross compensation. However, certain higher paid employees are limited to a maximum contribution of 15% of total gross compensation. For the first 10% of an employee's contribution, the Company, at its discretion, may contribute an amount equal to 25% of the employees' contributions for those employees with less than five years of service and an amount equal to 50% of the employees' contributions for those employees with more than five years of service. The Company incurred expenses related to the Rush Plan of approximately \$3.1 million during the year ended December 31, 2006, \$2.6 million during the year ended December 31, 2005, and \$1.8 million during the year ended December 31, 2004.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

NOTE 12. LEASES:

Vehicle Leases

The Company leases vehicles primarily over periods ranging from one to ten years under operating lease and capital lease arrangements. These vehicles are subleased by the Company to customers under various agreements. Future minimum sublease rentals to be received by the Company under non-cancelable subleases for operating leases are \$21.3 million and for capital leases are \$16.0 million. Generally, the Company is required to incur all operating costs and pay a minimum rental and an excess mileage charge based on maximum mileage over the term of the lease. The Company guarantees the residual value of vehicles under operating lease and capital lease arrangements. At December 31, 2006, the Company guaranteed vehicle residual values of \$6.7 million under operating lease arrangements and \$6.1 million under capital lease arrangements. Historically, the Company purchases these vehicles at the end of the lease term and recognizes a gain on the sale of the vehicle. The residual values are not reflected in the future minimum lease payments for operating leases. Vehicle lease expenses were approximately \$4.8 million for the year ended December 31, 2006, \$5.5 million for the year ended December 31, 2005, and \$6.0 million for the year ended December 31, 2004.

Future minimum lease payments under capital and non-cancelable vehicle leases as of December 31, 2006, are as follows (in thousands):

	Capital Leases	Operating Leases
2007	\$ 4,268	\$ 4,417
2008	4,380	3,800
2009	4,054	2,896
2010	2,980	1,999
2011	3,899	1,273
Thereafter	2,125	1,336
Total minimum lease payments	\$ 21,706	\$ 15,721
Less amount representing interest	(3,974)	
Present value of net minimum capital lease payments	17,732	
Less current portion	(2,933)	
Obligations under capital leases less current portion	\$ 14,799	

Customer Vehicle Leases

A division of the Company leases both owned and leased vehicles to customers primarily over periods of two to eight years under operating lease arrangements. These leases require a minimum rental payment and a contingent rental payment based on mileage. Rental income during the year ended December 31, 2006 consisted of minimum rental payments of approximately \$24.7 million and contingent rental payments of \$4.1 million. Rental income during the year ended December 31, 2005

consisted of minimum rental payments of approximately \$20.6 million and contingent rentals payments of approximately \$3.5 million. Rental income during the year ended December 31, 2004 consisted of minimum rental payments of approximately \$15.4 million and contingent rental payments of \$2.9 million. Minimum lease payments to be received for non-cancelable leases and subleases in effect at December 31, 2006, are as follows (in thousands):

2007	\$ 30,135
2008	27,651
2009	24,071
2010	18,628
2011	11,328
Thereafter	7,214
Total	\$ 119,027

As of December 31, 2006, the Company had \$125.6 million (net of accumulated depreciation of \$28.9 million) of lease vehicles included in property and equipment. As of December 31, 2005, the Company had \$75.8 million (net of accumulated depreciation of \$23.2 million) of lease vehicles included in property and equipment.

Other Leases - Land and Buildings

The Company leases various assets under operating leases with expiration dates ranging from March 2007 through December 2026. Monthly rental payments range from approximately \$802 per month to \$36,048 per month. Rental expense was \$4.2 million for the year ended December 31, 2006, \$3.2 million for the year ended December 31, 2005, and \$2.6 million for the year ended December 31, 2004. Future minimum lease payments under non-cancelable leases at December 31, 2006, are as follows (in thousands):

2007	\$ 3,832
2008	3,423
2009	2,910
2010	2,606
2011	2,273
Thereafter	10,061
Total	\$ 25,105

NOTE 13. STOCK OPTIONS AND STOCK PLANS:

Employee Stock Purchase Plan

The Company has implemented an Employee Stock Purchase Plan that allows eligible employees to contribute up to 10% of their base earnings 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 National Market®.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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. Under the Employee Stock Purchase Plan, 600,000 shares of the Company's Class A Common Stock have been reserved for issuance. During the year ended December 31, 2006, the Company issued 38,031 shares under the Employee Stock Purchase Plan. During the year ended December 31, 2005, the Company issued 29,926 shares under the Employee Stock Purchase Plan. Of the 2,912 employees eligible to participate, 231 were participants in the plan as of December 31, 2006.

Non-Employee Director Stock Option Plan

The Board of Directors and shareholders adopted the Rush Enterprises, Inc. 2006 Non-Employee Director Stock Option Plan (the "Director Plan"), reserving 1,000,000 shares of Class A Common Stock for issuance upon exercise of any awards granted under the Plan. This Director Plan replaced the Company's Amended and Restated 1997 Non-Employee Director Stock Option Plan (the "1997 Director Plan") effective May 17, 2006. The Director Plan is designed to attract and retain highly qualified non-employee directors. Each non-employee director receives options to purchase 20,000 shares of the Company's Class A Common Stock upon their respective date of appointment and each year on the date that they are elected or reelected by the shareholders to serve on the Board of Directors. Each option has a ten year term from the grant date and vests immediately. During each of the years ended December 31, 2006 and December 31, 2005, the Company granted 80,000 options of Class A Common Stock under the 1997 Director Plan.

Employee Stock Option Plans

In April 1996, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. Long-Term Incentive Plan (the "Incentive Plan"). The 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 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 Incentive Plan is 100,000 shares of Class A Common Stock and 100,000 shares of Class B Common Stock. Each option 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 2,600,000 shares of Class A Common Stock and 1,400,000 shares of Class B Common Stock reserved for issuance upon exercise of any awards granted under the Company's Incentive Plan. During the year ended December 31, 2006, the Company granted 319,125 options under the Incentive Plan. During the year ended December 31, 2005, the Company granted 288,325 options under the Incentive Plan.

Valuation and Expense Information under SFAS 123(R)

On January 1, 2006, the Company adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors including stock options and employee stock purchases related to the Employee Stock Purchase Plan based on estimated fair values. Stock-based compensation expense related to stock options and employee stock purchases under SFAS 123(R) for the year ended December 31, 2006 was \$2.6 million. There was no stock-based compensation expense related to stock options and employee stock purchases recognized during the years ended December 31, 2005 and December 31, 2004.

Prior to the adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. For the year ended December 31, 2006, the \$2.3 million excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if the Company had not adopted SFAS 123(R). Cash received from options exercised and shares purchased under all share-based payment arrangements for the year ended December 31, 2006 was \$2.2 million.

A summary of the Company's stock option activity and related information for the year ended December 31, 2006 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Balance at January 1, 2006	1,719,820	\$ 7.48		
Granted	399,125	19.20		
Exercised	(437,850)	3.99		
Forfeited	(38,850)	11.19		
Balance at December 31, 2006	1,642,245	\$ 11.18	7.3	\$ 9,619,494
Vested and exercisable at December 31, 2006	406,688	\$ 9.20	6.7	\$ 3,083,143

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on an average of the closing price as of December 31, 2006 of the Company's Class A and Class B Common Stock of \$16.35. The total intrinsic value of options exercised was \$6.3 million during the year ended December 31, 2006, \$8.3 million during the year ended December 31, 2005 and \$8.7 million during the year ended December 31, 2004.

A summary of the status of the Company's non-vested shares as of December 31, 2006 and changes during the year ended December 31, 2006 follows:

Non-vested Shares	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2006	1,365,950	\$ 4.05
Granted	399,125	7.42
Vested	(490,668)	3.19
Forfeited	(38,850)	5.38
Non-vested at December 31, 2006	1,235,557	\$ 5.44

As of December 31, 2006, there was \$3.2 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Incentive Plan. That cost is expected to be recognized over a weighted-average period of 3.2 years. The total fair value of options vested was \$1.6 million during the year ended December 31, 2006, \$1.3 million during the year ended December 31, 2005, and \$1.6 million during the year ended December 31, 2004.

NOTE 14. EARNINGS PER SHARE:

Earnings per share for all periods reflects the adoption of Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"), which established standards for computing and presenting earnings per share ("EPS") for entities with publicly held common stock or potential common stock. This statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures. Basic EPS were computed by dividing net income 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 and warrants that were outstanding during the period. The Company's Class A and Class B Common Stock have equal claims on earnings of the Company. The following is a reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income.

	2006	2005	2004
Numerator-			
Numerator for basic and diluted earnings per share-			
Net income available to common shareholders	\$ 58,786,000	\$ 44,625,000	\$ 16,916,000
Denominator-			
Denominator for basic earnings per share, weighted average shares	24,983,617	24,202,008	15,683,763
Effect of dilutive securities-			
Stock options	275,936	754,565	923,406
Denominator for diluted earnings per share, adjusted weighted average shares and assumed conversions	25,259,553	24,956,573	16,607,169
Basic earnings per common share	\$ 2.35	\$ 1.84	\$ 1.08
Diluted earnings per common share and common share equivalents	\$ 2.33	\$ 1.79	\$ 1.02

Options to purchase shares of common stock that were outstanding for the years ended December 31, 2006, 2005 and 2004 that were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market prices of the common shares are as follows:

	2006	2005	2004
Options	393,925	288,325	10,000
Total anti-dilutive securities	393,925	288,325	10,000

NOTE 15. INCOME TAXES:

Provision for Income Taxes

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

	Year ended December 31,		
	2006	2005	2004
Current provision-			
Federal	\$ 26,189	\$ 23,349	\$ 6,805
State	2,469	1,878	864
	28,658	25,227	7,669
Deferred provision-			
Federal	6,173	950	3,911
State	441	336	405
	6,614	1,286	4,316
Provision for income taxes	\$ 35,272	\$ 26,513	\$ 11,985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

The following summarizes the tax effect of significant cumulative temporary differences that are included in the net deferred income tax liability (in thousands):

	Year Ended December 31,	
	2006	2005
Differences in depreciation and amortization	\$ 39,626	\$ 28,199
Deferred tax asset related to state net operating loss carry forwards (net of a valuation allowance of \$468,000 at December 31, 2006 and \$541,000 at December 31, 2005)	(25)	(81)
Deferred tax asset related to capital lease obligations, non-current	(4,987)	(4,742)
Deferred tax asset related to capital lease obligations, current	(1,662)	(1,581)
Deferred tax asset related to stock options, non-current	(759)	—
Deferred tax asset related to stock options, current	(190)	—
Accruals and reserves not deducted for tax purposes until paid	(5,603)	(2,194)
Other, net	(40)	(118)
Total	\$ 26,360	\$ 19,483

The Company's various state net operating loss carry forwards expire from 2007 through 2020.

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

	Year Ended December 31,		
	2006	2005	2004
Income taxes at the federal statutory rate	\$ 32,920	\$ 24,898	\$ 10,116
State income taxes, net of federal benefit	1,995	1,439	891
Tax effect of permanent differences	17	(77)	454
State tax valuation allowance	(73)	50	491
Other, net	413	203	33
Provision for income taxes	\$ 35,272	\$ 26,513	\$ 11,985

Following is a summary of the Company's income tax provision (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Income tax expense on continuing operations	\$ 35,272	\$ 26,513	\$ 11,574
Income tax expense from discontinued operations	—	—	411
Provision for income taxes	\$ 35,272	\$ 26,513	\$ 11,985

As of December 31, 2006, the Company had provided for tax contingencies of approximately \$1.4 million.

NOTE 16. COMMITMENTS AND CONTINGENCIES:

The Company is contingently liable to finance companies for certain notes initiated on behalf of such finance companies related to the sale of trucks and construction equipment. The majority of finance contracts are sold without recourse against the Company. A majority of the Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. However, in 2003 the Company instituted a finance program that accepts 100% liability, with some restrictions, for the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed; consequently, less than 1% of the Company's portfolio balance related to finance contracts sold by the Company are under this 100% liability finance program and the Company does not expect to finance a significant percentage of its truck sales under this 100% liability finance program in the future. The Company provides for an allowance for repossession losses and early repayment penalties that it may be liable for under finance contracts sold without recourse.

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

The Company signed an agreement with Titan Technology Partners to implement SAP enterprise software and a new SAP dealership management system. The cost of the SAP software and implementation is estimated at \$10.0 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

NOTE 17. ACQUISITIONS:

In November 2006, the Company acquired Fouts Bros. UD-GMC, Inc., a GMC, UD, Hino and Isuzu medium-duty truck dealer in Smyrna, Georgia. The Company is operating the facility as a full-service Rush Medium Duty Truck Center offering medium-duty GMC, UD, Hino and Isuzu trucks, parts, and service. The transaction was valued at approximately \$9.2 million, with the purchase price paid in cash.

The Fouts Bros. UD-GMC, Inc. acquisition was accounted for as a purchase; operations of the business acquired are included in the accompanying consolidated financial statements from the date of the acquisition. Pro forma information is not included because Fouts Bros. UD-GMC, Inc.'s results of operations would not have a material effect on the Company's financial statements. The purchase price was allocated based on the fair values of the assets and liabilities at the date of acquisition as follows (in thousands):

Cash	\$ 959
Inventories	10,813
Accounts receivable	839
Property and equipment	2,973
Prepaid and other assets	19
Accounts payable and accrued expenses	(734)
Floor plan notes payable	(10,366)
Notes payable	(858)
Goodwill	5,594
Total	\$ 9,239

Approximately \$5.1 million of the goodwill acquired in the Fouts Bros. UD-GMC, Inc. acquisition will be amortized over 15 years for tax purposes.

In September 2006, the Company purchased certain assets of Mountain State Ford Truck Sales, Inc. which consisted of a Ford and Isuzu truck dealership in Denver, Colorado. The Company is operating the facility as a full-service Rush Medium-Duty Truck Center offering medium-duty trucks, parts and service. The transaction was valued at approximately \$5.3 million, with the purchase price paid in cash.

The Mountain State Ford Truck Sales, Inc. acquisition was accounted for as a purchase; operations of the business acquired are included in the accompanying consolidated financial statements from the date of the acquisition. Pro forma information is not included because Mountain State Ford Truck Sales, Inc.'s results of operations would not have a material effect on the Company's financial statements. The purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventories	\$ 4,051
Property and equipment	160
Accrued expenses	(140)
Goodwill	1,257
Total	\$ 5,328

All of the goodwill acquired in the Mountain State Ford Truck Sales, Inc. acquisition will be amortized over 15 years for tax purposes.

In March 2006, the Company purchased certain assets of Great Southern Peterbilt, Inc., which consisted of a Peterbilt and Hino truck dealership in Jacksonville, Florida. The Company is operating the facility as a full-service Rush Truck Center offering heavy-duty and medium-duty trucks, parts and service. The transaction was valued at approximately \$22.0 million, with the purchase price paid in cash.

The Great Southern Peterbilt, Inc. acquisition was accounted for as a purchase; operations of the business acquired are included in the accompanying consolidated financial statements from the date of the acquisition. Pro forma information is not included because Great Southern Peterbilt's results of operations would not have a material effect on the Company's financial statements. The purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventories	\$ 10,525
Property and equipment	2,475
Accrued expenses	(18)
Goodwill	9,001
Total	\$ 21,983

All of the goodwill acquired in the Great Southern Peterbilt, Inc. acquisition will be amortized over 15 years for tax purposes.

In October 2005, the Company purchased certain assets of TEC of California, Inc., which consisted of GMC, Isuzu and Hino medium-duty franchises. The newly acquired lines were added to its existing medium-duty truck store in Fontana, California. The transaction was valued at approximately \$3.4 million, with the purchase price paid in cash.

The TEC of California, Inc. acquisition was accounted for as a purchase; operations of the business acquired are included in the accompanying consolidated financial statements from the date of the acquisition. The purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventories	\$ 1,847
Property and equipment	11
Accrued expenses	(9)
Goodwill	1,517
Total	\$ 3,366

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

All of the goodwill acquired in the TEC of California, Inc. acquisition will be amortized over 15 years for tax purposes.

In September 2005, the Company purchased certain assets of Barrett Trucks, LLC, which consisted of a GMC and Isuzu medium-duty dealership in Texarkana, Texas. The Company added Peterbilt trucks to the dealership and is operating the facility as a full-service Rush Truck Center offering heavy-duty and medium-duty trucks, parts and service. The transaction was valued at approximately \$626,000, with the purchase price paid in cash.

The Barrett Trucks LLC acquisition was accounted for as a purchase; operations of the business acquired are included in the accompanying consolidated financial statements from the date of the acquisition. The purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventories	\$ 375
Property and equipment	42
Accrued expenses	(16)
Goodwill	225
Total	\$ 626

All of the goodwill acquired in the Barrett Trucks LLC acquisition will be amortized over 15 years for tax purposes.

In September 2005, the Company purchased certain assets of Hayes Leasing Company, Inc., which consisted of GMC and UD medium-duty franchises. The newly acquired lines were added to its existing medium-duty truck store in Dallas, Texas. The transaction was valued at approximately \$3.4 million, with the purchase price paid in cash.

The Hayes Leasing Company, Inc. acquisition was accounted for as a purchase; operations of the business acquired are included in the accompanying consolidated financial statements from the date of the acquisition. The purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventories	\$ 2,058
Property and equipment	31
Prepaid expenses	13
Goodwill	1,260
Total	\$ 3,362

All of the goodwill acquired in the Hayes Leasing Company, Inc. acquisition will be amortized over 15 years for tax purposes.

In July 2005, the Company purchased certain assets of Fountain Motor Co., Inc., which consisted of a GMC and Isuzu medium-duty dealership in Orlando, Florida. The Company

added Peterbilt trucks and UD products to the new dealership and is operating the facility as a full-service Rush Truck Center offering heavy-duty and medium-duty trucks, parts and service. The transaction was valued at approximately \$2.8 million, with the purchase price paid in cash.

The Fountain Motor Co., Inc. acquisition was accounted for as a purchase; operations of the business acquired are included in the accompanying consolidated financial statements from the date of the acquisition. The purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventories	\$ 1,341
Property and equipment	20
Other assets	2
Accrued expenses	(24)
Goodwill	1,455
Total	\$ 2,794

All of the goodwill acquired in the Fountain Motor Co., Inc. acquisition will be amortized over 15 years for tax purposes.

In January 2005, the Company acquired certain assets of ATS, including its Peterbilt truck dealerships in Texas and Tennessee, for a total purchase price of \$132.4 million. The acquisition provides the Company with rights to sell Peterbilt trucks and parts at new locations in Dallas, Fort Worth, Abilene and Tyler, Texas and Nashville, Tennessee. The transaction was financed with cash of \$77.8 million, expansion of the Company's existing floor plan agreement for truck inventory of \$34.6 million, and the issuance of debt of approximately \$20.0 million to finance the purchase of real estate and certain vehicles used in ATS's leasing operations. Of the \$77.8 million paid in cash, \$21.9 million was for the purchase of a note receivable from the selling shareholders of ATS. This \$21.9 million was immediately repaid by the selling shareholders at closing, resulting in net cash used in the acquisition of \$55.9 million.

The ATS acquisition was accounted for as a purchase. The purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventories	\$ 38,664
Notes & leases receivable	23,211
Other assets	104
Property and equipment, net	20,790
Accrued expenses	(3,070)
Goodwill	52,667
Total	\$ 132,366

All of the goodwill acquired in the ATS acquisition will be amortized over 15 years for tax purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

The following unaudited pro forma summary presents information as if the ATS acquisition had taken place at the beginning of 2004. The pro forma information is provided for informational purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the Company.

The following summary is for the year ended December 31, 2004 (unaudited) (in thousands, except per share amounts):

	2004
Revenues	\$ 1,438,609
Income from continuing operations after pro forma provision for income taxes	\$ 24,571
Basic income from continuing operations per share	\$ 1.04
Diluted income from continuing operations per share	\$ 1.01

NOTE 18. UNAUDITED QUARTERLY FINANCIAL DATA:

(in thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Revenues	\$ 497,885	\$ 569,187	\$ 651,321	\$ 632,130
Gross Profit	81,600	87,915	93,083	90,069
Operating income from continuing operations	22,036	27,288	30,589	29,809
Income from continuing operations before income taxes	18,523	23,787	26,261	25,487
Income from continuing operations	11,577	14,868	16,412	15,929
Net income	\$ 11,577	\$ 14,868	\$ 16,412	\$ 15,929
Earning per share: Basic				
Income from continuing operations	\$ 0.47	\$ 0.59	\$ 0.65	\$ 0.63
Net income	\$ 0.47	\$ 0.59	\$ 0.65	\$ 0.63
Earning per share: Diluted				
Income from continuing operations	\$ 0.46	\$ 0.59	\$ 0.65	\$ 0.63
Net income	\$ 0.46	\$ 0.59	\$ 0.65	\$ 0.63
2005				
Revenues	\$ 402,043	\$ 461,817	\$ 485,427	\$ 515,483
Gross Profit	60,947	71,750	76,359	73,636
Operating income from continuing operations	14,926	21,462	23,897	23,253
Income from continuing operations before income taxes	12,495	18,267	20,635	19,741
Income from continuing operations	7,684	11,235	13,154	12,552
Net income	\$ 7,684	\$ 11,235	\$ 13,154	\$ 12,552
Earning per share: Basic				
Income from continuing operations	\$ 0.32	\$ 0.47	\$ 0.54	\$ 0.51
Net income	\$ 0.32	\$ 0.47	\$ 0.54	\$ 0.51
Earning per share: Diluted				
Income from continuing operations	\$ 0.31	\$ 0.45	\$ 0.53	\$ 0.50
Net income	\$ 0.31	\$ 0.45	\$ 0.53	\$ 0.50

NOTE 19. SEGMENTS:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement requires that public business enterprises report certain information about operating segments in complete

sets of financial statements of the enterprise and in condensed financial statements of interim periods issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers.

As previously mentioned, in November 2002 the Company announced its decision to discontinue its D&D operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

In connection with this decision, financial information related to D&D in 2004 is no longer presented as a separate operating segment. Since the disposal of D&D was completed in 2004, there is no related financial activity in 2005 and 2006.

The Company currently has two reportable business segments: the Truck segment and the Construction Equipment segment. The truck segment operates a regional network of truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new and used heavy-duty and medium-duty trucks; aftermarket parts, service and body shop facilities; and a wide array of financial services, including the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Construction Equipment segment operates a full-service John Deere dealership that serves the Houston, Texas area. Dealership operations include the retail sale of new and used construction equipment, aftermarket parts and service facilities, equipment rentals, and the financing of new

and used construction equipment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income before income taxes, not including extraordinary items.

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. There were no material intersegment sales during the years ended December 31, 2006, 2005 and 2004.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different technology and marketing strategies. Business units were maintained through expansion and acquisitions. The following table contains summarized information about reportable segment profit or loss and segment assets for the years ended December 31, 2006, 2005 and 2004 (in thousands):

<i>(in thousands, except per share amounts)</i>	Truck Segment	Construction Equipment Segment	All Other	Totals
2006				
Revenues from external customers	\$ 2,254,123	\$ 77,816	\$ 18,584	\$ 2,350,523
Interest income	2,162	—	—	2,162
Interest expense	16,697	830	353	17,880
Depreciation and amortization	12,056	367	466	12,889
Segment income from continuing operations before income tax	86,116	5,624	2,318	94,058
Segment assets	1,084,343	22,914	21,153	1,128,410
Goodwill	112,535	4,075	461	117,071
Expenditures for segment assets	109,938	443	5,724	116,105
2005				
Revenues from external customers	\$ 1,795,441	\$ 57,731	\$ 11,598	\$ 1,864,770
Interest income	2,508	—	—	2,508
Interest expense	14,640	586	177	15,403
Depreciation and amortization	9,894	291	302	10,487
Segment income from continuing operations before income tax	64,921	4,566	1,651	71,138
Segment assets	801,917	24,080	14,237	840,234
Goodwill	96,539	4,075	111	100,725
Expenditures for segment assets	64,592	392	817	65,801
2004				
Revenues from external customers	\$ 1,040,648	\$ 46,154	\$ 8,177	\$ 1,094,979
Interest income	782	—	—	782
Interest expense	6,164	407	161	6,732
Depreciation and amortization	8,507	311	301	9,119
Segment income from continuing operations before income tax	26,606	2,094	50	28,750
Segment assets	534,504	18,863	12,138	565,505
Goodwill	39,406	4,075	111	43,592
Expenditures for segment assets	52,784	153	1,003	53,940

STOCK TRADING, PRICE RANGES, DIVIDENDS AND PERFORMANCE GRAPH

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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

Our common stock trades on The NASDAQ National Market® under the symbols RUSHA and RUSHB.

The following table sets forth the high and low sales prices for the Class A Common Stock and Class B Common Stock for the fiscal periods indicated and as quoted on The NASDAQ National Market®.

	2006		2005	
	High	Low	High	Low
Class A Common Stock				
First Quarter	\$19.54	\$14.84	\$16.65	\$14.00
Second Quarter	19.89	15.95	16.58	12.84
Third Quarter	19.18	14.76	16.82	13.25
Fourth Quarter	18.97	16.48	15.87	13.95
Class B Common Stock				
First Quarter	\$18.55	\$14.33	\$17.45	\$14.91
Second Quarter	18.86	14.93	16.89	12.85
Third Quarter	17.94	13.86	16.64	13.25
Fourth Quarter	17.70	15.36	15.16	13.70

As of March 12, 2007, there were approximately 48 record holders of the Class A Common Stock and approximately 54 record holders of the Class B Common Stock and approximately 4,724 beneficial holders of the Class A Common Stock and approximately 1,089 beneficial holders of the Class B Common Stock.

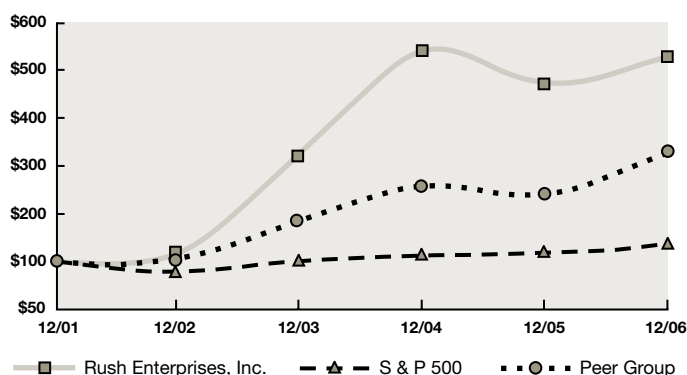
The Board of Directors intends to retain any earnings of the Company to support operations and to finance expansion and does not intend to pay cash dividends in the foreseeable future. Any future determination as to the payment of dividends will be at the discretion of the Board of Directors of the Company and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

Performance Graph

The chart set forth below shows the value of an investment of \$100 on December 31, 2001 in the Company's Common Stock, the Standard & Poor's 500 Stock Index and a peer group of other public companies. On July 9, 2002, the shareholders of the Company approved amendments to the Company's Articles of Incorporation that resulted in the reclassification of the Company's previously existing common stock as Class B Common Stock and the issuance of one share of Class A Common Stock for each share of Class B Common Stock owned by the Company's then existing shareholders. Subsequent to July 9, 2002, the Company has added the share prices of its Class A Common Stock and Class B Common Stock together in calculating its cumulative total return. The peer group is comprised of the following companies: Lithia Motors, Inc.; PACCAR, Inc.; United Auto Group, Inc.; and Werner Enterprises, Inc.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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



*\$100 invested on 12/31/01 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

	Cumulative Total Return		
	Rush Enterprises, Inc.	S & P 500	Peer Group
12/31/01	\$ 100.00	\$100.00	\$ 100.00
12/31/02	\$ 118.27	\$ 77.90	\$ 104.48
12/31/03	\$ 320.06	\$100.24	\$ 187.04
12/31/04	\$ 539.72	\$ 111.15	\$ 257.18
12/31/05	\$ 471.17	\$ 116.61	\$ 239.95
12/31/06	\$ 526.20	\$ 135.03	\$ 328.45

NOTE REGARDING FORWARD-LOOKING STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Certain statements contained in this Annual Report (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, news releases, conferences, website postings or otherwise) that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended (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 the 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. Important factors that could

cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those set forth under Item 1A—Risk Factors in our Form 10K for the year ended December 31, 2006 as well as future growth rates and margins for certain of our products and services, future demand for our products and services, competitive factors, general economic conditions, cyclicity, economic conditions in the new and used truck and equipment markets, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in the Company's quarterly and other reports filed with the Securities and Exchange Commission (collectively, "Cautionary Statements"). Although the Company believes that its expectations are reasonable, it can give no assurance that such expectations will prove to be correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described in any forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable Cautionary Statements. The Company does not intend to update these forward-looking statements.

CORPORATE AND SHAREHOLDER INFORMATION

Rush Enterprises, Inc. and Subsidiaries

Board of Directors

W. Marvin Rush

Chairman

W. M. “Rusty” Rush

President and Chief Executive Officer

Thomas A. Akin

Partner

Akin, Doherty, Klein and Feuge, P.C.

Ronald J. Krause

*Former President and
Chief Operating Officer
Associates Corporation
of North America*

Harold D. Marshall

*Former President and
Chief Operating Officer
Associates First Capital Corporation*

John D. Rock

*Former Vice President of
General Motors and General Manager
– Oldsmobile Division*

Board Committees

Audit Committee

*Thomas A. Akin**
Ronald J. Krause
Harold D. Marshall

Compensation Committee

*Harold D. Marshall**
Thomas A. Akin
Ronald J. Krause
John D. Rock

**Nominating
& Governance Committee**

*John D. Rock**
Ronald J. Krause
Harold D. Marshall

**Committee Chair*

Executive Officers Rush Enterprises, Inc.

W. Marvin Rush

Chairman

W.M. “Rusty” Rush

President and Chief Executive Officer

Martin A. Naegelin, Jr.

Executive Vice President

Steven L. Keller

*Vice President
Chief Financial Officer
and Treasurer*

Daryl J. Gorup

*Senior Vice President
Dealership Operations*

David C. Orf

*Senior Vice President
Marketing, Fleets and
Specialized Equipment*

James E. Thor

*Senior Vice President
Retail Sales*

Scott Anderson

*Senior Vice President
Finance and Insurance*

J.M. “Spike” Lowe

*Senior Vice President
Corporate Development*

Richard D. Hall

*Vice President
Insurance*

Derrek Weaver

*Chief Compliance Officer
Vice President of Legal Affairs
and Secretary*

Shareholder Information

Executive Offices

Rush Enterprises, Inc.
P.O. Box 34630
San Antonio, TX 78265
(830) 626-5200

Independent Public Accountants

Ernst & Young LLP
San Antonio, TX

Corporate and Securities Counsel

Fulbright & Jaworski L.L.P.
San Antonio, TX

Annual Meeting

The annual meeting of shareholders of the Company will be held at 10:00 A.M. CDT on May 22, 2007 at The Plaza Club Frost Bank Building, 21st Floor 100 W. Houston Street San Antonio, TX 78205

Availability of 10-K Report

Steven L. Keller
Rush Enterprises, Inc.
P. O. Box 34630
San Antonio, TX 78265
(830) 626-5200

Shares Listed

Rush Enterprises, Inc.’s common stock trades on the NASDAQ National Market® under the symbols RUSHA and RUSHB.

Website

www.rushenterprises.com

Forward-looking Statements

Certain statements in this Annual Report are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described in the forward-looking statements section on page 52.



Rush Enterprises, Inc.
555 IH 35 South, Suite 500
New Braunfels, TX 78130
(830) 626-5200
www.rushenterprises.com