

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Index to Financial Statements American Truck Source, Inc. and Subsidiaries](#)

As filed with the Securities and Exchange Commission on November 9, 2004.

Registration No. 333-119131

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Pre-Effective  
Amendment No. 2

to

**Form S-3**

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

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### RUSH ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

**Texas**

(State or other jurisdiction of  
incorporation or organization)

**5511**

(Primary Standard Industrial  
Classification Code Number)

**74-1733016**

(I.R.S. Employer  
Identification Number)

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**555 IH-35 South, Suite 500**

**New Braunfels, Texas 78130**

**Telephone: (877) 879-7266**

**Telecopy: (830) 626-5315**

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

---

**W. Marvin Rush**

**Chairman of the Board and Chief Executive Officer**

**Rush Enterprises, Inc.**

**555 IH-35 South, Suite 500**

**New Braunfels, Texas 78130**

**Telephone: (877) 879-7266**

**Telecopy: (830) 626-5315**

(Name, address, including zip code, and telephone number, including  
area code, of agent for service)

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*Copies to:*

**Phillip M. Renfro**

**Daryl L. Lansdale, Jr.**

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300 Convent St., Suite 2200

San Antonio, Texas 78205

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**David P. Oelman**

**Michael C. Blaney**

Vinson & Elkins L.L.P.

1001 Fannin St., Suite 2300

Houston, Texas 77002

Telephone: (713) 758-2222

Telecopy: (713) 758-2346

**Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.**

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

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The information in this prospectus is not complete and may be changed. We and the selling shareholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 9, 2004

10,000,000 Shares



Class A Common Stock

We are selling 7,250,000 shares of class A common stock and the selling shareholders are selling 2,750,000 shares of class A common stock. We will not receive any of the proceeds from the sale of the shares of class A common stock sold by the selling shareholders.

Our class A common stock is listed on the NASDAQ National Market under the symbol "RUSHA." The last reported sale price on the NASDAQ National Market on November 5, 2004 was \$15.00 per share.

On September 15, 2004, we agreed to acquire substantially all of the assets of American Truck Source, Inc., or ATS. Completion of this offering is a condition precedent to our closing of the acquisition of ATS. The acquisition of ATS is subject to certain conditions as described in this prospectus. If the acquisition of ATS is not consummated, we will use the offering proceeds to repurchase shares of our class A common stock and/or pay off some of our debt. See "Risk Factors—Risks Related to Our Planned Acquisition of ATS" and "Use of Proceeds."

The underwriters have an option to purchase a maximum of 1,500,000 additional shares of class A common stock from us to cover over-allotments of shares.

**Investing in our common stock involves risks. See "Risk Factors" on page 8.**

|           | Price to<br>Public | Underwriting<br>Discounts and<br>Commissions | Proceeds to<br>Rush Enterprises | Proceeds to<br>Selling Shareholders |
|-----------|--------------------|--|---------------------------------|-------------------------------------|
| Per Share | \$                 | \$   | \$                              | \$                                  |
| Total     | \$                 | \$   | \$                              | \$                                  |

Delivery of the shares of class A common stock will be made on or about \_\_\_\_\_, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse First Boston**

**Morgan Keegan & Company, Inc.**

**BB&T Capital Markets**

The date of this prospectus is \_\_\_\_\_, 2004.



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## TABLE OF CONTENTS

[PROSPECTUS SUMMARY](#)  
[RISK FACTORS](#)  
[CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS](#)  
[USE OF PROCEEDS](#)  
[CAPITALIZATION](#)  
[PLANNED ACQUISITION OF ATS](#)  
[UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA](#)  
[MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#)  
[INDUSTRY](#)  
[BUSINESS](#)  
[MANAGEMENT](#)  
[PRINCIPAL SHAREHOLDERS](#)  
[SELLING SHAREHOLDERS](#)  
[UNDERWRITING](#)  
[NOTICE TO CANADIAN RESIDENTS](#)  
[LEGAL MATTERS](#)  
[EXPERTS](#)  
[WHERE YOU CAN FIND MORE INFORMATION](#)  
[INCORPORATION BY REFERENCE](#)  
[INDEX TO FINANCIAL STATEMENTS](#)

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**You should rely only on the information contained or incorporated by reference in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**

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## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. Before investing in our common stock, you should read the entire prospectus carefully, including the "Risk Factors" section, the consolidated financial statements and the notes thereto included elsewhere in this prospectus and the documents incorporated herein by reference.*

*We conduct our business through our operating subsidiaries, each of which is a direct or indirect wholly owned subsidiary of Rush Enterprises, Inc. For purposes of this prospectus, unless the context otherwise requires, all references herein to "the Company," "our company," "Rush Enterprises," "Rush," "we," "us," and "our" refer to Rush Enterprises, Inc. and its consolidated subsidiaries and their predecessors. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters' over-allotment option is not exercised. Unless the context requires otherwise, references to our common stock are to both our class A common stock and class B common stock.*

### **Our Company**

We are a full-service, integrated retailer of premium transportation and construction equipment and related services. Our Rush Truck Centers primarily sell heavy-duty trucks manufactured by Peterbilt Motors Company, a division of PACCAR, Inc. We sold approximately 20.3% of all the new Peterbilt Class 8 trucks sold in the United States in 2003. Some of our Rush Truck Centers sell medium-duty trucks manufactured by Peterbilt, GMC, Hino, UD (Nissan) and Isuzu. We are also a supplier of John Deere construction equipment through our Rush Equipment Center in Houston, Texas. Through our strategically located network of Rush Truck Centers and our Rush Equipment Center, we provide one-stop service for the needs of our customers, including retail sales of new and used transportation and construction equipment, aftermarket parts sales, service and repair facilities and financing, leasing and rental, and insurance services.

Our Rush Truck Centers are principally located in high traffic areas throughout the southern United States. Since commencing operations as a Peterbilt heavy-duty truck dealer over 38 years ago, we have grown to operate Rush Truck Centers at 37 locations in Texas, Colorado, Oklahoma, California, Florida, Arizona, New Mexico and Alabama.

Our Rush Equipment Center in Houston, Texas sells, leases and rents a full line of construction equipment for light to medium sized applications, including a variety of construction equipment trailers and heavy-duty cranes.

Additionally, we sell a complete line of property and casualty insurance, including collision and liability insurance on trucks, cargo insurance, and credit life insurance.

### **Planned Acquisition of ATS**

On September 15, 2004, we entered into an asset purchase agreement with American Truck Source, Inc., or ATS, its subsidiaries and stockholders to acquire substantially all of the assets of ATS. ATS operates Peterbilt dealerships, which offer substantially the same products and services as our Rush Truck Centers, serving the markets in Dallas, Fort Worth, Abilene, and Tyler, Texas; Nashville, Tennessee; Birmingham, Alabama; and Louisville, Kentucky. A copy of the asset purchase agreement and the first amendment thereto are available in our Current Reports on Forms 8-K filed on September 16, 2004 and November 9, 2004, respectively. Peterbilt has provided ATS with notice that it intends to exercise its right of first refusal with regards to ATS's dealerships serving the Louisville and Birmingham markets. Peterbilt has provided the Company with the documents required from the manufacturer to obtain dealer licenses for ATS's Texas and Nashville dealerships indicating their intention to grant the Company these dealerships. The purchase price for ATS's assets that we expect to acquire is \$105.0 million, subject to further purchase price adjustments.

Revenues for the ATS dealerships we expect to acquire were \$199.8 million for the year ended December 31, 2003 and \$247.6 million for the nine month period ended September 30, 2004. Pretax income for the ATS dealerships we expect to acquire was \$2.9 million for the year ended December 31, 2003 and \$7.9 million for the nine months ended September 30, 2004. Unless otherwise specified, whenever we refer to the "ATS acquisition" or the "acquisition of ATS" we mean the acquisition of ATS's Texas and Nashville dealerships. The dealerships we expect to acquire generated 82% of ATS's revenue and 82% of ATS's pretax income in the nine months ended September 30, 2004. We expect to complete the ATS acquisition approximately six weeks after the completion of this offering.

*Anticipated Benefits of ATS Acquisition.* We believe that the acquisition of ATS will provide us with several strategic benefits including: the expansion of our dealership network into the Dallas/Forth Worth and Nashville markets; expansion of our customer base of independent owner-operator customers; and the addition of experienced employees.

*Transaction Structure.* We have agreed to pay a total of approximately \$105.0 million to purchase the ATS dealerships we expect to acquire. Approximately \$101.8 million of the purchase price for ATS will be funded from the net proceeds of this offering and \$0.8 million of the purchase price will be funded through our floor plan financing agreement. In addition, we will assume \$2.4 million of ATS's liabilities in the acquisition.

The completion of the ATS acquisition is subject to closing conditions, including our ability to obtain motor vehicle dealer licenses for the dealerships we are acquiring. The parties have the right to terminate the ATS acquisition if it is not completed by June 30, 2005.

Credit Suisse First Boston LLC, one of the underwriters in this offering, has acted as financial advisor to us in connection with the ATS acquisition and will receive customary compensation in connection therewith upon the closing of the acquisition.

If the ATS acquisition is not consummated, the Company intends to use its net proceeds from this offering to repurchase shares of its class A common stock to the extent circumstances warrant such use. However, the Company may use some of its net proceeds to repay some of its existing floor plan debt and the remainder to repurchase shares of its class A common stock. Any share repurchase would be on terms determined at the time of such repurchase.

## **Our Business Strategy**

*Operating Strategy.* Our strategy is to operate an integrated dealer network that primarily markets Peterbilt heavy-duty trucks, medium-duty trucks and John Deere construction equipment and provides complementary products and services. Our strategy includes the following key elements:

- One-Stop Centers. Emphasizing our truck and construction equipment dealerships as "one-stop centers" where, at one convenient location, our customers can purchase new or used trucks or construction equipment; finance, lease or rent trucks or construction equipment; purchase aftermarket parts and accessories and have service performed by certified technicians.
- Branding Program. Using distinctive signage and uniform marketing programs to take advantage of our existing name recognition and to communicate the standardized high quality of our products and reliability of our services throughout our dealership network.
- Management by Dealership Units. Measuring and managing the business operations of our dealerships according to the specific business units operating at that location, such as new sales, used sales, parts, service and body shop.
- Integrated Management Information Systems. Efficiently operating separate business units within each dealership by relying upon our management information systems to actively monitor

market conditions and determine appropriate inventory levels and product mix at each Rush Truck Center.

*Growth Strategy.* Through expansion and acquisition initiatives, we have grown to operate a large, multistate, full-service network of heavy-duty truck dealerships. We intend to continue to grow our business internally and through acquisitions by:

- expanding into new geographic areas,
- expanding our product offerings and capabilities and
- opening new truck and equipment centers in existing markets.

Our principal executive offices are located at 555 IH-35 South, New Braunfels, Texas 78130, and our telephone number is (877) 879-7266. Our web site is located at *rushenterprises.com*. The information contained on our web site is not part of this prospectus.

## THE OFFERING

|  |   |
|--|---|
| Class A common stock offered to the public by Rush Enterprises, Inc.   | 7,250,000 shares  |
| Class A common stock offered to the public by the selling shareholders   | 2,750,000 shares  |
| Class A common stock to be outstanding after this offering   | 14,835,274 shares   |
| Underwriters' over-allotment option  | 1,500,000 shares  |
| Class A common stock to be outstanding after this offering, assuming exercise of the underwriters' over-allotment option in full | 16,335,274 shares   |
| Class B common stock to be outstanding after this offering   | 7,545,760 shares  |
| Voting rights  | Our class A common stock and class B common stock are identical, except that our class A common stock has 1/20th of one vote per share on all matters requiring the vote of the shareholders while our class B common stock has one vote per share.   |
| Use of Proceeds  | We intend to use the net proceeds from the sale of shares by us to pay a portion of the purchase price for the ATS acquisition. See "Use of Proceeds." If the ATS acquisition is not consummated, the Company intends to use its net proceeds from this offering to repurchase shares of its class A common stock to the extent circumstances warrant such use. However, the Company may use some of its net proceeds to repay some of its existing floor plan debt and the remainder to repurchase shares of its class A common stock. Any share repurchase would be on terms determined at the time of such repurchase. |
| Nasdaq National Market symbol  |   |
| Class A common stock   | "RUSHA"   |
| Class B common stock   | "RUSHB"   |
| Risk Factors   | You should carefully read and consider the information set forth under "Risk Factors" and all other information set forth or incorporated by reference in this prospectus before investing in our common stock.   |

The number of shares that will be outstanding after this offering excludes 2,096,048 shares of common stock reserved for issuance under outstanding options.

## Summary Financial and Other Data

The following selected financial data for the three years ended December 31, 2003 are derived from our audited consolidated financial statements. The financial data for the nine month periods ended September 30, 2004 and 2003 are derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of the financial position and the results of operations for these periods.

Operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2004. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included or incorporated by reference herein.

Our historical results do not include results from ATS, which we intend to acquire with the net proceeds from this offering. These results may not be indicative of our future performance.

Our summary pro forma consolidated financial data are derived from "Unaudited Pro Forma Consolidated Financial Data" and the historical financial statements of Rush and ATS, which are incorporated by reference herein or included elsewhere in this prospectus.

The unaudited pro forma consolidated balance sheet as of September 30, 2004 gives effect to the following events as if they were consummated on September 30, 2004:

- our acquisition of substantially all of the assets of ATS;
- our issuance and sale of approximately \$101.8 million in class A common stock in this offering;
- our increase of \$0.8 million in advances under our existing floor plan financing agreement to fund the balance of the ATS acquisition; and
- our assumption of \$2.4 million of ATS's liabilities in the acquisition.

The unaudited pro forma consolidated statements of operations for the year ended December 31, 2003 and for the nine month period ended September 30, 2004 give pro forma effect to these events as if they were consummated on January 1, 2003.

The pro forma consolidated financial data has been prepared for illustrative purposes only and does not purport to represent what our results of operations or financial condition would actually have been had the transactions described in "Unaudited Pro Forma Consolidated Financial Data" in fact occurred as of the dates specified. The information provided below should be read in conjunction with the following, each of which is included elsewhere or incorporated by reference in this prospectus: (1) our historical consolidated financial statements and accompanying notes, (2) "Management's Discussion and Analysis of Financial Condition and Results of Operations," (3) "Unaudited Pro Forma Consolidated Financial Data," and (4) the separate historical financial statements and accompanying notes of ATS.

The pro forma consolidated financial data does not represent what our results of operations or financial conditions will be if we do not acquire ATS and instead use the proceeds to repurchase shares of our class A common stock and/or pay off existing floor plan debt.

|  | Year Ended December 31, |      |      | Pro Forma<br>Year Ended<br>December 31, | Nine Months Ended September 30, |      | Pro Forma<br>Nine Months Ended<br>September 30, |
|--|-------------------------|------|------|---|---------------------------------|------|---|
|  | 2001                    | 2002 | 2003 | 2003                                    | 2003                            | 2004 | 2004  |

(unaudited)

(in thousands, except per share amounts)

**SUMMARY OF INCOME  
STATEMENT DATA**

|  |                 |                   |                 |                  |                 |                  |                  |
|--|-----------------|-------------------|-----------------|------------------|-----------------|------------------|------------------|
| Revenues   |                 |                   |                 |                  |                 |                  |                  |
| New and used truck sales   | \$ 438,143      | \$ 488,456        | \$ 501,757      | \$ 657,948       | \$ 343,487      | \$ 527,167       | \$ 736,621       |
| Parts and service  | 188,566         | 211,478           | 249,818         | 289,460          | 186,135         | 214,563          | 247,800          |
| Construction equipment sales   | 31,666          | 24,324            | 28,263          | 28,263           | 20,278          | 23,711           | 23,711           |
| Lease and rental   | 25,040          | 25,277            | 25,847          | 26,344           | 18,992          | 20,278           | 23,400           |
| Finance and insurance  | 5,251           | 5,448             | 6,286           | 9,743            | 4,550           | 5,619            | 7,400            |
| Other  | 2,847           | 2,164             | 3,361           | 3,361            | 2,228           | 2,629            | 2,629            |
| <b>Total revenues</b>  | <b>691,513</b>  | <b>757,147</b>    | <b>815,332</b>  | <b>1,015,119</b> | <b>575,670</b>  | <b>793,967</b>   | <b>1,041,561</b> |
| Cost of products sold  | 562,316         | 615,942           | 662,082         | 832,078          | 461,931         | 657,358          | 873,733          |
| <b>Gross profit</b>  | <b>129,197</b>  | <b>141,205</b>    | <b>153,250</b>  | <b>183,041</b>   | <b>113,739</b>  | <b>136,609</b>   | <b>167,828</b>   |
| Selling, general and administrative  | 101,832         | 111,721           | 124,207         | 145,892          | 92,249          | 106,060          | 124,213          |
| Depreciation and amortization  | 9,176           | 8,594             | 8,929           | 11,642           | 6,705           | 6,834            | 9,406            |
| <b>Operating income from continuing operations</b>   | <b>18,189</b>   | <b>20,890</b>     | <b>20,114</b>   | <b>25,507</b>    | <b>14,785</b>   | <b>23,715</b>    | <b>34,209</b>    |
| Interest expense, net  | 9,267           | 6,499             | 6,348           | 4,761            | 4,465           | 4,360            | 4,078            |
| Gain (loss) on sale of assets  | 1,067           | 155               | 1,984           | 1,984            | 342             | 504              | 504              |
| Other gain (loss)  | —               | —                 | —               | (8)              | —               | —                | 48               |
| <b>Income from continuing operations before income taxes</b>   | <b>9,989</b>    | <b>14,546</b>     | <b>15,750</b>   | <b>22,722</b>    | <b>10,662</b>   | <b>19,859</b>    | <b>30,683</b>    |
| Provision for income taxes   | 3,996           | 5,818             | 6,300           | 9,089            | 4,265           | 7,944            | 12,274           |
| <b>Income from continuing operations</b>   | <b>5,993</b>    | <b>8,728</b>      | <b>9,450</b>    | <b>13,633</b>    | <b>6,397</b>    | <b>11,915</b>    | <b>18,409</b>    |
| Income (loss) from discontinued operations (including loss on disposal of \$7.9 million in 2002, net of taxes) | (2,731)         | (10,472)          | (621)           | (621)            | (683)           | (143)            | (143)            |
| <b>Net income</b>  | <b>\$ 3,262</b> | <b>\$ (1,744)</b> | <b>\$ 8,829</b> | <b>\$ 13,012</b> | <b>\$ 5,714</b> | <b>\$ 11,772</b> | <b>\$ 18,266</b> |

| Year Ended December 31, |      |      | Pro Forma<br>Year Ended<br>December 31, | Nine Months Ended September 30, |      | Pro Forma<br>Nine Months Ended<br>September 30, |
|-------------------------|------|------|---|---------------------------------|------|---|
| 2001                    | 2002 | 2003 | 2003                                    | 2003                            | 2004 | 2004  |

(unaudited)

(in thousands, except per share amounts)

**Earnings Per Share:**

Earnings (loss) per Common Share—

Basic

|                                   |         |           |         |         |         |         |         |
|-----------------------------------|---------|-----------|---------|---------|---------|---------|---------|
| Income from continuing operations | \$ 0.43 | \$ 0.62   | \$ 0.67 | \$ 0.64 | \$ 0.46 | \$ 0.81 | \$ 0.84 |
| Net income (loss)                 | \$ 0.23 | \$ (0.12) | \$ 0.63 | \$ 0.61 | \$ 0.41 | \$ 0.80 | \$ 0.83 |

Earnings (loss) per Common Share—

Diluted

|   |         |           |         |         |         |         |         |
|---|---------|-----------|---------|---------|---------|---------|---------|
| Income from continuing operations                       | \$ 0.42 | \$ 0.60   | \$ 0.63 | \$ 0.61 | \$ 0.43 | \$ 0.75 | \$ 0.80 |
| Net income (loss)                                       | \$ 0.23 | \$ (0.12) | \$ 0.59 | \$ 0.58 | \$ 0.39 | \$ 0.74 | \$ 0.79 |
| Basic weighted average shares                           | 14,004  | 14,004    | 14,042  | 21,292  | 14,007  | 14,647  | 21,897  |
| Diluted weighted average shares and assumed conversions | 14,166  | 14,461    | 15,024  | 22,274  | 14,720  | 15,898  | 23,148  |

| Year Ended December 31, |      |      | Pro Forma<br>Year Ended<br>December 31, | Nine Months Ended September 30, |      | Pro Forma<br>Nine Months Ended<br>September 30, |
|-------------------------|------|------|---|---------------------------------|------|---|
| 2001                    | 2002 | 2003 | 2003                                    | 2003                            | 2004 | 2004  |

(unaudited)

(in thousands, except per share amounts)

**OPERATING DATA**

|                              |       |       |       |       |       |       |       |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Number of locations          | 44    | 41    | 38    | 43    | 39    | 38    | 43    |
| Unit truck sales             |       |       |       |       |       |       |       |
| New trucks                   | 4,245 | 4,717 | 4,535 | 5,895 | 3,040 | 5,046 | 6,828 |
| Used trucks                  | 1,907 | 2,111 | 2,421 | 3,028 | 1,791 | 2,095 | 2,744 |
| Total unit trucks sales      | 6,152 | 6,828 | 6,956 | 8,923 | 4,831 | 7,141 | 9,572 |
| Truck lease and rental units | 1,015 | 1,010 | 1,397 | 1,607 | 1,383 | 1,378 | 1,548 |

| Year Ended December 31, |      |      | Nine Months Ended September 30, |      | Pro Forma<br>Nine Months Ended<br>September 30, |
|-------------------------|------|------|---------------------------------|------|---|
| 2001                    | 2002 | 2003 | 2003                            | 2004 | 2004  |

(unaudited)

(in thousands)

**BALANCE SHEET DATA**

|   |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|
| Total assets                              | \$ 338,811 | \$ 345,110 | \$ 366,878 | \$ 357,249 | \$ 421,825 | \$ 527,804 |
| Floor plan financing                      | 85,300     | 89,288     | 108,235    | 107,904    | 136,577    | 137,380    |
| Line-of-credit borrowings                 | 22,459     | 22,395     | 17,732     | 17,413     | 17,669     | 17,669     |
| Long-term debt, including current portion | 98,170     | 94,916     | 90,028     | 89,885     | 89,242     | 89,242     |
| Shareholders' equity                      | 81,439     | 79,695     | 88,706     | 85,409     | 108,430    | 210,199    |

## RISK FACTORS

*You should carefully consider the risks described below, together with all of the other information in this prospectus, before making a decision to invest in our common stock. If any of the following risks actually occur, our business, financial condition and results of operations could suffer. In this case, the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The following risk factors relate to our current and anticipated business, and would also apply to our company after giving effect to the ATS acquisition.*

### **Risks Related to Our Planned Acquisition of ATS**

***We may not realize the anticipated benefits of the ATS acquisition or be successful in integrating the operations, personnel or technology of ATS.***

The anticipated benefits of the ATS acquisition may not be realized and the integration of the operations, personnel and technology of ATS may not be successful. Integrating ATS into our organization will be a complex, time consuming and expensive process.

The acquisition of ATS is the largest acquisition in our history and we may face substantial difficulties, costs and delays in integrating the various operations of ATS that we have not faced in prior acquisitions, including:

- difficulty in coordinating geographically disparate organizations, systems and facilities;
- diversion of our management's attention and resources from our day-to-day operations;
- incompatibility of business cultures;
- the loss of ATS sales personnel and other key employees necessary to successfully integrate ATS into our operations;
- the loss of sales personnel and other key employees due to perceived uncertainty in career opportunities, compensation levels or benefits; and
- difficulty in integrating management and other key employees of ATS into our organization.

Integration may cause increased operating costs, lower than anticipated financial performance and the loss of employees. Many of these factors are outside of our control. The failure to timely and efficiently integrate ATS into our organization could have an adverse effect on our business, financial condition and operating results.

***In the event that the ATS acquisition is not consummated, the proceeds of this offering may be used to repurchase shares of our class A common stock and/or to pay off existing floor plan debt, which could result in lower earnings per share.***

If we do not consummate the planned acquisition of ATS because we are unable to obtain motor vehicle dealer licenses, or for any other reason, and any of the funds raised in this offering are used to pay off some of our existing floor plan debt, there would be a substantial reduction to the Company's earnings per share. This reduction in earnings per share could have a substantial adverse effect on the market price of our common stock. Likewise any delay in the closing will result in a substantial reduction in the Company's earnings per share for any period prior to the closing, which could also have a substantial adverse effect on the market price of our common stock.

## Risks Related to Our Business

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

We currently operate as a dealer of Peterbilt trucks and parts pursuant to dealership agreements with PACCAR. During 2003, substantially all of our revenues resulted from sales of equipment and parts purchased from PACCAR. Due to our dependence on PACCAR, we believe that the long-term success of our Rush Truck Centers depends, in large part, on the following:

- maintaining our relationship with PACCAR;
- the manufacture and delivery of competitively-priced, high quality Peterbilt trucks and parts by PACCAR in quantities sufficient to meet our requirements;
- PACCAR's consent to our future acquisition of Peterbilt dealerships;
- the overall success of PACCAR and Peterbilt;
- PACCAR's promotion of its Peterbilt division;
- the goodwill associated with the Peterbilt trademark; and
- the management of the Peterbilt dealership system by PACCAR.

We have no control over the management or operation of PACCAR or Peterbilt dealerships that we do not own.

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

We have entered into nonexclusive dealership agreements with Peterbilt that authorize us to act as a dealer of Peterbilt heavy-duty trucks. Peterbilt can terminate our dealership agreements in the event of a change of control of the Company or if we violate any number of provisions in the dealership agreements. Under our Peterbilt dealership agreements, a change of control occurs if (i) with respect to the election of directors, the aggregate voting power held by W. Marvin Rush, W. M. "Rusty" Rush and other Rush executives decreases below 30% (such persons currently control 38.3% of the voting power with respect to the election of directors and will control 35.0% of the voting power with respect to the election of directors after this offering); or (ii) any person or entity other than W. Marvin Rush, W. M. "Rusty" Rush and other Rush executives or any person or entity who has been approved in writing by PACCAR, either (x) owns common stock with a greater percentage of the voting power with respect to the election of our directors than W. Marvin Rush and W. M. "Rusty" Rush and other Rush executives, in the aggregate, or (y) holds the office of Chairman of the Board, President or Chief Executive Officer of the Company. We have no control over the transfer or disposition by W. Marvin Rush or by his estate of his common stock. If W. Marvin Rush were to sell his class B common stock or bequest his class B common stock to nonfamily members or if his estate is required to liquidate his class B common stock to pay estate taxes or otherwise, the change of control provisions of the Peterbilt dealership agreements could be triggered and cause us to lose our critical right to sell Peterbilt products. Our John Deere dealership agreement and some of our medium-duty truck dealership agreements are also terminable in the event of a change of control. If our dealership agreements are terminated, we will lose the right to purchase Peterbilt or John Deere products and the right to use certain trademarks, which would have a material adverse effect on our operations, revenues and profitability.

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

Our dealership agreements impose certain operational obligations and financial requirements on us. State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a dealership agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or nonrenewal. Manufacturers' lobbying efforts may lead to the repeal or revision of state dealer laws. If dealer laws are repealed in the states in which we operate dealerships, our manufacturers may be able to terminate our dealership agreements without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, or if such laws are weakened, we will be subject to higher risk of termination or non-renewal of our dealership agreements. Termination or non-renewal of any of our dealership agreements could have a material adverse effect on our operations, revenues and profitability.

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

Our Peterbilt franchise agreements have current terms expiring between December 2005 and October 2006. Our dealership agreements with GMC, Hino, UD (Nissan) and Isuzu for the sale of medium-duty trucks have current terms expiring between March, 2005 and June 2006. Upon each expiration, we must request and negotiate a renewal. In many states state dealer franchise laws restrict the manufacturer's ability to refuse to renew dealership agreements or to impose new terms upon renewal. To the extent such laws do permit non-renewal or imposition of new terms, the relatively short terms will give the manufacturers the opportunity to exercise such rights. Any non-renewal or imposition of less favorable terms upon renewal would have an adverse impact on our business.

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

Unlike cars sold by automobile dealerships, each truck we sell is custom-built and each of our customers can choose components from any one of several component suppliers to construct their truck. Therefore, our dealerships depend on the component suppliers for sales incentives discounts, warranties and other programs that are intended to promote our use of their components. Most of the incentives and discounts are individually negotiated and not always the same as those made available to our competitors. These incentives and discounts are material to our operations. A reduction or discontinuation of a component supplier's incentive program could materially adversely affect our profitability.

***Substantial competition may affect our profitability.***

We face vigorous competition for customers and for suitable dealership locations. We compete with a large number of independent and factory-owned dealers, some of which operate in more than one location, but most of which operate in a single location. There is significant competition both within the markets currently being served by us and in markets that we may enter. Moreover, our Peterbilt dealership arrangements with PACCAR do not contractually provide us with exclusive dealerships in any territory. PACCAR could elect to create additional Peterbilt dealers in our market areas in the future. While Peterbilt dealership agreements, including ours, restrict dealers from operating sales or service facilities outside their assigned territory, such agreements do not restrict fleet or other sales or marketing activity outside the assigned territory. Accordingly, we may and do engage in fleet sales and other marketing activities outside our assigned territories and other Peterbilt dealers may engage in similar activities within our territories. Dealer competition continues to increase and is affected by a number of factors including the accessibility of dealership locations, the number of dealership locations,

product pricing, product value, product quality, product design and customer service (including technical service). We anticipate that we will continue to face strong competition in the future.

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

The heavy-duty truck business requires inventories of trucks held for sale to be maintained at dealer locations in order to facilitate immediate sales to customers on demand. We generally purchase our truck inventories with the assistance of a floor plan financing program through General Motors Acceptance Corporation that provides for payment at the earlier of the time of sale for each truck financed or at a fixed date following delivery. In the event that our financing becomes insufficient to satisfy our future requirements, we would need to obtain similar financing from other sources. There is no assurance that such additional floor plan financing or alternate financing could be obtained or, if obtained, that it will be on commercially reasonable terms.

***If we lose key personnel or are unable to attract additional qualified personnel, our business could be adversely affected because we rely on the industry knowledge and relationships of our key personnel.***

We believe that our success depends significantly upon the efforts and abilities of our executive management and key employees, including, in particular, W. Marvin Rush and W. M. "Rusty" Rush. Additionally, our business is dependent upon our ability to continue to attract and retain qualified personnel, such as executive officers, managers and sales personnel. We generally have entered into employment agreements with certain executive officers. The loss of the services of one or more members of our senior management team, including, in particular, W. Marvin Rush or W. M. "Rusty" Rush, could have a material adverse effect on us and materially impair the efficiency and productivity of our operations. In addition, the loss of any of our key employees or the failure to attract additional qualified managers and sales personnel could have a material adverse effect on our business and may materially impact the ability of our dealerships to conduct their operations in accordance with our business strategy.

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

As of September 30, 2004, our backlog of new truck orders was approximately \$330.0 million. Our backlog is determined quarterly by multiplying the number of new trucks for each particular type of truck on order at our Rush Truck Centers by the recent average selling price for that type of truck.

We only include confirmed orders in our backlog. However, such orders are subject to cancellation. In the event of order cancellation, we have no contractual right to the total revenues reflected in our backlog. It currently takes between 60 days and six months for us to receive delivery from Peterbilt once an order is placed. We sell approximately 70% of our new heavy-duty trucks by customer special order, with the remainder sold out of inventory. Orders from a number of our major fleet customers are included in our backlog as of September 30, 2004. There can be no assurance that our major fleet customers will not cancel these orders.

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

***Our Texas franchise motor vehicle licenses may not be renewed.***

The Texas Department of Transportation ("TDOT") has issued letters regarding some of our Texas franchise motor vehicle dealer licenses subjecting them to termination due to concerns regarding PACCAR's ownership of our common stock. PACCAR has sold all of its shares of our common stock

in order to alleviate TDOT's concerns, and we believe that all of our Texas franchise motor vehicle dealer licenses will be renewed once TDOT makes a final decision with regard to this matter. If for any reason TDOT determines not to renew the franchise motor vehicle license for any of our dealerships we would be unable to operate such dealerships, and our business and financial results would be adversely affected.

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

We are subject to a wide range of federal, state and local environmental laws and regulations, including those governing discharges into the air and water; the operation and removal of underground and aboveground storage tanks; the use, handling, storage and disposal of hazardous substances and other materials; and the investigation and remediation of contamination. As with truck or construction equipment dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous materials or wastes and other environmentally sensitive materials. Operations involving the management of hazardous and nonhazardous materials are subject to requirements of the Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. Our business also involves the operation of storage tanks containing such materials. Storage tanks are subject to periodic testing, containment, upgrading and removal under RCRA and comparable statutes. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks. We may also have liability in connection with materials that were sent to third-party recycling, treatment, and or disposal facilities under the Comprehensive Environmental Response, Compensation and Liability Act, and comparable state statutes, which impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Similar to many of our competitors, we have incurred and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Soil and groundwater contamination is known to exist at some of our current properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with the acquisition of ATS and other acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with our dispositions, or prior dispositions made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material. Compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and those expenditures could be material.

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

***We are controlled by a single shareholder and his affiliates.***

Upon completion of this offering, W. Marvin Rush will own approximately 0.1% of our issued and outstanding shares of class A common stock and 36.5% of our issued and outstanding class B common stock. As a result of such ownership, Mr. Rush will have the power to effectively control the Company, including the election of directors, the determination of matters requiring shareholder approval and other matters pertaining to corporate governance. See "Principal Shareholders."

***The class A common stock has limited voting power.***

Each share of class A common stock ranks substantially equal to each share of class B common stock with respect to receipt of any dividends or distributions declared on shares of common stock and

the right to receive proceeds on liquidation or dissolution of 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 full vote per share.

***Our agreements with PACCAR and our shareholder rights plan could discourage another company from acquiring us and impede our ability to issue additional stock to raise capital or as consideration for future acquisitions.***

A number of our dealership agreements impose restrictions on the sale and transfer of our common stock. These restrictions also may prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock. For example, under the PACCAR dealership agreements, except as may be otherwise approved from time to time by PACCAR, W. Marvin Rush and W. M. "Rusty" Rush and other of our executives, in the aggregate, are required to retain a control of at least 30% of the voting power of our outstanding shares and voting power equal or superior to that of any other person or group. To reduce the risk of a change of control that might materially adversely affect our business or our rights under our PACCAR dealership agreements, we have adopted a shareholder rights plan, commonly referred to as a "poison pill."

In addition, W. Marvin Rush and members of his immediate family have granted PACCAR a right of first refusal to purchase their respective shares of common stock in the event that any of such individuals desire to transfer in excess of 100,000 shares in any 12-month period to any person other than an immediate family member, an associate or a Dealer Principal (as defined in the PACCAR dealership agreements). This right of first refusal, the number of shares owned by W. Marvin Rush, our adoption of the rights plan and the requirement in our dealership agreements that certain dealer principals retain a controlling interest in us, combined with the ability of the Board of Directors to issue shares of preferred stock without further vote or action by the shareholders, may discourage, delay or prevent a change in control of the Company without further action by the shareholders, which could adversely affect the market price of our common stock or prevent or delay a merger or acquisition that our shareholders may consider favorable. We do not have the right to waive the right of first refusal or the terms of our dealership agreements in order to accept a favorable offer, but our Board of Directors may redeem the rights under the rights plan to accept a favorable offer.

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

## CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain statements concerning our future results and performance and other matters that are "forward-looking" statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve known and unknown risks, uncertainties, and other factors that may cause our results or our industry's results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under "Risk Factors" and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "intend," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue" or the negative of such terms or other comparable terminology.

Examples of other forward-looking statements contained or incorporated by reference in this prospectus include statements regarding:

- anticipated benefits of our acquisitions, including our proposed acquisition of ATS;
- our ability to integrate the operations, personnel and technologies of businesses we acquire, including ATS;
- our expected revenues, gross margins, operating income, net income and cash flows;
- future growth rates and margins for certain of our products and services;
- the adequacy of our future liquidity and capital resources;
- future demand for our products and services;
- future heavy-duty truck industry fundamentals;
- our beliefs regarding accounting estimates we make;
- the result of pending or threatened disputes and other contingencies; and
- our future acquisitions, including ATS, and levels of capital expenditures.

These forward-looking statements reflect our best judgment about future events and trends based on the information currently available to us. Our results of operations can be affected by inaccurate assumptions we make, or by risks and uncertainties known or unknown to us. Therefore, we cannot guarantee the accuracy of the forward-looking statements. Actual events and results of operations may vary materially from our current expectations and assumptions.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this prospectus to conform them to actual results.

## USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 7,250,000 shares of class A common stock by us will be approximately \$101.8 million, or approximately \$123.0 million if the underwriters exercise their over-allotment option in full, based on the assumed offering price of \$15.00 per share and after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of class A common stock by the selling shareholders.

We expect to use the net proceeds we receive from this offering to pay all or a portion of the purchase price for the ATS acquisition. Completion of this offering is a condition precedent to our closing of the acquisition of ATS. The remaining portion, if any, of the purchase price of our ATS acquisition will be paid with \$0.8 million from our new floor plan financing agreements. In addition, we will assume \$2.4 million of ATS's liabilities in the acquisition. If, as a result of the exercise of the over-allotment option, we have proceeds in excess of the ATS acquisition purchase price, we will use the excess proceeds to pay off existing floor plan debt or for general corporate purposes. See "Planned Acquisition of ATS" for a description of the transaction.

If the ATS acquisition is not consummated, the Company intends to use its net proceeds from this offering to repurchase shares of its class A common stock to the extent circumstances warrant such use. However, the Company may use some of its net proceeds to repay some of its existing floor plan debt and the remainder to repurchase shares of its class A common stock. Any share repurchase would be on terms determined at the time of such repurchase.

## CAPITALIZATION

The following table shows our capitalization as of September 30, 2004:

- on an actual basis; and
- on a pro forma basis, to reflect:
  - the consummation of the ATS acquisition;
  - anticipated borrowings to fund a portion of the ATS acquisition; and
  - the sale by us of 7,250,000 shares of our class A common stock pursuant to this offering (assuming no exercise of the underwriters' over-allotment option) and application of the net proceeds to pay a portion of the purchase price for the ATS acquisition.

You should read this table in conjunction with our financial statements and the notes to those financial statements included in or incorporated by reference into this prospectus, the Unaudited Pro Forma Financial Statements beginning on page 22, and the historical consolidated financial statements and the related notes of ATS beginning on page F-2.

|   | September 30, 2004        |                   |
|---|---------------------------|-------------------|
|   | Actual                    | Pro Forma         |
|   | (unaudited, in thousands) |                   |
| Cash and cash equivalents   | \$ 45,745                 | \$ 45,745         |
| Current portion long-term debt  | \$ 21,695                 | \$ 21,695         |
| Advances outstanding under lines of credit  | \$ 17,669                 | \$ 17,669         |
| Long-term debt, net of current maturities   | \$ 67,547                 | \$ 67,547         |
| <b>Total debt</b>   | <b>\$ 106,911</b>         | <b>\$ 106,911</b> |
| Shareholders' equity:   |                           |                   |
| Class A common stock, \$0.01 par value; 40,000,000 shares authorized; 7,584,024 shares issued and outstanding; and 14,834,024 shares pro forma and as adjusted(1) | \$ 76                     | \$ 149            |
| Class B common stock, a \$0.01 par value; 10,000,000 shares authorized; 7,543,944 shares issued and outstanding(2)  | \$ 75                     | \$ 75             |
| Additional paid-in capital  | \$ 47,278                 | \$ 148,974        |
| Retained earnings   | \$ 61,001                 | \$ 61,001         |
| <b>Total shareholders' equity</b>   | <b>\$ 108,430</b>         | <b>\$ 210,199</b> |
| <b>Total capitalization</b>   | <b>\$ 215,341</b>         | <b>\$ 317,110</b> |

(1) Excludes (a) 2,735,231 shares of class A common stock reserved for issuance under our stock option and incentive plans and agreements, of which options to purchase 1,310,524 shares at an average exercise price of \$5.32 were outstanding as of September 30, 2004; and (b) 1,500,000 shares of class A common stock that the underwriters have an option to purchase solely to cover over-allotments.

(2) Excludes 1,155,397 shares of class B common stock reserved for issuance under our stock option and incentive plans and agreements, of which options to purchase 788,590 shares of class B common stock at an average exercise price of \$3.95 were outstanding as of September 30, 2004.

## PLANNED ACQUISITION OF ATS

On September 15, 2004, we entered into an asset purchase agreement with ATS, its subsidiaries and its stockholders to acquire substantially all of the assets of ATS. ATS operates Peterbilt dealerships, which offer substantially the same services as our Rush Truck Centers, serving the Dallas, Fort Worth, Abilene, and Tyler, Texas; Nashville, Tennessee; Birmingham, Alabama; and Louisville, Kentucky markets. A copy of the asset purchase agreement is available in our Current Report on Form 8-K filed on September 16, 2004. Peterbilt has provided ATS with notice that it intends to exercise its right of first refusal with regards to ATS's dealerships serving the Louisville and Birmingham markets. Peterbilt has provided the Company with the documents required from the manufacturer to obtain dealer licenses for ATS's Texas and Nashville dealerships indicating their intention to grant the Company these dealerships. On November 8, 2004, we entered into an amendment to the asset purchase agreement with ATS to acknowledge PACCAR's decision to exercise its right of first refusal with regard to ATS's dealerships serving the Louisville and Birmingham markets and to waive some of the closing conditions. A copy of this amendment is included in our Current Report on Form 8-K filed on November 9, 2004.

### Transaction Structure

We have agreed to pay a total of approximately \$105.0 million for ATS's assets that we expect to acquire, subject to further purchase price adjustments. Approximately \$101.8 million of the purchase price for ATS will be funded from the net proceeds of this offering and \$0.8 million of the purchase price will be funded through our floor plan financing agreement. In addition, we will assume \$2.4 million of ATS's liabilities in the acquisition.

The completion of the ATS acquisition remains subject to the following closing conditions: our ability to secure financing sufficient to fund the ATS acquisition and our ability to obtain motor vehicle dealer licenses for the dealerships we are acquiring. The parties have the right to terminate the ATS acquisition if it is not completed by June 30, 2005. If PACCAR does not purchase ATS's dealerships serving the Louisville and Birmingham markets, the Company will be required to purchase those dealerships from ATS.

If the ATS acquisition is not consummated, the Company intends to use its net proceeds from this offering to repurchase shares of its class A common stock to the extent circumstances warrant such use. However, the Company may use some of its net proceeds to repay some of its existing floor plan debt and the remainder to repurchase shares of its class A common stock. Any share repurchase would be on terms determined at the time of such repurchase.

### Anticipated Benefits of ATS Acquisition

We believe that the acquisition of ATS will provide us with several strategic benefits:

- expansion of our dealership network into the Dallas/Fort Worth market, one of the largest markets in the United States for heavy-duty truck sales, and the Nashville market, which is a key fleet customer market;
- expansion of our geographic presence in the southern United States, enabling us to more effectively serve our existing customers by providing additional locations for them to access our integrated dealer network, increasing our ability to pursue fleet sales and enhancing our parts and service sales to existing customers;
- expansion of our customer base of independent owner-operator customers, with whom ATS has traditionally had strong relationships; and
- addition of established sales personnel and other experienced employees.

## ATS Business Overview

The ATS Peterbilt dealerships that we expect to acquire serve Dallas, Fort Worth, Abilene and Tyler, Texas and Nashville, Tennessee. The dealerships sell new and used heavy-duty trucks and offer substantially the same products and services as our Rush Truck Centers. Revenues for the ATS dealerships we expect to acquire were \$199.8 million for the year ended December 31, 2003 and \$247.6 million for the nine month period ended September 30, 2004. Pretax income for the ATS dealerships we expect to acquire was \$2.9 million for the year ended December 31, 2003 and \$7.9 million for the nine month period ended September 30, 2004. The dealerships we expect to acquire generated 82% of ATS's revenue and 82% of ATS's pre-tax income in the nine months ended September 30, 2004.

*New and Used Truck Sales.* ATS sells new Peterbilt heavy-duty trucks, new Peterbilt medium-duty trucks and used heavy-duty trucks manufactured by Peterbilt and other major truck suppliers. In 2003, new and used truck revenues at the ATS dealerships we expect to acquire accounted for \$156.2 million, or 78.2%, of ATS's total revenues of the dealerships we expect to acquire.

*Parts and Service.* ATS is the sole authorized Peterbilt parts and accessories supplier in each of the geographic territories that it serves. It carries a full line of Peterbilt and other truck parts and accessories in inventory. ATS operates fully equipped service and body shop facilities at three of its dealerships we expect to acquire. In 2003, parts and service revenues at the dealerships we expect to acquire, accounted for \$39.6 million, or 19.8%, of ATS's total revenues of the dealerships we expect to acquire.

*Finance and Leasing.* ATS offers its clients third party financing through PACCAR Financial. It also leases Peterbilt trucks to third-party freight carriers at its Nashville dealership under the PacLease trade name. In 2003, revenue from finance and leasing, net at the dealerships we expect to acquire, accounted for \$4.0 million, or 2.0%, of ATS's total revenues of the dealerships we expect to acquire.

## UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

The following tables present our unaudited pro forma consolidated balance sheet as of September 30, 2004 and unaudited pro forma consolidated statement of operations for the year ended December 31, 2003 and the nine month period ended September 30, 2004. The unaudited pro forma consolidated financial data presented below has been derived from the following, which are included elsewhere in this prospectus or incorporated by reference: (1) our audited consolidated financial statements and accompanying notes; (2) the separate audited financial statements and accompanying notes of ATS for the year ended December 31, 2003; and (3) Rush's and ATS's unaudited consolidated financial statements for the nine month period ended September 30, 2004. The unaudited pro forma consolidated financial data has been prepared for illustrative purposes only and does not purport to represent what our results of operations or financial condition would actually have been had the transactions described below in fact occurred as of the dates specified. In addition, the unaudited pro forma consolidated financial data does not purport to project our results of operations or financial condition as of any date or for any future period.

The unaudited pro forma consolidated balance sheet as of September 30, 2004 gives effect to the following events as if they were consummated on September 30, 2004:

- our acquisition of substantially all of the assets of ATS;
- our issuance and sale of approximately \$101.8 million in class A common stock in this offering;
- our incurrence of indebtedness to finance the balance of the ATS acquisition, consisting of \$0.8 million of borrowings under our floor plan financing agreement; and
- our assumption of \$2.4 million of ATS's liabilities in the acquisition.

The unaudited pro forma consolidated statements of operations for the year ended December 31, 2003 and for the nine month period ended September 30, 2004 give pro forma effect to these events as if they were consummated on January 1, 2003.

The ATS acquisition will be accounted for using the purchase method of accounting. Under the purchase method of accounting, the cash payment of the estimated aggregate purchase price for ATS (including transaction fees and expenses) will be allocated to the tangible assets, identifiable intangible assets and liabilities of ATS, based upon their respective fair values. The allocation of the purchase price, useful lives assigned to assets and other adjustments made to the unaudited pro forma consolidated financial data are based upon available information and certain preliminary assumptions that we believe are reasonable under the circumstances. We have completed our preliminary fair market value allocation to the specific assets and liabilities of ATS and do not expect the final amounts allocated and the related useful lives to differ materially from those reflected in the unaudited pro forma consolidated financial data. The acquisition of ATS is subject to certain conditions, including the successful completion of this offering.

The unaudited pro forma consolidated financial data should be read in conjunction with the following, which are included elsewhere in this prospectus or incorporated by reference herein: (1) our historical consolidated financial statements and accompanying notes, (2) "Management's Discussion and Analysis of Financial Condition and Results of Operations," and (3) the separate historical financial statements and accompanying notes of ATS.

The pro forma consolidated financial data does not represent what our results of operations or financial conditions will be if we do not acquire ATS and instead use the proceeds to repurchase shares of our class A common stock and/or pay off existing floor plan debt.

**Unaudited Proforma Consolidated Balance Sheet**

**As of September 30, 2004**

**(In Thousands)**

|   | <u>Rush</u>       | <u>ATS</u>        | <u>Proforma<br/>Adjustments</u> | <u>Proforma<br/>Consolidated<br/>Balance Sheet</u> |
|---|-------------------|-------------------|---------------------------------|--|
| <b>ASSETS</b>                                     |                   |                   |                                 |  |
| <b>CURRENT ASSETS:</b>                            |                   |                   |                                 |  |
| Cash and cash equivalents                         | \$ 45,745         | \$ 15,406         | \$ (15,406)(1)                  | \$ 45,745  |
|   |                   |                   | 101,769 (2)                     |  |
|   |                   |                   | 803 (3)                         |  |
|   |                   |                   | (102,572)(3)                    |  |
| Accounts receivable, net                          | 32,878            | 15,875            | (13,063)(1)                     | 32,878   |
|   |                   |                   | (2,812)(6)                      |  |
| Inventories                                       | 161,686           | 39,055            | (8,844)(6)                      | 191,897  |
| Prepaid expenses and other                        | 1,234             | 805               | (194)(6)                        | 1,845  |
| Assets held for sale                              | 8,851             | 0                 |                                 | 8,851  |
| Notes receivable                                  |                   | 21                |                                 | 21   |
| Deferred income taxes                             | 2,838             | 0                 | 960 (4)                         | 3,798  |
|   |                   |                   |                                 |  |
| Total current assets                              | 253,232           | 71,162            | (39,359)                        | 285,035  |
| PROPERTY AND EQUIPMENT, net                       | 124,231           | 28,032            | (3,679)(1)                      | 150,319  |
|   |                   |                   | 4,290 (3)                       |  |
|   |                   |                   | (2,555)(6)                      |  |
| <b>OTHER ASSETS:</b>                              |                   |                   |                                 |  |
| Receivables from affiliates, net                  |                   | 17,638            | (17,638)(5)                     | 0  |
| Notes receivable, net of current portion          |                   | 740               |                                 | 740  |
| Other, net  | 44,410            | 5,075             | (3,785)(1)                      | 91,710   |
|   |                   |                   | 46,609 (3)                      |  |
|   |                   |                   | (599)(6)                        |  |
|   |                   |                   |                                 |  |
| Total other assets                                | 44,410            | 23,453            | 24,587                          | 92,450   |
|   |                   |                   |                                 |  |
| <b>Total assets</b>                               | <b>\$ 421,873</b> | <b>\$ 122,647</b> | <b>\$ (16,716)</b>              | <b>\$ 527,804</b>                                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                   |                   |                                 |  |
| <b>CURRENT LIABILITIES:</b>                       |                   |                   |                                 |  |
| Floor plan notes payable                          | \$ 136,577        | \$ 48,716         | \$ (39,982)(1)                  | \$ 137,380   |
|   |                   |                   | 803 (3)                         |  |
|   |                   |                   | (8,734)(6)                      |  |
| Current maturities of long-term debt              | 21,695            | 3,439             | (3,316)(1)                      | 21,695   |
|   |                   |                   | (123)(6)                        |  |
| Advanced outstanding under lines of credit        | 17,669            | 0                 |                                 | 17,669   |
| Trade accounts payable                            | 17,182            | 3,058             | (2,125)(1)                      | 17,182   |
|   |                   |                   | (933)(6)                        |  |
| Accrued expenses                                  | 34,339            | 6,160             | (2,379)(1)                      | 36,738   |
|   |                   |                   | (1,382)(6)                      |  |
| Income taxes payable (refundable)                 |                   | (30)              | 22 (1)                          | 0  |
|   |                   |                   | 8 (6)                           |  |
|   |                   |                   |                                 |  |
| Total current liabilities                         | 227,462           | 61,343            | (58,141)                        | 230,664  |
| LONG-TERM DEBT, net of current maturities         | 67,547            | 20,955            | (19,594)(1)                     | 67,547   |
|   |                   |                   | (1,361)(6)                      |  |
| DEFERRED INCOME TAXES, net                        | 18,434            | 0                 | 960 (4)                         | 19,394   |
| OTHER LIABILITIES                                 | 0                 | 1,247             | (1,205)(1)                      | 0  |
|   |                   |                   | (42)(6)                         |  |
| <b>SHAREHOLDERS' EQUITY</b>                       |                   |                   |                                 |  |
| Common Stock                                      | 151               | 103               | (103)(1)                        | 224  |
|   |                   |                   | 73 (2)                          |  |
| Additional paid-in-capital                        | 47,278            | 4,578             | (2,378)(1)                      | 148,974  |
|   |                   |                   | 101,696 (2)                     |  |
|   |                   |                   | (2,200)(6)                      |  |
| Treasury stock                                    | 0                 | (1,074)           | 1,074 (1)                       | 0  |
| Retained earnings                                 | 61,001            | 35,495            | (35,260)(1)                     | 61,001   |
|   |                   |                   | (235)(6)                        |  |
|   |                   |                   |                                 |  |
| Total shareholders' equity                        | 108,430           | 39,102            | 62,667                          | 210,199  |
|   |                   |                   |                                 |  |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 421,873</b> | <b>\$ 122,647</b> | <b>\$ (16,716)</b>              | <b>\$ 527,804</b>                                  |



**Notes to the Unaudited Proforma Consolidated Balance Sheet:**

- (1) In accordance with the terms of the asset purchase agreement between Rush and ATS, Rush is not acquiring all or a portion of the asset, assuming the liability or retaining the equity represented in the applicable line items from ATS.
- (2) Records the proceeds, and additions to common stock and additional paid in capital, net of financing costs of \$7.0 million, from our issuance and sale of approximately \$108.8 million in class A common stock in this offering.
- (3) Reflects the cash payment and the allocation of the estimated aggregate purchase price of ATS.

|   |            |
|---|------------|
| Cash paid from proceeds of this offering and existing cash of Rush  | \$ 119,407 |
| Cash proceeds received from ATS from the repayment of receivable from affiliate (see note 5 below)  | (17,638)   |
| Cash paid from proceeds of floor plan notes payable   | 803        |
|   | <hr/>      |
| Total cash consideration paid to ATS  | 102,572    |
| Reserve for repossession losses, interest chargebacks and accrued vacation, that are included in ATS's Accrued expenses, and are being assumed from ATS by Rush | 2,399      |
|   | <hr/>      |
| Total purchase price  | \$ 104,971 |
|   | <hr/>      |

**Preliminary Allocation of Purchase Price:**

|   |            |
|---|------------|
| Inventories   | \$ 30,211  |
| Prepaid expenses and other                          | 611        |
| Notes receivable                                    | 21         |
| Property and equipment, net—at ATS basis(a)         | 21,798     |
| Step up in basis of ATS property and equipment, net | 4,290      |
| Notes receivable, net of current portion            | 740        |
| Other assets, net                                   | 691        |
| Goodwill  | 46,609     |
|   | <hr/>      |
|   | \$ 104,971 |
|   | <hr/>      |

- (a) Below are the useful lives of property and equipment acquired from ATS:

|                            | <u>Estimated Useful<br/>Life in Years</u> |
|----------------------------|---|
| Land                       | —   |
| Buildings and improvements | 39  |
| Equipment                  | 5   |
| Furniture and fixtures     | 5   |
| Leased vehicles            | 3-5                                       |
| Company vehicles           | 5   |

- (4) Records a deferred tax asset and deferred tax liability related to different accounting treatments for book and tax purposes of the liabilities assumed from ATS. The amount is calculated as follows:

|   |          |
|---|----------|
| Reserve for repossession losses, interest chargebacks and accrued vacation, that are included in ATS's accrued expenses, and are being assumed from ATS by Rush | \$ 2,399 |
| Company's effective tax rate  | 40%      |
|   | <hr/>    |
|   | \$ 960   |
|   | <hr/>    |

- (5) Records proceeds paid by ATS to Rush for repayment of the receivable from affiliate, net. This receivable is being purchased by Rush and then immediately repaid by the ATS in accordance with the asset purchase agreement.
- (6) Represents assets and liabilities of ATS's Birmingham and Louisville Peterbilt that are not being acquired by Rush.

**Unaudited Proforma Consolidated Statement of Operations**

**Nine Months Ended September 30, 2004**

**(In Thousands, Except per Share Amounts)**

|  | Rush             | ATS             | Proforma<br>Adjustments | Proforma<br>Statement<br>of Operations |
|--|------------------|-----------------|-------------------------|--|
| <b>REVENUES:</b>   |                  |                 |                         |  |
| New and used truck sales   | \$ 527,167       | \$ 250,672      | \$ (41,218)(8)          | \$ 736,621                             |
| Parts and service sales  | 214,563          | 44,642          | (11,405)(8)             | 247,800                                |
| Construction equipment sales                                     | 23,711           | 0               |                         | 23,711                                 |
| Lease and rental   | 20,278           | 3,122           |                         | 23,400                                 |
| Finance and Insurance  | 5,619            | 2,082           | (301)(8)                | 7,400                                  |
| Other  | 2,629            | 0               |                         | 2,629                                  |
| <b>Total revenues</b>  | <b>793,967</b>   | <b>300,518</b>  | <b>(52,924)</b>         | <b>1,041,561</b>                       |
| <b>COST OF PRODUCTS SOLD:</b>                                    |                  |                 |                         |  |
| New and used truck sales   | 488,839          | 234,025         | (38,833)(8)             | 684,031                                |
| Parts and service sales  | 132,985          | 27,798          | (7,476)(8)              | 153,307                                |
| Construction equipment sales                                     | 20,861           | 0               |                         | 20,861                                 |
| Lease and rental   | 14,673           | 861             |                         | 15,534                                 |
| <b>Total cost of products sold</b>                               | <b>657,358</b>   | <b>262,684</b>  | <b>(46,309)</b>         | <b>873,733</b>                         |
| <b>GROSS PROFIT</b>  | <b>136,609</b>   | <b>37,834</b>   | <b>(6,615)(8)</b>       | <b>167,828</b>                         |
| <b>SELLING, GENERAL AND ADMINISTRATIVE</b>                       | <b>106,060</b>   | <b>24,523</b>   | <b>(1,965)(1)</b>       | <b>124,213</b>                         |
| <b>DEPRECIATION AND AMORTIZATION</b>                             | <b>6,834</b>     | <b>2,747</b>    | <b>60 (2)</b>           | <b>9,406</b>                           |
|  |                  |                 | <b>(33)(3)</b>          |  |
|  |                  |                 | <b>(202)(8)</b>         |  |
| <b>OPERATING INCOME</b>  | <b>23,715</b>    | <b>10,564</b>   | <b>(70)</b>             | <b>34,209</b>                          |
| <b>INTEREST EXPENSE, NET</b>                                     | <b>4,360</b>     | <b>975</b>      | <b>(1,639)(4)</b>       | <b>4,078</b>                           |
|  |                  |                 | <b>686 (5)</b>          |  |
|  |                  |                 | <b>(304)(8)</b>         |  |
| <b>GAIN ON SALE OF ASSETS</b>                                    | <b>504</b>       | <b>0</b>        |                         | <b>504</b>                             |
| <b>OTHER INCOME (EXPENSE)</b>                                    | <b>0</b>         | <b>53</b>       | <b>(5)(8)</b>           | <b>48</b>                              |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b> | <b>19,859</b>    | <b>9,642</b>    | <b>1,182</b>            | <b>30,683</b>                          |
| <b>INCOME TAX PROVISION (BENEFIT)</b>                            | <b>7,944</b>     | <b>144</b>      | <b>4,186 (6)</b>        | <b>12,274</b>                          |
|  |                  |                 | <b>0</b>                |  |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                         | <b>11,915</b>    | <b>9,498</b>    | <b>(3,004)</b>          | <b>18,409</b>                          |
| <b>LOSS FROM DISCONTINUED OPERATIONS, NET</b>                    | <b>(143)</b>     | <b>0</b>        |                         | <b>(143)</b>                           |
| <b>NET INCOME</b>  | <b>\$ 11,772</b> | <b>\$ 9,498</b> | <b>\$ (3,004)</b>       | <b>\$ 18,266</b>                       |
| <b>EARNINGS PER COMMON SHARE—BASIC</b>                           |                  |                 |                         |  |
| Income from continuing operations                                | \$ 0.81          |                 |                         | \$ 0.84                                |
| Net income   | \$ 0.80          |                 |                         | \$ 0.83                                |
| <b>EARNINGS PER COMMON SHARE—DILUTED</b>                         |                  |                 |                         |  |
| Income from continuing operations                                | \$ 0.75          |                 |                         | \$ 0.80                                |
| Net income   | \$ 0.74          |                 |                         | \$ 0.79                                |
| <b>SHARES OUTSTANDING</b>  |                  |                 |                         |  |
| Basic  | 14,647           |                 | 7,250 (7)               | 21,897                                 |
| Diluted  | 15,898           |                 | 7,250 (7)               | 23,148                                 |

**Notes to September 30, 2004 Unaudited Proforma Consolidated Statement of Operations:**

- (1) Represents salaries and personal expenses of the owners of ATS currently paid by ATS. As a result of this transaction, the positions of the owners of ATS will be eliminated and the owners of ATS will not be employed by Rush.
- (2) Represents \$3.1 million step-up in buildings and improvements divided by 39 year useful life. The remaining step-up of \$1.2 million in Property and Equipment, net on the Unaudited Proforma Consolidated Balance Sheet, is related to non-depreciable land.
- (3) Represents add back of depreciation expense on vehicles retained by ATS.
- (4) Represents interest savings calculated as follows:

|   |        |       |
|---|--------|-------|
| Elimination of interest expense of acquired ATS dealerships, as a result of the reduction of debt | \$     | 1,659 |
| Floor plan note payable incurred to fund purchase price   | 803    |       |
| ATS's floorplan rate  | 3.185% |       |
|   | —      |       |
| Annual interest expense related to floor plan   | (26)   |       |
|   | 75%    |       |
|   | —      |       |
| Floor plan interest expense for the nine months ended September 30, 2004                          |        | (20)  |
|   |        | —     |
| Total interest savings for the nine month period ended September 30, 2004                         | \$     | 1,639 |

- (5) Represents interest income, that has been netted against interest expense in the financial statements of ATS, related to the receivable from affiliate that is being paid off on the day of the transaction.
- (6) Reflects an adjustment to record income tax expense on ATS's pretax income from continuing operations and for the effects of the proforma adjustments using Rush's effective tax rate of 40%. Calculated as follows:

|   |    |        |
|---|----|--------|
| ATS 9/30/04 income from continuing operations before income taxes                           | \$ | 9,642  |
| Net effect of proforma adjustments on income from continuing operations before income taxes |    | 1,182  |
|   |    | —      |
| Proforma income from continuing operations before income taxes                              |    | 10,824 |
| Rush effective tax rate   |    | 40%    |
|   |    | —      |
| ATS's provision for income taxes at Rush's effective tax rate                               |    | 4,330  |
| Subtract ATS's 9/30/04 income tax expense   |    | (144)  |
|   |    | —      |
| Proforma adjustment to increase provision for income taxes                                  | \$ | 4,186  |

- (7) Records the additional shares outstanding from our issuance and sale of 7,250,000 shares of our class A common stock in this offering at a price of \$15.00 per share.
- (8) Represents revenue and expenses directly related to ATS's Birmingham and Louisville Peterbilt operations that are not being acquired by Rush. These amounts include certain expenses recorded at the corporate level that are directly attributable to the Birmingham or Louisville dealerships.

**Unaudited Proforma Consolidated Statement of Operations**

**Year Ended December 31, 2003**

**(In Thousands Except per Share Amounts)**

|  | Rush            | ATS(1)          | Proforma<br>Adjustments | Proforma<br>Statement<br>of Operations |
|--|-----------------|-----------------|-------------------------|--|
| <b>REVENUES:</b>   |                 |                 |                         |  |
| New and used truck sales   | \$ 501,757      | \$ 205,424      | \$ (49,233)(9)          | \$ 657,948                             |
| Parts and service sales  | 249,818         | 54,439          | (14,797)(9)             | 289,460                                |
| Construction equipment sales                                     | 28,263          | 0               |                         | 28,263                                 |
| Lease and rental   | 25,847          | 497             |                         | 26,344                                 |
| Finance and Insurance  | 6,286           | 3,936           | (479)(9)                | 9,743                                  |
| Other  | 3,361           | 0               |                         | 3,361                                  |
| <b>Total revenues</b>  | <b>815,332</b>  | <b>264,296</b>  | <b>(64,509)</b>         | <b>1,015,119</b>                       |
| <b>COST OF PRODUCTS SOLD:</b>                                    |                 |                 |                         |  |
| New and used truck sales   | 466,396         | 191,187         | (46,978)(9)             | 610,605                                |
| Parts and service sales  | 151,373         | 34,300          | (9,911)(9)              | 175,762                                |
| Construction equipment sales                                     | 25,158          |                 |                         | 25,158                                 |
| Lease and rental   | 19,155          | 1,398           |                         | 20,553                                 |
| <b>Total cost of products sold</b>                               | <b>662,082</b>  | <b>226,885</b>  | <b>(56,889)</b>         | <b>832,078</b>                         |
| <b>GROSS PROFIT</b>  | <b>153,250</b>  | <b>37,411</b>   | <b>(7,620)(9)</b>       | <b>183,041</b>                         |
| <b>SELLING, GENERAL AND ADMINISTRATIVE</b>                       | <b>124,207</b>  | <b>30,172</b>   | <b>(2,798)(2)</b>       | <b>145,892</b>                         |
| <b>DEPRECIATION AND AMORTIZATION</b>                             | <b>8,929</b>    | <b>3,006</b>    | <b>80 (3)</b>           | <b>11,642</b>                          |
|  |                 |                 | <b>(84)(4)</b>          |  |
|  |                 |                 | <b>(289)(9)</b>         |  |
| <b>OPERATING INCOME</b>  | <b>20,114</b>   | <b>4,233</b>    | <b>1,160</b>            | <b>25,507</b>                          |
| <b>INTEREST EXPENSE, NET</b>                                     | <b>6,348</b>    | <b>125</b>      | <b>(2,133)(5)</b>       | <b>4,761</b>                           |
|  |                 |                 | <b>814 (6)</b>          |  |
|  |                 |                 | <b>(393)(9)</b>         |  |
| <b>GAIN ON SALE OF ASSETS</b>                                    | <b>1,984</b>    | <b>0</b>        |                         | <b>1,984</b>                           |
| <b>OTHER INCOME (EXPENSE)</b>                                    | <b>0</b>        | <b>(17)</b>     | <b>9 (9)</b>            | <b>(8)</b>                             |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b> | <b>15,750</b>   | <b>4,091</b>    | <b>2,881</b>            | <b>22,722</b>                          |
| <b>INCOME TAX PROVISION (BENEFIT)</b>                            | <b>6,300</b>    | <b>(239)</b>    | <b>3,028 (7)</b>        | <b>9,089</b>                           |
|  |                 |                 | <b>0</b>                |  |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                         | <b>9,450</b>    | <b>4,330</b>    | <b>(147)</b>            | <b>13,633</b>                          |
| <b>LOSS FROM DISCONTINUED OPERATIONS, NET</b>                    | <b>(621)</b>    |                 |                         | <b>(621)</b>                           |
| <b>NET INCOME</b>  | <b>\$ 8,829</b> | <b>\$ 4,330</b> | <b>\$ (147)</b>         | <b>\$ 13,012</b>                       |
| <b>EARNINGS PER COMMON SHARE—BASIC</b>                           |                 |                 |                         |  |
| Income from continuing operations                                | \$ 0.67         |                 |                         | \$ 0.64                                |
| Net income   | \$ 0.63         |                 |                         | \$ 0.61                                |
| <b>EARNINGS PER COMMON SHARE—DILUTED</b>                         |                 |                 |                         |  |
| Income from continuing operations                                | \$ 0.63         |                 |                         | \$ 0.61                                |
| Net income   | \$ 0.59         |                 |                         | \$ 0.58                                |
| <b>SHARES OUTSTANDING</b>  |                 |                 |                         |  |
| Basic  | 14,042          |                 | 7,250 (8)               | 21,292                                 |
| Diluted  | 15,024          |                 | 7,250 (8)               | 22,274                                 |

**Notes to December 31, 2003 Unaudited Proforma Consolidated Statement of Operations:**

- (1) Certain revenue and cost of sale line items of ATS have been reclassified to conform with Rush's presentation.
- (2) Represents salaries and personal expenses of the owners of ATS currently paid by ATS. As a result of this transaction, the positions of the owners of ATS will be eliminated and the owners of ATS will not be employed by Rush.
- (3) Represents \$3.1 million step-up in buildings and improvements divided by 39 year useful life. The remaining step-up of \$1.2 million in Property and Equipment, net on the Unaudited Proforma Consolidated Balance Sheet, is related to non-depreciable land.
- (4) Represents add back of depreciation expense on vehicles retained by ATS.
- (5) Represents interest savings calculated as follows:

|   |          |
|---|----------|
| Elimination of interest expense of acquired ATS dealerships, as a result of the reduction of debt | \$ 2,159 |
| Floor plan note payable incurred to fund purchase price   | 803      |
| ATS's floor plan rate   | 3.185%   |
|   | _____    |
| Annual interest expense related to floor plan   | (26)     |
|   | _____    |
| Total annual interest expense savings   | \$ 2,133 |
|   | _____    |

- (6) Represents interest income, that has been netted against interest expense in the financial statements of ATS, related to the receivable from affiliate that is being paid off on the day of the transaction.
- (7) Reflects an adjustment to record income tax expense on ATS's pretax income from continuing operations and for the effects of the proforma adjustments using Rush's effective tax rate of 40%. Calculated as follows:

|   |          |
|---|----------|
| ATS 12/31/03 income from continuing operations before income taxes                          | \$ 4,091 |
| Net effect of proforma adjustments on income from continuing operations before income taxes | 2,881    |
|   | _____    |
| Proforma income from continuing operations before income taxes                              | 6,972    |
| Rush effective tax rate   | 40%      |
|   | _____    |
| ATS's provision for income taxes at Rush's effective tax rate                               | 2,789    |
| Add ATS's 12/31/03 income tax benefit   | 239      |
|   | _____    |
| Proforma adjustment to increase provision for income taxes                                  | \$ 3,028 |
|   | _____    |

- (8) Records the additional shares outstanding from our issuance and sale of 7,250,000 shares of our class A common stock in this offering at a price of \$15.00 per share.
- (9) Represents revenue and expenses directly related to ATS's Birmingham and Louisville Peterbilt operations that are not being acquired by Rush. These amounts include certain expenses recorded at the corporate level that are directly attributable to the Birmingham or Louisville dealerships.

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

*You should read the following discussion and analysis in conjunction with the information set forth under "Selected Historical Financial Data" and our consolidated financial statements and the notes to those statements included elsewhere in this prospectus. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other nonhistorical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and "Cautionary Notice Regarding Forward-Looking Statements." Our actual results may differ materially from those contained in or implied by any forward-looking statements. The following discussion reflects our historical results of operations and does not reflect our proposed acquisition of ATS.*

### Company Overview

#### General

We are a full-service, integrated retailer of premium transportation and construction equipment and related services. As the leading supplier of Peterbilt trucks, we sold approximately 20.3% of all the new Class 8 Peterbilt trucks sold in the United States in 2003. Some of our Rush Truck Centers sell medium-duty trucks manufactured by Peterbilt, GMC, Hino, UD (Nissan) and Isuzu. In 1997, we acquired our first John Deere construction equipment dealership in Houston, Texas and are the only authorized supplier of John Deere construction equipment in that market. Through our strategically located network of Rush Truck Centers and our Rush Equipment Center, we provide one-stop service for the needs of our customers, including retail sales of new and used transportation and construction equipment, as well as aftermarket parts sales, service and repair facilities and financing, leasing and rental, and insurance services.

Our Rush Truck Centers are principally located in high traffic areas throughout the southern United States. We provide leasing and rental services at our one-stop Rush Truck Centers and our Rush Equipment Center. Retail financing of trucks and construction equipment, as well as a line of insurance products, can also be arranged at our Rush Truck Centers and Rush Equipment Center.

Our business strategy consists of providing our customers with competitively priced products supported with timely and reliable service through our integrated dealer network. We intend to continue to implement our business strategy, reinforce customer loyalty and remain a market leader by continuing to develop our Rush Truck Centers and Rush Equipment Center as we extend our geographic focus through strategic acquisitions of new locations and expansions of our existing facilities.

*Rush Truck Centers.* Since commencing operations as a Peterbilt heavy-duty truck dealer over 38 years ago, we have grown to operate Rush Truck Centers, which primarily sell new Class 8 Peterbilt trucks, at 37 locations in the states of Texas, Colorado, Oklahoma, California, Arizona, Florida, Alabama and New Mexico. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds. Our Rush Truck Centers are strategically located to take advantage of increased cross-border traffic between the United States and Mexico resulting from implementation of NAFTA in 1994.

*Rush Equipment Center.* Since commencing operations as a John Deere dealer in 1997, we had grown to operate six Rush Equipment Centers in Texas and Michigan. We sold our five Michigan construction equipment dealerships in 2002, recording a net loss from discontinued operations of \$3.3 million. Our Rush Equipment Center in Houston, Texas, provides a full line of construction equipment for light to medium sized applications, including John Deere backhoe loaders, hydraulic excavators, crawler-dozers and four-wheel drive loaders.

*Leasing and Rental Services.* Through our dealerships we provide a broad line of product selections for lease or rent, including Class 8, Class 7 and Class 6 Peterbilt trucks, and a full array of John Deere construction equipment products, including a variety of construction equipment trailers and heavy-duty cranes. Our lease and rental fleets are offered primarily through our Rush Truck Centers and Rush Equipment Center on a daily, monthly or long-term basis.

*Financial and Insurance Services.* Through our dealerships we offer third-party financing to assist customers in purchasing new and used trucks and construction equipment. Additionally, we sell a complete line of property and casualty insurance, including collision and liability insurance on trucks, cargo insurance and credit life insurance.

### **Critical Accounting Policies**

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 described in Note 2 of Notes to 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.

*Other Assets.* Other assets consist primarily of goodwill related to acquisitions and other intangible assets. As stated in Note 2, 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 impact of adopting SFAS 142, effective January 1, 2002, resulted in the cessation of goodwill amortization, which would have approximated \$1.2 million of pretax amortization expense from continuing operations during 2002 and \$1.4 million of pretax amortization expense from continuing operations during 2003. The Company did not record an impairment charge related to the goodwill for its continuing operations as a result of its December 31, 2003 impairment review. The Company did, however, record an impairment of goodwill related to its discontinued operations at December 31, 2002 (see Note 3). Furthermore, SFAS 142 exposes the Company 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.

*Revenue Recognition Policies.* Income on the sale of a vehicle or a piece of construction equipment (a "unit") is recognized when the customer executes a purchase contract with us, a 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 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 2001, 2002 and 2003, no finance contracts were retained for any significant length of time by the Company but were generally sold to certain finance companies concurrent with the sale of the related unit. The majority of finance contracts are sold without recourse. 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, the Company recently instituted a full recourse finance program that accepts 100% liability, with some restrictions, of the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this full recourse finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed, therefore, the Company does not expect to finance a significant percentage of its truck sales under this full recourse finance program.

The Company arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution. The Company also receives commissions from the sale of various insurance products to customers and extended service contracts. 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 other insurance product prior to scheduled maturity, a portion of these fees may be charged back to the Company based on the relevant terms of the contracts. 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 refinance and default rates on retail finance contracts and cancellation rates on other insurance products. The actual amount of historical charge backs has not been significantly different than the Company's estimates.

## Results of Operations

The following discussion and analysis includes the Company's historical results of operations for the years ended December 31, 2001, 2002 and 2003 and for the nine months ended September 30, 2003 and 2004.

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

|  | Year Ended December 31, |               |              | Nine Months Ended September 30, |              |
|--|-------------------------|---------------|--------------|---------------------------------|--------------|
|  | 2001                    | 2002          | 2003         | 2003                            | 2004         |
| New and used truck sales                                     | 63.4%                   | 64.5%         | 61.5%        | 59.7%                           | 66.4%        |
| Parts and service  | 27.3                    | 28.0          | 30.6         | 32.3                            | 27.0         |
| Construction equipment sales                                 | 4.6                     | 3.2           | 3.5          | 3.5                             | 3.0          |
| Lease and rental   | 3.6                     | 3.3           | 3.2          | 3.3                             | 2.6          |
| Finance and insurance  | 0.7                     | 0.7           | 0.8          | 0.8                             | 0.7          |
| Other  | 0.4                     | 0.3           | 0.4          | 0.4                             | 0.3          |
| <b>Total revenues</b>  | <b>100.0</b>            | <b>100.0</b>  | <b>100.0</b> | <b>100.0</b>                    | <b>100.0</b> |
| Cost of products sold  | 81.3                    | 81.3          | 81.2         | 80.2                            | 82.8         |
| <b>Gross profit</b>  | <b>18.7</b>             | <b>18.7</b>   | <b>18.8</b>  | <b>19.8</b>                     | <b>17.2</b>  |
| Selling, general and administrative                          | 14.7                    | 14.8          | 15.2         | 16.0                            | 13.4         |
| Depreciation and amortization                                | 1.3                     | 1.1           | 1.1          | 1.2                             | 0.9          |
| Operating income from continuing operations                  | 2.7                     | 2.8           | 2.5          | 2.6                             | 2.9          |
| Interest expense, net  | 1.3                     | 0.9           | 0.8          | 0.8                             | 0.5          |
| Gain on sale of assets                                       | 0.1                     | —             | 0.2          | 0.1                             | 0.1          |
| <b>Income before income taxes from continuing operations</b> | <b>1.5</b>              | <b>1.9</b>    | <b>1.9</b>   | <b>1.9</b>                      | <b>2.5</b>   |
| Income taxes   | 0.6                     | 0.8           | 0.8          | 0.7                             | 1.0          |
| <b>Income from continuing operations</b>                     | <b>0.9</b>              | <b>1.1</b>    | <b>1.1</b>   | <b>1.2</b>                      | <b>1.5</b>   |
| (Loss) from discontinued operations, net of taxes            | (0.4)                   | (1.3)         | (0.1)        | (0.1)                           | 0.0          |
| <b>Net income (loss)</b>                                     | <b>0.5%</b>             | <b>(0.2)%</b> | <b>1.0%</b>  | <b>1.1</b>                      | <b>1.5</b>   |

### Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

#### Revenues

Revenues increased \$218.3 million, or 37.9%, from \$575.7 million in the first nine months of 2003 to \$794.0 million in the first nine months of 2004. Sales of new and used trucks increased \$183.7 million, or 53.5%, from \$343.5 million in the first nine months of 2003 to \$527.2 million in the first nine months of 2004.

Unit sales of new Class 8 trucks increased 58.7%, from 2,412 units in the first nine months of 2003 to 3,828 units in the first nine months of 2004. The increase in Class 8 unit sales is being driven by the industry's need to replace aging equipment after three consecutive years of U.S. truck sales lagging behind the normal replacement cycle. A.C.T. Research Co., LLC ("A.C.T. Research"), a heavy-duty truck industry data and forecasting services provider estimates that deliveries of Class 8 trucks in the U.S. will increase from 145,000 in 2003 to approximately 200,600 in 2004. In 2003, the Company retained a 2.5% share of the Class 8 truck sales market in the U.S. The Company expects to maintain this share in 2004, which would result in the sale of approximately 5,000 Class 8 trucks based on the number of U.S. deliveries estimated by truck and original equipment manufacturers.

The Environmental Protection Agency ("EPA") has mandated that heavy-duty engine manufacturers meet new, stricter emissions guidelines for all engines built after January 1, 2007. Historically, the industry has experienced an accelerated demand for trucks in the months preceding the effective date of the change in EPA guidelines followed by a short-term decrease in demand in the months subsequent to the change. The Company does not expect the change in emission guidelines to have an effect on its 2004 results from operations. Industry expectations are for Class 8 unit deliveries to remain above 200,000 units through 2006 and then soften in 2007 to below 200,000 units due to future engine emission laws. These engine emission laws are expected to increase the cost and reduce the efficiency of engines beginning in 2007.

Unit sales of new medium-duty trucks increased 93.9%, from 628 units in the first nine months of 2003 to 1,218 units in the first nine months of 2004. The Company has made a concerted effort to improve its medium-duty truck sales by adding experienced medium-duty sales personnel and introducing new medium-duty franchises in the Class 4 through 6 truck markets to complement its existing Peterbilt medium-duty line, which consists primarily of Class 7 trucks. Class 4 through 6 unit truck sales accounted for 57% of our total medium-duty truck sales in the first nine months of 2004 compared to 28% in the first nine months of 2003. The average sales price for Class 4 through 6 trucks during the first nine months of 2004 was \$39,900 compared to an average sales price of \$67,800 for the Peterbilt medium-duty model. The increase in sales of lower priced medium-duty trucks resulted in an 8.0% decrease in the average sales price for all medium-duty trucks in the first nine months of 2004 compared to the first nine months of 2003. However, new medium-duty truck sales revenue increased approximately \$27.8 million in the first nine months of 2004 compared to the first nine months of 2003. In 2004, the Company expects to continue to add medium-duty franchises to certain dealerships and increase its medium-duty sales and market share compared to 2003.

Unit sales of used trucks increased 17.0%, from 1,791 units in the first nine months of 2003 to 2,095 units in the first nine months of 2004. Used truck average revenue per unit increased by approximately 5.1%. Historically, used truck demand is consistent with new truck demand. The Company expects used truck demand to remain high, however, our sales will depend on the availability of used trucks.

Parts and service sales increased \$28.5 million, or 15.3%, from \$186.1 million in the first nine months of 2003 to \$214.6 million in the first nine months of 2004. Same store parts and service sales, which exclude the first nine months of 2003 sales for Bossier City, Louisiana, January 2004 for the Florida stores and January through March 2004 for the Mobile store, increased approximately \$30.5 million, or 16.8%, in the first nine months of 2004 compared to the first nine months of 2003. The increase in parts and service sales is due to a combination of business development, price increases for parts and labor, extension of our business hours and expansion of capacity by adding service bays and technicians to certain locations. This growth rate over the prior year's period is consistent with the Company's expectations for parts and service revenue growth for the remainder of 2004.

Sales of new and used construction equipment increased \$3.4 million, or 16.7%, from \$20.3 million in the first nine months of 2003 to \$23.7 million in the first nine months of 2004. Revenue generated from the sale of new construction equipment units increased 20.0% in the first nine months of 2004 compared to the first nine months of 2003. Revenue generated from the sale of used construction equipment units decreased approximately 5.2% in the first nine months of 2004 compared to the first nine months of 2003. John Deere's market share in the Houston area has decreased slightly from 17.3% in the first nine months of 2003 to 17.1% in the first nine months of 2004.

Lease and rental revenues increased \$1.2 million, or 6.3%, from \$19.0 million in the first nine months of 2003 to \$20.3 million in the first nine months of 2004. This increase is due to additional lease and rental units being placed in service and is consistent with the Company's expectations for lease and rental revenue for 2004.

Finance and insurance revenues increased \$1.0 million, or 21.7%, from \$4.6 million in the first nine months of 2003 to \$5.6 million in the first nine months of 2004. The Company expects finance and insurance revenues to continue to increase as demand for new and used trucks increases. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

#### *Gross Profit*

Gross profit increased \$22.9 million, or 20.1%, from \$113.7 million in the first nine months of 2003 to \$136.6 million in the first nine months of 2004. Gross profit as a percentage of sales decreased from 19.8% in the first nine months of 2003 to 17.2% in the first nine months of 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 from 59.7% in the first nine months of 2003 to 66.4% in the first nine months of 2004. Parts and service revenue, a higher margin revenue item, decreased as a percentage of total revenue from 32.3% in the first nine months of 2003 to 27.0% in the first nine months of 2004.

Gross margins on Class 8 truck sales, were down slightly from 6.4% in the first nine months of 2003 to 6.2% in the first nine months of 2004. Manufacturer's incentives for Class 8 trucks accounted for 29.0% of the gross margin for the nine months ended September 30, 2004 and 28.1% for the nine months ended September 30, 2003. Given the increasing demand for Class 8 trucks coupled with the expected increase in purchases from owner operators that historically have rendered higher gross margins than fleet sales, the Company expects gross margins from Class 8 truck sales to strengthen in the remainder of 2004 and to exceed those achieved in 2003.

Gross margins, on medium-duty truck sales slightly increased from 5.0% in the first nine months of 2003 to 5.2% in the first nine months of 2004. Manufacturer's incentives for medium-duty trucks accounted for 3.8% of the gross margin for the nine months ended September 30, 2004 and 2.0% for the nine months ended September 30, 2003. Gross margins on non-Peterbilt medium-duty truck models were approximately 3.4% in the first nine months of 2004 compared to a gross margin of approximately 6.2% for the Peterbilt medium-duty model. Non-Peterbilt medium-duty models accounted for 693 units in the first nine months of 2004 compared to 244 units in the first nine months of 2003. Peterbilt medium-duty sales accounted for 525 units in the first nine months of 2004 compared to 384 units in the first nine months of 2003. Sales of non-Peterbilt medium-duty models will continue to grow significantly as a percentage of total medium-duty sales.

Gross margins on used truck sales increased from 6.7% in the first nine months of 2003 to 8.1% in the first nine months of 2004. The challenge for the remainder of 2004 is procuring quality used trucks at an acceptable price in a market where demand is exceeding supply. The Company believes it will be able to continue to achieve 7% to 9% margins in the used truck sales market for the remainder of 2004.

Gross margins from the Company's parts, service and body shop operations decreased from 37.6% in the first nine months of 2003 to 36.4% in the first nine months of 2004. There are various reasons for this decrease, including nonproprietary parts sales becoming a larger percentage of the Company's overall parts sales and competitive pricing pressures from providers of nonproprietary parts. Historically, gross margins on nonproprietary parts are approximately 40 to 50% lower than gross margins on proprietary parts. Additionally, the Company has increased preventative maintenance services that are provided at lower margins than traditional repair work, and has selectively provided discounted labor rates to garner additional sales both at our dealership locations and at off-site locations. Gross profit dollars for the parts, service and body shop departments increased from \$69.9 million in the first nine months of 2003 to \$78.2 million in the first nine months of 2004.

Gross margins on new and used construction equipment sales increased from 9.9% in the first nine months of 2003 to 12.0% in the first nine months of 2004. The Company expects 2004 gross margins to

remain in a range of 9.5% to 13.0%, depending on the product mix, and for overall gross profit growth to be directly correlated to sales growth.

Gross profit generated from lease and rental sales increased from approximately 24.5% in the first nine months of 2003 to 26.0% in the first nine months of 2004. The Company's policy is to aggressively depreciate its lease and rental fleet. This policy results in the Company realizing small operating profits while the unit is in service and a corresponding larger gain on sale when the unit is sold at the end of the lease term. The Company expects to maintain gross margins of approximately 26.0% to 28.0% through the remainder of 2004 and for overall gross profit growth to be directly correlated to increases in lease and rental sales.

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

#### *SG&A Expenses*

Selling, general and administrative ("SG&A") expenses increased \$13.9 million, or 15.1%, from \$92.2 million in the first nine months of 2003 to \$106.1 million in the first nine months of 2004. The majority of the increase is related to increased expense related to facility expansion and increased commissions corresponding to the increase in sales and gross profit. SG&A expenses as a percentage of sales decreased from 16.0% in the first nine months of 2003 to 13.4% in the first nine months of 2004. From 1999 to 2003, SG&A expenses as a percentage of sales have ranged from 11.2% to 16.0%. The Company expects SG&A expenses as a percentage of sales to remain at the lower end of this range while the demand for trucks remains high. The Company's management continually monitors SG&A expenses.

#### *Interest Expense*

Net interest expense decreased \$0.1 million from \$4.5 million in the first nine months of 2003 to \$4.4 million in the first nine months of 2004.

#### *Gain on Sale of Assets*

Gain on sale of assets increased \$0.2 million, from \$0.3 million in the first nine months of 2003 to \$0.5 million in the first nine months of 2004. The gain in 2004 is primarily related to the replacement of fixed assets used in the operation of the business and the sale of real estate holdings.

#### *Income from Continuing Operations Before Income Taxes*

Income from continuing operations before income taxes increased \$9.2 million, or 86.0%, from \$10.7 million in the first nine months of 2003 to \$19.9 million in the first nine months of 2004.

#### *Income Taxes from Continuing Operations*

Income taxes from continuing operations increased \$3.6 million, or 83.7%, from \$4.3 million in the first nine months of 2003 to \$7.9 million in the first nine months of 2004. The Company has provided for taxes at a 40% effective rate.

#### *Gain (loss) from Discontinued Operations, net of Income Taxes*

Loss from discontinued operations net of income taxes decreased from a loss of approximately \$683,000 in the first nine months of 2003 to a loss of approximately \$143,000 in the first nine months of 2004. The loss recorded during 2003 is equal to net operating results of The D & D Farm and Ranch Supermarket ("D & D"), in Seguin, Texas, and included costs of \$983,000 related to the liquidation of the Hockley store. The gain recorded during 2004 includes net operating results of D & D of approximately \$97,000 and a charge of \$240,000 related to the valuation of the Hockley, Texas real estate. The Company expects to sell D & D by December 31, 2004.

*Revenues*

Revenues increased \$58.2 million, or 7.7%, from \$757.1 million in 2002 to \$815.3 million in 2003. Sales of new and used trucks increased \$13.3 million, or 2.7%, from \$488.5 million in 2002 to \$501.8 million in 2003.

Unit sales of new Class 8 trucks decreased 9.6%, from 4,022 units in 2002 to 3,636 units in 2003. The decline in new Class 8 truck sales was primarily due to the pre-buy experienced during the last half of 2002 caused by emission law changes that became effective October 1, 2002 and the buying cycle of one of the Company's major fleet customers, who made a significantly larger purchase in 2002 than in 2003. The Company's average sales price per Class 8 truck increased by 7.5% in 2003 compared to 2002. This increase is directly related to the increased engine costs that resulted from the new emission laws. Based on estimates from A.C.T. Research, the Company believes that the deliveries of Class 8 trucks will increase in 2004 to approximately 200,600 units. In 2003, the Company retained a 2.5% share of the Class 8 truck sales market in the United States. The Company expects to maintain this share in 2004, which would result in the sale of approximately 5,000 Class 8 trucks based on the number of U.S. deliveries estimated by A.C.T. Research.

Unit sales of new medium-duty trucks increased 29.4%, from 695 units in 2002 to 899 units in 2003. In 2003, the Company made a concerted effort to improve its medium-duty truck sales by adding experienced medium-duty sales personnel, and introducing new medium-duty franchises to complement our existing Peterbilt medium-duty line. As a result of these actions, 44% of the Company's medium-duty unit sales in 2003 were GMC, Hino and UD (Nissan) models, compared to only 21% in 2002. The average sales price for these models was \$38,700 compared to \$66,500 for the Peterbilt medium-duty model, resulting in a decrease of the average sales price for all medium-duty trucks by 8.3% in 2003 compared to 2002. Overall, new medium-duty truck sales revenue increased \$7.6 million in 2003 compared to 2002. In 2004, the Company expects to continue to add medium-duty franchises to certain of its dealerships and to increase its medium-duty sales and market share compared to 2003.

Unit sales of used trucks increased 14.7%, from 2,111 units in 2002 to 2,421 units in 2003. Used truck average revenue per unit increased by 3.8%. During 2003, the increased demand for used trucks was partially due to the new emission laws that became effective October 1, 2002. The Company believes some customers were skeptical of the new engines and opted to purchase used trucks. The increase in the average used truck price is also a sign that the industry has been able to work through the excess supply of used trucks in the market caused by the high volume of new truck unit sales during 1998 through 2000.

Parts and service sales increased \$38.3 million, or 18.1%, from \$211.5 million in 2002 to \$249.8 million in 2003. Same store parts and service sales increased \$19.7 million, or 9.3%, in 2003 compared to 2002. This increase was in line with management's expectations that consider business development coupled with price increases for parts and labor. The remaining increase was attributable to new store additions. The Company expects same store sales to increase approximately 10.0% in 2004 compared to 2003.

Sales of new and used construction equipment increased \$4.0 million, or 16.5%, from \$24.3 million in 2002 to \$28.3 million in 2003. This increase is consistent with the overall increase in unit sales for the Houston, Texas construction equipment market during 2003. According to John Deere, the Company's market share in the Houston area construction equipment market was 17.5% in 2003 compared to 14.6% in 2002. According to data compiled by John Deere, approximately 1,656 units of construction equipment were put into use in our area of responsibility in 2003 compared to 1,387 in 2002. The construction equipment industry expects to sell approximately 1,700 to 1,800 new

construction equipment units in the Houston area during 2004. The Company expects to increase its market share slightly in 2004 compared to 2003.

Lease and rental revenues increased by 2.0%, from \$25.3 million in 2002 to \$25.8 million in 2003. As part of a planned reduction in our construction equipment rental business, construction equipment lease and rental revenues decreased \$0.6 million, or 50.0%, from 2002 to 2003. Truck lease and rental revenue increased \$1.2 million, or 5.0%, from 2002 to 2003. The increase in truck lease and rental revenue is due to the increase in our customer base during 2003. The Company expects lease and rental revenue to remain relatively flat in 2004 compared to 2003.

Finance and insurance revenues increased 16.7%, from \$5.4 million in 2002 to \$6.3 million in 2003. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits. Approximately 88.9% of this increase is related to the addition of the new dealerships in Florida and Alabama. The remaining increase is related to additional customers qualifying for financing due to a change in the credit practices of the Company's finance providers.

Other income increased \$1.2 million, or 54.5%, from \$2.2 million in 2002 to \$3.4 million in 2003. Other income revenue is primarily related to 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, document fees related to truck sales and purchase discounts. The primary reason for the increase during 2003 is related to gains resulting from the sales of trucks that had been leased by the Company.

#### *Gross Profit*

Gross profit increased \$12.1 million, or 8.6%, from \$141.2 million in 2002 to \$153.3 million in 2003. Approximately \$10.6 million of the increase in gross profit is related to the acquisition of the Florida and Alabama dealerships. Gross profit as a percentage of sales remained relatively flat at 18.7% in 2002 and 18.8% in 2003.

Gross margins on Class 8 truck sales were down from 6.5% in 2002 to 5.8% in 2003. Manufacturer's incentives for Class 8 trucks accounted for 24.6% of the gross margin in 2002 and 25.9% in 2003. The decrease is a result of the Company accepting smaller margins on several first time purchases by fleet customers. Given the increasing demand for Class 8 trucks coupled with the expected increase in purchases from owner operators that historically have rendered higher gross margins than fleet sales, the Company expects gross margins from Class 8 truck sales in 2004 to exceed those achieved in 2003. Additionally, each year the Company evaluates its reserve for new truck valuation losses. The Company recorded a \$0.3 million loss provision to increase the Company's reserve for new truck inventory valuation in 2003 compared to \$0 in 2002.

Gross margins on medium-duty truck sales decreased from 5.6% in 2002 to 5.1% in 2003, primarily due to the previously discussed change in product mix. Manufacturer's incentives for medium-duty trucks did not contribute to gross margins in 2002 and accounted for 3.9% of the gross margin in 2003. Gross margins on GMC, Hino and UD (Nissan) models were approximately 3.4% in 2003 compared to a gross margin of 5.4% of the Peterbilt medium-duty model. Although sales of GMC, Hino and UD (Nissan) models will grow significantly as a percentage of total medium-duty sales in 2004, the Company expects the 2004 gross margin to approximate the 4.9% achieved during 2003.

Gross margins on used truck sales decreased from 9.0% in 2002 to 6.7% in 2003, primarily due to the mix of wholesale versus retail used truck sales. The Company experienced higher than normal used truck wholesale transactions related to the trade-in units from first time new truck fleet customers. The Company does not expect to purchase as many used trucks from first time new truck fleet customers in 2004, which should result in increased gross margins on used truck sales compared to 2003. Additionally, each year the Company evaluates its reserve for used truck valuation losses. The

Company recorded a \$1.0 million loss provision, primarily related to trade-in units from first time new truck fleet customers, to increase the Company's reserve for used truck valuation losses in 2003 compared to a \$0.5 million loss provision recognized during 2002.

Gross margins from the Company's parts, service and body shop operations decreased from 39.3% in 2002 to 37.5% in 2003. There are various reasons for this decrease, including nonproprietary parts sales becoming a larger percentage of the Company's overall parts sales and competitive pricing pressures from providers of nonproprietary parts. Historically, gross margins on nonproprietary parts are approximately 40% to 50% lower than gross margins on proprietary parts. Additionally, the Company has increased preventative maintenance services that are provided at lower margins than traditional repair work, and has selectively provided discounted labor rates to garner additional sales both at our dealership locations and at off-site customer locations. Gross profit dollars for the parts, service and body shop departments increased from \$83.0 million in 2002 to \$93.7 million in 2003. The Company expects the increase in same store gross profit to approximate the expected increase in parts, service and body shop sales of 10.0% in 2004 compared to 2003.

Gross margins on new and used construction equipment sales remained relatively flat at approximately 10.0% in 2002 and 2003. The Company expects 2004 gross margins to be consistent with those achieved in 2003 and overall gross profit growth to be directly correlated to sales growth.

Gross profit generated from lease and rental sales remained relatively flat. The Company's policy is to aggressively depreciate its lease and rental fleet. This policy results in the Company realizing small gross margins while the unit is in service and a corresponding larger gain on sale when the unit is sold at the end of the lease term. The Company expects 2004 gross margins to be consistent with those achieved in 2003 and overall gross profit growth to be directly correlated to increases in lease and rental sales.

The increase in finance and insurance revenues and other income, as described above, has limited direct costs and, therefore, contributes a disproportionate share of gross profit. The Company expects gross profit from finance and insurance sales and other income to increase in 2004 based on projected increases in truck sales.

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

SG&A expenses increased \$12.5 million, or 11.2%, from \$111.7 million in 2002 to \$124.2 million in 2003. Approximately \$7.6 million of SG&A expense is related to the acquisitions of the Florida and Alabama dealerships. Same store SG&A expense increased \$4.9 million, or 4.4%, from 2002 to 2003. The remaining increase is partially due to increased salary expense and increased commissions corresponding to the increase in gross profit. SG&A expenses as a percentage of sales increased from 14.8% to 15.2% from 2002 to 2003. The Company's management continually monitors SG&A expenses. The Company expects SG&A expenses as a percentage of sales to decrease in 2004 compared to 2003.

#### *Interest Expense, Net*

Net interest expense decreased \$0.2 million, or 3.1%, from \$6.5 million in 2002 to \$6.3 million in 2003. Interest expense decreased primarily as the result of declining interest rates. During 2004, the Company foresees increased truck inventory, which will be financed through our floor plan arrangements. This increase in floor plan financing is expected to increase interest expense during 2004.

#### *Gain on Sale of Assets*

Gain on sale of assets increased \$1.8 million, from \$0.2 million in 2002 to \$2.0 million in 2003. The gain in 2002 is primarily related to the replacement of fixed assets used in the operation of the business. The gain recognized in 2003 is primarily related to the sale of the assets of Rush Truck

Centers of Louisiana, Inc. The Company expects gains on sale of assets in 2004 to be limited to replacement of fixed assets used in the operation of the business and sales of certain real estate properties.

#### *Income from Continuing Operations Before Income Taxes*

Income from continuing operations before income taxes increased by \$1.2 million, or 8.3%, from \$14.5 million in 2002 to \$15.7 million in 2003, as a result of the factors described above. Industry experts predict an increase in Class 8 truck sales for 2004. Based on the predicted increase in industry truck sales, the Company believes that income from continuing operations in 2004 will exceed that of 2003.

#### *Income Taxes from Continuing Operations*

Income taxes from continuing operations increased \$0.5 million, or 8.6%, from \$5.8 million in 2002 to \$6.3 million in 2003. The Company has provided for taxes at a 40% effective rate.

#### *Loss from Discontinued Operations, Net of Income Taxes*

Loss from discontinued operations net of income taxes decreased from \$10.5 million in 2002 to \$0.6 million in 2003. The loss recorded during 2002 includes net operating losses of the Michigan construction equipment dealerships of \$0.9 million and net operating losses of D&D of \$1.3 million, as well as disposal costs of \$2.5 million for the Michigan construction equipment dealerships and \$5.8 million for D&D. The loss recorded during 2003 includes net operating results of D&D of approximately \$0.6 million. The Company expects to sell all discontinued operations by December 31, 2004.

### **Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

#### *Revenues*

Revenues increased \$65.6 million, or 9.5%, from \$691.5 million in 2001 to \$757.1 million in 2002. Sales of new and used trucks increased \$50.4 million, or 11.5%, from \$438.1 million in 2001 to \$488.5 million in 2002.

Unit sales of new Class 8 trucks increased 11.8%, from 3,597 units in 2001 to 4,022 units in 2002. New heavy-duty truck average sales price per Class 8 truck increased by 0.4% from 2001 to 2002. As a result of the emission law requirements for heavy-duty trucks, the Company experienced stronger than usual new truck sales during the second half of 2002 as customers made purchases of trucks manufactured before new emission laws took effect. These new guidelines increased the price of a new heavy-duty truck approximately \$3,000 to \$8,000 per unit.

Unit sales of new medium-duty trucks increased 7.3%, from 648 units in 2001 to 695 units in 2002. The average sales price of a new medium-duty trucks remained relatively flat from 2001 to 2002. The Company plans to penetrate the medium-duty truck market by adding new franchises, complementing our existing Peterbilt medium-duty line.

Used truck average revenue per unit increased by 0.6%. Unit sales of used trucks increased 10.7%, from 1,907 units in 2001 to 2,111 units in 2002. The slight increase in the average used truck prices indicated that the market was absorbing the excess used trucks in the market caused by high new truck sales during 1998 through 2000.

Parts and service sales increased \$22.9 million, or 12.2%, from \$188.6 million in 2001 to \$211.5 million in 2002. The increase was due to same store growth of \$6.5 million, or 3.4%, with the

remaining increase attributable to new store additions. This increase is consistent with management's expectations and price increases for parts and labor.

Sales of new and used construction equipment decreased \$7.4 million, or 23.3%, from \$31.7 million in 2001 to \$24.3 million in 2002. This decrease is consistent with total construction equipment industry sales declines of 20.7% in the Houston, Texas market that our Rush Equipment Center serves.

Lease and rental revenues increased by 1.2%, from \$25.0 million in 2001 to \$25.3 million in 2002. As part of a planned reduction in our construction equipment rental business, construction equipment lease and rental revenues decreased \$0.3 million, or 17.4%, from 2001 to 2002. Truck lease and rental revenue increased \$0.6 million, or 2.1%, from 2001 to 2002.

Finance and insurance revenues increased 3.8%, from \$5.3 million in 2001 to \$5.4 million in 2002. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Other income decreased \$0.7 million, or 24.2%, from \$2.9 million in 2001 to \$2.2 million in 2002, due primarily to a decrease in gains resulting from truck sales by the leasing operations and fewer direct sales by John Deere into the Houston, Texas market.

#### *Gross Profit*

Gross profit increased \$12.0 million, or 9.3%, from \$129.2 million in 2001 to \$141.2 million in 2002. \$5.4 million of the increase in gross profit is related to the acquisition of El Paso Trucks and Perfection Equipment Company, Inc. with the remaining attributable to same store growth. Gross profit as a percentage of sales remained flat at 18.7% in 2001 and 2002.

Gross margins on Class 8 truck sales increased from 6.1% in 2001 to 6.5% in 2002. Manufacturer's incentives for Class 8 trucks accounted for 21.3% of the gross margin in 2001 and 24.6% in 2002. Gross margins on medium-duty trucks increased from 5.2% in 2001 to 5.6% in 2002. The Company received no manufacturer incentives on medium-duty trucks in 2001 or 2002. Gross margins on used truck sales increased from 8.4% in 2001 to 9.0% in 2002. Each year the Company records a loss provision, which increases the Company's reserve for new and used truck valuation and repossession losses. As a result of the more stable used truck market in 2002 as compared to 2001, only a \$0.5 million loss provision was recorded in 2002 compared to a \$1.2 million loss provision recorded in 2001.

Gross margins on new and used construction equipment sales declined from 11.5% in 2001 to 10.5% in 2002. The decrease in margin is primarily related to a large amount of used construction equipment that was sold at an auction, at very low margins, in 2002.

Gross margins on parts, service and body shop operations decreased from 40.7% in 2001 to 39.3% in 2002. This decrease is due to a change in the product mix. Parts sales increased as a percentage of overall sales in 2002 versus 2001. Parts sales historically have a lower gross margin than service and body shop sales. Overall, the Company's parts, service and body shop operations gross profit dollars increased from \$76.6 million in 2001 to \$83.0 million in 2002.

The increase in finance and insurance revenues and the decrease in other income, as described above, have limited direct costs and, therefore, contribute a disproportionate share of gross profit.

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

SG&A expenses increased \$9.9 million, or 9.7%, from \$101.8 million in 2001 to \$111.7 million in 2002. Approximately \$5.3 million of SG&A expense is related to the acquisitions of El Paso Trucks and Perfection Equipment Company, Inc. Same store SG&A expense increased \$4.6 million, or 4.5%, from 2001 to 2002. SG&A expenses as a percentage of sales increased from 14.7% in 2001 to 14.8% in 2002.

### *Interest Expense, Net*

Net interest expense decreased \$2.8 million, or 30.1%, from \$9.3 million in 2001 to \$6.5 million in 2002. Interest expense decreased primarily as the result of decreased levels of indebtedness due to lower floor plan liability levels.

### *Gain on Sale of Assets*

Gain on sale of assets decreased \$0.9 million, or 81.8%, from 2001 to 2002. The gain recognized in 2001 is primarily related to the sale of excess real estate not needed for the operation of the business. The gain in 2002 is primarily related to the replacement of fixed assets used in the operation of the business.

### *Income from Continuing Operations Before Income Taxes*

Income from continuing operations before income taxes increased by \$4.5 million, or 45%, from \$10.0 million in 2001 to \$14.5 million, in 2002, as a result of the factors described above.

### *Income Taxes from Continuing Operations*

Income taxes from continuing operations increased \$1.8 million, or 45%, from 2001 to 2002. The Company has provided for taxes at a 40% effective rate.

### *Loss from Discontinued Operations, Net of Income Taxes*

Loss from discontinued operations net of income taxes increased from \$2.7 million in 2001 to \$10.5 million in 2002. The loss recorded during 2001 is equal to net losses incurred in operating the Michigan construction equipment stores of \$0.3 million and net losses incurred in operating D&D of \$2.4 million. The loss recorded during 2002 includes net operating results of the Michigan construction equipment dealerships of \$0.9 million and net operating results of D&D of \$1.3 million as well as disposal costs related to the Michigan construction equipment dealerships of \$2.5 million and disposal costs related to D&D of \$5.8 million.

### **Liquidity and Capital Resources**

The Company's short-term cash needs are primarily for working capital, including inventory requirements, expansion of existing facilities and acquisitions of new facilities. These short-term cash needs have historically been financed with retention of profits and borrowings under credit facilities available to the Company. If demand for heavy-duty trucks remains strong through 2006, as predicted by the industry, the Company expects to experience net increases in cash and cash equivalents.

At September 30, 2004, the Company had working capital of approximately \$25.8 million, including \$45.7 million in cash, \$32.9 million in accounts receivable, \$161.7 million in inventories, \$8.9 million in assets held for sale, \$1.2 million in prepaid expenses and other, and \$2.8 million in deferred income taxes, offset by \$136.6 million outstanding under floor plan notes payable, \$21.7 million in current maturities of long-term debt, \$17.7 million in advances outstanding under lines of credit, \$17.2 million of trade accounts payable and \$34.3 million in accrued expenses. The aggregate maximum borrowing limits under working capital lines of credit with its primary truck lender are approximately \$13.5 million. Advances outstanding under this line of credit at September 30, 2004 were \$13.5 million, leaving no funds available for future borrowings. The Company has four separate secured lines of credit that provide for an aggregate maximum borrowing of \$18.6 million. Advances outstanding under these secured lines of credit in aggregate were \$7.1 million, leaving \$11.5 million available for future borrowings as of September 30, 2004.

The Company has a commitment for construction of a new dealership for our Mobile, Alabama location. The total estimated cost of this dealership is \$2.6 million. As of September 30, 2004, approximately \$1.4 million has been paid for the construction of the dealership and purchase of the land. Construction is expected to be complete in the first quarter of 2005. The Company has no other material commitments for capital expenditures as of September 30, 2004. 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 new buildings and expansion of facilities based on market opportunities.

For the first nine months of 2004, operating activities resulted in net cash used by operations of approximately \$1.7 million. Cash provided by operations was primarily due to income from continuing operations of \$11.9 million, coupled with the provision for depreciation and amortization of \$11.9 million and an increase in accounts payable and accrued expenses of \$7.1 million which was offset by increases in accounts receivable of \$8.4 million and increases in inventories of \$24.5 million. The increase in accounts receivable is directly related to the increase in and timing of truck sales.

During the first nine months of 2004, the Company used \$22.4 million in investing activities. This consisted primarily of purchases of property and equipment of \$23.5 million and business acquisitions of \$3.5 million offset by proceeds from the sale of property and equipment of \$4.7 million. Approximately \$6.2 million was used for the replacement of the corporate aircraft, \$4.6 million was used for routine replacement of capital equipment, and \$8.4 million was used for the purchase of leasing trucks. The remaining amount was used for purchasing dealership property and remodeling existing dealerships.

Net cash provided by financing activities in the third quarter of 2004 amounted to \$35.4 million. Net cash provided by financing activities was primarily due to proceeds from notes payable of \$19.8 million, net draws of floor plan notes payable of \$28.3 million and proceeds from the exercise of employee and director stock options of \$8.0 million, offset by principal payments on notes payable of \$20.6 million.

Substantially all of the Company's truck purchases from PACCAR are made on terms requiring payment within 15 days or less from the date the trucks are shipped from the factory. The Company finances substantially all of the purchase price of its new truck inventory, and 75% of the loan value of its used truck inventory, under a floor plan arrangement with GMAC under which GMAC pays PACCAR directly with respect to new trucks. The Company makes monthly interest payments to GMAC on the amount financed, but is not required to commence loan principal repayments prior to the sale of new vehicles for a period of 12 months or for a period of three months for used vehicles. On September 30, 2004, the Company had approximately \$127.8 million outstanding under its floor plan financing arrangement with GMAC. GMAC permits the Company to earn interest on overnight funds deposited by the Company with GMAC at the prime rate less 0.90%. The Company is permitted to earn interest on overnight funds of up to 10.0% of the amount borrowed under its floor plan financing arrangement with GMAC.

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 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 period, the Company is required to repay the principal within approximately ten days of the sale. If the equipment financed by John Deere is not sold within the interest free period, it is transferred to the Citicapital floor plan arrangement. The Company makes principal payments for sold inventory to Citicapital on the 15<sup>th</sup> day of each month. Used and rental equipment is financed to a maximum 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 equipment as book value reduces. Principal payments for sold used equipment are made on the 15<sup>th</sup> day of each month following the sale. The loans are collateralized by a lien on the equipment. The Company's floor plan agreements limit the aggregate amount of borrowings based on the book value of new and used equipment units. As of September 30, 2004, the Company's floor plan arrangement with Citicapital permits the financing of up to \$10.5 million in construction equipment. On September 30, 2004, the Company had \$3.5 million outstanding under its floor plan financing arrangements with John Deere and \$5.3 million outstanding under its floor plan financing arrangement with Citicapital.

#### *Backlog*

On September 30, 2004, the Company's backlog of truck orders was approximately \$330.0 million as compared to a backlog of truck orders of approximately \$140.0 million on September 30, 2003. The Company includes confirmed orders in its backlog. It currently takes between 60 days and six months for the Company to receive delivery from PACCAR once an order is placed. The Company sells approximately 70% of its new heavy-duty trucks by customer special order, with the remainder sold out of inventory. Orders from a number of the Company's major fleet customers are included in the Company's backlog as of September 30, 2004.

#### *Seasonality*

The Company's heavy-duty truck business is moderately seasonal. Seasonal effects on new truck sales related to the seasonal purchasing patterns of any single customer type are mitigated by the Company's diverse customer base, including small and large fleets, governments, corporations and owner operators. However, truck parts and service operations historically have experienced higher volumes of sales in the second and third quarters.

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

#### *Cyclical*

The Company's business, as well as the entire retail heavy-duty truck industry, is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, economic recessions, government regulation and customer business cycles. In addition, unit sales of new trucks have historically been subject to substantial cyclical variation based on such general economic conditions. According to R.L. Polk, industry-wide domestic retail sales of Class 8 trucks resulted in approximately 145,000 new Class 8 truck registrations in 2003. A.C.T. Research, Inc., a heavy-duty truck industry data forecasting services provider, forecasts heavy-duty new truck sales to increase to approximately 200,600 units during 2004. The Company believes that its geographic expansion, concentration on high margin parts and service operations, and diversity of its customer base will reduce the overall impact to the Company resulting from general economic conditions and cyclical trends affecting the heavy-duty truck industry. However, the Company's operations will be affected by any general economic conditions or cyclical trends, either positive or negative, affecting the heavy-duty truck industry.



## 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 entire U.S. retail heavy-duty truck market which is dependent on 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 R.L. Polk, an industry research and publication firm, the overall domestic heavy-duty truck market decreased from approximately 253,000 new Class 8 unit sales in 1999 to approximately 145,000 new Class 8 unit sales in 2003 (a 13.0% compounded decrease). During 2003, domestic heavy-duty truck sales decreased approximately 2.8% from 2002 and are expected to increase to approximately 200,600 units during 2004 according to A.C.T. Research. Our primary product line is Peterbilt trucks, which, according to R.L. Polk, accounted for approximately 12.3% of all new heavy-duty truck registrations in 2003. Historically, Peterbilt's market share in areas served by our dealerships has been significantly higher than its national average.

As a result of our aggressive sales approach, new store openings and acquisitions in new markets, our share of the heavy-duty truck market increased from approximately 2.0% of the overall heavy-duty market share in the United States to an overall heavy-duty market share in the United States of 2.5% in 2003.

Typically, Class 8 trucks are assembled by the manufacturer utilizing certain components manufactured by other companies, including engines, transmissions, axles, wheels and other components. As trucks and truck components have become increasingly complex, including the use of computerized controls and diagnostic systems, the ability to provide state-of-the-art service for a wide variety of truck equipment has become a competitive factor in the industry. Such service requires a significant capital investment in advanced equipment, parts inventory and a high level of training of 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 the trend of leasing and renting Class 8 trucks will continue as fleets, particularly private fleets, seek to establish full-service leases or rental contracts which provide for turn-key service including equipment, maintenance, and potentially, fuel, fuel tax reporting and other services. As a result, differentiation between truck dealers has become less dependent on pure price competition and is increasingly based on their ability to offer a wide variety of services to their clients. Such services include easily accessible, efficient and sophisticated truck service and 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 concept and the size and 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 approximately \$3,000 to \$8,000 per unit and possibly reduced the operating efficiency and life of heavy-duty trucks. As a result, the Company experienced stronger than usual truck sales during the second half of 2002 as customers made purchases of trucks manufactured under the "old" emission laws. This accelerated demand in the second half of 2002 was followed by a short-term decrease in demand during the first half of 2003.

Subsequent to the guidelines that were effective October 1, 2002, the EPA has placed additional guidelines, further restricting the emissions of nitrous oxides for all engines built subsequent to January 1, 2007. Historically, the industry has experienced an accelerated demand for trucks in the months preceding the effective date of the change in EPA guidelines, followed by a short-term decrease in demand in the months subsequent to the change. The Company does not expect the change in emission guidelines to have an effect on its 2004 results from operations. The Company believes it is too early to determine how the change in emission guidelines will affect its results from operations subsequent to 2004.

Subsequent to this expected short-term decline in demand, industry sales improved during the second half of 2003. The heavy-duty truck industry as a whole is expected to deliver approximately 200,600 new trucks in the United States during 2004, compared to approximately 145,000 new trucks in 2003 and 150,000 new trucks in 2002. The 2002 and 2003 new heavy-duty truck sales totals were the lowest heavy-duty truck sales totals in the last nine years. We believe that the new heavy-duty truck sales industry will begin to improve in 2004 and that we will perform at a level above our competitors.

Management believes the long-term growth prospects for the heavy-duty truck industry remain positive. Factors, which management believes favor the continued long-term growth in the heavy-duty truck industry, include the following:

- growth in demand for consumer and industrial goods, in part as a result of the Internet, which has fostered a desire by consumers to receive home delivery of a wider selection of packages;
- competitive pressures for "just in time" manufacturing processes where U.S. manufacturers are demanding faster, yet less costly, small shipment services;
- deregulation in the trucking industry leading to a proliferation of freight haulers;
- the rise of intermodal service which utilizes the inherent advantages of both highway and rail transportation to provide consumers with a consistent and low cost method to transport their goods; and
- the significant increase of cross-border truck traffic between Mexico and the United States since NAFTA became effective in January 1994.

#### *Medium-Duty Truck Market*

Several of our Rush Truck Centers offer medium-duty trucks manufactured by Peterbilt, GMC, Hino, UD (Nissan) or Isuzu, as well as parts and service. 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 over night. 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.

The average sales price of a medium-duty truck sold by our dealerships through September 30, 2004 was approximately \$52,000. Gross profit margins for medium-duty trucks are typically the same as those for heavy-duty trucks. A.C.T. Research estimates that retail sales of Class 4 through 7 medium-duty trucks totaled 246,530 units in 2003. We plan to expand our share of this market by adding new product lines, dealership locations and sales personnel. For example, we recently initiated sales of Hino medium-duty trucks at our new Dallas, Texas full service dealership.

#### *Construction Equipment Market*

Through our Rush Equipment Center, which is an authorized John Deere dealer, we serve the Houston, Texas and surrounding area for retail sales of construction equipment targeted towards light and medium applications. According to data compiled by John Deere, approximately 1,656 units of construction equipment were put into use in our area of responsibility in 2003 compared to 1,387 in

2002. The construction equipment industry expects to sell approximately 1,700 to 1,800 new construction equipment units in the Houston area during 2004. The Company's market share in the Houston area was 17.5% in 2003 and 14.6% in 2002.

Our Rush Equipment Center has the exclusive right to sell new John Deere 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.

The customer base of John Deere equipment users is diverse and 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 fleet owners.

Market factors affecting the construction equipment industry include the following:

- levels of commercial, residential, and public construction activities;
- state and federal highway and road construction appropriations; and
- the consolidation and growth of the construction equipment rental business.

## BUSINESS

We are a full-service, integrated retailer of heavy-duty and medium-duty trucks and construction equipment and related services. As the leading dealer of trucks manufactured by Peterbilt Motors Company, a division of PACCAR, Inc., we sold approximately 20.3% of all the new Class 8 Peterbilt trucks sold in the United States in 2003. In 1997, we acquired our first John Deere construction equipment dealership in Houston, Texas and thereafter we acquired five John Deere construction equipment dealerships in Michigan. We sold our five Michigan construction equipment dealerships during 2002. Through our strategically located network of Rush Truck Centers and our Rush Equipment Center, we provide one-stop service for the needs of our customers, including retail sales of new and used transportation and construction equipment, aftermarket parts sales, service and repair facilities and financing, leasing and rental, and insurance services.

### Business Strategy

*Operating Strategy.* Our strategy is to operate an integrated dealer network that primarily markets Peterbilt heavy-duty trucks, medium-duty trucks and John Deere construction equipment and provides complementary products and services. Our strategy includes the following key elements:

- One-Stop Centers. We have developed our truck and construction equipment dealerships as "one-stop centers" where, at one convenient location, our customers can purchase new or used trucks or construction equipment; finance, lease or rent trucks or construction equipment; purchase aftermarket parts and accessories and have service performed by certified technicians. We believe that this full service strategy also helps to mitigate cyclical economic fluctuations because the parts and service sales at our dealerships generally tend to be less volatile than our new and used truck and construction equipment sales.
- Branding Program. We employ a branding program for our dealerships through distinctive signage and uniform marketing programs, to take advantage of our existing name recognition and to communicate the standardized high quality of our products and reliability of our services throughout our dealership network.
- Management by Dealership Units. Our dealership general managers measure and manage the business operations of each of our dealerships according to the specific business units operating at that location. At each of our dealerships, we operate one or more of the following business units: new sales, used sales, parts, service, body shop, leasing, rental and financial services. We believe that this system enhances the profitability of all aspects of a dealership and increases our overall operating margins. Operating goals for each business unit at each of our dealerships are established annually and managers are rewarded for performance accordingly.
- Integrated Management Information Systems. In order to efficiently operate separate business units within each dealership, we rely upon our management information systems to determine and monitor appropriate inventory levels and product mix at each Rush Truck Center. Each Rush Truck Center maintains a centralized real-time inventory tracking system that is accessible simultaneously by all locations. Our automated reordering system assists each Rush Truck Center in maintaining the proper inventory levels and permits inventory delivery to each location, or directly to customers, typically within 24 hours from the time the order is placed. In addition, by actively monitoring market conditions, assessing product and expansion strategies and remaining abreast of changes within the market, we are able to proactively address market-by-market changes by realigning and, if necessary, adding product lines and models.

*Growth Strategy.* Through our expansion and acquisition initiatives, we have grown to operate a large, multistate, full-service network of heavy-duty truck dealerships. As described below, we intend to continue to grow our business internally and through acquisitions by: expanding into new geographic

areas, expanding our product offerings and capabilities and opening new truck and equipment centers in existing markets.

- Expansion into New Geographic Areas. We plan to continue to expand our network and build a Rush Equipment Center network by acquiring additional dealerships in geographic areas contiguous to our current operations or otherwise strategically located along major interstate highways. Thus far, we have successfully expanded our presence from our Texas base into a coast-to-coast network of Rush Truck Centers. We believe the geographic diversity of our network has significantly expanded our customer base while ameliorating the effects of local economic cycles. Geographic diversification supports the sale of trucks and parts by allowing us to allocate our inventory among the geographic regions we serve based on market demand within these regions.
- Expansion of Product Offerings and Capabilities. We intend to continue to expand our product lines within our Rush Truck Centers and our Rush Equipment Center by adding product categories that are both complementary to our Peterbilt and John Deere product lines and well suited to our operating model. For example, we expanded into the construction equipment industry based on a common customer base among our heavy-duty truck and construction equipment purchasers. We have also introduced trailer repair and maintenance services and the sale of truck-mounted cranes at certain Rush Truck Centers. Other recent product line expansions include the introduction of Hino and UD (Nissan) medium-duty truck franchises.

We believe that there are many additional similar product and service offerings that complement our primary product lines. We expect any product category expansion that we pursue to satisfy our requirements that:

- the products are of a premium brand;
  - the products provide opportunities for incremental income through related servicing, aftermarket sales or financing; and
  - Rush operating controls can be implemented to enhance the financial performance of the business.
- Open New Rush Truck and Equipment Centers in Existing Markets. We believe that there are opportunities to increase our share of the heavy-duty truck and construction equipment markets by introducing our one-stop centers to underserved markets within the southern United States. Additional dealerships would enable us to enhance revenues from our existing customer base as well as increase the awareness of the "Rush" brand name for new buyers. We believe there would also be opportunities for cost savings by integrating the inventory management and operations of these new locations with those of our existing network.

In identifying new areas for expansion, we analyze the target market's level of new heavy-duty truck registrations and construction equipment purchases, customer buying and leasing trends and the existence of competing franchises. We also assess the potential performance of a parts and service center to determine whether a market is suitable for a Rush dealership. After a market has been strategically reviewed, we survey the region for a well-situated location. Whether we acquire existing dealerships or open new dealerships, we will introduce the Rush branding program and implement our integrated management system.

## Management of Our Dealerships

We manage our dealerships as described below.

### *Rush Truck Centers*

Our Rush Truck Centers are responsible for sales of new and used heavy-duty and medium-duty trucks, as well as related parts and services.

New Truck Sales. New heavy-duty truck sales represent the largest portion of our business, accounting for approximately \$368.1 million, or 45.1%, of our total revenues for 2003. Rush Truck Centers primarily sell new Class 8 heavy-duty Peterbilt trucks, which constitute more than 95% of all new trucks we sell. The average delivery times for custom-ordered new Peterbilt trucks can vary between 30 days to six months. We also sell Class 7 and Class 6 Peterbilt trucks, Peterbilt refuse chassis and cement mixer chassis, GMC, Hino, Isuzu and UD (Nissan) medium-duty trucks and, at our Tulsa Rush Truck Center, Class 8 heavy-duty trucks manufactured by Volvo Trucks of North America, Inc. ("Volvo"). Medium-duty truck sales accounted for approximately \$48.9 million, or 6.0%, of our total revenues for 2003. Our customers use heavy-duty and medium-duty trucks to haul a variety of materials, including general freight, petroleum, wood products, refuse and construction materials.

A majority of our new truck sales are to fleet customers (customers who purchase more than five trucks in any 12-month period). Because of our large size, strong relationships with our fleet customers and ability to handle large quantities of used truck trade-ins, we are able to successfully market and sell to fleets nationwide. We believe that we have a competitive advantage over most other dealers in that we can absorb multiunit trade-ins often associated with fleet sales of new trucks and effectively disperse the used trucks for resale throughout our dealership network. We believe that our attention to customer service and our broad range of trucking services, including our ability to offer truck financing and insurance to our customers, has resulted in a high level of customer loyalty. We believe that approximately 70% of our truck sales in 2003 were to repeat customers.

Used Truck Sales. Used truck sales accounted for approximately \$80.7 million, or approximately 9.9%, of our total revenues for 2003. We primarily sell used Class 8 heavy-duty trucks manufactured by the leading truck manufacturers in the industry, including, but not limited to, Peterbilt; Kenworth Truck Co., a division of PACCAR, Inc. ("Kenworth"); Volvo; Freightliner Corporation, a subsidiary of Daimler Chrysler AG ("Freightliner"); Mack Trucks, Inc. ("Mack") and Navistar International Corporation ("Navistar"). We believe that we are well positioned to market used heavy-duty trucks due to our ability to recondition used trucks for resale utilizing the parts and service departments at our Rush Truck Centers and to reallocate our used truck inventory from one Rush Truck Center to another in order to satisfy customer demand. The majority of our used truck fleet is comprised of trucks taken as trade-ins from new truck customers to be used as all or part of such customer's down payment; the remainder of our used truck fleet is purchased from third parties for resale.

Truck Parts and Service. Truck-related parts and service revenues accounted for approximately \$233.0 million, or approximately 28.6%, of our total revenues for 2003. We are the sole authorized Peterbilt parts and accessories supplier in each of the geographic territories serviced by our Rush Truck Centers. The parts business augments our sales and service functions and is a source of recurring revenue. Each Rush Truck Center carries a wide variety of Peterbilt and other truck parts in its inventory, with an average of approximately 5,000 items from over 50 suppliers at each location. Rush Truck Centers offer "menu" pricing of service and body shop functions and expedited service at a premium price for certain routine repair and maintenance functions.

Our Rush Truck Centers also feature various combinations of fully equipped service and body shop facilities, the combination and configuration of which varies by location, capable of handling a broad range of truck repairs on most makes and classes of trucks. Each Rush Truck Center is a Peterbilt

designated warranty service center and most are also authorized service centers for other manufacturers, including the following: Caterpillar, Inc. ("Caterpillar"); Cummins Engine, Inc. ("Cummins"); Detroit Diesel Corporation ("Detroit Diesel"); Eaton Corporation and Rockwell International Corporation. We have approximately 500 service bays, including 18 paint booths, throughout our Rush Truck Center network.

We perform both warranty and nonwarranty service work. The cost of warranty work is reimbursed by the manufacturer at retail consumer rates. We estimate that approximately 18% of our truck service functions are performed under manufacturers' warranties. All service performed at our Rush Truck Centers is done by technicians who have been certified by our truck or component suppliers.

Truck Leasing and Rental. Truck leasing and rental revenues accounted for approximately \$33.1 million, or 4.1%, of our total revenues for 2003. We engage in full-service Peterbilt truck leasing under the PacLease trade name at eight of our Rush Truck Centers and are the largest PacLease dealer in the United States. Leasing and rental customers contribute to additional parts sales and service work at Rush Truck Centers because all of our leases require all service and maintenance for the leased trucks to be performed at our facilities (or at facilities outside our service area, as we direct). Rented trucks are also generally serviced at our facilities. We have increased our lease and rental fleet, including contract maintenance, from less than 100 trucks in 1993 to approximately 1,397 trucks as of December 31, 2003. As of December 31, 2003, we owned approximately 51% of our lease and rental fleet, and leased the remaining trucks in our fleet directly from PACCAR Financial. Currently, the average age of the trucks in our lease and rental fleet is approximately 33 months. Generally, we hold trucks in our lease and rental fleet for approximately five years and then sell them to the public through our used sales operations at our Rush Truck Centers. Historically, we have realized gains on the sale of those trucks in excess of the cost of the purchase option contained in our leases with Peterbilt or the book value of trucks owned by the Company.

Insurance Agency Services. We sell a complete line of property and casualty insurance to our customers as well as to the general trucking public. Our agency is licensed to sell truck liability, general liability, collision and comprehensive, workers' compensation, cargo, credit life and health and occupational accident insurance coverages throughout the Rush operating territory. We serve as sales representatives for a number of leading insurance companies including the Great American Insurance Companies, Hartford Insurance Group and American General Financial Group. Our average renewal rate during 2003 was 72%.

#### *Rush Equipment Center*

Our Rush Equipment Center in Houston, Texas is responsible for sales of new and used construction equipment as well as related parts and services.

New Construction Equipment Sales. New construction equipment sales accounted for approximately \$25.5 million, or 3.1%, of our total revenues for 2003. Our Rush Equipment Center carries a complete line of John Deere construction equipment. A new piece of John Deere construction equipment typically ranges in price from \$20,000 for a skidsteer to \$500,000 for an excavator. We carry a full line of complementary construction equipment manufactured by other suppliers to augment our John Deere product line. We sell construction equipment to a diverse customer base including residential and commercial construction businesses, utility companies, government agencies, and various petrochemical, industrial and material supply businesses.

We believe that John Deere's reputation for manufacturing quality construction equipment attracts new and repeat customers who value lower maintenance and repair costs and a higher residual value at trade-in. We increase this product loyalty with an operating strategy similar to the operating strategy used by our Rush Truck Centers that focuses on providing fast, reliable service. We believe that our operating strategy will enable us to both increase our customer base and generate repeat business for all product offerings.

Used Construction Equipment Sales. Used construction equipment sales accounted for approximately \$2.8 million, or 0.3%, of our total revenues for 2003. We sell used construction equipment manufactured by several of the leading manufacturers, including John Deere, Case Corporation ("Case"), Caterpillar, and Komatsu, Ltd. ("Komatsu"). Our used construction equipment inventory is derived from trade-ins from our construction equipment customers and purchases from third parties.

Construction Equipment Parts and Service. Construction equipment-related parts and service revenues accounted for approximately \$11.8 million, or 1.4%, of our total revenues for 2003. Our Rush Equipment Center carries in its inventory a wide variety of John Deere and other parts, with over 13,000 items from over 15 suppliers. We are the sole authorized John Deere parts and accessories supplier in the Rush Equipment Center geographic territory. We maintain a fully equipped John Deere designated warranty service operation capable of handling repairs on most types of construction equipment at our Rush Equipment Center. We enhance our service presence with field service trucks and technicians who are capable of making on-site repairs at our customers' locations.

Construction Equipment Rental. Construction equipment rental revenues accounted for approximately \$0.6 million, or 0.07%, of our total revenues for 2003. Our rental contracts require that all parts sales, service and maintenance for our rental construction equipment be performed at our facilities or at other facilities as we direct. Thus, construction equipment rental customers create additional parts sales and service work at our Rush Equipment Center. Our construction equipment rental fleet consisted of approximately 12 pieces of equipment as of December 31, 2003. Currently, the average age of the construction equipment in our rental fleet is approximately 25 months.

We offer our customers both long-term and short-term rentals, as well as rental purchase options. We believe that the availability of a well-maintained rental fleet allows our customers to more effectively manage their business operations and assets by obtaining construction equipment on an as-needed basis.

#### *Financial and Insurance Services*

At our Rush Truck Centers and our Rush Equipment Center we have personnel responsible for arranging third-party financing and insurance for both our heavy-duty truck and construction equipment product offerings.

We offer our customers packages that assist them in purchasing new or used trucks and construction equipment. The sale of financial and insurance products accounted for approximately \$6.3 million, or 0.8%, of our total revenue for 2003. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of our operating profits.

New and Used Truck and Construction Equipment Financing. Primarily through Citicapital and PACCAR Financial, we arranged customer financing of approximately \$147.4 million, an increase of 14.7% from approximately \$128.5 million in 2002. Approximately 79% of these truck finance contracts related to new truck sales and the remainder related to used truck sales. Generally, truck finance contracts are memorialized through the use of installment contracts, which are secured by the trucks financed, and generally require a down payment of 10% to 30% of the value of the financed truck, with the remaining balance financed over a two to five-year period. The majority of finance contracts are sold without recourse to the Company. The Company's recourse liability, related to finance contracts sold with recourse to the Company, is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. However, the Company recently instituted a full recourse finance program that accepts 100% liability, with some restrictions of the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this full recourse finance program, a customer must meet strict credit requirements or

maintain a significant equity position in the truck being financed, therefore, the Company does not expect to finance a significant percentage of its truck sales under this full recourse finance program. The Company provides for an allowance for repossession losses and early repayment penalties.

In addition, through The CIT Group, Citicapital, John Deere Credit and others, we arranged customer financing for approximately \$17.7 million, or 62.6%, of our total new and used construction equipment sales in 2003. Generally, construction equipment finance contracts are memorialized through the use of installment or lease contracts, which are secured by the construction equipment financed, and generally require a down payment of 0% 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. All finance contracts for construction equipment are assigned without recourse.

## **Sales and Marketing**

Our established expansion and acquisition strategy and long history of operations in the heavy-duty truck business have resulted in a strong customer base that is diverse in terms of geography, industry and scale of operations. Rush Truck Centers' customers include owner-operators, regional and national fleets, corporations and local governments. During 2003, no single customer of our Rush Truck Centers accounted for more than 10% of our total truck sales by dollar volume. Our Rush Equipment Centers' customer base is similarly diverse and, during 2003, no single Rush Equipment Center customer accounted for more than 10% of our total construction equipment sales by dollar volume. We generally promote our products and related services through our sales staff, trade magazine advertisements and attendance at industry shows.

We believe that the consistently reliable service received by our customers, our longevity and our geographic diversity have resulted in increased market recognition of the "Rush" brand name and have served to reinforce customer loyalty. During 2003, the majority of our truck sales were to repeat customers. In an effort to enhance our name recognition and to communicate the standardized high level of quality products and services provided at our Rush Centers, we implement our "Rush" brand name concept at each of our dealerships. Each of our dealerships is identified as either a Rush Truck Center or Rush Equipment Center. In Houston, Texas, we are making a concerted effort to target our products and services to existing truck customers that are also involved in the construction business.

## **Facility Management**

*Personnel.* Each Rush Truck Center and the Rush Equipment Center is managed by a general manager who oversees the operations, personnel and the financial performance of the location, subject to the direction of our corporate office. Additionally, each Rush Truck Center is typically staffed by a sales manager, parts manager, service manager, sales representatives, parts employees, and other service and makeready employees. The sales staff of each Rush Truck Center and the Rush Equipment Center is compensated on a salary plus commission basis, with a high percentage of compensation based on commission, while the general manager, parts manager and service manager receive a combination of salary and performance bonus, with a high percentage of compensation based on the performance bonus. We believe that our employees are among the highest paid in their respective industries.

General managers annually prepare detailed monthly forecasts and monthly profit and loss statements based upon historical information and projected trends. An element of each general manager's compensation is determined by meeting or exceeding these operating plans. During the year, general managers regularly review their facility's progress with senior management and make appropriate adjustments as needed. Most of our employees receive annual performance evaluations.

We have been successful in retaining our senior management, general managers and other employees. To promote communication and efficiency in operating standards, general managers and

members of senior management attend several company-wide strategy sessions per year. In addition, management personnel attend various industry-sponsored leadership and management seminars and receive continuing education on Peterbilt products, John Deere products, marketing strategies and management information systems.

Members of senior management regularly travel to each location to provide on-site management and support. Each location is audited regularly for administrative record-keeping, human resources and environmental compliance matters. The Company has instituted succession planning pursuant to which employees in each Rush Truck Center and the Rush Equipment Center are groomed as assistant managers to assume management responsibilities in existing and future dealerships.

*Purchasing and Suppliers.* We believe that pricing is an important element of our marketing strategy. Because of our size, our Rush Truck Centers benefit from volume purchases at favorable prices that permit them to achieve a competitive pricing position in the industry. We purchase our Peterbilt heavy-duty truck inventory and Peterbilt parts and accessories directly from PACCAR. All other manufacturers' parts and accessories, including those of Cummins, Detroit Diesel, Caterpillar and others, are purchased through wholesale vendors or from PACCAR, who buys such products in bulk for resale to us and other Peterbilt dealers. All purchasing, volume and pricing levels and commitments are negotiated by personnel at our corporate headquarters. We have been able to negotiate favorable pricing levels and terms, which enables us to offer competitive prices for our products.

We purchase all of our John Deere construction equipment inventory and John Deere parts directly from John Deere.

*Management Information Systems.* Each Rush Truck Center and the Rush Equipment Center maintains a centralized real-time inventory tracking system which is accessible simultaneously by all locations and by our corporate office. We utilize our management information systems to monitor the inventory level at each of our dealerships. From information assimilated from management information systems, management has developed a model reflecting historic sales levels of different product lines. This model enables management to identify the appropriate level and combination of inventory and forms the basis of our operating plan. Our management information systems and databases are also used to monitor market conditions and sales information and assess product and expansion strategies.

Information received from state and regulatory agencies, manufacturers and industry contacts allows us to determine market share statistics and gross volume sales numbers for our products as well as those of competitors. This information impacts ongoing operations because management remains aware of changes within our market and is able to react accordingly by realigning product lines and by adding new product lines and models.

*Distribution and Inventory Management.* We utilize our real-time inventory management tracking system to maintain a close link between each Rush Truck Center. This link allows for a timely and cost-effective sharing of managerial and sales information as well as the prompt transfer of inventory among various locations. The transfer of inventory reduces delays in delivery, helps maximize inventory turns and assists in controlling problems created by overstock and understock situations. We are linked directly to our major suppliers, including PACCAR, GMC, and John Deere via real-time communication links for purposes of ordering and inventory management. These automated reordering and communication systems allow us to maintain proper inventory levels and permit us to have inventory delivered to our locations, or directly to customers, typically within 24 hours of an order being placed.

## Recent Acquisitions and Dispositions

In November 2003, we sold certain assets of our wholly owned subsidiary, Rush Truck Centers of Louisiana, Inc. The transaction was valued at approximately \$5.5 million and paid in cash. We recognized a gain on sale of assets of approximately \$1.6 million in the fourth quarter of 2003.

In April 2003, we purchased substantially all of the assets of Peterbilt of Mobile, Inc., which consisted of a Peterbilt dealership in Mobile, Alabama. Peterbilt of Mobile, Inc.'s primary line of business is the sale of new Peterbilt Class 8 trucks, used heavy-duty trucks, parts and service. The transaction was valued at approximately \$1.4 million, with the purchase price paid in cash.

In February 2003, we acquired the common stock of Orange County Truck and Trailers, Inc., a Peterbilt dealer in central Florida. The acquisition provided Rush with the right to sell Peterbilt trucks and parts in Central Florida from locations in Orlando, Haines City, and Tampa, Florida. The transaction was valued at approximately \$5.4 million, with the purchase price paid in cash.

In November 2002, we decided to sell our Michigan John Deere construction equipment stores as a result of continuing deterioration in the Michigan construction equipment market and the location of the stores in relation to our other operations and plans for future expansion. The sale of the Michigan construction equipment stores was substantially complete at December 31, 2002. Our Rush Equipment Center in Houston, Texas continues to provide a full line of construction equipment for light to medium sized applications.

In November 2002, we also decided to discontinue our retail segment, which operated three D&D farm and ranch retail stores in Denton, Hockley and Seguin, Texas. We decided that the retail segment did not fit into our long-term plans of growing our core truck and construction equipment businesses. The Denton store was closed in December 2002; and the Hockley store began liquidating inventory during November 2002 and completed the liquidation in March 2003. The Company is actively marketing the Seguin store and expects to sell the store by the end of 2004.

In November 2001, we acquired the assets of Perfection Equipment Company, Inc. Perfection's primary lines of business are light-duty and medium-duty truck accessory and up-fitting, oil and gas up-fitting, and parts distribution. The transaction was valued at approximately \$4.2 million, with the purchase price paid in cash.

In August 2001, the Company purchased substantially all of the assets of El Paso Great Basin Trucks, Inc., which consisted of dealerships located in El Paso, Texas and Las Cruces, New Mexico. El Paso Trucks' primary line of business is the sale of new Peterbilt and used heavy-duty trucks, parts and service. The transaction was valued at approximately \$2.5 million, with the purchase price paid in cash.

## Competition

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

- the accessibility of dealership locations;
- the number of dealership locations;
- price, value, quality and design of the products sold; and
- attention to customer service (including technical service).

Our new truck products compete with trucks made by other manufacturers and sold through competing independent and factory-owned truck dealerships, including trucks manufactured by Navistar, Mack, Freightliner, Kenworth, Volvo, Ford Motor Company, Western Star Truck

Holdings, Ltd., and other manufacturers. Kenworth heavy-duty trucks are also manufactured by PACCAR, Peterbilt's parent company, but are distributed through a different network of competing dealers. Our construction equipment products compete with construction equipment manufactured by Case, Caterpillar and Komatsu, as well as other manufacturers. We believe that we are competitive in all of the dealer categories identified above, and that we are able to compete with manufacturer-dealers, independent dealers and wholesalers, rental service companies and industrial auctioneers in distributing our products on the basis of: overall product quality and reputation; "Rush" brand name recognition and reputation for reliability; and our ability to provide comprehensive full parts and service support, as well as financing, insurance and other customer services.

## **Dealership Agreements**

*Peterbilt.* We have entered into nonexclusive dealership agreements with Peterbilt which authorize us to act as a dealer of Peterbilt heavy-duty trucks. Our areas of responsibility currently encompass 37 locations in the states of California, Colorado, Texas, Oklahoma, Arizona, Florida, Alabama and New Mexico. These dealership agreements have current terms expiring between December 2005 and October 2006 and impose certain operational obligations and financial requirements upon us and our dealerships. These agreements are terminable by Peterbilt upon a change of control of the Company, as such term is described in each agreement, and grant Peterbilt rights of first refusal under certain circumstances relating to any sale or transfer of our dealership locations or if certain Rush family members desire to sell more than 100,000 shares of our voting common stock within a 12-month period to anyone other than family members or certain other specified persons (see "Risk Factors—Our dealership agreements impose a number of restrictions and obligations on us and may be terminable upon a change of control."). Any termination or nonrenewal of these dealership agreements by Peterbilt must follow certain guidelines established by both state and federal legislation designed to protect dealers such as Rush from arbitrary termination or nonrenewal of franchise agreements. The Automobile Dealers Day in Court Act and other similar state laws provide that the termination or nonrenewal of a dealership agreement must be done in "good faith" and upon a showing of "good cause" by the manufacturer for such termination or nonrenewal, as such terms have been defined by statute and case law.

*John Deere.* We have entered into a nonexclusive dealership agreement with John Deere which authorizes us to act as a dealer of John Deere construction, utility and forestry equipment. This John Deere dealership agreement has no specified term or duration. Our current area of responsibility for the sale of John Deere construction equipment is the greater Houston, Texas metropolitan area. The John Deere dealership agreement imposes operational obligations and financial requirements of the Company. Like the dealership agreements with Peterbilt, the dealership agreement with John Deere is terminable upon a change of control of the Company, grants limited rights of first refusal and imposes certain financial requirements.

*Other Truck Suppliers.* In addition to our truck dealership agreements with Peterbilt, we are also an authorized dealer of Volvo trucks at our Rush Truck Center in Tulsa, Oklahoma, and have nonexclusive dealership agreements with GMC for the sale of GMC medium-duty trucks at our Rush Truck Centers in San Antonio, Houston, Austin and El Paso, Texas; Oklahoma City and Tulsa, Oklahoma; San Diego, California; and Phoenix and Tucson, Arizona. The Company has dealership agreements with UD (Nissan) for the sale of medium-duty trucks at our Rush Truck Centers in Fontana and Sylmar, California; Austin, Texas; and Winter Garden, Florida. We have a dealership service agreement with UD (Nissan) for the service of medium-duty trucks at our Pico Rivera, California Rush Truck Center. We have a dealership agreement with Isuzu for the sale of medium-duty trucks at our Rush Truck Center in Austin, Texas. In addition, we have a dealership agreement with Hino for the sale of Hino medium-duty trucks at our Rush Truck Centers in San Antonio, Pharr, Houston, Austin and Dallas, Texas; Oklahoma City and Tulsa, Oklahoma; and San Diego, California.

Sales of non-Peterbilt medium-duty trucks accounted for less than 2.0% of our total revenues for 2003. These dealership agreements have current terms expiring between March 2005 and June 2006. These dealership agreements impose operating requirements upon us and require consent from the affected supplier for sale or transfer of such dealership agreement.

*Other Construction Equipment Suppliers.* In addition to John Deere, we are an authorized dealer for suppliers of other construction equipment. The terms of such arrangements vary, but most of these dealership agreements contain termination provisions allowing the supplier to terminate the agreement after a specified notice period (usually 180 days).

### **Floor Plan Financing**

*Trucks.* We finance substantially all of our new truck inventory and 75% of the loan value of our used truck inventory under a floor plan arrangement with GMAC. As of September 30, 2004, we had approximately \$127.8 million outstanding under our GMAC floor plan arrangement. Our GMAC floor plan facility has no expiration date and generally is renegotiated annually. The current interest rate is the prime rate less 65 basis points.

*Construction Equipment.* We finance substantially all of our new construction equipment inventory under floor plan facilities with John Deere and with Citicapital, a division of Citigroup. Our John Deere facility has no set expiration date and its interest rate is the prime rate plus 1.5%. Our Citicapital facility expires November 30, 2004 and the current interest rate is the 30-day LIBOR rate plus 3.0%. As of September 30, 2004, we had \$3.5 million outstanding under the floor plan arrangement with John Deere and \$5.3 million outstanding under the floor plan arrangement with Citicapital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

### **Product Warranties**

Both Peterbilt and John Deere provide the retail purchasers of their products with a limited warranty against defects in materials and workmanship, excluding certain specified components which are separately warranted by the suppliers of such components. We do not undertake to provide any warranty to our customers.

We generally sell our used trucks and construction equipment "as is" and without manufacturer's warranty, although manufacturers sometimes will provide a limited warranty on their used products if they have been properly reconditioned prior to resale or if the manufacturer's warranty on such product is transferable and has not yet expired. We do not undertake to provide any warranty to our used truck or used construction equipment customers.

### **Trademarks**

The Peterbilt, John Deere, Volvo, GMC, Hino, Isuzu and UD (Nissan) trademarks and trade names, which are used in connection with our marketing and sales efforts, are subject to limited licenses included in the dealership agreements that we have with each of the respective manufacturers. The licenses are for the same periods as our dealership agreements. These trademarks and trade names are recognized internationally and are important in the marketing of our products. Each licensor engages in a continuous program of trademark and trade name protection in its marketing areas. We hold a registered trademark from the U.S. Patent and Trademark Office for the name "Rush."

### **Employees**

At September 30, 2004, we employed approximately 1,960 people. We have no contracts or collective bargaining agreements with labor unions and have never experienced work stoppages. We consider our relations with our employees to be good.

## Properties

A Rush Truck Center or Rush Equipment Center may be comprised of one or more locations, generally in close proximity, in the same metropolitan area. The following is a list of our Rush Truck Center and Rush Equipment Center locations as of September 30, 2004:

| Property                           | Location                | Owned or Leased | Date Acquired or Occupied | Description of Activity and Material Lease Expiration Dates                        |
|------------------------------------|-------------------------|-----------------|---------------------------|--|
| <b>Rush Truck Centers</b>          |                         |                 |                           |  |
| <i>Alabama:</i>                    |                         |                 |                           |  |
| Rush Truck Center of Mobile        | Mobile, Alabama         | Leased          | 2003                      | New, used, parts, service, body and financial                                      |
| <i>Arizona:</i>                    |                         |                 |                           |  |
| Rush Truck Center of Phoenix       | Phoenix, Arizona        | Owned           | 1999                      | New, used, parts, service, body, financial and leasing operations for truck center |
| Rush Truck Center of Tucson        | Tucson, Arizona         | Owned           | 1999                      | New, used, parts, service and financial  |
| Rush Truck Center of Flagstaff     | Flagstaff, Arizona      | Leased          | 1999                      | Parts and service  |
| Rush Truck Center of Chandler      | Chandler, Arizona       | Leased          | 1999                      | Parts  |
| <i>California:</i>                 |                         |                 |                           |  |
| Rush Truck Center of Pico Rivera   | Pico Rivera, California | Leased          | 1994                      | New, used, parts, service, body and financial (lease term expires 11/30/2006)      |
|                                    | Pico Rivera, California | Leased          | 1999                      | Leasing  |
| Rush Truck Center of Fontana       | Fontana, California     | Owned           | 1994                      | New, parts, service, financial and leasing operations for truck center             |
|                                    | Fontana, California     | Leased          | 2003                      | Used and body (lease term expires 9/1/2023)  |
| Rush Truck Center of Sylmar        | Sylmar, California      | Owned           | 1999                      | New, used, parts, service and financial  |
| Rush Truck Center of San Diego     | San Diego, California   | Leased          | 1999                      | New, used, parts, service body and financial (lease term expires 5/31/2009)        |
|                                    | San Diego, California   | Leased          | 1999                      | Leasing  |
| Rush Truck Center of Escondido     | Escondido, California   | Leased          | 1999                      | New, used, parts, service and financial  |
| Rush Truck Center of El Centro     | El Centro, California   | Leased          | 1999                      | New, used, parts, service and financial  |
| <i>Colorado:</i>                   |                         |                 |                           |  |
| Rush Truck Center of Denver        | Denver, Colorado        | Owned           | 2000                      | New, used, parts, service, body, financial and leasing operations for truck center |
| Rush Truck Center of Greeley       | Greeley, Colorado       | Leased          | 1997                      | New, used, parts, service and financial  |
| <i>Florida:</i>                    |                         |                 |                           |  |
| Rush Truck Center of Winter Garden | Winter Garden, Florida  | Leased          | 2003                      | New, used, parts, service and financial (lease term expires 9/14/2009)             |
| Rush Truck Center of Haines City   | Haines City, Florida    | Leased          | 2003                      | New, used, parts, service and financial (lease term expires 1/31/2013)             |

|                                    |                         |        |      |   |
|------------------------------------|-------------------------|--------|------|---|
| Rush Truck Center of Tampa         | Tampa, Florida          | Leased | 2003 | New, used, parts, service and financial (lease term expires 5/31/2009)  |
| <i>New Mexico:</i>                 |                         |        |      |   |
| Rush Truck Center of Albuquerque   | Albuquerque, New Mexico | Owned  | 2003 | New, used, parts, service, body and financial   |
| Rush Truck Center of Las Cruces    | Las Cruces, New Mexico  | Leased | 2001 | Parts and service   |
| <i>Oklahoma:</i>                   |                         |        |      |   |
| Rush Truck Center of Tulsa         | Tulsa, Oklahoma         | Leased | 1998 | New, used, parts, service, body and financial (lease term expires 10/1/2023)                                      |
|                                    | Tulsa, Oklahoma         | Owned  | 1995 | Parts and service   |
|                                    | Tulsa, Oklahoma         | Owned  | 1995 | Body  |
| Rush Truck Center of Oklahoma City | Oklahoma City, Oklahoma | Owned  | 1995 | New, used, parts, service, body and financial   |
| Rush Truck Center of Ardmore       | Ardmore, Oklahoma       | Leased | 2000 | New, used, parts and service  |
| Perfection Equipment, Inc.         | Oklahoma City, Oklahoma | Owned  | 2001 | Parts and service   |
| <i>Texas:</i>                      |                         |        |      |   |
| Rush Truck Center of San Antonio   | San Antonio, Texas      | Owned  | 1973 | New, used, parts, service, body, financial and leasing operations for truck center                                |
| Rush Truck Center of Houston       | Houston, Texas          | Owned  | 2000 | New, used, parts, service and financial   |
|                                    | Houston, Texas          | Owned  | 1988 | Body  |
|                                    | Houston, Texas          | Owned  | 1992 | Leasing and tire store  |
| Rush Truck Center of Sealy         | Sealy, Texas            | Owned  | 2000 | New, used, parts, service and financial   |
| Rush Truck Center of Laredo        | Laredo, Texas           | Owned  | 1999 | New, used, parts, service, body and financial   |
| Rush Truck Center of Lufkin        | Lufkin, Texas           | Leased | 1992 | New, used, parts, service, body, financial and leasing operations for truck center (lease term expires 9/30/2006) |
| Rush Truck Center of Pharr         | Pharr, Texas            | Owned  | 1997 | New, used, parts, service, body and financial   |
| Rush Truck Center of Austin        | Austin, Texas           | Leased | 1999 | New, used, parts, service and financial   |
| Rush Truck Center of El Paso       | El Paso, Texas          | Owned  | 2001 | New, used, parts, service, body and financial   |
| <b>Rush Equipment Center</b>       |                         |        |      |   |
| Rush Equipment Center of Houston   | Houston, Texas          | Owned  | 1997 | New, used, parts, service, leasing and rental, and financial  |

Our administrative offices are currently situated in 28,804 square feet of leased space in New Braunfels, Texas. We also occupy 3,750 square feet of leased space in San Antonio, Texas as administrative offices for our insurance services. D&D occupies 26,900 square feet of building space. We also own and operate a hunting ranch of approximately 6,500 acres in Cotulla, Texas. The Company sells hunting trips on the ranch and uses the ranch for client development purposes.

## MANAGEMENT

### Executive Officers and Directors

The following table sets forth certain information with respect to our current directors, director designees and executive officers (ages as of March 15, 2004).

| Name                    | Age | Position  |
|-------------------------|-----|---|
| W. Marvin Rush          | 65  | Chairman of the Board, Chief Executive Officer and Director     |
| W. M. "Rusty" Rush      | 45  | President, Chief Operating Officer and Director                 |
| J. M. Lowe, Jr.         | 60  | Senior Vice President—Corporate Development                     |
| David C. Orf            | 54  | Senior Vice President—Marketing and Specialized Equipment Sales |
| Brent Hughes            | 61  | Senior Vice President—Financial Services                        |
| Daryl J. Gorup          | 55  | Senior Vice President—Dealership Operations                     |
| Martin A. Naegelin, Jr. | 40  | Senior Vice President—Chief Financial Officer                   |
| James E. Thor           | 46  | Senior Vice President of Retail Sales                           |
| Ernest N. Bendele       | 60  | Vice President—Used Trucks                                      |
| Louis Liles             | 61  | Vice President—Corporate Administration                         |
| Ralph West              | 57  | Vice President—Leasing and Rental Operations                    |
| John Hiltabiddle        | 59  | Controller  |
| Richard Hall            | 65  | Vice President—Insurance  |
| Ronald J. Krause(1)     | 76  | Director  |
| John D. Rock(1)         | 68  | Director  |
| Harold D. Marshall(1)   | 68  | Director  |
| Thomas A. Akin(1)       | 49  | Director  |

- (1) Determined by the Company's Board of Directors to be independent in accordance with the listing standards of the NASDAQ National Market and the applicable rules of the Securities and Exchange Commission. Member of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee.

The following biographies describe the business experience of our executive officers and directors.

**W. Marvin Rush** founded the Company in 1965. He served as President from inception until November 1995 when he began his service as Chairman of the Board and Chief Executive Officer. He also served on the Peterbilt dealer council from 1984-1987 and was elected its Chairman in 1987. He was also active on the PacLease Executive Committee from 1989-1992 and was Chairman in 1992. Other honors include the regional Peterbilt Dealer of the Year in 1986, 1987 and 1988, as well as the Midranger Dealer of the Year in 1989. His highest Peterbilt honor was being named North American Peterbilt Dealer of the Year for the 1993-1994 and the 2000-2001 years.

**W. M. "Rusty" Rush** served as Vice President and Executive Vice President of the Company from 1990 until November 1995 when he began his service as President of the Company. He was named the Company's Chief Operating Officer in December 2001 and President of Rush Equipment Centers in June 2003. For several years he has overseen the Company's heavy-duty truck segment. He is now responsible for all operations of the Company.

**J. M. Lowe, Jr.** has worked for the Company since 1968, holding the position of Vice President of the Company since 1994. He was promoted to Senior Vice President in 1999. Currently he is responsible for acquisitions and all open account and unsecured lending for the Company.

**David C. Orf** has served as Vice President of Marketing and Specialized Equipment Sales of the Company since 1993 and in October 1996 Mr. Orf was promoted to Senior Vice President. Mr. Orf was the general manager of the Company's Houston, Texas facilities until January 1996. Prior to joining the Company, Mr. Orf served as the Southeast regional manager of Peterbilt Motors Company, a division of PACCAR.

**Brent Hughes** has served as Vice President of Financial Services since 1993 and he became Senior Vice President in September 1997. He is in charge of all secured financing for the Company. Mr. Hughes worked for Associates Commercial Corporation for 22 years, was Branch Manager in New York City, and later in San Antonio, and was Senior Vice President of the Western Region when he left to join the Company in 1992.

**Daryl J. Gorup** has served as Senior Vice President of Dealership Operations of the Company since January 1997. Prior to joining the Company, Mr. Gorup had served for 15 years in various executive positions with Peterbilt, including General Sales Manager.

**Martin A. Naegelin, Jr.** has served as Vice President and Chief Financial Officer since January 1997. Mr. Naegelin was promoted to Senior Vice President in December 2001 and was named Secretary and Treasurer of the Company and Executive Vice President of Rush Equipment Centers in March 2003. His responsibilities include the Company's corporate administrative functions, its retail finance and insurance operations, its truck leasing operations and construction equipment operations. Prior to joining the Company, Mr. Naegelin served as Vice President of Investor Relations and Corporate Development of Norwood Promotional Products, Inc. Mr. Naegelin had seven years of public accounting experience prior to joining Norwood in 1993.

**James E. Thor** has served as the Senior Vice President of Retail Sales since June 2004. Prior to joining the Company Mr. Thor served for 14 years in various executive positions with Peterbilt. In 1996, Mr. Thor was promoted to Director of U.S. Regional sales of Peterbilt, prior to which he served as Regional Sales Manager and District Sales Manager.

**Ernest N. Bendele** has worked for the Company since 1984, serving as a Vice President of the Company since October 1996. Mr. Bendele is responsible for procurement, inventory control and marketing of used trucks nationwide.

**Louis Liles** has worked for the Company since December 1995 and has served as Vice President of the Company since September 1997. Prior to joining the Company, Mr. Liles was employed for 17 years, most recently serving as the Senior Vice President of Operations of Kerr Consolidated, Inc., which operated two Peterbilt dealerships and was acquired by the Company in December 1995. In his current capacity, Mr. Liles is responsible for the corporate administration function, which includes human resources and legal oversight.

**Ralph West** has worked for the Company since 1994 and has served as a Vice President of the Company responsible for all leasing and rental operations since that time. Prior to joining the Company, Mr. West had been with Ryder Truck Rentals for 28 years serving in various executive positions, including Vice President during his last 14 years with Ryder.

**John Hiltabiddle** has served as the Controller of the Company since December 1993. Mr. Hiltabiddle served as the Controller of two large automobile dealerships from 1984 until 1989 and from 1989 until he joined the Company in December 1993. Mr. Hiltabiddle had 12 years of public accounting experience prior to 1984.

**Richard "Dick" Hall** has worked for the Company since December 1992 and has served as Vice President of Associated Acceptance, Inc., the Company's insurance agency affiliate, since that time. Mr. Hall was elected a Vice President of the Company in 2003. During his working career his service has included 8 years as President and Director of Municipal Insurance Company of America in Elgin, Illinois, and 15 years as President and Director of Northland Insurance Agency, Inc., a bank holding company in Chicago, Illinois. Prior to joining the Company, he owned and operated a proprietary school teaching insurance in San Antonio for six years.

**Ronald J. Krause** has served as a director of the Company since June 1996. Mr. Krause served as President of Associates First Capital Corp. from 1976 until 1981 and President and Chief Operating Officer of Associates from 1981 until 1989. Mr. Krause was Vice Chairman of the Board of Directors of Associates of North America from 1988 until his retirement in 1989.

**John D. Rock** has served as a director of the Company since April 1997. Mr. Rock served as a Vice President of the Oldsmobile Division of General Motors Corporation from 1991 until his retirement from General Motors Corporation in February 1997 after over 36 years of service. While at General Motors Corporation, Mr. Rock held various executive positions in sales, service and marketing. Mr. Rock has also served as a member of the Board of Directors of Volvo-GM Heavy Truck Corporation. Since his retirement in 1997, Mr. Rock has devoted his time and attention to the management of his personal investments.

**Harold D. Marshall** has served as a director of the Company since February 1999. Mr. Marshall served as President and Chief Operating Officer of Associates First Capital Corp. from May 1996 until his retirement in January 1999 and served as a director of Associates. Mr. Marshall joined Associates in 1961 and organized their Transportation Division in 1974. Mr. Marshall serves as Vice Chairman of the American Trucking Association Foundation Board of Directors, as a Member of the American Trucking Association Foundation Executive Committee, as Trustee Emeritus of the Hudson Institute, and as a Trustee on the Board of Trustees of the Dallas Museum of Art. Mr. Marshall also serves as a director and member of the audit and compensation committees of Overnite Transportation Company. Since his retirement in 1999, Mr. Marshall has devoted his time and attention to the management of his personal investments.

**Thomas A. Akin** has served as a director of the Company since August 2004. Mr. Akin worked in the audit department of Ernst & Young for 13 years and has served as the director of the audit department for Akin, Doherty, Klein & Feuge, P.C., in San Antonio, Texas since 1991. Throughout his career, Mr. Akin has served as the client service executive responsible for the independent audit for companies registered with the SEC.

## PRINCIPAL SHAREHOLDERS

The table below sets forth certain information with respect to the beneficial ownership of our common stock as of September 30, 2004 by:

- each person or entity known by us to beneficially own five percent (5%) or more of either class of common stock;
- each director and named executive officer; and
- all of our directors and executive officers as a group.

Unless otherwise stated, each of the persons named in the table has sole voting and investment power with respect to the securities beneficially owned by it, him or her as set forth opposite their name. Beneficial ownership of the common stock listed in the table has been determined in accordance with the applicable rules and regulations promulgated under the Securities Exchange Act of 1934. The percentage of total voting power is based on 1/20<sup>th</sup> of one vote for each share of class A common stock and one vote for each share of class B common stock owned by each person.

| Name and Address(1)  | Beneficial Ownership    |               |                         |               |                            |
|--|-------------------------|---------------|-------------------------|---------------|----------------------------|
|  | Class A<br>Common Stock |               | Class B<br>Common Stock |               | % Total<br>Voting Power(2) |
|  | Shares                  | % of<br>Class | Shares                  | % of<br>Class |                            |
| W. Marvin Rush(3)  | 2,766,735               | 34.9          | 2,766,735               | 35.5          | 35.5                       |
| Rutabaga Capital Management LLC(4)   | 891,650                 | 11.2          | 721,800                 | 9.3           | 9.3                        |
| John D. Rock(5)  | 92,000                  | 1.2           | 52,000                  | *             | *                          |
| Ronald J. Krause(6)  | 50,000                  | *             | 50,000                  | *             | *                          |
| Harold D. Marshall(7)  | 75,000                  | *             | 35,000                  | *             | *                          |
| Thomas A. Akin(8)  | 20,000                  | *             | —                       | *             | *                          |
| W. M. "Rusty" Rush   | 2,041                   | *             | 2,041                   | *             | *                          |
| David C. Orf   | —                       | *             | —                       | *             | *                          |
| Daryl J. Gorup   | 1,272                   | *             | 1,272                   | *             | *                          |
| Martin A. Naegelin, Jr.  | 2,000                   | *             | 2,000                   | *             | *                          |
| All executive officers and directors as a group (fifteen persons, including the executive officers and directors listed above) | 3,078,229               | 38.8          | 2,978,274               | 38.2          | 38.3                       |

\* Represents less than 1% of the issued and outstanding shares of common stock.

- (1) Except as otherwise noted, the street address of the named beneficial owner is 555 IH-35 South, New Braunfels, Texas 78130.
- (2) Based on a total of 15,127,968 shares of common stock issued and outstanding on September 30, 2004, plus vested options issuable under the Company's 1997 Non-Employee Director Stock Option Plan, vested options and options that will vest within 60 days of August 31, 2004 issuable under the Company's Long-Term Incentive Plan and vested options that are issuable outside of a Company plan.
- (3) Includes 2,001,833 shares of class A common stock and 2,001,833 shares of class B common stock held by 3MR Partners LP, of which W. Marvin Rush is the general partner, and 14,902 shares of class A common stock and 14,902 shares of class B common stock issuable upon the exercise of options granted to W. Marvin Rush pursuant to the Company's Long-Term Incentive Plan. W. Marvin Rush is the beneficial owner of the shares held by 3MR Partners LP.

- (4) Rutabaga Capital Management LLC has (i) sole voting power for 396,750 shares of class A common stock and 275,300 shares of class B common stock, (ii) shared voting power for 494,900 shares of class A common stock and 446,500 shares of class B common stock, and (iii) sole dispositive power for all shares of class A common stock and class B common stock that it owns. The address for Rutabaga Capital Management LLC, is 64 Broad Street, Third Floor, Boston, Massachusetts 02110. This information is based solely on information contained in Schedule 13Gs filed with the SEC on February 4, 2004. Rutabaga Capital Management LLC is not affiliated with the Company or any member of the Company's management. The Company does not know what natural person or public company has the ultimate voting or investment control over the shares held by Rutabaga Capital Management LLC.
- (5) Includes 90,000 shares of class A common stock and 50,000 shares of class B common stock to be issued upon the exercise of options granted pursuant to the Company's 1997 Non-Employee Director Stock Option Plan.
- (6) Includes 50,000 shares of class A common stock and 30,000 shares of class B common stock to be issued upon the exercise of options granted pursuant to the Company's 1997 Non-Employee Director Stock Option Plan and 20,000 shares of class B common stock to be issued upon the exercise of options granted outside of any Company plan.
- (7) Includes 70,000 shares of class A common stock and 30,000 shares of class B common stock to be issued upon the exercise of options granted pursuant to the Company's 1997 Non-Employee Director Stock Option Plan.
- (8) Includes 20,000 shares of class A common stock to be issued upon the exercise of options granted pursuant to the Company's 1997 Non-Employee Director Stock Option Plan.

## SELLING SHAREHOLDERS

The following table presents certain information regarding the beneficial ownership of our class A common stock (but without giving effect to the underwriters' exercise of the over-allotment option) by the selling shareholders. Please see "Principal Shareholders" for a description of the material relationships between us and the selling shareholders.

| Beneficial Owner  | Shares Beneficially Owned Prior to the Offering |                    | Shares Being Sold in the Offering | Shares Beneficially Owned After the Offering |                    |
|-------------------|---|--------------------|-----------------------------------|--|--------------------|
|                   | Number Class A                                  | Percentage Class A |                                   | Number Class A                               | Percentage Class A |
| W. Marvin Rush(1) | 2,766,735                                       | 34.9%              | 2,750,000                         | 16,735                                       | 0.1%               |

(1) Includes shares of class A common stock held by 3MR Partners, LP. W. Marvin Rush is selling 750,000 shares of class A common stock that he owns individually. 3MR Partners, LP, of which W. Marvin Rush is the general partner, is selling 2,000,000 shares of class A common stock.

## UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated \_\_\_\_\_, we and the selling shareholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC is acting as representative, the following respective numbers of shares of class A common stock:

| <u>Underwriter</u>   | <u>Number of Shares</u> |
|--|-------------------------|
| Credit Suisse First Boston LLC                                 |                         |
| Morgan Keegan & Company, Inc.                                  |                         |
| BB&T Capital Markets, a division of Scott & Stringfellow, Inc. |                         |
| Total  | 10,000,000              |

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of class A common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 1,500,000 additional shares from us at the public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of class A common stock.

The underwriters propose to offer the shares of class A common stock at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$ \_\_\_\_\_ per share. The underwriters and selling group members may allow a discount of \$ \_\_\_\_\_ per share on sales to other broker/dealers. After the public offering the representative may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we and the selling shareholders will pay:

|  | Per Share                 |                        | Total                     |                        |
|--|---------------------------|------------------------|---------------------------|------------------------|
|  | Without<br>Over-allotment | With<br>Over-allotment | Without<br>Over-allotment | With<br>Over-allotment |
| Underwriting Discounts and Commissions paid by us                      | \$                        | \$                     | \$                        | \$                     |
| Expenses payable by us   | \$                        | \$                     | \$                        | \$                     |
| Underwriting Discounts and Commissions paid by<br>selling shareholders | \$                        | \$                     | \$                        | \$                     |

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 (the "Securities Act") relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus except issuances pursuant to the exercise of employee stock options outstanding on the date hereof. However, in the event that either (1) during the last 17 days of the "lock-up" period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the "lock-up" period, we announce that we will release earnings results during the 16-day period beginning on the last day of the "lock-up" period, then in either case the expiration of the "lock-up" will be

extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Credit Suisse First Boston LLC waives, in writing, such an extension.

Our officers and directors have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the "lock-up" period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the "lock-up" period, we announce that we will release earnings results during the 16-day period beginning on the last day of the "lock-up" period, then in either case the expiration of the "lock-up" will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Credit Suisse First Boston LLC waives, in writing, such an extension.

We and the selling shareholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

The shares of class A common stock have been approved for listing on The NASDAQ National Market, subject to official notice of issuance, under the symbol "RUSHA."

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Securities Exchange Act of 1934 (the "Exchange Act").

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares over-allotted by the underwriters is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.
- In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The NASDAQ National Market or otherwise and, if commenced, may be discontinued at any time.

Credit Suisse First Boston LLC has acted as financial advisor to us in connection with the ATS acquisition and will receive customary compensation in connection therewith upon the closing of the acquisition.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make Internet distributions on the same basis as other allocations.

## NOTICE TO CANADIAN RESIDENTS

### Resale Restrictions

The distribution of the shares of class A common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling shareholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of the shares are made. Any resale of the shares in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the shares.

### Representations of Purchasers

By purchasing the shares in Canada and accepting a purchase confirmation a purchaser is representing to us, the selling shareholders and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the shares without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under "Resale Restrictions."

### Rights of Action—Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us and the selling shareholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling shareholders. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling shareholders will have no liability. In the case of an action for damages, we and the selling shareholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

### Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein and the selling shareholders may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

### Taxation and Eligibility for Investment

Canadian purchasers of the shares should consult their own legal and tax advisors with respect to the tax consequences of an investment in the shares in their particular circumstances and about the eligibility of the shares for investment by the purchaser under relevant Canadian legislation.

## LEGAL MATTERS

The validity of the shares of class A common stock offered hereby will be passed upon for us by Fulbright & Jaworski L.L.P., San Antonio, Texas. The underwriters are being represented in connection with this offering by Vinson & Elkins L.L.P., Houston, Texas.

## EXPERTS

The consolidated financial statements of Rush Enterprises, Inc. at December 31, 2003 and 2002, and for each of the three years in the period ended December 31, 2003, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of ATS for the years ended December 31, 2003 and 2002, included in this prospectus and elsewhere in the registration statement have been audited by BDO Seidman, LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy materials that we have filed with the SEC at the SEC public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information about the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public on the SEC's Internet website at *sec.gov*.

## INCORPORATION BY REFERENCE

We incorporate by reference into this prospectus the documents listed below and any filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of the offering of common stock under this prospectus. The information incorporated by reference into this prospectus is considered a part of this prospectus, and information that we file later with the SEC, prior to the termination of the offering of common stock under this prospectus, will automatically update and supercede the previously filed information.

- Our Annual Report on Form 10-K for our fiscal year ended December 31, 2003 (Commission File No. 000-20797).
- Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (Commission File No. 000-20797).
- Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (Commission File No. 000-20797).
- Our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (Commission File No. 000-20797).
- Our Current Report on Form 8-K filed on October 25, 2004 (Commission File No. 000-20797).
- Our Current Report on Form 8-K filed on October 19, 2004 (Commission File No. 000-20797).
- Our Current Report on Form 8-K filed on November 9, 2004 (Commission File No. 000-20797).
- The description of our common stock contained in our Form 8-A dated July 9, 2002 filed under Section 12(b) of the Exchange Act.

We are not incorporating by reference in this prospectus any portion of any report that we have filed or will file later with the SEC that is not deemed to be "filed" for purposes of Section 18 of the Exchange Act.

You may request a copy of these filings at no cost by writing to (or telephoning us) at the following address:

Rush Enterprises, Inc.  
555 IH-35 South, Suite 500  
New Braunfels, Texas 78130  
Telephone: (877) 879-7266  
Attention: Corporate Secretary

**Index to Financial Statements**

**American Truck Source, Inc. and Subsidiaries**

[Consolidated Balance Sheet as of September 30, 2004 and 2003](#)

[Consolidated Statement of Income for the nine months ended September 30, 2004 and 2003](#)

[Consolidated Statement of Cash Flows for the nine months ended September 30, 2004 and 2003](#)

[Notes to Consolidated Financial Statements](#)

[Report of Independent Auditors](#)

[Consolidated Balance Sheets as of December 31, 2003 and 2002](#)

[Consolidated Statements of Income for the years ended December 31, 2003 and 2002](#)

[Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003 and 2002](#)

[Consolidated Statements of Cash Flows for the years ended December 31, 2003 and 2002](#)

[Notes to Consolidated Financial Statements](#)

**Rush Enterprises, Inc.**

[Report of Independent Auditors](#)

[Consolidated Balance Sheets as of December 31, 2002 and 2003](#)

[Consolidated Statements of Operations for the years ended December 31, 2001, 2002 and 2003](#)

[Consolidated Statements of Shareholders' Equity for the Years ended December 31, 2001, 2002 and 2003](#)

[Consolidated Statements of Cash Flows for the Years ended December 31, 2001, 2002 and 2003](#)

[Notes to Consolidated Financial Statements](#)

American TruckSource, Inc. and Subsidiaries

Consolidated Balance Sheets

|  | unaudited             |                       |
|--|-----------------------|-----------------------|
|  | September 30,         |                       |
|  | 2004                  | 2003                  |
| <b>Assets</b>  |                       |                       |
| Cash and cash equivalents  | \$ 15,405,783         | \$ 12,900,569         |
| Accounts receivable, net of allowance for doubtful accounts \$140,601 and \$179,177  | 15,875,479            | 11,019,158            |
| Inventories  | 39,055,014            | 51,537,423            |
| Notes receivable, current  | 21,234                | 4,622,438             |
| Prepaid expenses and other   | 804,781               | 949,792               |
| <b>Total current assets</b>  | <b>71,162,291</b>     | <b>81,029,380</b>     |
| Property and equipment, net  | 28,031,901            | 24,277,863            |
| <b>Other assets</b>  |                       |                       |
| Receivables from affiliates, net   | 17,638,122            | 12,547,690            |
| Notes Receivable, net of current portion   | 739,857               | 1,247,511             |
| Other, net of accumulated amortization of \$529,593 for both years   | 5,075,445             | 4,515,664             |
| <b>Total other assets</b>  | <b>23,453,424</b>     | <b>18,310,865</b>     |
|  | <b>\$ 122,647,616</b> | <b>\$ 123,618,108</b> |
| <b>Liabilities and Stockholder's Equity</b>  |                       |                       |
| <b>Current liabilities</b>   |                       |                       |
| Floor plan lines of credit   | \$ 48,716,324         | \$ 51,641,661         |
| Current portion of long-term debt  | 3,438,806             | 10,443,000            |
| Accounts payable   | 3,057,417             | 5,427,349             |
| Accrued liabilities  | 6,160,230             | 5,816,476             |
| Income taxes payable (refundable)  | (29,385)              | (59,999)              |
| <b>Total current liabilities</b>   | <b>61,343,392</b>     | <b>73,268,487</b>     |
| Long term debt, net of current portion   | 20,954,983            | 17,273,349            |
| Other liabilities  | 1,247,289             | 1,821,458             |
| <b>Total liabilities</b>   | <b>83,545,664</b>     | <b>92,363,294</b>     |
| <b>Commitments and contingencies</b>   |                       |                       |
| <b>Stockholder's equity</b>  |                       |                       |
| Class A common stock, \$.01 par value, 20,000,000 shares authorized, 10,300,000 shares issued and 9,977,859 shares outstanding | 103,000               | 103,000               |
| Additional paid-in capital   | 4,578,083             | 4,578,083             |
| Treasury stock at cost, 322,141 Class A shares   | (1,074,000)           | (1,074,000)           |
| Retained earnings  | 35,494,869            | 27,647,731            |
| <b>Total stockholders' equity</b>  | <b>39,101,952</b>     | <b>31,254,814</b>     |
|  | <b>\$ 122,647,616</b> | <b>\$ 123,618,108</b> |

See accompanying notes to consolidated financial statements.

American TruckSource, Inc. and Subsidiaries

Consolidated Statements of Income

|                                     | unaudited                                  |  |
|-------------------------------------|--|--|
|                                     | Nine Months Ended<br>September 30,<br>2004 | Nine Months Ended<br>September 30,<br>2003 |
| <b>Revenues</b>                     |  |  |
| New and used trucks                 | \$ 250,671,844                             | \$ 148,227,938                             |
| Parts and service                   | 44,641,726                                 | 40,593,689                                 |
| Finance and insurance income, net   | 2,081,892                                  | 2,092,665                                  |
| Lease and rental income             | 3,122,491                                  | 2,996,392                                  |
|                                     | <u>300,517,953</u>                         | <u>193,910,684</u>                         |
| <b>Cost of products sold</b>        |  |  |
| New and used trucks                 | 234,025,350                                | 138,130,074                                |
| Parts and service                   | 27,797,960                                 | 25,486,264                                 |
| Lease fixed and variable expense    | 860,349                                    | 1,085,564                                  |
|                                     | <u>262,683,659</u>                         | <u>164,701,902</u>                         |
| Gross profit                        | <u>37,834,294</u>                          | <u>29,208,782</u>                          |
| <b>Operating expenses</b>           |  |  |
| Selling, general and administrative | 24,523,420                                 | 22,231,905                                 |
| Depreciation and amortization       | 2,746,852                                  | 2,261,555                                  |
|                                     | <u>27,270,272</u>                          | <u>24,493,460</u>                          |
| Operating income                    | <u>10,564,022</u>                          | <u>4,715,322</u>                           |
| <b>Other expense (income)</b>       |  |  |
| Interest expense                    | 1,963,950                                  | 1,868,879                                  |
| Interest and investment income      | (989,495)                                  | (1,922,537)                                |
| Other, net                          | (53,354)                                   | (32,010)                                   |
|                                     | <u>921,101</u>                             | <u>(85,668)</u>                            |
| Income (loss) before income taxes   | <u>9,642,921</u>                           | <u>4,800,990</u>                           |
| Income tax provision (benefit)      | <u>144,162</u>                             | <u>65,893</u>                              |
| Net income (loss)                   | <u>\$ 9,498,759</u>                        | <u>\$ 4,735,097</u>                        |

See accompanying notes to consolidated financial statements.

American TruckSource, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

|   | Unaudited                          |                      |
|---|------------------------------------|----------------------|
|   | Nine Months Ended<br>September 30, |                      |
|   | 2004                               | 2003                 |
| <b>Cash flows from operating activities</b>                                       |                                    |                      |
| Net income  | \$ 9,498,759                       | \$ 4,735,097         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                      |
| Depreciation and amortization   | 2,746,852                          | 2,261,555            |
| Gain on sales of assets   | (8,088)                            | 69,448               |
| Imputed Interest  | (508,574)                          | (414,710)            |
| Provision for doubtful accounts   | 91,015                             | 74,400               |
| Changes in operating assets and liabilities:                                      |                                    |                      |
| Accounts receivable   | (6,942,972)                        | (1,048,092)          |
| Inventories   | 12,994,631                         | (7,348,983)          |
| Prepaid expenses and other  | 69,795                             | (235,915)            |
| Receivables from affiliates, net  | (3,212,408)                        | (1,918,619)          |
| Floor plan lines of credit  | (14,524,573)                       | 9,576,646            |
| Accounts payable and accrued liabilities  | (536,665)                          | 490,987              |
| Income taxes payable  | 11,225                             | (141,277)            |
| Other   | (512,756)                          | 293,102              |
| Net cash provided by operating activities   | (833,759)                          | 6,393,639            |
| <b>Cash flows from investing activities</b>                                       |                                    |                      |
| Capital expenditures  | (944,608)                          | (3,588,567)          |
| Net proceeds from sales of assets   | 8,088                              | 71,817               |
| Receipts on notes receivable, net   | 1,179,161                          | (2,255,687)          |
| Net cash used in investing activities   | 242,641                            | (5,772,437)          |
| <b>Cash flows from financing activities</b>                                       |                                    |                      |
| Borrowings under long-term debt agreements  | 643,702                            | 2,200,000            |
| Repayments of long-term debt  | (7,961,596)                        | (6,649,775)          |
| Dividends paid to Shareholders  | (1,247,232)                        | (2,245,699)          |
| Net cash provided by (used in) financing activities                               | (8,565,126)                        | (6,695,474)          |
| <b>Increase in cash and cash equivalents</b>                                      | <b>(9,156,244)</b>                 | <b>(6,074,272)</b>   |
| <b>Cash and cash equivalents at beginning of year</b>                             | <b>24,562,027</b>                  | <b>18,974,841</b>    |
| <b>Cash and cash equivalents at September 30,</b>                                 | <b>\$ 15,405,783</b>               | <b>\$ 12,900,569</b> |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

*Business*—American TruckSource, Inc. and Subsidiaries (the Company), is a holding company formed in February 1997 to own and manage certain heavy-duty truck dealers franchised to sell new Peterbilt trucks and PACCAR Inc. (PACCAR) parts. Peterbilt trucks are manufactured by Peterbilt Motors Company (Peterbilt), a wholly owned subsidiary of PACCAR. In addition to new trucks and parts, the Company also sells used heavy-duty trucks, provides financing and insurance for new and used trucks and provides maintenance and body shop services through its service and body shop facilities.

The Company's direct and indirect wholly owned operating subsidiaries are Dallas Peterbilt, Ltd., L.L.P. (DPL), Nashville Peterbilt, Inc. (NPI), Louisville Peterbilt, Inc. (LPI), Birmingham Peterbilt, Inc. (BPI), American TruckSource Financial Corporation (ATS Financial), American TruckSource Leasing, Inc. (ATS Leasing), and Highland Park Land Company (HPLC). DPL, NPI, LPI, and BPI are heavy-duty truck dealerships located in Dallas, Texas; Nashville, Tennessee; Jeffersonville, Indiana, and Birmingham, Alabama, respectively. DPL also has locations in Tyler, Fort Worth and Abilene, Texas. ATS Financial is a finance company in the business of retail and lease financing for new and used trucks and trailers. ATS Leasing is a franchise of PACLease (a division of PACCAR) and leases Peterbilt trucks to third-party freight carriers. HPLC owns the land and buildings at DPL's, NPI's, and LPI's primary locations, as well as other real estate properties.

On September 15, 2004, the Company entered into an agreement to sell substantially all of its assets to Rush Enterprises, Inc. (Rush). PACCAR has indicated that it will exercise its right of first refusal with respect to LPI and BPI, allowing Rush to purchase substantially all of the assets of DPL, NPI, ATS Financial, ATS Leasing, and HPLC.

Results of operations for interim periods are not necessarily indicative of results that may be expected for any other interim periods or the full fiscal year.

*Consolidation*—The accompanying consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated.

*Management Estimates*—The preparation of the consolidated financial statements of the Company in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Consolidated Statements of Cash Flows*—For purposes of the consolidated statements of cash flows, cash and cash equivalents include all deposits with original maturities of three months or less as well as all contracts in transit, which will be converted to cash within several days of their origination. Contracts in transit represent financing contracts on vehicles sold for which the proceeds are in transit from financing institutions.

During the nine month periods ended September 30, 2004 and 2003 interest paid totaled approximately \$1,937,328 and \$1,825,498 and income taxes paid totaled approximately \$132,937 and \$44,616, respectively.

*Trade Receivables and Allowance for Doubtful Accounts*—Trade receivables are customer obligations due under normal trade terms and are accounted for on a cost basis. Management performs continuing

credit evaluations of customers' financial condition and generally does not require collateral from customers. The Company provides an allowance for doubtful accounts based on its historic collection experience. Receivables are written off when management deems them uncollectible, based on historical experience with the individual account.

*Note Receivables and Loan Loss Reserve*—Note receivables are carried on a cost basis, with interest income recognized as received. During the nine month period ended September 30, 2004, the notes earned interest at rates ranging from 5.50% to 19.9%. The Company records an allowance for these receivables based on historical experience with the account. The allowances at September 30, 2004 and 2003 were \$121,944 and \$365,453 and were included in the accrued liabilities \$6,160,230 and \$5,816,476, respectively in the accompanying consolidated balance sheets.

*Inventories*—Inventories are stated at the lower of cost or market value. New and used truck inventories are carried at actual cost determined by specific identification. Parts and accessories inventories are carried at average cost.

*Property and Equipment*—Property and equipment are carried at cost and depreciated on the straight-line method over their estimated useful lives. When assets are retired, sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected as other income during that accounting period. The costs of repairs and maintenance are expensed as incurred, and significant renewals or improvements are capitalized.

The Company reviews for impairment whenever circumstances indicate that the carrying value of an asset may not be recoverable based on the estimated future cash flows (undiscounted and without interest charges) expected to result from use of that asset and its eventual disposition. Impairment is recognized only if the carrying amount of an asset is greater than the expected future cash flows and the impairment is based on the fair value of the asset.

*Other Assets*—Other assets primarily consist of goodwill related to acquisitions of approximately \$4,020,000. In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Under SFAS 142, effective January 1, 2002, goodwill and intangible assets with indefinite lives are to no longer be amortized but are to be reviewed annually (or more frequently if impairment indicators arise) for impairment. Goodwill was being amortized on a straight-line basis over 40 years. The amortization was discontinued as of January 1, 2002. There have been no changes in the carrying amount of goodwill for the period ended September 30, 2004.

*Revenue Recognition and Recourse Agreements*—Income from the sale of new and used trucks 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. The Company facilitates the financing of new and used trucks for its customers. Generally, the Company will execute a finance contract and immediately sell such contract to a third-party finance company. The Company recognizes finance income in the amount received from the third-party finance companies, net of a provision for estimated repossession losses and interest charge backs. The Company may, upon such a sale, agree to accept limited recourse in the event the truck is subsequently repossessed. The Company's recourse obligation is determined, based on the model year of the truck sold and other factors. The Company provides a reserve for repossession losses after considering historical loss experience and the existing

portfolio of limited recourse contracts outstanding. If a customer prepays or fails to pay a contract, thereby terminating a finance contract prior to scheduled maturity, a portion of the finance income may be charged back to the Company based on the relevant terms of the contract. The Company provides for this charge back exposure based on historical charge back experience and early termination rates. The Company, through ATS Financial, will retain certain finance contracts for its own account. Finance income on retained contracts is recognized over the life of the contract. A reserve for loan losses is provided for estimated losses related to retained contracts.

The Company recognized repossession and loan loss expense of approximately \$2,016,712 for the nine month period ended September 30, 2004 and \$1,216,840 for the nine month period ended September 30, 2003 which are included in "Income from Finance and Leasing, Net", in the accompanying consolidated statements of income. Parts and service revenue is recognized when the Company sells a part to its customer or when service work is completed.

*Income Taxes*—Effective January 1, 2000, the Company elected S Corporation filing status under Internal Revenue Service regulations. Accordingly, federal income taxes are not imposed upon the Company, except in certain limited circumstances where taxes may be assessed on gains realized due to the sale of certain assets. The Company also incurs taxes at the state level, including income and franchise taxes.

*Fair Value of Financial Instruments*—The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, debt and an interest rate swap agreement. The fair values of cash and cash equivalents, accounts receivable, notes receivable and accounts payable approximate their respective carrying values. The fair value of debt is estimated based on current rates available for similar debt with similar maturities and security. All of the Company's debt bears interest rates approximating market rates as of September 30, 2004 and, as a result, the carrying value of the Company's debt approximates its fair value.

The fair value of the interest rate swap agreement is estimated based upon the amount that the Company would receive or pay to terminate the swap agreement at the reporting date, taking into consideration current interest rates and any related credit risk. The Company does not anticipate nonperformance by the financial institution, and no material loss would be expected from their nonperformance.

## 2. Inventories

Inventories as of September 30, are as follows:

|                       | 2004                 | 2003                 |
|-----------------------|----------------------|----------------------|
| New Trucks            | \$ 25,937,502        | \$ 32,412,946        |
| Used Trucks           | 6,661,059            | 13,014,699           |
| Parts and Accessories | 6,456,453            | 6,109,778            |
|                       | <u>\$ 39,055,014</u> | <u>\$ 51,537,423</u> |

Substantially all inventories of new and used trucks are pledged as collateral in connection with the floor plan lines of credit.

### 3. Property and Equipment

Property and equipment as of September 30, are as follows:

|                               | Estimated<br>Useful Lives<br>(In Years) | 2004                 | 2003                 |
|-------------------------------|---|----------------------|----------------------|
| Land                          | —                                       | \$ 8,047,398         | \$ 8,390,392         |
| Buildings and improvements    | 5-39                                    | 15,282,412           | 14,386,784           |
| Equipment                     | 3-5                                     | 5,109,287            | 4,748,568            |
| Furniture and fixtures        | 5                                       | 1,517,229            | 1,537,200            |
| Leased vehicles               | 3-5                                     | 10,398,318           | 7,064,485            |
| Company vehicles              | 5                                       | 1,547,365            | 1,874,850            |
| Construction in progress      | —                                       | —                    | 168,945              |
|                               |   | <b>41,902,009</b>    | <b>38,171,224</b>    |
| Less accumulated depreciation |   | <b>13,870,108</b>    | <b>13,893,361</b>    |
|                               |   | <b>\$ 28,031,901</b> | <b>\$ 24,277,863</b> |

Substantially all of the Company's real property is pledged under long-term debt agreements.

### 4. Floor Plan Lines of Credit

The Company uses floor plan lines of credit (the Floor Plan) to facilitate its purchases of new and used truck inventories. The Company's Floor Plan is secured by its new and used truck inventories and any cash or receivables resulting from the sale of such collateral and is guaranteed by a stockholder of the Company. The total amount of credit available fluctuates depending on the level of new truck purchases. The Floor Plan interest rate is based on the 30 day Commercial Paper Index as reported on the first day of each month in the Wall Street Journal, plus 2.125% (for a total rate of 3.185% as of September 30, 2004 and 3.725% as of September 30, 2003). Floor Plan is generally paid off on the third day following the receipt of payment on a vehicle sale to allow the funds to become available. Borrowings under the Floor Plan are due upon demand.

Amounts of collateral as of September 30, are as follows:

|   | 2004                 | 2003                 |
|---|----------------------|----------------------|
| Inventories, new and used trucks                                      | \$ 32,255,719        | \$ 43,955,562        |
| Truck sale related accounts receivable                                | 10,828,827           | 3,789,880            |
| Truck sale related contracts-in-transit                               | 5,813,085            | 5,547,077            |
| Cash held for Floor Plan payment related to receipts from Truck sales | 3,607,690            | 870,515              |
| <b>Total</b>  | <b>52,505,321</b>    | <b>54,163,034</b>    |
| Floor plan lines of credit  | <b>\$ 48,716,324</b> | <b>\$ 51,641,661</b> |

## 5. Long Term Debt

Total long term debt as of September 30, is as follows:

|                                    | 2004                 | 2003                 |
|------------------------------------|----------------------|----------------------|
| Equipment financing notes payable  | \$ 9,085,526         | \$ 6,035,639         |
| Real estate mortgage notes payable | 15,308,263           | 16,556,632           |
| Acquisition financing note payable | —                    | —                    |
| Revolving lines of credit          | —                    | 5,124,078            |
|                                    | <u>24,393,789</u>    | <u>27,716,349</u>    |
| Less current portion               | 3,438,806            | 10,443,000           |
|                                    | <u>\$ 20,954,983</u> | <u>\$ 17,273,349</u> |

*Equipment Financing Notes Payable*—The Company, mostly through ATS Financial, has entered into financing arrangements with several third-party finance institutions. In general, the Company will obtain loans from the financial institutions to provide funding for the purchase of equipment to be leased to freight carriers or to provide funding for loans to fleets or owner/operators seeking to purchase equipment. Each loan is individually negotiated and is secured by the underlying equipment and/or the Company's rights in all accounts, chattel paper, equipment, instruments and contract rights. The loans outstanding bear interest at rates ranging from 0% to 9.18% and mature on various dates through February 2008.

*Real Estate Mortgage Notes Payable*—The Company has both fixed and variable rate real estate notes with several lenders. The proceeds from the issuance of the variable and fixed rate real estate notes were used primarily to acquire land, buildings, and to make improvements. These notes are secured by real estate. The Company's variable interest rate notes have rates based on several indices, with rates ranging from 3.6% to 6.875% for the period ended September 30, 2004. Monthly payments on these notes range from \$3,400 to \$59,028, plus interest. Maturities of these notes range from October 2004 to November 2027. The Company's fixed rate debt has a rate of 7.25% and matures in August 2006. Payments are \$3,300 per month. The stockholders of the Company and many of the Company's subsidiaries guarantee the notes. Under the terms of the notes, the Company is obligated to maintain certain collateral coverage covenants and is restricted as to future transactions involving additional indebtedness. For the period ended September 30, 2004, the Company was in compliance with all such covenants.

*Revolving Lines of Credit*—The Company has a revolving line-of-credit facility (the Credit Facility) with a bank under which ATS may borrow up to \$6,000,000. As of September 30, 2004 and 2003, the outstanding line-of-credit balance was \$0.00 and \$5,124,078, respectively. The Credit Facility bears interest at a variable rate of Libor plus 2% (3.78% and 3.12% at September 30, 2004 and 2003, respectively). Interest is payable monthly. Borrowings outstanding under the Credit Facility are due on November 15, 2004. The Credit Facility is secured by substantially all of ATS's tangible assets not previously pledged. Under the terms of the Credit Facility, the Company is obligated to maintain certain financial covenants and is restricted as to future transactions involving additional secured debt, dividends, security issuances, recapitalizations, capital expenditures and lease commitments. At the period ended September 30, 2004, the Company was in compliance with all such covenants. The stockholders of the Company guarantee the Credit Facility.

Maturities on long-term debt as of September 30, 2004, are as follows:

| <b>12 months ending September 30,</b> |                      |
|---------------------------------------|----------------------|
| 2005                                  | \$ 3,438,806         |
| 2006                                  | 3,706,519            |
| 2007                                  | 5,738,598            |
| 2008                                  | 3,079,283            |
| 2009                                  | 845,349              |
| Thereafter                            | 7,585,234            |
|                                       | <b>\$ 24,393,789</b> |

*Interest Rate Swap Agreement*—During 2003, the Company entered into an interest rate swap agreement with a major financial institution in order to reduce the impact of changes in market interest rates on HPLC. The agreement provides for the Company to pay the financial institution monthly interest payments at a fixed rate of 5.55%, in exchange for the receipt of monthly interest payments based on the LIBOR rate. The original notional amount was \$12,759,231, and the LIBOR rate is adjusted monthly. The agreement matures in July 2013 and is secured by real estate owned by HPLC. The fair value of the interest rate swap was \$1,022,413 at September 30, 2004 and \$1,410,458 at September 30, 2003, and is recorded in other liabilities. Additionally, the Company's performance under this agreement is guaranteed by the stockholders of the Company and other subsidiaries.

## **6. Stockholders' Equity**

In 1997, the Company entered into a plan and agreement of reorganization (the Plan) by and among (a) the Company, (b) NPI, ATS Leasing and LPI (the Nashville Group), (c) DPL, HPLC and ATS Financial (the Dallas Group), (d) MKJ Family Enterprises, Inc., and MKJ, owners of the Dallas Group and (e) the Baker Nashville Partnership (the Sellers), owners of the Nashville Group. Under the terms of the Plan, the Dallas Group acquired the Nashville Group and in 1998, the Company became obligated to repurchase certain shares of the Company's Class A common stock previously owned by one of the Seller' principals. The Company recorded such shares as treasury stock in 1998 and the final payment due pursuant to the repurchase obligation was paid during 2001. In 1999, an officer of the Company purchased all of the remaining Class A common stock of the Company owned by the Sellers. In the event that the Company completes an initial public offering within six years of the date of repurchase of each Sellers' ownership interest, additional consideration may be due to the Sellers.

For the nine month periods ended September 30, 2004 and 2003, the Company declared and paid dividends to its stockholders in the aggregate amount of \$1,247,232 and \$2,245,699, respectively.

## 7. Income Taxes

The provision (benefit) for income taxes for the nine month period ended September 30, 2004, is as follows:

|                                | 2004       | 2003      |
|--------------------------------|------------|-----------|
| Current income taxes           | \$ 144,162 | \$ 65,893 |
| Deferred income taxes          | —          | —         |
| Income tax provision (benefit) | \$ 144,162 | \$ 65,893 |

## 8. Related Party Transactions

The Company periodically makes non-interest bearing cash advances to or receives payments from certain affiliated persons and entities, including transactions with the Company's principal stockholders, who are also chairman and president of the Company, and with other affiliates including an aviation company. Advances to these entities are generally to provide operating funds or to make capital expenditures. Payments from these entities are generally to repay amounts previously advanced or to take advantage of the Company's resources for investing cash. No due dates have been established for repayment of some of the advances. The net receivables from affiliated entities were \$2,651,229 and \$861,539 at September 30, 2004 and 2003.

On September 30, 2000, the Company consummated a promissory note receivable from one of its stockholders. The note consists of a \$5,000,000 revolving line of credit, which bears interest at 7.00% and matures on December 31, 2010. At September 30, 2004 and 2003 the note receivable balances were \$10,449,348 and \$6,733,458, respectively.

On August 10, 2000, the Company extended a promissory note receivable from a stockholder for the purchase of the Sellers' shares of Class A common stock. The note consists of a \$4,000,000 revolving line of credit, which bears interest at 7.00% and matures on December 31, 2010. At September 30, 2004 and 2003, the note receivable balances were \$806,509 and \$1,000,000.

On July 31, 2000, HPLC executed a \$6,011,810 note receivable from an affiliate of the Company, bearing interest at 7.00%. The note was amended on February 9, 2001 (due to a large principal payment in December 31, 2000), to provide for monthly installments of principal and interest of \$23,452 through July 31, 2030. At September 30, 2004 and 2003, the note receivable balances were \$3,376,850 and \$3,406,108, respectively. The note is secured by a second lien on real estate.

The Company recognized approximately \$685,927 of interest income from related-party receivables for the nine month period ended September 30, 2004 and \$594,270 of interest income from related-party receivables for the nine month period ended September 30, 2003.

An affiliate of the Company owns and operates an airplane. During the nine month periods ended September 30, 2004 and 2003, the Company incurred approximately \$378,000 and \$635,000, respectively related to use of the affiliate's aircraft. This expense is included in selling, general and administrative expense in the consolidated statements of income.

## 9. Commitments and Contingencies

The Company leases certain facilities and equipment under lease agreements that have been classified as operating leases. A portion of the operating lease commitments relates to equipment that

is subleased to customers. Total rental expense included in the accompanying consolidated statement of income for the nine month period ended September 30, 2004 and 2003 for such leases is approximately \$833,000 and \$1,064,000, respectively. Future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year as of September 30, 2004, are as follows:

| 12 months ending September 30, |              |
|--------------------------------|--------------|
| 2005                           | \$ 1,221,553 |
| 2006                           | 641,505      |
| 2007                           | 420,856      |
| 2008                           | 31,117       |
| Thereafter                     | 2,230        |
|                                | <hr/>        |
| Future minimum lease payments  | \$ 2,317,261 |
|                                | <hr/>        |

Minimum lease payments to be received for noncancelable leases and subleases in effect at September 30, 2004, are as follows:

| 12 months ending September 30, |            |
|--------------------------------|------------|
| 2005                           | \$ 123,490 |
| 2006                           | 61,472     |
| 2007                           | 16,799     |
| 2008                           | —          |
| Thereafter                     | —          |
|                                | <hr/>      |
| Future minimum lease receipts  | \$ 201,761 |
|                                | <hr/>      |

The Company has guaranteed a loan made to the affiliated aviation company (see Note 8). The note balance at September 30, 2004 and 2003 is approximately \$2,261,104 and \$2,492,575, respectively and is secured by an airplane owned by the affiliated aviation company. This guarantee would require payment only in the event of default on payment by the debtor. Management believes the likelihood is remote that payment will be required under this guarantee.

#### 10. Concentrations of Risk

Substantially all of the Company's trade receivables result from the sales of new and used trucks to owner-operators or heavy-duty truck fleet owners or from the sale of parts and service to owners of heavy-duty trucks. The concentration of customers in a single industry may impact the Company's overall risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions. In general, the Company may mitigate its risk of collection of funds from sales of new and used trucks by transferring the receivables to third-party lenders. Receivables from the sale of parts and service are generally not collateralized.

The Company is dependent on Peterbilt for its new truck inventories. Peterbilt operates three manufacturing plants, one in Denton, Texas, one in Nashville, Tennessee, and one in Ste-Therese, Quebec. Peterbilt manufactures a limited number of trucks each year and the demand for such trucks by the Company and by other Peterbilt dealers may be greater than Peterbilt's manufacturing capacity.

The Company maintains cash deposits in bank accounts that, at times, may exceed federally insured limits. The Company has not experienced losses in such accounts and does not currently believe it is exposed to any significant credit risk related to its cash and cash equivalents.

#### **11. Retirement Plan**

The Company provides a 401(k) plan for all eligible employees. Employee contributions are by salary reduction and are made at the individual employee's discretion, within limits set forth in the 401(k) plan agreement and in the Internal Revenue Code. The employer may elect to match employee contributions up to a designated amount. Employer matching contributions amounted to approximately \$137,000 and \$138,000 for the nine month periods ended September 30, 2004 and 2003, respectively.

## Independent Auditors' Report

The Board of Directors and Stockholders of  
American TruckSource, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of American TruckSource, Inc. (a Delaware corporation), and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American TruckSource, Inc., and Subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the consolidated financial statements, the Company discovered errors regarding accrued liability related to finance income charge backs and to vacation pay. Accordingly adjustments have been made for the correction of these errors.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill in 2002.

/s/ BDO Seidman, LLP

April 9, 2004, except for Note 12 which is as of September 14, 2004.  
Dallas, Texas

**American TruckSource, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

|  | December 31,<br>2003 | December 31,<br>2002 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Cash and cash equivalents  | \$ 24,562,027        | \$ 18,974,841        |
| Accounts receivable, net of allowance for doubtful accounts of \$121,598 and \$193,322   | 9,023,522            | 10,045,466           |
| Inventories  | 51,801,506           | 45,676,404           |
| Notes receivable   | 1,367,260            | 2,903,844            |
| Prepaid expenses and other   | 949,577              | 788,877              |
| <b>Total current assets</b>  | <b>87,703,892</b>    | <b>78,389,432</b>    |
| Property and equipment, net  | 30,007,284           | 21,529,151           |
| <b>Other assets</b>  |                      |                      |
| Receivables from affiliates, net   | 13,917,140           | 10,214,360           |
| Notes receivable, net of current portion   | 572,991              | 710,419              |
| Other, net of accumulated amortization of \$529,593 for both years   | 4,869,360            | 4,589,789            |
| <b>Total other assets</b>  | <b>19,359,491</b>    | <b>15,514,568</b>    |
|  | \$ 137,070,667       | \$ 115,433,151       |
| <b>Liabilities and Stockholders' Equity</b>  |                      |                      |
| <b>Current liabilities</b>   |                      |                      |
| Floor plan lines of credit   | \$ 63,600,482        | \$ 46,279,839        |
| Current portion of long-term debt  | 9,018,580            | 9,767,412            |
| Accounts payable   | 3,985,742            | 3,701,863            |
| Accrued liabilities  | 5,768,570            | 7,050,974            |
| Income taxes payable (refundable)  | (40,610)             | 81,278               |
| <b>Total current liabilities</b>   | <b>82,332,764</b>    | <b>66,881,366</b>    |
| Long term debt, net of current portion   | 22,333,518           | 18,183,887           |
| Other liabilities  | 1,553,960            | 1,602,481            |
| <b>Total liabilities</b>   | <b>106,220,242</b>   | <b>86,667,734</b>    |
| <b>Commitments and contingencies</b>   |                      |                      |
| <b>Stockholders' equity</b>  |                      |                      |
| Class A common stock, \$.01 par value, 20,000,000 shares authorized, 10,300,000 shares issued and 9,977,859 shares outstanding | 103,000              | 103,000              |
| Additional paid-in capital   | 4,578,083            | 4,578,083            |
| Treasury stock at cost, 322,141 Class A shares   | (1,074,000)          | (1,074,000)          |
| Retained earnings  | 27,243,342           | 25,158,334           |
| <b>Total stockholders' equity</b>  | <b>30,850,425</b>    | <b>28,765,417</b>    |
|  | \$ 137,070,667       | \$ 115,433,151       |

See accompanying notes to consolidated financial statements.

American TruckSource, Inc. and Subsidiaries

Consolidated Statements of Income

|                                       | December 31,<br>2003 | December 31,<br>2002 |
|---------------------------------------|----------------------|----------------------|
| <b>Revenues</b>                       |                      |                      |
| New and used trucks                   | \$ 205,424,015       | \$ 219,475,919       |
| Parts and service                     | 54,438,819           | 51,585,328           |
| Income from finance and leasing, net  | 3,035,157            | 5,060,107            |
|                                       | <u>262,897,991</u>   | <u>276,121,354</u>   |
| <b>Cost of products sold</b>          |                      |                      |
| New and used trucks                   | 191,187,427          | 203,903,546          |
| Parts and service                     | 34,299,820           | 31,986,515           |
|                                       | <u>225,487,247</u>   | <u>235,890,061</u>   |
| Gross profit                          | <u>37,410,744</u>    | <u>40,231,293</u>    |
| <b>Operating expenses</b>             |                      |                      |
| Selling, general and administrative   | 30,172,074           | 31,178,924           |
| Depreciation and amortization         | 3,006,121            | 2,994,977            |
|                                       | <u>33,178,195</u>    | <u>34,173,901</u>    |
| Operating income                      | <u>4,232,549</u>     | <u>6,057,392</u>     |
| <b>Other income (expense)</b>         |                      |                      |
| Interest and investment income        | 2,427,232            | 1,725,691            |
| Interest expense                      | (2,551,593)          | (2,096,657)          |
| Other                                 | (16,868)             | 151,454              |
|                                       | <u>(141,229)</u>     | <u>(219,512)</u>     |
| <b>Income before income taxes</b>     | <u>4,091,320</u>     | <u>5,837,880</u>     |
| <b>Income tax provision (benefit)</b> | <u>(239,387)</u>     | <u>108,101</u>       |
| <b>Net income</b>                     | <u>\$ 4,330,707</u>  | <u>\$ 5,729,779</u>  |

See accompanying notes to consolidated financial statements.

American Truck Source, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

|   | Class A<br>Common<br>Stock | Additional<br>Paid In<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Receivable<br>from Affiliate | Total         |
|---|----------------------------|----------------------------------|-------------------|----------------------|------------------------------|---------------|
| <b>Balance, December 31, 2001</b>       | \$ 103,000                 | \$ 7,541,574                     | \$ (1,074,000)    | \$ 19,428,555        | \$ (3,747,106)               | \$ 22,252,023 |
| Net income                              | —                          | —                                | —                 | 5,729,779            | —                            | 5,729,779     |
| Affiliate receivable                    | —                          | —                                | —                 | —                    | (2,066,385)                  | (2,066,385)   |
| Rescission of receivable from affiliate | —                          | (5,813,491)                      | —                 | —                    | 5,813,491                    | —             |
| Merger related payment to shareholder   | —                          | (150,000)                        | —                 | —                    | —                            | (150,000)     |
| Capital contributed                     | —                          | 3,000,000                        | —                 | —                    | —                            | 3,000,000     |
| <b>Balance, December 31, 2002</b>       | 103,000                    | 4,578,083                        | (1,074,000)       | 25,158,334           | —                            | 28,765,417    |
| Net income                              | —                          | —                                | —                 | 4,330,707            | —                            | 4,330,707     |
| Dividend to Shareholders                | —                          | —                                | —                 | (2,245,699)          | —                            | (2,245,699)   |
| <b>Balance, December 31, 2003</b>       | \$ 103,000                 | \$ 4,578,083                     | \$ (1,074,000)    | \$ 27,243,342        | \$ —                         | \$ 30,850,425 |

See accompanying notes to consolidated financial statements.

American Truck Source, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

|   | December 31,<br>2003 | December 31,<br>2002 |
|---|----------------------|----------------------|
| <b>Cash flows from operating activities</b>                                       |                      |                      |
| Net income  | \$ 4,330,707         | \$ 5,729,779         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |
| Depreciation and amortization   | 3,006,121            | 2,994,977            |
| Gain on sales of assets   | 97,022               | 12,774               |
| Imputed Interest  | (554,446)            | (703,750)            |
| Provision for doubtful accounts   | 79,131               | 166,344              |
| Changes in operating assets and liabilities:                                      |                      |                      |
| Accounts receivable   | 942,813              | (2,190,343)          |
| Inventories   | (1,713,169)          | (10,313,455)         |
| Prepaid expenses and other  | (160,700)            | 139,655              |
| Receivables from affiliates, net  | (3,265,223)          | 1,195,911            |
| Floor plan lines of credit  | 14,874,424           | 15,617,065           |
| Accounts payable and accrued liabilities  | (998,529)            | (73,044)             |
| Income taxes payable  | (121,888)            | (21,179)             |
| Other   | (328,092)            | 440,096              |
| Net cash provided by operating activities   | 16,188,171           | 12,994,830           |
| <b>Cash flows from investing activities</b>                                       |                      |                      |
| Capital expenditures  | (7,883,663)          | (3,605,426)          |
| Net proceeds from sales of assets   | 326,377              | 294,974              |
| Proceeds from issuance of notes receivable, net                                   | 1,674,013            | 1,221,483            |
| Net cash used in investing activities   | (5,883,273)          | (2,088,969)          |
| <b>Cash flows from financing activities</b>                                       |                      |                      |
| Borrowings under long-term debt agreements  | 18,526,889           | 28,163,613           |
| Repayments of long-term debt  | (20,998,902)         | (27,657,519)         |
| Dividends paid to Shareholders  | (2,245,699)          | —                    |
| Net cash provided by (used in) financing activities                               | (4,717,712)          | 506,094              |
| <b>Increase in cash and cash equivalents</b>                                      | 5,587,186            | 11,411,955           |
| <b>Cash and cash equivalents at beginning of year</b>                             | 18,974,841           | 7,562,886            |
| <b>Cash and cash equivalents at end of year</b>                                   | \$ 24,562,027        | \$ 18,974,841        |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

**1. Organization and Summary of Significant Accounting Policies**

*Business*—American TruckSource, Inc. and Subsidiaries (the Company), is a holding company formed in February 1997 to own and manage certain heavy-duty truck dealers franchised to sell new Peterbilt trucks and PACCAR Inc. (PACCAR) parts. Peterbilt trucks are manufactured by Peterbilt Motors Company (Peterbilt), a wholly owned subsidiary of PACCAR. In addition to new trucks and parts, the Company also sells used heavy-duty trucks, provides financing and insurance for new and used trucks and provides maintenance and body shop services through its service and body shop facilities.

The Company's direct and indirect wholly owned operating subsidiaries are Dallas Peterbilt, Ltd., L.L.P. (DPL), Nashville Peterbilt, Inc. (NPI), Louisville Peterbilt, Inc. (LPI), Birmingham Peterbilt, Inc. (BPI), American TruckSource Financial Corporation (ATS Financial), American TruckSource Leasing, Inc. (ATS Leasing), and Highland Park Land Company (HPLC). DPL, NPI, LPI, and BPI are heavy-duty truck dealerships located in Dallas, Texas; Nashville, Tennessee; Jeffersonville, Indiana, and Birmingham, Alabama, respectively. DPL also has locations in Tyler, Fort Worth and Abilene, Texas. ATS Financial is a finance company in the business of retail and lease financing for new and used trucks and trailers. ATS Leasing is a franchise of PACLease (a division of PACCAR) and leases Peterbilt trucks to third-party freight carriers. HPLC owns the land and buildings at DPL's, NPI's, and LPI's primary locations, as well as other real estate properties.

*Consolidation*—The accompanying consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated.

*Management Estimates*—The preparation of the consolidated financial statements of the Company in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Consolidated Statements of Cash Flows*—For purposes of the consolidated statements of cash flows, cash and cash equivalents include all deposits with original maturities of three months or less as well as all contracts in transit, which will be converted to cash within several days of their origination. Contracts in transit represent financing contracts on vehicles sold for which the proceeds are in transit from financing institutions.

During 2003 and 2002, interest paid totaled approximately \$2,509,000 and \$2,109,000 and income taxes paid totaled approximately \$176,000 and \$129,000, respectively. During 2002, equity was contributed through the forgiveness of a note payable with a shareholder of \$3,000,000 and reduced through the recession of a receivable from an affiliate of \$5,813,491.

*Trade Receivables and Allowance for Doubtful Accounts*—Trade receivables are customer obligations due under normal trade terms and are accounted for on a cost basis. Management performs continuing credit evaluations of customers' financial condition and generally does not require collateral from customers. The Company provides an allowance for doubtful accounts based on its historic collection experience. Receivables are written off when management deems them uncollectible, based on historical experience with the individual account.

*Note Receivables and Loan Loss Reserve*—Note receivables are carried on a cost basis, with interest income recognized as received. During 2003, the notes earned interest at rates ranging from 5.50% to 19.9%. The Company records an allowance for these receivables based on historical experience with the

account. The allowance at December 31, 2003 and 2002 was \$100,000 and \$500,736, respectively, and was included in the accrued liabilities \$5,798,570 and \$7,050,975, respectively, in the accompanying consolidated balance sheets.

*Inventories*—Inventories are stated at the lower of cost or market value. New and used truck inventories are carried at actual cost determined by specific identification. Parts and accessories inventories are carried at average cost

*Property and Equipment*—Property and equipment are carried at cost and depreciated on the straight-line method over their estimated useful lives. When assets are retired, sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected as other income during that accounting period. The costs of repairs and maintenance are expensed as incurred, and significant renewals or improvements are capitalized.

The Company reviews for impairment whenever circumstances indicate that the carrying value of an asset may not be recoverable based on the estimated future cash flows (undiscounted and without interest charges) expected to result from use of that asset and its eventual disposition. Impairment is recognized only if the carrying amount of an asset is greater than the expected future cash flows and the impairment is based on the fair value of the asset. Management has evaluated the need for impairment and determined that no impairment exists as of December 31, 2003.

*Other Assets*—Other assets primarily consist of goodwill related to acquisitions of approximately \$4,020,000. In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Under SFAS 142, effective January 1, 2002, goodwill and intangible assets with indefinite lives are to no longer be amortized but are to be reviewed annually (or more frequently if impairment indicators arise) for impairment. Goodwill was being amortized on a straight-line basis over 40 years. The amortization was discontinued as of January 1, 2002. There have been no changes in the carrying amount of goodwill for the year ended December 31, 2003. In accordance with SFAS 142, management has evaluated goodwill and determined that no impairment exists as of December 31, 2003.

*Revenue Recognition and Recourse Agreements*—Income from the sale of new and used trucks 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. The Company facilitates the financing of new and used trucks for its customers. Generally, the Company will execute a finance contract and immediately sell such contract to a third-party finance company. The Company recognizes finance income in the amount received from the third-party finance companies, net of a provision for estimated repossession losses and interest charge backs. The Company may, upon such a sale, agree to accept limited recourse in the event the truck is subsequently repossessed. The Company's recourse obligation is determined, based on the model year of the truck sold and other factors. The Company provides a reserve for repossession losses after considering historical loss experience and the existing portfolio of limited recourse contracts outstanding. If a customer prepays or fails to pay a contract, thereby terminating a finance contract prior to scheduled maturity, a portion of the finance income may be charged back to the Company based on the relevant terms of the contract. The Company provides for this charge back exposure based on historical charge back experience and early termination rates. The Company, through ATS Financial, will retain certain finance contracts for its own account. Finance income on retained contracts is recognized over the life of the contract. A reserve for loan losses is provided for estimated losses related to retained contracts.

The Company recognized repossession and loan loss expense of approximately \$3,582,000 in 2003 and \$2,405,000 in 2002, which is included in "Income from Finance and Leasing, Net", in the accompanying consolidated statements of income. Parts and service revenue is recognized when the Company sells a part to its customer or when service work is completed.

*Income Taxes*—Effective January 1, 2000, the Company elected S Corporation filing status under Internal Revenue Service regulations. Accordingly, federal income taxes are not imposed upon the Company, except in certain limited circumstances where taxes may be assessed on gains realized due to the sale of certain assets. The Company also incurs taxes at the state level, including income and franchise taxes.

*Fair Value of Financial Instruments*—The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, debt and an interest rate swap agreement. The fair values of cash and cash equivalents, accounts receivable, notes receivable and accounts payable approximate their respective carrying values. The fair value of debt is estimated based on current rates available for similar debt with similar maturities and security. All of the Company's debt bears interest rates approximating market rates as of December 31, 2003 and, as a result, the carrying value of the Company's debt approximates its fair value.

The fair value of the interest rate swap agreement is estimated based upon the amount that the Company would receive or pay to terminate the swap agreement at the reporting date, taking into consideration current interest rates and any related credit risk. The Company does not anticipate nonperformance by the financial institution, and no material loss would be expected from their nonperformance.

*Reclassification*—The Company entered into an interest rate swap agreement in 2001. This agreement was accounted for as a cash flow hedge in 2001 and 2002. The hedge was not effective and the 2002 financial statements have been reclassified to reflect that no comprehensive income (loss) had occurred.

## 2. Inventories

Inventories as of December 31, are as follows:

|                       | 2003          | 2002          |
|-----------------------|---------------|---------------|
| New trucks            | \$ 31,467,178 | \$ 27,545,302 |
| Used trucks           | 13,984,906    | 12,036,879    |
| Parts and accessories | 6,349,422     | 6,094,223     |
|                       | \$ 51,801,506 | \$ 45,676,404 |

Substantially all inventories of new and used trucks are pledged as collateral in connection with the floor plan lines of credit.

### 3. Property and Equipment

Property and equipment as of December 31, are as follows:

|                               | Estimated<br>Useful Lives<br>(In Years) | 2003                 | 2002                 |
|-------------------------------|---|----------------------|----------------------|
| Land                          | —                                       | \$ 8,247,398         | \$ 6,645,292         |
| Buildings and improvements    | 5-39                                    | 14,944,032           | 14,440,941           |
| Equipment                     | 3-5                                     | 4,911,494            | 4,981,236            |
| Furniture and fixtures        | 5                                       | 1,517,229            | 1,537,200            |
| Leased vehicles               | 3-5                                     | 9,942,828            | 3,186,755            |
| Company vehicles              | 5                                       | 1,656,356            | 1,695,225            |
| Construction in progress      |   | —                    | 168,946              |
|                               |   | <u>\$ 41,219,337</u> | <u>\$ 32,655,595</u> |
| Less accumulated depreciation |   | <u>11,212,053</u>    | <u>11,126,444</u>    |
|                               |   | <u>\$ 30,007,284</u> | <u>\$ 21,529,151</u> |

Substantially all of the Company's real property is pledged under long-term debt agreements.

### 4. Floor Plan Lines of Credit

The Company uses floor plan lines of credit (the Floor Plan) to facilitate its purchases of new and used truck inventories. The Company's Floor Plan is secured by its new and used truck inventories and any cash or receivables resulting from the sale of such collateral and is guaranteed by a stockholder of the Company. The total amount of credit available fluctuates depending on the level of new truck purchases. The Floor Plan interest rate is based on the 30 day Commercial Paper Index as reported on the first day of each month in the Wall Street Journal, plus 2.125% (for a total rate of 3.125% at December 31, 2003). Floor Plan is generally paid off on the third day following the receipt of payment on a vehicle sale to allow the funds to become available. Borrowings under the Floor Plan are due upon demand.

Amounts of collateral as of December 31, are as follows:

|   | 2003                 | 2002                 |
|---|----------------------|----------------------|
| Inventories, new and used trucks                                      | \$ 45,452,084        | \$ 39,582,181        |
| Truck sale related accounts receivable                                | 3,773,132            | 4,163,652            |
| Truck sale related contracts-in-transit                               | 12,294,566           | 6,728,658            |
| Cash held for Floor Plan payment related to receipts from Truck sales | 6,091,781            | 3,512,627            |
| Total   | <u>67,611,563</u>    | <u>53,987,118</u>    |
| Floor plan lines of credit  | <u>\$ 63,600,482</u> | <u>\$ 46,279,839</u> |

## 5. Long Term Debt

Total long term debt as of December 31, is as follows:

|                                    | 2003          | 2002          |
|------------------------------------|---------------|---------------|
| Equipment financing notes payable  | \$ 10,492,692 | \$ 9,395,587  |
| Real estate mortgage notes payable | 16,235,328    | 15,958,965    |
| Acquisition financing note payable | —             | 2,281,170     |
| Revolving lines of credit          | 4,624,078     | 315,577       |
|                                    | 31,352,098    | 27,951,299    |
| Less current portion               | 9,018,580     | 9,767,412     |
| Total long term debt               | \$ 22,333,518 | \$ 18,183,887 |

*Equipment Financing Notes Payable*—The Company, mostly through ATS Financial, has entered into financing arrangements with several third-party finance institutions. In general, the Company will obtain loans from the financial institutions to provide funding for the purchase of equipment to be leased to freight carriers or to provide funding for loans to fleets or owner/operators seeking to purchase equipment. Each loan is individually negotiated and is secured by the underlying equipment and/or the Company's rights in all accounts, chattel paper, equipment, instruments and contract rights. The loans outstanding bear interest at rates ranging from 0% to 9.18% and mature on various dates through February 2008.

*Real Estate Mortgage Notes Payable*—The Company has both fixed and variable rate real estate notes with several lenders. The proceeds from the issuance of the variable and fixed rate real estate notes were used primarily to acquire land, buildings, and to make improvements. These notes are secured by real estate. The Company's variable interest rate notes have rates based on several indices, with rates ranging from 3.14% to 6.875% at December 31, 2003. Monthly payments on these notes range from \$3,400 to \$59,028, plus interest. Maturities of these notes range from June 2004 to November 2027. The Company's fixed rate debt has a rate of 7.25% and matures in August 2006. Payments are \$3,300 per month. The stockholders of the Company and many of the Company's subsidiaries guarantee the notes. Under the terms of the notes, the Company is obligated to maintain certain collateral coverage covenants and is restricted as to future transactions involving additional indebtedness. At December 31, 2003 and 2002, the Company was in compliance with all such covenants.

*Revolving Lines of Credit*—The Company has a revolving line-of-credit facility (the Credit Facility) with a bank under which ATS may borrow up to \$6,000,000. As of December 31, 2003, the outstanding line-of-credit balance was \$4,624,078. The Credit Facility bears interest at a variable rate of Libor plus 2% (3.154% at December 31, 2003). Interest is payable monthly. Borrowings outstanding under the Credit Facility are due on September 30, 2004. The Credit Facility is secured by substantially all of ATS's tangible assets not previously pledged. Under the terms of the Credit Facility, the Company is obligated to maintain certain financial covenants and is restricted as to future transactions involving additional secured debt, dividends, security issuances, recapitalizations, capital expenditures and lease commitments. At December 31, 2003 and 2002, the Company was in compliance with all such covenants. The stockholders of the Company guarantee the Credit Facility.

Maturities on long-term debt as of December 31, 2003, are as follows:

| Year ending, |    |            |
|--------------|----|------------|
| 2004         | \$ | 9,018,580  |
| 2005         |    | 2,682,645  |
| 2006         |    | 3,078,832  |
| 2007         |    | 5,485,862  |
| 2008         |    | 2,867,844  |
| Thereafter   |    | 8,218,335  |
|              | \$ | 31,352,098 |

*Interest Rate Swap Agreement*—During 2003, the Company entered into an interest rate swap agreement with a major financial institution in order to reduce the impact of changes in market interest rates on HPLC. The agreement provides for the Company to pay the financial institution monthly interest payments at a fixed rate of 5.55%, in exchange for the receipt of monthly interest payments based on the LIBOR rate. The original notional amount was \$12,759,231, and the LIBOR rate is adjusted monthly. The agreement matures in July 2013 and is secured by real estate owned by HPLC. The fair value of the interest rate swap was \$1,132,210 at December 31, 2003, and is recorded in other liabilities. Additionally, the Company's performance under this agreement is guaranteed by the stockholders of the Company and other subsidiaries.

## 6. Stockholders' Equity

In 1997, the Company entered into a plan and agreement of reorganization (the Plan) by and among (a) the Company, (b) NPI, ATS Leasing and LPI (the Nashville Group), (c) DPL, HPLC and ATS Financial (the Dallas Group), (d) MKJ Family Enterprises, Inc., and MKJ, owners of the Dallas Group and (e) the Baker Nashville Partnership (the Sellers), owners of the Nashville Group. Under the terms of the Plan, the Dallas Group acquired the Nashville Group and in 1998, the Company became obligated to repurchase certain shares of the Company's Class A common stock previously owned by one of the Seller' principals. The Company recorded such shares as treasury stock in 1998 and the final payment due pursuant to the repurchase obligation was paid during 2001. In 1999, an officer of the Company purchased all of the remaining Class A common stock of the Company owned by the Sellers. In the event that the Company completes an initial public offering within six years of the date of repurchase of each Sellers' ownership interest, additional consideration may be due to the Sellers.

In 2003, the Company declared and paid dividends to its stockholders in the aggregate amount of \$2,245,699.

## 7. Income Taxes

The provision (benefit) for income taxes for the year ended December 31, is as follows:

|                                | 2003         | 2002       |
|--------------------------------|--------------|------------|
| Current income taxes           | \$ (239,387) | \$ 108,101 |
| Deferred income taxes          | —            | —          |
| Income tax provision (benefit) | \$ (239,387) | \$ 108,101 |

## 8. Related Party Transactions

The Company periodically makes non-interest bearing cash advances to or receives payments from certain affiliated persons and entities, including transactions with the Company's principal stockholders, who are also chairman and president of the Company, and with other affiliates including an aviation company. Advances to these entities are generally to provide operating funds or to make capital expenditures. Payments from these entities are generally to repay amounts previously advanced or to take advantage of the Company's resources for investing cash. No due dates have been established for repayment of some of the advances. The net receivables from affiliated entities were \$1,620,594 and \$243,064 at December 31, 2003 and 2002, respectively.

On June 30, 2000, the Company consummated a promissory note receivable from one of its stockholders. The note consists of a \$5,000,000 revolving line of credit, which bears interest at 7.00% and matures on December 31, 2010. At December 31, 2003 and 2002, the note receivable balance was \$7,897,625 and \$5,355,748, respectively.

On August 10, 2000, the Company extended a promissory note receivable from a stockholder for the purchase of the Sellers' shares of Class A common stock. The note consists of a \$4,000,000 revolving line of credit, which bears interest at 7.00% and matures on December 31, 2010. At December 31, 2003, the note receivable balance was \$1,000,000.

On July 31, 2000, HPLC executed a \$6,011,810 note receivable from an affiliate of the Company, bearing interest at 7.00%. The note was amended on February 9, 2001 (due to a large principal payment in December 31, 2000), to provide for monthly installments of principal and interest of \$23,452 through July 31, 2030. At December 31, 2003 and 2002, the note receivable balance was \$3,398,921 and \$3,437,436, respectively. The note is secured by a second lien on real estate.

The Company recognized approximately \$813,622 and \$926,000 of interest income from related-party receivables in 2003 and 2002, respectively.

An affiliate of the Company owns and operates an airplane. During 2003 and 2002, the Company incurred approximately \$826,000 and \$902,000, respectively, related to use of the affiliate's aircraft. This expense is included in selling, general and administrative expense in the consolidated statements of income.

## 9. Commitments and Contingencies

The Company leases certain facilities and equipment under lease agreements that have been classified as operating leases. A significant portion of the operating lease commitments relates to equipment that is subleased to customers. Total rental expense included in the accompanying consolidated statement of income for 2003 and 2002 for such leases is approximately \$1,353,000 and \$823,000, respectively. Future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year as of December 31, 2003, are as follows:

| Year ending, |              |
|--------------|--------------|
| 2004         | \$ 904,686   |
| 2005         | 664,837      |
| 2006         | 522,433      |
| 2007         | 259,343      |
| 2008         | 1,071        |
|              | <hr/>        |
|              | \$ 2,352,370 |

Minimum lease payments to be received for noncancelable leases and subleases in effect at December 31, 2003, are as follows:

| Year ending, |                   |
|--------------|-------------------|
| 2004         | \$ 181,740        |
| 2005         | 111,420           |
| 2006         | 47,141            |
| 2007         | 12,599            |
| 2008         |                   |
|              | <u>\$ 352,900</u> |

The Company has guaranteed a loan made to the affiliated aviation company (see Note 8). The note balance at December 31, 2003 is approximately \$2,424,000 and is secured by an airplane owned by the affiliated aviation company. This guarantee would require payment only in the event of default on payment by the debtor. Management believes the likelihood is remote that payment will be required under this guarantee.

#### 10. Concentrations of Risk

Substantially all of the Company's trade receivables result from the sales of new and used trucks to owner-operators or heavy-duty truck fleet owners or from the sale of parts and service to owners of heavy-duty trucks. The concentration of customers in a single industry may impact the Company's overall risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions. In general, the Company may mitigate its risk of collection of funds from sales of new and used trucks by transferring the receivables to third-party lenders. Receivables from the sale of parts and service are generally not collateralized.

The Company is dependent on Peterbilt for its new truck inventories. Peterbilt operates three manufacturing plants, one in Denton, Texas, one in Nashville, Tennessee, and one in Ste-Therese, Quebec. Peterbilt manufactures a limited number of trucks each year and the demand for such trucks by the Company and by other Peterbilt dealers may be greater than Peterbilt's manufacturing capacity.

The Company maintains cash deposits in bank accounts that, at times, may exceed federally insured limits. The Company has not experienced losses in such accounts and does not currently believe it is exposed to any significant credit risk related to its cash and cash equivalents.

#### 11. Retirement Plan

The Company provides a 401(k) plan for all eligible employees. Employee contributions are by salary reduction and are made at the individual employee's discretion, within limits set forth in the 401(k) plan agreement and in the Internal Revenue Code. The employer may elect to match employee contributions up to a designated amount. Employer matching contributions amounted to approximately \$128,000 and \$145,000 for 2003 and 2002, respectively.

#### 12. Restatement for Correction of Error

During 2004, errors regarding accrued liabilities related to finance income charge backs and to vacation pay were discovered. Accordingly, the 2003 and 2002 consolidated financial statements have been restated to correct these errors. The effect of the correction to the finance income charge back liability increases accrued liabilities by \$1,392,221 and \$863,881, at December 31, 2003 and 2002, respectively, and decreases net income by \$528,340 and \$863,881 for 2003 and 2002, respectively. The effect of the correction to the vacation pay liability increases accrued liabilities and decreases retained earnings by \$306,624 at December 31, 2001, and increases accrued liabilities by \$295,297 and \$306,624, at December 31, 2003 and 2002, respectively, and increased net income by \$11,327 and \$0 for 2003 and 2002, respectively.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors 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, 2002 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 as of December 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2002 the company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets."

/s/ERNST & YOUNG LLP

San Antonio, Texas  
February 20, 2004

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2003

(In Thousands, Except Shares and Per Share Amounts)

|   | December 31,<br>2002 | December 31,<br>2003 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| <b>CURRENT ASSETS:</b>  |                      |                      |
| Cash and cash equivalents   | \$ 24,763            | \$ 34,389            |
| Accounts receivable   | 25,535               | 24,492               |
| Inventories   | 115,333              | 137,423              |
| Prepaid expenses and other  | 1,764                | 1,122                |
| Assets held for sale  | 16,962               | 8,824                |
| Deferred income taxes   | 4,375                | 2,863                |
| <b>Total current assets</b>   | <b>188,732</b>       | <b>209,113</b>       |
| PROPERTY AND EQUIPMENT, net   | 117,859              | 114,477              |
| OTHER ASSETS, net   | 38,519               | 43,288               |
| <b>Total assets</b>   | <b>\$ 345,110</b>    | <b>\$ 366,878</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                      |                      |
| <b>CURRENT LIABILITIES:</b>   |                      |                      |
| Floor plan notes payable  | \$ 89,288            | \$ 108,235           |
| Current maturities of long-term debt  | 24,958               | 23,767               |
| Advances outstanding under lines of credit  | 22,395               | 17,732               |
| Trade accounts payable  | 15,082               | 16,170               |
| Accrued expenses  | 29,014               | 29,096               |
| <b>Total current liabilities</b>  | <b>180,737</b>       | <b>195,000</b>       |
| LONG-TERM DEBT, net of current maturities   | 69,958               | 66,261               |
| DEFERRED INCOME TAXES, net  | 14,720               | 16,911               |
| <b>SHAREHOLDERS' EQUITY:</b>  |                      |                      |
| Preferred stock, par value \$.01 per share; 1,000 shares authorized; 0 shares outstanding in 2002 and 2003                                      | —                    | —                    |
| Common stock, par value \$.01 per share; 50,000,000 shares authorized; 14,004,088 shares outstanding in 2002 and 14,042,304 outstanding in 2003 | 140                  | 140                  |
| Additional paid-in capital  | 39,155               | 39,337               |
| Retained earnings   | 40,400               | 49,229               |
| <b>Total shareholders' equity</b>   | <b>79,695</b>        | <b>88,706</b>        |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 345,110</b>    | <b>\$ 366,878</b>    |

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

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003

(In Thousands, Except Per Share Amounts)

|  | 2001            | 2002              | 2003            |
|--|-----------------|-------------------|-----------------|
| <b>REVENUES:</b>   |                 |                   |                 |
| New and used truck sales                                     | \$ 438,143      | \$ 488,456        | \$ 501,757      |
| Parts and service  | 188,566         | 211,478           | 249,818         |
| Construction equipment sales                                 | 31,666          | 24,324            | 28,263          |
| Lease and rental   | 25,040          | 25,277            | 25,847          |
| Finance and insurance  | 5,251           | 5,448             | 6,286           |
| Other  | 2,847           | 2,164             | 3,361           |
| <b>Total revenues</b>  | <b>691,513</b>  | <b>757,147</b>    | <b>815,332</b>  |
| <b>COST OF PRODUCTS SOLD:</b>                                |                 |                   |                 |
| New and used truck sales                                     | 407,243         | 450,918           | 466,396         |
| Parts and service  | 108,491         | 125,084           | 151,373         |
| Construction equipment sales                                 | 28,015          | 21,482            | 25,158          |
| Lease and rental   | 18,567          | 18,458            | 19,155          |
| <b>Total cost of products sold</b>                           | <b>562,316</b>  | <b>615,942</b>    | <b>662,082</b>  |
| <b>GROSS PROFIT</b>  | <b>129,197</b>  | <b>141,205</b>    | <b>153,250</b>  |
| SELLING, GENERAL AND ADMINISTRATIVE                          | 101,832         | 111,721           | 124,207         |
| DEPRECIATION AND AMORTIZATION                                | 9,176           | 8,594             | 8,929           |
| <b>OPERATING INCOME</b>                                      | <b>18,189</b>   | <b>20,890</b>     | <b>20,114</b>   |
| <b>INTEREST INCOME (EXPENSE):</b>                            |                 |                   |                 |
| Interest income  | 429             | 239               | 290             |
| Interest expense   | (9,696)         | (6,738)           | (6,638)         |
| <b>Total interest expense, net</b>                           | <b>(9,267)</b>  | <b>(6,499)</b>    | <b>(6,348)</b>  |
| <b>GAIN ON SALE OF ASSETS</b>                                | <b>1,067</b>    | <b>155</b>        | <b>1,984</b>    |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b> | <b>9,989</b>    | <b>14,546</b>     | <b>15,750</b>   |
| <b>PROVISION FOR INCOME TAXES</b>                            | <b>3,996</b>    | <b>5,818</b>      | <b>6,300</b>    |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                     | <b>5,993</b>    | <b>8,728</b>      | <b>9,450</b>    |
| <b>(LOSS) FROM DISCONTINUED OPERATIONS, NET</b>              | <b>(2,731)</b>  | <b>(10,472)</b>   | <b>(621)</b>    |
| <b>NET INCOME (LOSS)</b>                                     | <b>\$ 3,262</b> | <b>\$ (1,744)</b> | <b>\$ 8,829</b> |
| <b>EARNINGS PER SHARE (Note 14):</b>                         |                 |                   |                 |
| <b>EARNINGS (LOSS) PER COMMON SHARE — BASIC</b>              |                 |                   |                 |
| Income from continuing operations                            | \$ 0.43         | \$ 0.62           | \$ 0.67         |
| Net income (loss)  | \$ 0.23         | \$ (0.12)         | \$ 0.63         |
| <b>EARNINGS (LOSS) PER COMMON SHARE — DILUTED</b>            |                 |                   |                 |
| Income from continuing operations                            | \$ 0.42         | \$ 0.60           | \$ 0.63         |
| Net income (loss)  | \$ 0.23         | \$ (0.12)         | \$ 0.59         |

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

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003

(In Thousands)

|                                    | Common Stock                        |                       |                                  |                      |
|------------------------------------|-------------------------------------|-----------------------|----------------------------------|----------------------|
|                                    | Shares<br>Issued and<br>Outstanding | \$.01<br>Par<br>Value | Additional<br>Paid-In<br>Capital | Retained<br>Earnings |
| BALANCE, December 31, 2000         | 14,004                              | \$ 140                | \$ 39,155                        | \$ 38,882            |
| NET INCOME                         | —                                   | —                     | —                                | 3,262                |
| BALANCE, December 31, 2001         | 14,004                              | 140                   | 39,155                           | 42,144               |
| NET (LOSS)                         | —                                   | —                     | —                                | (1,744)              |
| BALANCE, December 31, 2002         | 14,004                              | 140                   | 39,155                           | 40,400               |
| EXERCISE OF EMPLOYEE STOCK OPTIONS | 38                                  | —                     | 182                              | —                    |
| NET INCOME                         | —                                   | —                     | —                                | 8,829                |
| BALANCE, December 31, 2003         | 14,042                              | \$ 140                | \$ 39,337                        | \$ 49,229            |

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

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003

(In Thousands)

|  | 2001             | 2002             | 2003             |
|--|------------------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                  |                  |                  |
| Income from continuing operations  | \$ 5,993         | \$ 8,728         | \$ 9,450         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquisitions- |                  |                  |                  |
| (Loss) from discontinued operations  | (2,731)          | (10,472)         | (621)            |
| Depreciation and amortization  | 15,848           | 15,846           | 15,542           |
| Gain on sale of property and equipment   | (1,614)          | (557)            | (1,444)          |
| Provision for deferred income tax expense  | 2,910            | (659)            | 3,703            |
| Net charges related to discontinued operations   | —                | 11,972           | —                |
| Change in accounts receivable, net   | (6,032)          | 1,468            | 1,043            |
| Change in inventories  | 65,084           | (12,741)         | (13,154)         |
| Change in prepaid expenses and other, net  | 2,572            | (520)            | 642              |
| Change in trade accounts payable   | 1,127            | (202)            | 1,088            |
| Change in accrued expenses   | 5,543            | 3,105            | 82               |
| Net cash provided by operating activities  | 88,700           | 15,968           | 16,331           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                  |                  |                  |
| Acquisition of property and equipment  | (20,726)         | (16,526)         | (18,772)         |
| Proceeds from the sale of property and equipment   | 6,773            | 3,946            | 7,521            |
| Business acquisitions  | (2,646)          | —                | (5,547)          |
| Change in other assets   | (4,628)          | 929              | (33)             |
| Net cash used in investing activities  | (21,227)         | (11,651)         | (16,831)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                  |                  |                  |
| Proceeds from long-term debt   | 23,481           | 21,777           | 19,230           |
| Payments on long-term debt   | (16,297)         | (25,031)         | (24,118)         |
| Draws (payments) on floor plan notes payable, net  | (62,291)         | 3,988            | 19,590           |
| Draws on lines of credit, net  | (11,320)         | (64)             | (4,663)          |
| Issuance of shares relating to employee stock options  | —                | —                | 182              |
| Debt issuance costs  | (86)             | (76)             | (95)             |
| Net cash provided by (used in) financing activities  | (66,513)         | 594              | 10,126           |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>960</b>       | <b>4,911</b>     | <b>9,626</b>     |
| CASH AND CASH EQUIVALENTS, beginning of year   | 18,892           | 19,852           | 24,763           |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>  | <b>\$ 19,852</b> | <b>\$ 24,763</b> | <b>\$ 34,389</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>   |                  |                  |                  |
| Cash paid during the year for-   |                  |                  |                  |
| Interest   | \$ 12,161        | \$ 8,176         | \$ 7,086         |
| Income taxes   | \$ 401           | \$ 824           | \$ 1,487         |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. ORGANIZATION AND OPERATIONS:**

Rush Enterprises, Inc. (the "Company") was incorporated in June 1996 under the laws of the State of Texas. The Company, founded in 1965, now operates a Heavy-Duty Truck segment, a Construction Equipment segment and a Retail segment. The Heavy-Duty Truck segment operates a regional network of 37 truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; parts, service and body shop facilities; and financial services, including assisting in the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Company's truck centers are located in areas on or near major highways in Texas, California, Colorado, Oklahoma, Arizona, Florida, Alabama and New Mexico. The Construction Equipment segment, formed during 1997, operates a John Deere equipment center in Houston, Texas. A portion of this segment, that operated five John Deere Equipment Centers in Michigan, was discontinued during 2002 (see Note 3). Dealership operations include the retail sale of new and used equipment, aftermarket parts and service facilities, equipment rentals and the financing of new and used equipment (see Note 19). The Retail segment's primary line of business is the retail sale of farm and ranch supplies including fencing, horse and cattle trailers, veterinarian supplies and western wear. The Retail segment is currently operating as a discontinued operation pending disposal (see Note 3).

In February 2003, the Company acquired the common stock of Orange County Truck and Trailers, Inc. ("Orange County"), a Peterbilt dealer in central Florida. The acquisition provides Rush with the exclusive rights to sell Peterbilt trucks and parts from three new locations in central Florida, including Orlando, Haines City, and Tampa. The transaction was valued at approximately \$5.4 million, with the purchase price paid in cash.

In April 2003, the Company purchased substantially all of the assets of Peterbilt of Mobile, Inc., which consisted of a dealership location in Mobile, Alabama. Peterbilt of Mobile, Inc.'s primary line of business is the sale of new Peterbilt and used heavy-duty trucks, parts and service. The transaction was valued at approximately \$1.4 million, with the purchase price paid in cash.

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, \$.01 par value per share, 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 will have 1/20<sup>th</sup> of one vote per share on all matters requiring a shareholder vote, while holders of Class B Common Stock will retain their full vote per share. 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. Subsequent to the reclassification and stock dividend, the Company had 7,002,044 shares of Class A Common Stock and 7,002,044 shares of Class B Common Stock outstanding. Additionally, all stock option information in Note 13 has been adjusted to reflect the above transaction for all periods presented. The adjustment has caused the total number of options to double, and the grant price per option to be reduced by 50%.

All significant interdivision and intercompany accounts and transactions have been eliminated in consolidation. Certain prior period balances have been reclassified for comparative purposes.

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### *Estimates in Financial Statements*

The preparation of financial statements in conformity with United States 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 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):

|   | December 31, |            | Estimated<br>Life<br>(Years) |
|---|--------------|------------|------------------------------|
|   | 2002         | 2003       |                              |
| Land                                      | \$ 15,582    | \$ 15,698  | —                            |
| Buildings and improvements                | 42,224       | 42,239     | 31-39                        |
| Leasehold improvements                    | 10,009       | 9,053      | 7-15                         |
| Machinery and shop equipment              | 14,244       | 16,721     | 5-7                          |
| Furniture and fixtures                    | 17,345       | 19,133     | 5-7                          |
| Transportation equipment                  | 15,675       | 16,598     | 2-5                          |
| Leasing vehicles                          | 48,267       | 51,033     | 4-8                          |
| Construction in progress                  | 2,402        | 2,288      |                              |
| Accumulated depreciation and amortization | (47,889)     | (58,286)   |                              |
|   | \$ 117,859   | \$ 114,477 |                              |

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

Other Assets

Other assets consist primarily of goodwill related to acquisitions of approximately \$37.7 million as of December 31, 2002 and \$42.5 million as of December 31, 2003. Accumulated amortization of other assets at December 31, 2002 was approximately \$4.4 million and at December 31, 2003 was approximately \$4.6 million. Annually, the Company assesses the appropriateness of the asset valuations of other assets and the related amortization period if applicable.

Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS 142 became effective January 1, 2002. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of SFAS 142 are to be reported as resulting from a change in accounting principle. The Company completed its initial impairment review and recorded no impairment charges in its financial statements at the date of adoption. 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. In addition, as a result of SFAS 142, the Company's amortization expense is lower as the Company no longer amortizes goodwill. Assuming the adoption of SFAS 142 had occurred at the beginning of 2001, net income and earnings per share would have been as follows for the three years ended December 31, 2003 (in thousands):

|   | Pro Forma<br>2001 | Actual<br>2002 | Actual<br>2003 |
|---|-------------------|----------------|----------------|
| Income from continuing operations                     | \$ 5,993          | \$ 8,728       | \$ 9,450       |
| Amortization expense, net of tax                      | 714               | —              | —              |
| Adjusted income from continuing operations            | \$ 6,707          | \$ 8,728       | \$ 9,450       |
| (Loss) from discontinued operations                   | \$ (2,731)        | \$ (10,472)    | \$ (621)       |
| Amortization expense, net of tax                      | 105               | —              | —              |
| Adjusted (loss) from discontinued operations          | \$ (2,626)        | \$ (10,472)    | \$ (621)       |
| Net Income (loss)                                     | \$ 4,081          | \$ (1,744)     | \$ 8,829       |
| Basic earnings per share from continuing operations   | \$ 0.48           | \$ 0.62        | \$ 0.67        |
| Basic earnings per share                              | \$ 0.29           | \$ (0.12)      | \$ 0.63        |
| Diluted earnings per share from continuing operations | \$ 0.47           | \$ 0.60        | \$ 0.63        |
| Diluted earnings per share                            | \$ 0.29           | \$ (0.12)      | \$ 0.59        |

Included in the (Loss) from discontinued operations above for 2002 are goodwill impairment losses, net of taxes, of \$1.3 million, related to the sale of the Michigan John Deere construction equipment stores, and \$0.9 million, related to the pending sale of the Seguin D&D store (see Note 3).

The Company has completed its impairment review for goodwill related to continuing operations at December 31, 2003 and recorded no impairment charges in its financial statements.

#### *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 vehicles and construction equipment (collectively, "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 2001, 2002 and 2003, 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. 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 consist primarily of depreciation and interest expense on the portion of the lease and rental fleet owned by the Company, rent and interest expense on the portion of the lease and rental fleet leased by the Company, and the maintenance cost of the lease and rental fleet. There are no cost 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 and other general operating purposes.

### *Stock Options*

In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), was issued. SFAS 123 defines a fair value based method of accounting for employee stock options or similar equity instruments and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period of the award, which is usually the vesting period. However, SFAS 123 also allows entities to continue to measure 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 has elected to continue to follow APB 25, SFAS 123 requires 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 net income and earnings per, as reported, share would have been reduced by stock based employee costs, net of tax effects, that were not included in the determination of income from continuing

operations or net income to the pro forma amounts indicated below (in thousands, except per share amounts):

|  | 2001     | 2002       | 2003     |
|--|----------|------------|----------|
| <b>Income from continuing operations</b>       |          |            |          |
| As reported                                    | \$ 5,993 | \$ 8,728   | \$ 9,450 |
| Stock based employee costs, net of tax effects | 980      | 1,045      | 845      |
| Pro forma                                      | 5,013    | 7,683      | 8,605    |
| Basic earnings per share—                      |          |            |          |
| As reported                                    | \$ 0.43  | \$ 0.62    | \$ 0.67  |
| Pro forma                                      | 0.36     | 0.55       | 0.61     |
| Diluted earnings per share—                    |          |            |          |
| As reported                                    | \$ 0.42  | \$ 0.60    | \$ 0.63  |
| Pro forma                                      | 0.36     | 0.53       | 0.57     |
| <b>Net income</b>                              |          |            |          |
| As reported                                    | \$ 3,262 | \$ (1,744) | \$ 8,829 |
| Stock based employee costs, net of tax effects | 980      | 1,045      | 845      |
| Pro forma                                      | 2,282    | (2,789)    | 7,984    |
| Basic earnings per share—                      |          |            |          |
| As reported                                    | \$ 0.23  | \$ (0.12)  | \$ 0.63  |
| Pro forma                                      | 0.16     | (0.20)     | 0.57     |
| Diluted earnings per share—                    |          |            |          |
| As reported                                    | \$ 0.23  | \$ (0.12)  | \$ 0.59  |
| Pro forma                                      | 0.16     | (0.19)     | 0.53     |

The fair value of these options was estimated using a Black-Scholes option pricing model with a risk-free interest rate of 6.0% for 2001 and 2002 and a range of 3.65% to 4.2% for 2003, volatility factors of 1.891 for 2001, a range of 1.792 to 1.877 for 2002 and a range of .433 to .471 for 2003, a dividend yield of 0%, and an expected option life from zero to seven years for 2001, 2002 and 2003.

#### *Advertising Costs*

The Company charges advertising costs to expenses as incurred. Advertising and marketing expense related to operations was \$1.2 million for fiscal year 2001, \$1.3 million for fiscal year 2002, and \$1.4 million for fiscal year 2003. Advertising and marketing expense is included in selling, general and administrative expense.

#### *Statement of Cash Flows*

Cash and cash equivalents generally consist of cash and other money market instruments. The Company considers any temporary investments that mature in three months or less when purchased to be cash equivalents for reporting cash flows.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The statement requires that the amount recorded as a liability be capitalized by increasing the carrying amount of the related long-lived asset. Subsequent to initial measurement, the liability is accreted to the ultimate amount anticipated to be paid and is also adjusted for revisions to the timing or amount of estimated cash flows. The capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 became effective for financial statements beginning January 1, 2003. The application of the new accounting standard did not have a material impact on the Company's financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and establishes accounting standards for the impairment and disposal of long-lived assets and criteria for determining when a long-lived asset is held for sale. SFAS 144 removes the requirement to allocate goodwill to long-lived assets to be tested for impairment, requires that the depreciable life of a long-lived asset to be abandoned be revised in accordance with APB Opinion No. 20, "Accounting Changes," provides that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 became effective for financial statements beginning January 1, 2002. The Company has complied with the requirements of SFAS 144 in reporting its discontinued operations in 2002 (see Note 3).

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair market value in the period in which the liability is incurred except for a liability for onetime termination benefits that is incurred over time. The provisions of SFAS 146 became effective for exit or disposal activities initiated after December 31, 2002. The Company has adopted SFAS 146 and it did not have a material impact on our financial position or results of operations.

In November 2002, FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, we must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for

financial statements of interim or annual periods ending after December 15, 2002. The Company has adopted FIN 45 and it did not have a material impact on our financial position or results of operations.

In December 2002, FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS 148 amends SFAS 123 to provide alternate methods of transition for an entity that changes to the fair-value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure provisions of SFAS 123 to require expanded and more prominent disclosure of the effects of an entity's accounting policy in the summary of significant accounting policies section with respect to stock-based employee compensation. The amendment of the annual disclosure requirements of SFAS 123 is effective for fiscal years ending after December 15, 2002. The Company has included the amended disclosure requirement of SFAS 148 in the Notes to Consolidated Financial Statements.

In January 2003, FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," and in December 2003 issued a revised interpretation ("FIN 46R"). FIN 46 and FIN 46R address the accounting for, and disclosure of, investments in variable interest entities. The Company has adopted FIN 46 and FIN 46R and they did not have a material impact on our financial position or results of operations.

In April 2003, FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires contracts with similar characteristics to be accounted for on a comparable basis. The Company has adopted SFAS 149 for all contracts entered into or modified after June 30, 2003 and it did not have a material impact on our financial condition or results of operations.

On May 15, 2003, FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The statement established standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 must be applied immediately to instruments entered into or modified after May 31, 2003. The Company has adopted SFAS 150 and has determined it will not have a material impact on our financial position or results of operations.

### **3. DISCONTINUED OPERATIONS**

On November 12, 2002, the Company announced that it would sell its Michigan John Deere construction equipment stores as a result of continuing deterioration in the Michigan construction equipment market and its location in regards to the Company's other operations and its plans for future expansion. The sale of the Michigan construction equipment stores was substantially complete at December 31, 2002. Prior to the sale, Michigan construction equipment stores were part of the Company's Construction Equipment segment. The Construction Equipment segment has been restated for all periods presented to exclude the Michigan stores.

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 is actively marketing the Seguin store and expects to sell the store by December 31, 2004. As a result of these actions, the Retail segment will no longer be reported as a separate business segment.

As a result of these decisions the Company recognized nonrecurring and unusual charges, net of income tax benefits, of \$8.3 million (\$0.58 per diluted share) in the fourth quarter of 2002. Following is a discussion that describes the components of the \$8.3 million in charges based on their classification in the Company's consolidated financial statements.

The \$8.3 million in charges recorded in the fourth quarter of 2002 included charges, net of income tax benefits, of approximately \$2.5 million related to the Michigan John Deere construction equipment stores sold during December 2002. The remaining \$5.8 million in charges relate to closing, liquidation and pending sale of Retail segment stores described above. These charges are included in discontinued operations in the Company's consolidated statements of income in accordance with SFAS 144. In addition, 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. Similarly, certain assets of these businesses have been separately identified in the consolidated balance sheet as being held for sale. The Company expects to complete the sale of these assets by December 31, 2004. Depreciation and amortization expense are no longer being recorded with respect to the assets of these businesses in accordance with SFAS 144. These assets are recorded at estimated fair value less cost to sell at December 31, 2003. Changes in the estimated fair value will be recorded in future periods as determined.

Net sales and earnings (loss) before income taxes related to the discontinued businesses were as follows (in thousands):

|  | 2001       | 2002       | 2003      |
|--|------------|------------|-----------|
| <b>Michigan Construction Equipment Stores</b>      |            |            |           |
| Net Sales  | \$ 50,844  | \$ 37,407  | \$ 251    |
| Earnings (loss) before income taxes:               |            |            |           |
| Results of operations from discontinued operations | (552)      | (1,425)    | —         |
| Charges related to discontinued operations         | —          | (4,128)    | —         |
| (Loss) before income taxes                         | (552)      | (5,553)    | —         |
| Income tax benefit (expense)                       | 221        | 2,222      | —         |
| Net (loss) from discontinued operations            | \$ (331)   | \$ (3,331) | \$ —      |
| <b>Retail Segment Stores (D&amp;D)</b>             |            |            |           |
| Net Sales  | \$ 40,808  | \$ 39,571  | \$ 17,298 |
| Earnings (loss) before income taxes:               |            |            |           |
| Results of operations from discontinued operations | (4,001)    | (2,119)    | (1,035)   |
| Charges related to discontinued operations         | —          | (9,007)    | —         |
| (Loss) before income taxes                         | (4,001)    | (11,126)   | (1,035)   |
| Income tax benefit (expense)                       | 1,601      | 3,985      | 414       |
| Net (loss) from discontinued operations            | \$ (2,400) | \$ (7,141) | \$ (621)  |

Included in the \$4.1 million Michigan construction equipment stores charge for 2002 was a goodwill impairment of \$2.2 million, a loss on the disposal of inventory of \$1.5 million, \$0.7 million expense for early termination benefits, and a gain on the sale of fixed assets of \$0.3 million. The remaining charges are related to costs associated with infrastructure reduction, including professional fees and facilities. No further charges related to the disposition were incurred during 2003.

Included in the \$9.0 million D&D charge for 2002 was a \$5.1 million loss for the sale of fixed assets, \$1.5 million loss on the disposal of inventory, \$1.1 million expense for early termination benefits and a \$1.0 million impairment of goodwill. The remaining charges were related to costs associated with infrastructure reduction, including professional fees and facilities. No further charges related to the disposition were incurred during 2003.

The major classes of assets of the discontinued operations classified as held for sale and included in the consolidated balance sheet were as follows (in thousands):

|                             | 2002             | 2003            |
|-----------------------------|------------------|-----------------|
| Inventories                 | \$ 10,218        | \$ 2,496        |
| Property and equipment, net | 6,744            | 6,328           |
| <b>Assets held for sale</b> | <b>\$ 16,962</b> | <b>\$ 8,824</b> |

#### 4. SUPPLIER AND CUSTOMER CONCENTRATION:

##### *Major Suppliers and Dealership Agreements*

The Company has entered into dealership agreements with various companies ("Distributors"). These agreements are nonexclusive agreements that allow the Company to stock, sell at retail and service trucks, equipment and products of the Distributors in the Company's defined market. The agreements allow the Company to use the Distributor's name, trade symbols and intellectual property and expire as follows:

| Distributor | Expiration Dates            |
|-------------|-----------------------------|
| PACCAR      | August 2004 to October 2006 |
| John Deere  | Indefinite                  |

These agreements, as well as agreements with various other Distributors, 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 Distributor's products and use the Distributor's trademarks. As of December 31, 2003, the Company's management believes it was in compliance with all the restrictions and obligations of its dealership agreements.

The Company purchases most of its new vehicles and 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 97%, 98% and 95% of the Company's new vehicle sales for the years ended December 31, 2001, 2002 and 2003, respectively.

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 85%, 91% and 93% of the Company's new equipment sales for the years ended December 31, 2001, 2002 and 2003, respectively.

##### *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 financial institution used for truck inventory purchases also provides the Company with a line of credit that allows borrowings of up to \$13,500,000 and with notes on certain real estate properties. The floor plan agreement with the financial institution, used for truck inventory purchases, provides that such agreement may be terminated at the option of the lender with notice of 120 days.

The floor plan agreement with one of the financial institutions used for construction equipment purchases expires in June 2004. Additionally, floor plan financing is provided by John Deere pursuant to the Company's equipment dealership agreement. Furthermore, the agreements also provide that the occurrence of certain events will be considered events of default. There were no known events of default as of December 31, 2003. 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 including maintaining a tangible net worth of at least \$15.0 million and a debt to tangible net worth ratio of 9 to 1. The Company was in compliance with these and all debt covenants as of December 31, 2003.

#### *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. At December 31, 2003, the Company had deposits in excess of federal insurance totaling approximately \$39.3 million.

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 heavy-duty trucking and construction equipment markets and related aftermarkets. The Company controls credit risk through credit approvals and by selling certain trade receivables without recourse. Related to the Company's finance contracts, after the finance contract is entered into, the Company generally sells the contracts to a third party. The finance contracts are sold both with and without recourse. A majority of the Company's finance contracts are sold without recourse. Historically, bad debt expense associated with the Company's accounts receivable and finance contracts has not been significant.

## 5. ACCOUNTS RECEIVABLE:

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

|  | December 31, |           |
|--|--------------|-----------|
|  | 2002         | 2003      |
| Trade accounts receivable from sale of vehicles and construction equipment | \$ 12,786    | \$ 12,122 |
| Other trade receivables  | 3,717        | 3,982     |
| Warranty claims  | 3,199        | 3,457     |
| Other accounts receivable  | 6,283        | 5,381     |
| Less allowance for doubtful receivables                                    | (450)        | (450)     |
| Total  | \$ 25,535    | \$ 24,492 |

For the years ended December 31, 2001, 2002 and 2003, the Company had no significant related-party sales.

## 6. INVENTORIES:

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

|                               | December 31, |            |
|-------------------------------|--------------|------------|
|                               | 2002         | 2003       |
| New vehicles                  | \$ 67,138    | \$ 79,871  |
| Used vehicles                 | 7,361        | 11,600     |
| Construction equipment—new    | 3,244        | 4,505      |
| Construction equipment—used   | 1,307        | 657        |
| Construction equipment—rental | 3,541        | 913        |
| Parts and accessories         | 31,852       | 39,476     |
| Other                         | 1,866        | 1,424      |
| Less allowance                | (976)        | (1,023)    |
| Total                         | \$ 115,333   | \$ 137,423 |

## 7. VALUATION ACCOUNTS

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

|                                   | December 31, |          |          |
|-----------------------------------|--------------|----------|----------|
|                                   | 2001         | 2002     | 2003     |
| Balance at the Beginning of Year  | \$ 2,694     | \$ 1,911 | \$ 1,426 |
| Net Charged to Costs and Expenses | 1,631        | 404      | 1,450    |
| Acquisitions                      | 513          |          |          |
| Net Write-Offs                    | (2,927)      | (889)    | (1,403)  |
| Balance at the End of Year        | \$ 1,911     | \$ 1,426 | \$ 1,473 |

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 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. As all credit risk is assumed by the third party, 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 Company recognized \$126,000 of pretax parts valuation losses for obsolete and slow moving parts during 2002 and \$121,000 during 2003.

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. The Company recognized \$500,000 of pretax new and used vehicle inventory valuation losses during 2002 and \$1.3 million of pretax new and used vehicle inventory valuation losses during 2003.

**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 3.35% to approximately 5.50% as of December 31, 2003. The 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 lines may be modified, suspended or terminated by the lender as described in Note 4.

The Company's floor plan agreement with its primary truck lender limits the borrowing capacity based on the number of new and used trucks that may be financed. As of December 31, 2003, the aggregate amount of unit capacity for new and used trucks was 1,390 and 553, respectively, and the availability for new and used trucks was 130 and 238, respectively.

The Company's floor plan agreement with one of its construction equipment lenders is based on the book value of the Company's construction equipment inventory. As of December 31, 2003, the aggregate amount of borrowing capacity with this lender was \$10.5 million, with approximately \$4.5 million outstanding. Additional amounts are available under the Company's John Deere dealership agreement. At December 31, 2003, approximately \$1.5 million was outstanding pursuant to the John Deere dealership agreement.

Amounts of collateral as of December 31, 2002 and 2003 were as follows (in thousands):

|  | December 31,     |                   |
|--|------------------|-------------------|
|  | 2002             | 2003              |
| Inventories, new and used vehicles and construction equipment at cost based on specific identification | \$ 82,591        | \$ 97,546         |
| Construction equipment inventory included in assets held for sale                                      | 1,332            | —                 |
| Truck and construction equipment sale related accounts receivable                                      | 12,786           | 12,122            |
| <b>Total</b>   | <b>\$ 96,709</b> | <b>\$ 109,668</b> |
| <b>Floor plan notes payable</b>  | <b>\$ 89,288</b> | <b>\$ 108,235</b> |

#### *Lines of Credit*

The Company has a separate line of credit agreement with a financial institution that provides for an aggregate maximum borrowing of \$13.5 million, with advances generally limited to 75% of the Company's new parts inventory. Advances bear interest at prime less 0.5%, which was 3.5% on December 31, 2003. Advances under the line-of-credit agreement are secured by new parts inventory. The line of credit agreement contains financial covenants. The Company was in compliance with these covenants on December 31, 2003. Either party may terminate the agreement with 30 days written notice. As of December 31, 2002 and 2003, advances outstanding under this line-of-credit agreement amounted to \$13.5 million. As of December 31, 2003, there were no funds available for future borrowings. This line is discretionary and may be modified, suspended or terminated at the election of the lender. The Company has four additional separate secured lines of credit that provide for an aggregate maximum borrowing of \$13.6 million. Advances outstanding under these secured lines of credit in aggregate were \$4.2 million, leaving \$9.4 million available for future borrowings as of December 31, 2003.

#### **9. LONG-TERM DEBT:**

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

|                                   | December 31,     |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2002             | 2003             |
| Variable interest rate term notes | \$ 14,536        | \$ 9,740         |
| Fixed interest rate term notes    | 80,380           | 80,288           |
| <b>Total debt</b>                 | <b>94,916</b>    | <b>90,028</b>    |
| Less—Current maturities           | (24,958)         | (23,767)         |
|                                   | <b>\$ 69,958</b> | <b>\$ 66,261</b> |

As of December 31, 2003, debt maturities were as follows (in thousands):

|            |    |        |
|------------|----|--------|
| 2004       | \$ | 23,767 |
| 2005       |    | 14,328 |
| 2006       |    | 10,502 |
| 2007       |    | 7,886  |
| 2008       |    | 6,838  |
| Thereafter |    | 26,707 |
|            | \$ | 90,028 |

The interest rates on the Company's variable interest rate notes are based on LIBOR and the Prime rate on December 31, 2003. Interest rates on the notes ranged from approximately 3.37% to 4.22% on December 31, 2003. Payments on the notes range from \$1,945 to \$67,000 per month, plus interest. Maturities of these notes range from April 2004 to September 2014.

The Company's fixed interest rate notes are primarily with financial institutions and had interest rates ranging from approximately 3.86% to 10.79% on December 31, 2003. Payments on the notes range from \$220 to \$34,833 per month, plus interest. Maturities of these notes range from January 2004 to January 2016.

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

#### 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.

#### 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 six months of continuous service is entitled to enter the Rush Plan. 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. During the year ended December 31, 2001, the Company incurred expenses of approximately \$1.6 million related to the

Rush Plan. During the year ended December 31, 2002, the Company incurred expenses of approximately \$1.5 million related to the Rush Plan. During the year ended December 31, 2003, the Company incurred expenses of approximately \$1.6 million related to the Rush Plan.

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

## 12. LEASES:

### *Vehicle Leases*

The Company leases vehicles primarily over periods ranging from one to ten years under operating lease arrangements. These vehicles are subleased to customers under various agreements in its own leasing operation. 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. Vehicle lease expenses for the years ended December 31, 2001, 2002 and 2003, were approximately \$5.4 million, \$5.0 million and \$5.3 million, respectively.

Minimum rental commitments for noncancelable vehicle leases in effect on December 31, 2003, are as follows (in thousands):

|            |    |        |
|------------|----|--------|
| 2004       | \$ | 5,915  |
| 2005       |    | 4,789  |
| 2006       |    | 3,938  |
| 2007       |    | 3,224  |
| 2008       |    | 2,484  |
| Thereafter |    | 4,266  |
|            |    | <hr/>  |
| Total      | \$ | 24,616 |
|            |    | <hr/>  |

### *Customer Vehicle Leases*

A Company division leases both owned and leased vehicles to customers primarily over periods of one to ten years under operating lease arrangements. The leases require a minimum rental and a contingent rental based on mileage. Rental income during the years ended December 31, 2001, 2002 and 2003, consisted of minimum payments of approximately \$11.3 million, \$12.5 million and \$13.7 million, respectively, and contingent rentals of approximately \$2.8 million, \$3.0 million and \$3.0 million, respectively. Minimum lease payments to be received for noncancelable leases and subleases in effect at December 31, 2003, are as follows (in thousands):

|            |    |        |
|------------|----|--------|
| 2004       | \$ | 14,080 |
| 2005       |    | 11,833 |
| 2006       |    | 9,292  |
| 2007       |    | 7,338  |
| 2008       |    | 5,290  |
| Thereafter |    | 6,254  |
|            |    | <hr/>  |
| Total      | \$ | 54,087 |
|            |    | <hr/>  |

As of December 31, 2002 and 2003, the Company had \$32.9 million (net of accumulated depreciation of \$15.3 million) and \$32.1 million (net of accumulated depreciation of \$18.9 million), respectively, of leasing vehicles included in property and equipment.

*Other Leases—Land and Buildings*

The Company leases various assets under operating leases, which expire at various times through 2023. Rental expense for the years ended December 31, 2001, 2002 and 2003, was \$1.9 million, \$1.8 million and \$2.2 million, respectively. Future minimum lease payments under noncancelable leases at December 31, 2003, are as follows (in thousands):

|            |    |        |
|------------|----|--------|
| 2004       | \$ | 2,321  |
| 2005       |    | 1,855  |
| 2006       |    | 1,487  |
| 2007       |    | 915    |
| 2008       |    | 915    |
| Thereafter |    | 4,338  |
| Total      | \$ | 11,831 |

**13. STOCK OPTIONS AND STOCK PURCHASE WARRANTS:**

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. 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.

On April 8, 1996, the Board of Directors of the Company declared a dividend of one common share purchase right (a "Right") for each share of common stock outstanding. Each Right entitles the registered holder to purchase from the Company one share of Class A Common Stock and one share of Class B Common Stock at a price of \$17.50 per share (the "Purchase Price"). The Rights are not exercisable until the distribution date, as defined in the Rights Agreement. The Rights will expire on April 7, 2006 (the "Final Expiration Date"), unless the Final Expiration Date is extended or unless the Rights are earlier redeemed or exchanged by the Company.

In March 2001 and 2002, the Company granted options under the Incentive Plan to purchase an aggregate of 212,200 and 250,000 shares, respectively, of the Old Common Stock to employees. Each option granted becomes exercisable in three annual installments beginning on the third anniversary of the grant date. The options are exercisable at a price equal to the fair value of the Company's Old Common Stock at the grant date. However, each option has now been divided into two options, one option for the purchase of Class A Common Stock and one option for the purchase of Class B

Common Stock. Each of the options is exercisable at one-half of the fair value of the Company's Old Common Stock on the grant date.

In March 2003, the Company granted options under the Incentive Plan to purchase an aggregate of 380,000 shares of Class A Common Stock and 93,000 shares of Class B Common Stock. Each option granted becomes exercisable in three annual installments beginning on the third anniversary of the grant date.

During 2000, the Company granted options outside of any plan to purchase an aggregate of 169,258 shares of Old Common Stock to employees. A total of 69,258 of these options were terminated in 2001 and 2002. The remaining 100,000 options were divided into two options, one for Class A Common Stock and one for Class B Common Stock, and are exercisable at a price equal to one-half of the fair value of the Company's Old Common Stock at the grant date. These options are exercisable four years from the grant date.

During 1997, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. 1997 Non-Employee Director Stock Option Plan (the "Director Plan"). The Director Plan is designed to attract and retain highly qualified non-employee directors, reserving 300,000 shares of Old Common Stock for issuance upon exercise of any awards granted under the Plan. Under the terms of the Director Plan, each non-employee director received options to purchase 10,000 shares of the Old Common Stock as of the date of adoption or on their respective date of election, all of which are fully vested and are exercisable immediately, and expire ten years from the grant date. During the year ended December 31, 2002, 30,000 options were granted and were exercisable at a price equal to the fair value of the Company's Old Common Stock on the grant date. However, each option has now been divided into two options, one option for the purchase of Class A Common Stock and one option for the purchase of Class B Common Stock. Each of the options is exercisable at one-half of the fair value of the Company's Old Common Stock on the grant date. During the year ended December 31, 2003, 60,000 options of Class A Common Stock were granted under the terms of the Director Plan.

During 2001, the Company granted options outside any plan to purchase an aggregate of 60,000 shares of Old Common Stock to non-employee directors, all of which are fully vested and were exercisable immediately, and expire ten years from the grant date. The options were exercisable at a price equal to the fair value of the Company's Old Common Stock on the grant date. However, each option has now been divided into two options; one option for the purchase of Class A Common Stock and one option for the purchase of Class B Common Stock. Each of the options is exercisable at one-half of the fair value of the Company's Old Common Stock on the grant date.

A summary of the Company's stock option activity and related information for the years ended December 31, 2001, 2002 and 2003 follows:

|  | 2001      |                                 | 2002      |                                 | 2003      |                                 |
|--|-----------|---------------------------------|-----------|---------------------------------|-----------|---------------------------------|
|  | Options   | Weighted Average Exercise Price | Options   | Weighted Average Exercise Price | Options   | Weighted Average Exercise Price |
| Outstanding, beginning of year                                 | 1,549,822 | \$ 4.50                         | 2,028,034 | \$ 3.85                         | 2,452,730 | \$ 3.82                         |
| Granted  | 604,400   | 2.08                            | 560,000   | 3.71                            | 533,000   | 3.80                            |
| Exercised  | —         | —                               | —         | —                               | (46,248)  | 5.14                            |
| Forfeited  | (126,188) | 3.39                            | (135,304) | 3.74                            | (33,916)  | 4.29                            |
| Outstanding, end of year                                       | 2,028,034 | \$ 3.85                         | 2,452,730 | 3.82                            | 2,905,566 | 3.79                            |
| Exercisable, end of year                                       | 612,084   | \$ 4.24                         | 889,508   | \$ 4.56                         | 1,140,135 | \$ 4.62                         |
| Weighted average fair value of options granted during the year |           | \$ 2.06                         |           | \$ 3.68                         |           | \$ 1.95                         |

The following table summarizes the information about the Company's options outstanding at December 31, 2003:

| Exercise Price | Options Outstanding |   |                                 | Options Exercisable |                                 |
|----------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                | Number Outstanding  | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| \$2.06-\$2.25  | 575,400             | 7.2   | \$ 2.08                         | 180,000             | \$ 2.13                         |
| \$3.10-\$4.32  | 1,659,596           | 7.4   | \$ 3.59                         | 348,376             | \$ 3.92                         |
| \$4.85-\$6.00  | 610,570             | 5.5   | \$ 5.52                         | 551,759             | \$ 5.49                         |
| \$8.13         | 60,000              | 5.4   | \$ 8.13                         | 60,000              | \$ 8.13                         |
|                | 2,905,566           |   |                                 | 1,140,135           |                                 |

In October 1997, the Company issued warrants to purchase an aggregate of 171,875 shares of the Old Common Stock to C. Jim Stewart & Stevenson in connection with the purchase of the assets of the John Deere construction equipment store. The warrants were exercisable during the five-year period commencing October 6, 1997, at an exercise price equal to \$6.00 per share. These warrants expired without being exercised during 2002.

In March 1998 and 2000, the Company issued, to certain employees, warrants to purchase an aggregate of 18.75% of the common stock of Rush Retail Centers, Inc., its wholly owned subsidiary, for \$375,000. The warrants were exercisable on various dates between March 2001 and March 2003 and expire ten years from the grant date. None of these warrants were exercised as of December 31, 2003.

#### 14. EARNINGS PER SHARE:

Earnings per share for all periods have been restated to reflect 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 following is a reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income.

|  | 2001         | 2002           | 2003         |
|--|--------------|----------------|--------------|
| <b>Numerator—</b>  |              |                |              |
| Numerator for basic and diluted earnings per share—  |              |                |              |
| Net income (loss) available to common shareholders   | \$ 3,262,000 | \$ (1,744,000) | \$ 8,829,000 |
| <b>Denominator—</b>  |              |                |              |
| Denominator for basic earnings per share, weighted average shares                                    |              |                |              |
|  | 14,004,088   | 14,004,088     | 14,042,304   |
| Effect of dilutive securities—   |              |                |              |
| Stock options  | 162,352      | 456,520        | 981,933      |
| Warrants   | —            | —              | —            |
| Dilutive potential common shares   | 162,352      | 456,520        | 981,933      |
| Denominator for diluted earnings per share, adjusted weighted average shares and assumed conversions |              |                |              |
|  | 14,166,440   | 14,460,608     | 15,024,237   |
| Basic earnings (loss) per common share   | \$ 0.23      | \$ (0.12)      | \$ 0.63      |
| Diluted earnings (loss) per common share and common share equivalents                                | \$ 0.23      | \$ (0.12)      | \$ 0.59      |

Warrants and options to purchase shares of common stock that were outstanding for the years ended December 31, 2000, 2001 and 2002, 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:

|                               | 2001      | 2002    | 2003    |
|-------------------------------|-----------|---------|---------|
| Warrants                      | 343,750   | —       | —       |
| Options                       | 1,423,634 | 855,280 | 188,305 |
| Total antidilutive securities | 1,767,384 | 855,280 | 188,305 |

## 15. INCOME TAXES:

### Provision for Income Taxes

The tax provision for the years ended December 31, 2001, 2002 and 2003, are summarized as follows (in thousands):

|                            | 2001     | 2002     | 2003     |
|----------------------------|----------|----------|----------|
| Current provision—         |          |          |          |
| Federal                    | \$ (996) | \$ (127) | \$ 2,029 |
| State                      | 391      | 397      | 341      |
|                            | (605)    | 270      | 2,370    |
| Deferred provision—        |          |          |          |
| Federal                    | 2,911    | (354)    | 3,189    |
| State                      | (132)    | (305)    | 327      |
|                            | 2,779    | (659)    | 3,516    |
| Provision for income taxes | \$ 2,174 | \$ (389) | \$ 5,886 |

The following summarizes the tax effect of significant cumulative temporary differences that are included in the net deferred income tax liability as of December 31, 2002 and 2003 (in thousands):

|  | 2002      | 2003      |
|--|-----------|-----------|
| Differences in depreciation and amortization                   | \$ 14,720 | \$ 16,911 |
| Accruals and reserves not deducted for tax purposes until paid | (4,124)   | (2,642)   |
| Other, net   | (251)     | (221)     |
|  | \$ 10,345 | \$ 14,048 |

A reconciliation of taxes based on the federal statutory rates and the provisions for income taxes for the years ended December 31, 2001, 2002 and 2003, are summarized as follows (in thousands):

|   | 2001     | 2002     | 2003     |
|---|----------|----------|----------|
| Income taxes at the federal statutory rate                                | \$ 1,903 | \$ (747) | \$ 5,150 |
| State income taxes, net of federal benefit                                | 190      | (181)    | 587      |
| Nondeductible impairment of goodwill                                      | —        | 211      | —        |
| Nonrealizable state deferred tax asset related to discontinued operations | —        | 254      | —        |
| Other, net  | 81       | 74       | 149      |
| Provision for income taxes  | \$ 2,174 | \$ (389) | \$ 5,886 |

Following is a summary of the Company's income tax provision for the years ended December 31, 2001, 2002 and 2003 (in thousands):

|   | 2001     | 2002     | 2003     |
|---|----------|----------|----------|
| Income tax expense on continuing operations       | \$ 3,996 | \$ 5,818 | \$ 6,300 |
| Income tax (benefit) from discontinued operations | (1,822)  | (6,207)  | (414)    |
| Provision for income taxes                        | \$ 2,174 | \$ (389) | \$ 5,886 |

## 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 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 the behalf of the finance company. The Company provides an allowance for repossession losses and early repayment penalties.

Finance contracts initiated and sold during the years ended December 31, 2001, 2002 and 2003, were \$149.9 million, \$144.1 million and \$165.1 million, respectively.

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.

## 17. ACQUISITIONS:

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

The acquisition has been accounted for as a purchase; operations of the business acquired have been included in the accompanying consolidated financial statements from the respective date of acquisition. The purchase price has been allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

|                            |          |
|----------------------------|----------|
| Inventories                | \$ 680   |
| Property and equipment     | 574      |
| Prepaid expenses and other | 20       |
| Accrued expenses           | (82)     |
| Goodwill                   | 1,300    |
|                            | <hr/>    |
| Total                      | \$ 2,492 |
|                            | <hr/>    |

In November 2001, the Company purchased substantially all the assets of Perfection, which operates an oil and gas up-fitting business, a medium-duty truck accessory and up-fitting business and a parts distribution business in Oklahoma City, Oklahoma. The assets acquired were valued at \$6.7 million with a purchase price of \$4.2 million paid in cash.

The acquisition has been accounted for as a purchase; operations of the business acquired have been included in the accompanying consolidated financial statements from the respective date of acquisition. The purchase price was less than the fair value of the assets acquired. The purchase price has been allocated by reducing the property and equipment with a fair value of \$1.9 million to \$0, and inventory with a fair value of \$3.1 million to \$2.5 million, and recording accounts receivable, net of an allowance for doubtful accounts, at its fair value of \$1.7 million.

In February 2003, the Company acquired the common stock of Orange County, a Peterbilt dealer in central Florida. The acquisition provides the Company with the exclusive rights to sell Peterbilt trucks and parts from three new locations in central Florida, including Orlando, Haines City and Tampa. The transaction was valued at approximately \$5.4 million, with the purchase price paid in cash.

The Orange County acquisition has been accounted for as a purchase; operations of the business acquired have been included in the accompanying consolidated financial statements from the respective date of acquisition. The purchase price has been allocated based on the fair values of the assets and liabilities at the date of acquisition as follows (in thousands):

|                                     |          |
|-------------------------------------|----------|
| Cash                                | \$ 1,270 |
| Inventories                         | 5,172    |
| Accounts receivable & other assets  | 2,518    |
| Property and equipment, net         | 568      |
| Accounts payable & accrued expenses | (5,734)  |
| Notes payable                       | (1,832)  |
| Goodwill                            | 3,421    |
|                                     | <hr/>    |
| Total                               | \$ 5,383 |
|                                     | <hr/>    |

Since the Orange County acquisition was a stock purchase, the goodwill is not deductible for tax purposes.

In April 2003, the Company purchased substantially all of the assets of Peterbilt of Mobile, Inc., which consisted of a dealership location in Mobile, Alabama. Peterbilt of Mobile, Inc.'s primary line of business is the sale of new Peterbilt and used heavy-duty trucks, parts and service.

The Peterbilt of Mobile, Inc. acquisition has been accounted for as a purchase; operations of the business acquired have been included in the accompanying consolidated financial statements from the respective date of acquisition. The purchase price has been allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

|                        |          |
|------------------------|----------|
| Inventories            | \$ 448   |
| Property and equipment | 126      |
| Goodwill               | 860      |
|                        | <hr/>    |
| Total                  | \$ 1,434 |
|                        | <hr/>    |

All of the goodwill acquired in the Peterbilt of Mobile, Inc. acquisition will be amortized over 15 years and deducted for income tax purposes.

The following unaudited pro forma summary presents information as if the Orange County and Peterbilt of Mobile, Inc. acquisitions had taken place at the beginning of 2002. The pro forma information is provided for information 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 years ended December 31, 2002 and 2003 (unaudited) (in thousands, except per share amounts):

|  | <u>2002</u> | <u>2003</u> |
|--|-------------|-------------|
| Revenues   | \$ 823,080  | \$ 823,779  |
| Income from continuing operations after pro forma provision for income taxes | \$ 8,448    | \$ 9,461    |
| Basic income from continuing operations per share                            | \$ 0.60     | \$ 0.67     |
| Diluted income from continuing operations per share                          | \$ 0.58     | \$ 0.63     |

**18. UNAUDITED QUARTERLY FINANCIAL DATA:**

(In thousands, except per share amounts.)

|   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|------------------|-------------------|------------------|-------------------|
| <b>2002</b>   |                  |                   |                  |                   |
| Revenues  | \$ 162,559       | \$ 172,435        | \$ 224,853       | \$ 197,300        |
| Gross Profit  | 32,130           | 35,019            | 39,058           | 34,998            |
| Operating income from continuing operations           | 3,561            | 5,128             | 7,096            | 5,105             |
| Income from continuing operations before income taxes | 1,913            | 3,561             | 5,545            | 3,527             |
| Income from continuing operations                     | 1,148            | 2,137             | 3,327            | 2,116             |
| (Loss) from discontinued operations, net              | (714)            | (147)             | (431)            | (9,180)           |
| Net income (loss)                                     | \$ 434           | \$ 1,990          | \$ 2,896         | \$ (7,064)        |
| Earning per share: Basic                              |                  |                   |                  |                   |
| Income from continuing operations                     | \$ 0.08          | \$ 0.15           | \$ 0.24          | \$ 0.15           |
| Net income (loss)                                     | \$ 0.03          | \$ 0.14           | \$ 0.21          | \$ (0.50)         |
| Earning per share: Diluted                            |                  |                   |                  |                   |
| Income from continuing operations                     | \$ 0.08          | \$ 0.14           | \$ 0.23          | \$ 0.15           |
| Net income (loss)                                     | \$ 0.03          | \$ 0.14           | \$ 0.20          | \$ (0.49)         |
| <b>2003</b>   |                  |                   |                  |                   |
| Revenues  | \$ 159,616       | \$ 193,259        | \$ 222,795       | \$ 239,662        |
| Gross Profit  | 34,174           | 38,419            | 41,422           | 39,235            |
| Operating income from continuing operations           | 2,895            | 5,313             | 6,853            | 5,053             |
| Income from continuing operations before income taxes | 1,455            | 3,891             | 5,316            | 5,088             |
| Income from continuing operations                     | 873              | 2,334             | 3,190            | 3,053             |
| Gain (loss) from discontinued operations, net         | (547)            | (100)             | (36)             | 62                |
| Net income  | \$ 326           | \$ 2,234          | \$ 3,154         | \$ 3,115          |
| Earning per share: Basic                              |                  |                   |                  |                   |
| Income from continuing operations                     | \$ 0.06          | \$ 0.16           | \$ 0.23          | \$ 0.22           |
| Net income  | \$ 0.02          | \$ 0.16           | \$ 0.23          | \$ 0.22           |
| Earning per share: Diluted                            |                  |                   |                  |                   |
| Income from continuing operations                     | \$ 0.06          | \$ 0.16           | \$ 0.21          | \$ 0.20           |
| Net income  | \$ 0.03          | \$ 0.15           | \$ 0.21          | \$ 0.20           |

**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 mentioned previously, the Company announced in November 2002 its decision to sell its John Deere construction equipment stores in Michigan, and discontinue its D&D operations. In connection with this decision, financial information related to the Company's construction equipment operations in

Michigan will not be included in the Construction Equipment segment below, and the Retail Segment will no longer be presented as a separate operating segment. Following is a brief description of the activities of each of the Company's business segments.

The Company has two reportable segments: the Heavy-Duty Truck segment and the Construction Equipment segment. The Heavy-Duty Truck segment operates a regional network of truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks, 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 metropolitan and surrounding areas. Dealership operations include the retail sale of new and used equipment, aftermarket parts and service facilities, equipment rentals, and the financing of new and used equipment.

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

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. There were no material intersegment sales during the years ended December 31, 2001, 2002 and 2003.

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. Assets held for sale and goodwill related to discontinued operations are included in the Heavy-Duty Truck segment.

The following table contains summarized information about reportable segment profit or loss and segment assets for the years ended December 31, 2001, 2002 and 2003 (in thousands):

|   | Heavy-Duty<br>Truck<br>Segment | Construction<br>Equipment<br>Segment | All<br>Other | Totals     |
|---|--------------------------------|--------------------------------------|--------------|------------|
| <i>2001</i>   |                                |                                      |              |            |
| Revenues from external customers                            | \$ 639,336                     | \$ 44,417                            | \$ 7,760     | \$ 691,513 |
| Interest income   | 429                            | —                                    | —            | 429        |
| Interest expense  | 8,474                          | 1,027                                | 195          | 9,696      |
| Depreciation and amortization                               | 8,198                          | 621                                  | 357          | 9,176      |
| Segment income from continuing operations before income tax | 8,714                          | 774                                  | 501          | 9,989      |
| Segment assets  | 310,012                        | 19,384                               | 9,415        | 338,811    |
| Goodwill  | 37,696                         | 4,103                                | 152          | 41,951     |
| Expenditures for segment assets                             | 20,019                         | 235                                  | 143          | 20,397     |
| <i>2002</i>   |                                |                                      |              |            |
| Revenues from external customers                            | \$ 713,113                     | \$ 36,777                            | \$ 7,257     | \$ 757,147 |
| Interest income   | 239                            | —                                    | —            | 239        |
| Interest expense  | 6,011                          | 565                                  | 162          | 6,738      |
| Depreciation and amortization                               | 7,857                          | 398                                  | 339          | 8,594      |
| Segment income from continuing operations before income tax | 12,881                         | 1,327                                | 338          | 14,546     |
| Segment assets  | 316,923                        | 18,193                               | 9,994        | 345,110    |
| Goodwill  | 33,672                         | 4,075                                | 116          | 37,863     |
| Expenditures for segment assets                             | 15,262                         | 105                                  | 827          | 16,194     |
| <i>2003</i>   |                                |                                      |              |            |
| Revenues from external customers                            | \$ 765,565                     | \$ 41,422                            | \$ 8,345     | \$ 815,332 |
| Interest income   | 290                            | —                                    | —            | 290        |
| Interest expense  | 6,121                          | 382                                  | 135          | 6,638      |
| Depreciation and amortization                               | 8,347                          | 226                                  | 356          | 8,929      |
| Segment income from continuing operations before income tax | 13,448                         | 2,385                                | (83)         | 15,750     |
| Segment assets  | 341,037                        | 15,873                               | 9,968        | 366,878    |
| Goodwill  | 38,431                         | 4,075                                | 114          | 42,620     |
| Expenditures for segment assets                             | 19,511                         | 619                                  | 1,045        | 21,175     |

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.



PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

**Item 14. Other Expenses of Issuance and Distribution.**

The following is a statement of estimated expenses of the issuance and distribution of the securities being registered hereby:

|   |    |           |
|---|----|-----------|
| Securities and Exchange Commission registration fee | \$ | 11,958    |
| NASD filing fee                                     |    | 15,000    |
| Printing expenses                                   |    | 175,000   |
| Accounting fees and expenses                        |    | 150,000   |
| Transfer agents fees and expenses                   |    | 25,000    |
| Legal fees and expenses                             |    | 250,000   |
| Miscellaneous expenses                              |    | 373,042   |
|   |    | <hr/>     |
| Total   |    | 1,000,000 |
|   |    | <hr/>     |

**Item 15. Indemnification of Directors and Officers.**

Our Restated Articles of Incorporation, as amended, provide that a director will not be liable to the corporation or its shareholders for monetary damages for an act or omission in such director's capacity as director, except in the case of (1) breach of such director's duty of loyalty to the corporation or its shareholders, (2) an act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law, (3) a transaction from which the director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the director's office or (4) an act or omission for which the liability of a director is expressly provided for by statute. Our Amended and Restated Bylaws provide that the corporation will indemnify, and advance expenses to, any executive officer or director to the fullest extent permitted by Article 2.02-1 of the Texas Business Corporation Act (the "TBCA").

Under Article 2.02-1 of the TBCA, directors, officers, employees or agents are entitled to indemnification against expenses (including attorneys' fees) whenever they successfully defend legal proceedings brought against them by reason of the fact that they hold such a position with the corporation. In addition, in situations involving actions not brought by or in the right of the corporation, the TBCA permits indemnification for expenses (including attorneys' fees), judgments, fines, penalties and reasonable settlement if it is determined that the person seeking indemnification acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation or its shareholders and, with respect to criminal proceedings, he or she had no reasonable cause to believe that his or her conduct was unlawful. In cases involving actions brought by or in the right of the corporation, the TBCA permits indemnification for expenses (including attorneys' fees) and reasonable settlements, if it is determined that the person seeking indemnification acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation or its shareholders, provided indemnification is not permitted if the person is found liable to the corporation, unless the court in which the claim or suit was brought has determined that indemnification is fair and reasonable in view of all the circumstances of the case.

Under an insurance policy we maintain, our directors and executive officers are insured within the limits and subject to the limitations of the policy, against certain expenses in connection with the defense of certain claims, actions, suits or proceedings and certain liabilities which might be imposed as a result of such claims, action, suits or proceedings, which may be brought against them by reason of being or having been such directors and executive officers.

This discussion of Article 2.02-1 of the TBCA, our Restated Articles of Incorporation, as amended, and our Amended and Restated Bylaws is not intended to be exhaustive and is qualified in its entirety by reference to the statute, our Restated Articles of Incorporation, as amended, and our Amended and Restated Bylaws.

**Item 16. Exhibits and Financial Statement Schedules.**

**Exhibits.**

The attached Exhibit Index is incorporated by reference herein.

**Item 17. Undertakings.**

The undersigned registrant does hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which has been registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to the information in the registration statement;

*Provided, however,* that paragraphs (i) and (ii) above do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for purposes of determining any liability under the Securities Act, each post-effective amendment shall be deemed to be a new registration statement relating to the securities it offers, and the offering of securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered that remain unsold at the termination of the offering.

(4) That, (i) for purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this registration statement as of the time it was declared effective; and (ii) for the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be

a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(5) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, as amended, each filing of Rush's Annual Report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 15 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Pre-Effective Amendment No. 2 to Registration Statement on Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New Braunfels, State of Texas, on November 8, 2004.

RUSH ENTERPRISES, INC.

By: /s/ W. MARVIN RUSH

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W. Marvin Rush  
Chairman of the Board  
and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Pre-Effective Amendment No. 2 to Registration Statement on Form S-3 has been signed by the following persons in the capacities and on the dates indicated:

| Name                        | Title   | Date             |
|-----------------------------|---|------------------|
| *                           | Chairman of the Board and Chief Executive Officer, Director<br>(Principal Executive Officer)      | November 8, 2004 |
| W. Marvin Rush              |   |                  |
| *                           |   |                  |
| W. M. "Rusty" Rush          | President, Director   | November 8, 2004 |
| /s/ MARTIN A. NAEGELIN, JR. | Senior Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | November 8, 2004 |
| Martin A. Naegelin, Jr.     |   |                  |
| *                           |   |                  |
| Ronald J. Krause            | Director  | November 8, 2004 |
| *                           |   |                  |
| John D. Rock                | Director  | November 8, 2004 |
| *                           |   |                  |
| Harold D. Marshall          | Director  | November 8, 2004 |
| *                           |   |                  |
| Thomas A. Akin              | Director  | November 8, 2004 |

\*By: /s/ MARTIN A. NAEGELIN, JR.

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Martin A. Naegelin, Jr.  
Pursuant to power of attorney  
dated September 17, 2004

## EXHIBIT INDEX

| Exhibit No. | Description  |
|-------------|--|
| 1.1*        | Form of Underwriting Agreement   |
| 2.1         | Asset Purchase Agreement, dated as of September 15, 2004, incorporated herein by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed September 16, 2004.  |
| 2.2         | First Amendment to Asset Purchase Agreement, dated as of November 8, 2004, incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed November 9, 2004.  |
| 4.1         | Specimen of certificate representing common stock, \$.01 par value (now class B common stock), of the Registrant (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).         |
| 4.2         | Rights Agreement dated April 8, 1996 between Rush Enterprises, Inc. and American Stock Transfer & Trust Company, Trustee (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996). |
| 4.3         | Specimen of certificate representing class A common stock, \$.01 par value, of the Registrant (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A filed July 9, 2002).  |
| 5.1**       | Opinion of Fulbright & Jaworski L.L.P.   |
| 23.1*       | Consent of Ernst & Young LLP   |
| 23.2*       | Consent of BDO Seidman, LLP  |
| 23.3**      | Consent of Fulbright & Jaworski L.L.P. (included in Exhibit 5.1)   |
| 24.1**      | Powers of Attorney (included in Part II of Registration Statement)   |

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\* filed herewith

\*\* previously filed

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10,000,000 Shares

RUSH ENTERPRISES, INC.

Class A Common Stock

**UNDERWRITING AGREEMENT**

, 2004

Credit Suisse First Boston LLC  
As Representative of the Several Underwriters,  
Eleven Madison Avenue,  
New York, N.Y. 10010-3629

Dear Sirs:

1. *Introductory.* Rush Enterprises, Inc., a Texas corporation ("**Company**") proposes to issue and sell 7,250,000 shares of its Class A Common Stock ("**Securities**") and the stockholders listed in Schedule A hereto ("**Selling Stockholders**") propose severally to sell an aggregate of 2,750,000 outstanding shares of the Securities (such 10,000,000 shares of Securities being hereinafter referred to as the "**Firm Securities**"). The Company also proposes to sell to the Underwriters, at the option of the Underwriters, an aggregate of not more than 1,500,000 additional shares of its Securities (such 1,500,000 additional shares being hereinafter referred to as the "**Optional Securities**"). The Firm Securities and the Optional Securities are herein collectively called the "**Offered Securities**". The Company and the Selling Stockholders hereby agree with the several Underwriters named in Schedule B hereto ("**Underwriters**") as follows:

2. *Representations and Warranties of the Company and the Selling Stockholders.* (a) The Company represents and warrants to, and agrees with, the several Underwriters that:

(i) A registration statement (No. 333-119131) relating to the Offered Securities, including a form of prospectus, has been filed with the Securities and Exchange Commission ("**Commission**") and either (A) has been declared effective under the Securities Act of 1933 ("**Act**") and is not proposed to be amended or (B) is proposed to be amended by amendment or post-effective amendment. If such registration statement (the "**initial registration statement**") has been declared effective, either (A) an additional registration statement (the "**additional registration statement**") relating to the Offered Securities may have been filed with the Commission pursuant to Rule 462(b) ("**Rule 462(b)**") under the Act and, if so filed, has become effective upon filing pursuant to such Rule and the Offered Securities all have been duly registered under the Act pursuant to the initial registration statement and, if applicable, the additional registration statement or (B) such an additional registration statement is proposed to be filed with the Commission pursuant to Rule 462(b) and will become effective upon filing pursuant to such Rule and upon such filing the Offered Securities will all have been duly registered under the Act pursuant to the initial registration statement and such additional registration statement. If the Company does not propose to amend the initial registration statement or if an additional registration statement has been filed and the Company does not propose to amend it, and if any post-effective amendment to either such registration statement has been filed with the Commission prior to the execution and delivery of this Agreement, the most recent amendment (if any) to each such registration statement has been declared effective by the Commission or has become effective upon filing pursuant to Rule 462(c) ("**Rule 462(c)**") under the Act or, in the case of the additional registration statement, Rule 462(b). For purposes of this Agreement, "**Effective Time**" with respect to the initial registration statement or, if filed prior to the execution and delivery of this Agreement, the additional registration statement means (A) if the Company has advised the Representative that it does not propose to amend such registration statement, the date and time as

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of which such registration statement, or the most recent post-effective amendment thereto (if any) filed prior to the execution and delivery of this Agreement, was declared effective by the Commission or has become effective upon filing pursuant to Rule 462(c), or (B) if the Company has advised the Representative that it proposes to file an amendment or post-effective amendment to such registration statement, the date and time as of which such registration statement, as amended by such amendment or post-effective amendment, as the case may be, is declared effective by the Commission. If an additional registration statement has not been filed prior to the execution and delivery of this Agreement but the Company has advised the Representative that it proposes to file one, "**Effective Time**" with respect to such additional registration statement means the date and time as of which such registration statement is filed and becomes effective pursuant to Rule 462(b). "**Effective Date**" with respect to the initial registration statement or the additional registration statement (if any) means the date of the Effective Time thereof. The initial registration statement, as amended at its Effective Time, including all material incorporated by reference therein, including all information contained in the additional registration statement (if any) and deemed to be a part of the initial registration statement as of the Effective Time of the additional registration statement pursuant to the General Instructions of the Form on which it is filed and including all information (if any) deemed to be a part of the initial registration statement as of its Effective Time pursuant to Rule 430A(b) ("**Rule 430A(b)**") under the Act, is hereinafter referred to as the "**Initial Registration Statement**". The additional registration statement, as amended at its Effective Time, including the contents of the initial registration statement incorporated by reference therein and including all information (if any) deemed to be a part of the additional registration statement as of its Effective Time pursuant to Rule 430A(b), is hereinafter referred to as the "**Additional Registration Statement**". The Initial Registration Statement and the Additional Registration Statement are hereinafter referred to collectively as the "**Registration Statements**" and individually as a "**Registration Statement**". The form of prospectus relating to the Offered Securities, as first filed with the Commission pursuant to and in accordance with Rule 424(b) ("**Rule 424(b)**") under the Act or (if no such filing is required) as included in a Registration Statement, including all material incorporated by reference in such prospectus, is hereinafter referred to as the "**Prospectus**". No document has been or will be prepared or distributed in reliance on Rule 434 under the Act.

(ii) If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement: (A) on the Effective Date of the Initial Registration Statement, the Initial Registration Statement conformed in all respects to the requirements of the Act and the rules and regulations of the Commission ("**Rules and Regulations**") and did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, (B) on the Effective Date of the Additional Registration Statement (if any), each Registration Statement conformed or will conform, in all respects to the requirements of the Act and the Rules and Regulations and did not include, or will not include, any untrue statement of a material fact and did not omit, or will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (C) on the date of this Agreement, the Initial Registration Statement and, if the Effective Time of the Additional Registration Statement is prior to the execution and delivery of this Agreement, the Additional Registration Statement each conforms, and at the time of filing of the Prospectus pursuant to Rule 424(b) or (if no such filing is required) at the Effective Date of the Additional Registration Statement in which the Prospectus is included, each Registration Statement and the Prospectus will conform, in all respects to the requirements of the Act and the Rules and Regulations, and neither of such documents includes, or will include, any untrue statement of a material fact or omits, or will omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading. If the Effective Time of the Initial Registration Statement is subsequent to the execution and delivery of this Agreement:

on the Effective Date of the Initial Registration Statement, the Initial Registration Statement and the Prospectus will conform in all respects to the requirements of the Act and the Rules and Regulations, neither of such documents will include any untrue statement of a material fact or will omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and no Additional Registration Statement has been or will be filed. The two preceding sentences do not apply to statements in or omissions from a Registration Statement or the Prospectus based upon written information furnished to the Company by any Underwriter through the Representative specifically for use therein, it being understood and agreed that the only such information is that described as such in Section 7(c) hereof.

(iii) The Company has been duly incorporated and is an existing corporation in good standing under the laws of the State of Texas, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus; the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole (a "**Material Adverse Effect**"); and Texas is the only jurisdiction in which the Company maintains an office or leases property.

(iv) Each subsidiary of the Company has been duly incorporated and is an existing corporation in good standing under the laws of the jurisdiction of its incorporation, with power and authority (corporate and other) to own or lease its properties and conduct its business as described in the Prospectus; and each subsidiary of the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect; the jurisdictions listed on Exhibit A to the opinion to be delivered to the Underwriters by Fulbright & Jaworski L.L.P. pursuant to Section 6(e) hereof are the only jurisdictions in which the Company's subsidiaries maintain an office or lease property; all of the issued and outstanding capital stock of each subsidiary of the Company has been duly authorized and validly issued and is fully paid and nonassessable; and the capital stock of each subsidiary owned by the Company, directly or through subsidiaries, is owned free from liens, encumbrances and defects (other than transfer restrictions imposed under applicable securities laws).

(v) The Offered Securities and all other outstanding shares of capital stock of the Company have been duly authorized and validly issued, fully paid and nonassessable and conform in all material respects to the description thereof contained in the Prospectus; and the stockholders of the Company have no preemptive rights with respect to the Securities.

(vi) Except as disclosed in the Prospectus, there are no contracts, agreements or understandings between the Company and any person that would give rise to a valid claim against the Company or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with this offering.

(vii) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to a Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Act.

(viii) The Securities have been approved for listing subject to notice of issuance on The Nasdaq Stock Market's National Market.

(ix) No consent, approval, authorization, or order of, or filing with, any governmental agency or body or any court is required to be obtained or made by the Company for the consummation of the transactions contemplated by this Agreement in connection with the sale of the Offered Securities, except such as have been obtained and made under the Act and such as may be required under state securities laws, the Securities Exchange Act of 1934 (the "**Exchange Act**") or rules of the National Association of Securities Dealers, Inc. (the "**NASD**").

(x) The execution, delivery and performance of this Agreement, and the consummation of the transactions herein contemplated will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, (i) any statute, any rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company or any subsidiary of the Company or any of their properties, or (ii) any agreement or instrument to which the Company or any such subsidiary is a party or by which the Company or any such subsidiary is bound or to which any of the properties of the Company or any such subsidiary is subject, or (iii) the charter or by-laws of the Company or any such subsidiary, other than in the case of (ii), conflicts or breaches that, individually or in the aggregate, would not be reasonably expected to have a Material Adverse Effect.

(xi) This Agreement has been duly authorized, executed and delivered by the Company.

(xii) Except as disclosed in the Prospectus, the Company and its subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them, in each case free from liens, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or to be made thereof by them; and except as disclosed in the Prospectus, the Company and its subsidiaries hold any leased real or personal property under valid and enforceable leases with no exceptions that would materially interfere with the use made or to be made thereof by them.

(xiii) The Company and its subsidiaries possess adequate certificates, authorities or permits issued by appropriate governmental agencies or bodies necessary to conduct the business now operated by them, except for such certificates, authorities or permits the absence of which, individually or in the aggregate, would not have a Material Adverse Effect, and have not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect.

(xiv) No labor dispute with the employees of the Company or any subsidiary exists or, to the knowledge of the Company, is imminent that might have a Material Adverse Effect.

(xv) The Company and its subsidiaries own, possess or can acquire on reasonable terms, adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, "**intellectual property rights**") necessary to conduct the business now operated by them, or presently employed by them, and have not received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect.

(xvi) Except as disclosed in the Prospectus, neither the Company nor any of its subsidiaries is in violation of any statute, any rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "**environmental laws**"), owns or operates any real property contaminated with any substance that is subject to any environmental laws, is liable for any off-site disposal or contamination pursuant to any environmental laws, or is subject to any

claim relating to any environmental laws, which violation, contamination, liability or claim would individually or in the aggregate have Material Adverse Effect; and the Company is not aware of any pending investigation which might lead to such a claim.

(xvii) Except as disclosed in the Prospectus, there are no pending actions, suits or proceedings against or affecting the Company, any of its subsidiaries or any of their respective properties that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect, or would materially and adversely affect the ability of the Company to perform its obligations under this Agreement, or which are otherwise material in the context of the sale of the Offered Securities; and, to the Company's knowledge, no such actions, suits or proceedings are threatened or, contemplated.

(xviii) The financial statements of the Company, together with the related notes, included in each Registration Statement and the Prospectus present fairly in all material respects the financial position of the Company and its consolidated subsidiaries as of the dates shown and their results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with the generally accepted accounting principles in the United States applied on a consistent basis; the schedules included in each Registration Statement present fairly the information required to be stated therein; and the assumptions used in preparing the pro forma financial statements included in each Registration Statement and the Prospectus provide a reasonable basis for presenting the significant effects directly attributable to the transactions or events described therein, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma columns therein reflect the proper application of those adjustments to the corresponding historical financial statement amounts.

(xix) Except as disclosed in the Prospectus, since the date of the latest audited financial statements of the Company included in the Prospectus, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole, and, except as disclosed in or contemplated by the Prospectus, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(xx) The financial statements of American Truck Source, Inc. ("**ATS**"), together with the related notes, included in each Registration Statement and the Prospectus present fairly in all material respects the financial position of ATS and its consolidated subsidiaries as of the dates shown and their results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with the generally accepted accounting principles in the United States applied on a consistent basis; the schedules included in each Registration Statement present fairly the information required to be stated therein.

(xxi) Except as disclosed in the Prospectus, since the date of the latest audited financial statements of ATS included in the Prospectus, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or other), business, properties or results of operations of ATS and its subsidiaries taken as a whole, and, except as disclosed in or contemplated by the Prospectus, there has been no dividend or distribution of any kind declared, paid or made by ATS on any class of its capital stock.

(xxii) The Company is subject to the reporting requirements of either Section 13 or Section 15(d) of the Exchange Act and files reports with the Commission on the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

(xxiii) The Company is not and, after giving effect to the offering and sale of the Offered Securities and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(b) Each Selling Stockholder severally represents and warrants to, and agrees with, the several Underwriters that:

(i) Such Selling Stockholder has and on each Closing Date hereinafter mentioned will have valid and unencumbered title to the Offered Securities to be delivered by such Selling Stockholder on such Closing Date and full right, power and authority to enter into this Agreement and to sell, assign, transfer and deliver the Offered Securities to be delivered by such Selling Stockholder on such Closing Date hereunder; and upon the delivery of and payment for the Offered Securities on each Closing Date hereunder the several Underwriters will acquire valid and unencumbered title to the Offered Securities to be delivered by such Selling Stockholder on such Closing Date.

(ii) If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement: (A) on the Effective Date of the Initial Registration Statement, the Initial Registration Statement did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, (B) on the Effective Date of the Additional Registration Statement (if any), each Registration Statement did not include, or will not include, any untrue statement of a material fact and did not omit, or will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (C) on the date of this Agreement, the Initial Registration Statement and, if the Effective Time of the Additional Registration Statement is prior to the execution and delivery of this Agreement, the Additional Registration Statement, and at the time of filing of the Prospectus pursuant to Rule 424(b) or (if no such filing is required) at the Effective Date of the Additional Registration Statement in which the Prospectus is included, each Registration Statement and the Prospectus did not include or will not include any untrue statement of a material fact or omits, or will omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading. If the Effective Time of the Initial Registration Statement is subsequent to the execution and delivery of this Agreement: on the Effective Date of the Initial Registration Statement, the Initial Registration Statement and the Prospectus will not include any untrue statement of a material fact or will omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The two preceding sentences do not apply to statements in or omissions from a Registration Statement or the Prospectus based upon written information furnished to the Company by any Underwriter through the Representative specifically for use therein, it being understood and agreed that the only such information is that described as such in Section 7(c).

(iii) Except as disclosed in the Prospectus, there are no contracts, agreements or understandings between such Selling Stockholder and any person that would give rise to a valid claim against such Selling Stockholder or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with this offering.

3. *Purchase, Sale and Delivery of Offered Securities.* On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and each Selling Stockholder agree, severally and not jointly, to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company and each Selling Stockholder, at a purchase price of \$ per share, that number of Firm Securities (rounded up or down, as determined by Credit Suisse First Boston LLC ("**CSFB**") in its discretion, in order to avoid fractions) obtained by multiplying 7,500,000 Firm Securities in the case of the Company and the number of Firm Securities set forth opposite the name of such Selling Stockholder in Schedule A hereto, in the case of a Selling Stockholder, in each case by a fraction the numerator of which is the

number of Firm Securities set forth opposite the name of such Underwriter in Schedule B hereto and the denominator of which is the total number of Firm Securities.

Certificates in negotiable form for the Offered Securities to be sold by the Selling Stockholders hereunder have been placed in custody, for delivery under this Agreement, under Custody Agreements made with American Stock Transfer and Trust Company, as custodian ("**Custodian**"). Each Selling Stockholder agrees that the shares represented by the certificates held in custody for the Selling Stockholders under such Custody Agreements are subject to the interests of the Underwriters hereunder, that the arrangements made by the Selling Stockholders for such custody are to that extent irrevocable, and that the obligations of the Selling Stockholders hereunder shall not be terminated by operation of law, whether by the death of any individual Selling Stockholder or the occurrence of any other event, or in the case of a trust, by the death of any trustee or trustees or the termination of such trust. If any individual Selling Stockholder or any such trustee or trustees should die, or if any other such event should occur, or if any of such trusts should terminate, before the delivery of the Offered Securities hereunder, certificates for such Offered Securities shall be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death or other event or termination had not occurred, regardless of whether or not the Custodian shall have received notice of such death or other event or termination.

The Company and the Custodian will deliver the Firm Securities to the Representative for the accounts of the Underwriters, against payment of the purchase price in Federal (same day) funds by official bank check or checks or wire transfer to an account at a bank acceptable to CSFB drawn to the order of the Company in the case of 7,250,000 shares of Firm Securities and \_\_\_\_\_ in the case of 2,750,000 shares of Firm Securities, at the office of \_\_\_\_\_, at \_\_\_\_\_ A.M., New York time, on \_\_\_\_\_, 2004, or at such other time not later than seven full business days thereafter as CSFB and the Company determine, such time being herein referred to as the "**First Closing Date**". For purposes of Rule 15c6-1 under the Exchange Act, the First Closing Date (if later than the otherwise applicable settlement date) shall be the settlement date for payment of funds and delivery of securities for all the Offered Securities sold pursuant to the offering. The certificates for the Firm Securities so to be delivered will be in definitive form, in such denominations and registered in such names as CSFB requests and will be made available for checking and packaging at the above office of \_\_\_\_\_ at least 24 hours prior to the First Closing Date.

In addition, upon written notice from CSFB given to the Company from time to time not more than 30 days subsequent to the date of the Prospectus, the Underwriters may purchase all or less than all of the Optional Securities at the purchase price per Security to be paid for the Firm Securities. The Company agrees to sell to the Underwriters the number of Optional Securities specified in such notice and the Underwriters agree, severally and not jointly, to purchase such Optional Securities. Such Optional Securities shall be purchased for the account of each Underwriter in the same proportion as the number of Firm Securities set forth opposite such Underwriter's name bears to the total number of Firm Securities (subject to adjustment by CSFB to eliminate fractions) and may be purchased by the Underwriters only for the purpose of covering over-allotments made in connection with the sale of the Firm Securities. No Optional Securities shall be sold or delivered unless the Firm Securities previously have been, or simultaneously are, sold and delivered. The right to purchase the Optional Securities or any portion thereof may be exercised from time to time and to the extent not previously exercised may be surrendered and terminated at any time upon notice by CSFB to the Company.

Each time for the delivery of and payment for the Optional Securities, being herein referred to as an "**Optional Closing Date**", which may be the First Closing Date (the First Closing Date and each Optional Closing Date, if any, being sometimes referred to as a "**Closing Date**"), shall be determined by CSFB but shall be not later than five full business days after written notice of election to purchase Optional Securities is given. The Company will deliver the Optional Securities being purchased on each Optional Closing Date to the Representative for the accounts of the several Underwriters, against

payment of the purchase price therefor in Federal (same day) funds by official bank check or checks or wire transfer to an account at a bank acceptable to CSFB drawn to the order of the Company in the case of the Optional Securities, at the office of . The certificates for the Optional Securities being purchased on each Optional Closing Date will be in definitive form, in such denominations and registered in such names as CSFB requests upon reasonable notice prior to such Optional Closing Date and will be made available for checking and packaging at the above office of at a reasonable time in advance of such Optional Closing Date.

4. *Offering by Underwriters.* It is understood that the several Underwriters propose to offer the Offered Securities for sale to the public as set forth in the Prospectus.

5. *Certain Agreements of the Company and the Selling Stockholders.* The Company agrees with the several Underwriters and the Selling Stockholders that:

(a) If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement, the Company will file the Prospectus with the Commission pursuant to and in accordance with subparagraph (1) (or, if applicable and if consented to by CSFB, subparagraph (4)) of Rule 424(b) not later than the earlier of (A) the second business day following the execution and delivery of this Agreement or (B) the fifteenth business day after the Effective Date of the Initial Registration Statement.

The Company will advise CSFB promptly of any such filing pursuant to Rule 424(b). If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement and an additional registration statement is necessary to register a portion of the Offered Securities under the Act but the Effective Time thereof has not occurred as of such execution and delivery, the Company will file the additional registration statement or, if filed, will file a post-effective amendment thereto with the Commission pursuant to and in accordance with Rule 462(b) on or prior to 10:00 P.M., New York time, on the date of this Agreement or, if earlier, on or prior to the time the Prospectus is printed and distributed to any Underwriter, or will make such filing at such later date as shall have been consented to by CSFB.

(b) The Company will advise CSFB promptly of any proposal to amend or supplement the initial or any additional registration statement as filed or the related prospectus or the Initial Registration Statement, the Additional Registration Statement (if any) or the Prospectus and will not effect such amendment or supplementation without CSFB's consent; and the Company will also advise CSFB promptly of the effectiveness of each Registration Statement (if its Effective Time is subsequent to the execution and delivery of this Agreement) and of any amendment or supplementation of a Registration Statement or the Prospectus and of the institution by the Commission of any stop order proceedings in respect of a Registration Statement and will use its reasonable best efforts to prevent the issuance of any such stop order and to obtain as soon as possible its lifting, if issued.

(c) If, at any time when a prospectus relating to the Offered Securities is required to be delivered under the Act in connection with sales by any Underwriter or dealer, any event occurs as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Act, the Company will promptly notify CSFB of such event and will promptly prepare and file with the Commission, at its own expense, an amendment or supplement which will correct such statement or omission or an amendment which will effect such compliance. Neither CSFB's consent to, nor the Underwriters' delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 6.

(d) As soon as practicable, but not later than the Availability Date (as defined below), the Company will make generally available to its securityholders an earnings statement covering a period of at least 12 months beginning after the Effective Date of the Initial Registration Statement (or, if later, the Effective Date of the Additional Registration Statement) which will satisfy the provisions of Section 11(a) of the Act. For the purpose of the preceding sentence, "**Availability Date**" means the 45th day after the end of the fourth fiscal quarter following the fiscal quarter that includes such Effective Date, except that, if such fourth fiscal quarter is the last quarter of the Company's fiscal year, "**Availability Date**" means the 90th day after the end of such fourth fiscal quarter.

(e) The Company will furnish to the Representative copies of each Registration Statement (two of which will be signed and will include all exhibits), each related preliminary prospectus, and, so long as a prospectus relating to the Offered Securities is required to be delivered under the Act in connection with sales by any Underwriter or dealer, the Prospectus and all amendments and supplements to such documents, in each case in such quantities as CSFB reasonably requests. The Prospectus shall be so furnished on or prior to 3:00 P.M., New York time, on the business day following the later of the execution and delivery of this Agreement or the Effective Time of the Initial Registration Statement. All other such documents shall be so furnished as soon as available. The Company will pay the expenses of printing and distributing to the Underwriters all such documents.

(f) The Company will use its best efforts to arrange for the qualification of the Offered Securities for sale under the laws of such jurisdictions as CSFB designates and will continue such qualifications in effect so long as required for the distribution; provided, however, that the Company will not be required to qualify to do business, consent to service of process or become subject to taxation in any jurisdiction in which it has not already done so.

(h) For the period specified below (the "**Lock-Up Period**"), the Company will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Commission a registration statement under the Act relating to, any additional shares of its Securities or securities convertible into or exchangeable or exercisable for any shares of its Securities or any shares of its Class B Common Stock, par value \$0.01 per share ("**Class B Common Stock**"), or securities convertible into or exchangeable or exercisable for any shares of its Class B Common Stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of CSFB, except grants of stock options pursuant to the terms of a plan in effect on the date hereof, issuances of Securities or Class B Common Stock pursuant to the exercise of such options or the exercise of any other stock options outstanding on the date hereof. The initial Lock-Up Period will commence on the date of this Agreement and continue for 90 days after the date of the commencement of the public offering of the Securities or such earlier date that CSFB consents to in writing; provided, however, that if (1) during the last 17 days of the initial Lock-Up Period, the Company releases earnings results or material news or a material event relating to the Company occurs or (2) prior to the expiration of the initial Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the initial Lock-Up Period, then in each case the Lock-Up Period will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the occurrence of the material news or material event, as applicable, unless CSFB waives, in writing, such extension. The Company will provide CSFB with notice of any announcement described in clause (2) of the preceding sentence that gives rise to an extension of the Lock-up Period; provided, however, that this previous sentence shall not apply if the research published or distributed on the Company is compliant under Rule 139 of the Securities Act and the Company's securities are actively traded as defined in Rule 101(c)(1) of Regulation M of the Exchange Act.

(i) The Company agrees with the several Underwriters that the Company will pay all expenses incident to the performance of the obligations of the Company and the Selling Stockholders, as the case may be, under this Agreement, for any filing fees and other expenses (including fees and disbursements of counsel) in connection with qualification of the Offered Securities for sale under the laws of such jurisdictions as CSFB designates and the printing of memoranda relating thereto, for the filing fee incident to the review by the NASD of the Offered Securities, for any travel expenses of the Company's officers and employees and any other expenses of the Company in connection with attending or hosting meetings with prospective purchasers of the Offered Securities, for any transfer taxes on the sale by the Selling Stockholders of the Offered Securities, including 50% of the cost of any aircraft chartered in connection with attending or hosting such meetings, to the Underwriters and for expenses incurred in distributing preliminary prospectuses and the Prospectus (including any amendments and supplements thereto) to the Underwriters.

(j) Each Selling Stockholder agrees, during the Lock-Up Period, not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any additional shares of the Securities of the Company or securities convertible into or exchangeable or exercisable for any shares of Securities, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Securities, whether any such aforementioned transaction is to be settled by delivery of the Securities or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of CSFB. The initial Lock-Up Period will commence on the date of the Lock-Up Agreement and continue for 90 days after the public offering date set forth on the final prospectus used to sell the Securities (the "Public Offering Date"); provided, however, that if (1) during the last 17 days of the initial Lock-Up Period, the Company releases earnings results or material news or a material event relating to the Company occurs or (2) prior to the expiration of the initial Lock-up Period, the company announces that it will release earnings results during the 16-day period beginning on the last day of the initial Lock-Up Period, then in each case the Lock-Up Period will be extended until the expiration of the 18 day period beginning on the date of release of the earnings results or the occurrence of the material news or material event, as applicable, unless CSFB waives, in writing, such extension; provided, however, that this sentence shall not apply if the research published or distributed on the Company is compliant under Rule 139 of the Securities Act and the Company's securities are actively traded as defined in Rule 101(c)(1) of Regulation M of the Exchange Act.

6. *Conditions of the Obligations of the Underwriters.* The obligations of the several Underwriters to purchase and pay for the Firm Securities on the First Closing Date and the Optional Securities to be purchased on each Optional Closing Date will be subject to the accuracy of the representations and warranties on the part of the Company and the Selling Stockholders herein, to the accuracy of the statements of Company officers made pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of their obligations hereunder and to the following additional conditions precedent:

(a) The Representative shall have received a letter, dated the date of delivery thereof (which, if the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement, shall be on or prior to the date of this Agreement or, if the Effective Time of the Initial Registration Statement is subsequent to the execution and delivery of this Agreement, shall be prior to the filing of the amendment or post-effective amendment to the registration statement to be filed shortly prior to such Effective Time), of Ernst & Young LLP confirming that they are an independent registered public accounting firm within the meaning of the Act and the applicable published Rules and Regulations adopted by the Securities and Exchange Commission and the

(i) in their opinion the financial statements and schedules examined by them and included in the Registration Statements comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations;

(ii) they have performed the procedures specified by the PCAOB for a review of interim financial information as described in AU Sec. 722, Interim Financial Information, on the unaudited financial statements of the Company included or incorporated by reference in the Registration Statements;

(iii) on the basis of the review referred to in clause (ii) above, a reading of the latest available interim financial statements of the Company, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(A) the unaudited financial statements of the Company included or incorporated by reference in the Registration Statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations or any material modifications should be made to such unaudited financial statements for them to be in conformity with generally accepted accounting principles;

(B) at the date of the latest available balance sheet read by such accountants, or at a subsequent specified date not more than three business days prior to the date of this Agreement, there was any change in the capital stock or any increase in short-term indebtedness or long-term debt of the Company and its consolidated subsidiaries or, at the date of the latest available balance sheet read by such accountants, there was any decrease in consolidated net current assets or net assets, as compared with amounts shown on the latest balance sheet included in the Prospectus; or

(C) for the period from the closing date of the latest income statement included in the Prospectus to the closing date of the latest available income statement read by such accountants there were any decreases, as compared with the corresponding period of the previous year, in consolidated net sales or net operating income in the total or per share amounts of consolidated net income;

except in all cases set forth in clauses (B) and (C) above for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(iv) they have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information contained in the Registration Statements (in each case to the extent that such dollar amounts, percentages and other financial information are derived from the general accounting records of the Company and its subsidiaries subject to the internal controls of the Company's accounting system or are derived directly from such records by analysis or computation) with the results obtained from inquiries, a reading of such general accounting records and other procedures specified in such letter and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

(b) The Representative shall have received a letter, dated the date of delivery thereof (which, if the Effective Time of the Initial Registration Statement is prior to the execution and delivery of

this Agreement, shall be on or prior to the date of this Agreement or, if the Effective Time of the Initial Registration Statement is subsequent to the execution and delivery of this Agreement, shall be prior to the filing of the amendment or post-effective amendment to the registration statement to be filed shortly prior to such Effective Time), of BDO Seidman, LLP confirming that they are an independent registered public accounting firm within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating to the effect that:

(i) in their opinion the financial statements and schedules examined by them and included in the Registration Statements comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations;

(ii) they have performed the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement of Auditing Standards No. 100, Interim Financial Information, on the unaudited financial statements of ATS included in the Registration Statements;

(iii) on the basis of the review referred to in clause (ii) above, a reading of the latest available interim financial statements of ATS, inquiries of officials of ATS who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(A) the unaudited financial statements of ATS included in the Registration Statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations or any material modifications should be made to such unaudited financial statements for them to be in conformity with generally accepted accounting principles;

(B) at the date of the latest available balance sheet read by such accountants, or at a subsequent specified date not more than three business days prior to the date of this Agreement, there was any change in the capital stock or any increase in short-term indebtedness or long-term debt of ATS and its consolidated subsidiaries or, at the date of the latest available balance sheet read by such accountants, there was any decrease in consolidated net current assets or net assets, as compared with amounts shown on the latest balance sheet included in the Prospectus; or

(C) for the period from the closing date of the latest income statement included in the Prospectus to the closing date of the latest available income statement read by such accountants there were any decreases, as compared with the corresponding period of the previous year, in consolidated net sales or net operating income in the total or per share amounts of consolidated net income;

except in all cases set forth in clauses (B) and (C) above for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(iv) they have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information contained in the Registration Statements (in each case to the extent that such dollar amounts, percentages and other financial information are derived from the general accounting records of ATS and its subsidiaries subject to the internal controls of ATS's accounting system or are derived directly from such records by analysis or computation) with the results obtained from inquiries, a reading of such general accounting records and other procedures specified in such letter and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

For purposes of subsections (a) and (b) above, (i) if the Effective Time of the Initial Registration Statements is subsequent to the execution and delivery of this Agreement, "**Registration Statements**" shall mean the initial registration statement as proposed to be amended by the amendment or post-effective amendment to be filed shortly prior to its Effective Time, (ii) if the Effective Time of the Initial Registration Statements is prior to the execution and delivery of this Agreement but the Effective Time of the Additional Registration Statement is subsequent to such execution and delivery, "**Registration Statements**" shall mean the Initial Registration Statement and the additional registration statement as proposed to be filed or as proposed to be amended by the post-effective amendment to be filed shortly prior to its Effective Time, and (iii) "**Prospectus**" shall mean the prospectus included in the Registration Statements. All financial statements and schedules included in material incorporated by reference into the Prospectus shall be deemed included in the Registration Statements for purposes of this subsection.

(c) If the Effective Time of the Initial Registration Statement is not prior to the execution and delivery of this Agreement, such Effective Time shall have occurred not later than 10:00 P.M., New York time, on the date of this Agreement or such later date as shall have been consented to by CSFB. If the Effective Time of the Additional Registration Statement (if any) is not prior to the execution and delivery of this Agreement, such Effective Time shall have occurred not later than 10:00 P.M., New York time, on the date of this Agreement or, if earlier, the time the Prospectus is printed and distributed to any Underwriter, or shall have occurred at such later date as shall have been consented to by CSFB. If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement, the Prospectus shall have been filed with the Commission in accordance with the Rules and Regulations and Section 5(a) of this Agreement. Prior to such Closing Date, no stop order suspending the effectiveness of a Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or, to the knowledge of any Selling Stockholder, the Company or the Representative, shall be contemplated by the Commission.

(d) Subsequent to the execution and delivery of this Agreement, there shall not have occurred (i) any change, or any development or event involving a prospective change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as one enterprise which, in the judgment of a majority in interest of the Underwriters including the Representative, is material and adverse and makes it impractical or inadvisable to proceed with completion of the public offering or the sale of and payment for the Offered Securities; (ii) any downgrading in the rating of any debt securities of the Company by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Act), or any public announcement that any such organization has under surveillance or review its rating of any debt securities of the Company (other than an announcement with positive implications of a possible upgrading, and no implication of a possible downgrading, of such rating); (iii) any change in U.S. or international financial, political or economic conditions or currency exchange rates or exchange controls as would, in the judgment of a majority in interest of the Underwriters including the Representative, be likely to prejudice materially the success of the proposed issue, sale or distribution of the Offered Securities, whether in the primary market or in respect of dealings in the secondary market; (iv) any material suspension or material limitation of trading in securities generally on the New York Stock Exchange, or any setting of minimum prices for trading on such exchange; (v) or any suspension of trading of any securities of the Company on any exchange or in the over-the-counter market; (vi) any banking moratorium declared by U.S. Federal or New York authorities; (vii) any major disruption of settlements of securities or clearance services in the United States or (viii) any attack on, outbreak or escalation of hostilities or act of terrorism involving the United States, any declaration of war by Congress or any other national or international calamity or emergency if, in the judgment of a majority in interest of the Underwriters including the Representative, the effect of any such attack, outbreak, escalation, act,

declaration, calamity or emergency makes it impractical or inadvisable to proceed with completion of the public offering or the sale of and payment for the Offered Securities.

(e) The Representative shall have received an opinion, dated such Closing Date, of Fulbright & Jaworski L.L.P., counsel for the Company, to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Texas, with the requisite corporate power and authority to own or lease its properties and to conduct its business as described in the Prospectus;

(ii) Each subsidiary of the Company has been duly organized and is validly existing and in good standing under the laws of the jurisdiction of formation with the requisite power and authority (corporate and other) to own or lease its properties and to conduct its business as described in the Prospectus. Each subsidiary of the Company is duly qualified to do business as a foreign corporation in each jurisdiction listed on Exhibit A to such opinion. The issued and outstanding shares of capital stock or other equity interest of each subsidiary of the Company have been duly authorized and validly issued, are fully paid and nonassessable and are to our knowledge owned by the Company or a wholly owned subsidiary of the Company free and clear of any security interests, liens, encumbrances, equities or claims, other than those described or incorporated by reference in the Prospectus;

(iii) The issued and outstanding shares of the Company's Securities have been duly authorized and validly issued and are fully paid and nonassessable. The Offered Securities, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be validly issued, fully paid and nonassessable, and the issuance of the Offered Securities will not be subject to any preemptive rights. The Offered Securities conform as to legal matters in all material respects to the description thereof contained in the Prospectus;

(iv) There are no contracts, agreements or understandings between the Company and any person or entity, which are on file as an exhibit to the Registration Statement or any document incorporated by reference therein, or, to our knowledge, otherwise granting such person or entity the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or entity or to require the Company to include such securities in the Registration Statements or in any other registration statement filed by the Company under the Securities Act other than any such contract, agreement or understanding as to which a breach or violation could not reasonably be expected to result in a Material Adverse Effect or to interfere in any material respect with the completion of the offering and sale of the Shares;

(v) No consent, approval, authorization or order of, or filing with, any court or governmental agency or regulatory body is required to be obtained or made for the execution and delivery of the Agreement by the Company or the Selling Stockholders or the consummation or the transactions contemplated by this Agreement or the Custody Agreement, except (a) such as have been obtained under the Securities Act, (b) such as may be required under the "Blue Sky" and state securities laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated in this Agreement and in the Prospectus (as to which we express no opinion), (c) such as may be required for the clearance of the underwriting arrangements relating to such offering with the NASD (as to which we express no opinion), and (d) such other approvals as have been obtained prior to the date of this Agreement;

(vi) Neither the execution and delivery of this Agreement by the Company nor the consummation by the Company of the transactions contemplated by this Agreement, including,

without limitation, the issuance and sale by the Company of the Securities, will result in the breach or violation of any term or provision of, or constitute a default under (or any event which with notice or lapse of time, or both, would constitute a default under), the terms of (a) any indenture, mortgage, deed of trust, note, franchise, license, lease, contract or other agreement or instrument or permit to which the Company or any of its subsidiaries is a party or by which the Company or any such subsidiary or their properties or assets are bound and in each case which is filed as an exhibit to the documents incorporated by reference into the Registration Statement; (b) any decree, order, statute, rule or regulation known to us to be applicable to the Company or its subsidiaries or any of their respective properties; or (c) any provision of the charter or bylaws of the Company or any of its subsidiaries;

(vii) The Registration Statement has become effective under the Securities Act. Any required filing of the Prospectus, and any supplements thereto, pursuant to Rule 424 (b) promulgated under the Securities Act has been made in the manner and within the time period required by Rule 424 (b). To our knowledge, (i) no stop order suspending the effectiveness of the Registration Statement has been issued, and (ii) no proceedings for that purpose have been instituted or are pending or threatened. We have no reason to believe that (A) any document filed pursuant to the Exchange Act and incorporated by reference in the Registration Statement and the Prospectus (except for financial statements and schedules and other financial and related statistical data included therein as to which we express no belief) did not comply when so filed as to form in all material respects with the Exchange Act and the rules and regulations of the Commission thereunder and (B) the Registration Statement and Prospectus (except for financial statements and schedules and other financial and related statistical data included therein as to which we express no belief) do not comply as to form in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder. Except as described in or contemplated by the Prospectus, after due inquiry, such counsel does not know of any legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not so described or of any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required; notwithstanding the foregoing, in rendering the opinion set forth in this paragraph (vii), such counsel has not conducted any search or examined any records of any governmental agency, authority, court, administrative tribunal or other similar entity; and

(viii) This Agreement has been duly authorized, executed and delivered by the Company.

(f) The Representative shall have received the opinion contemplated in the Custody Agreement executed and delivered by each Selling Stockholder and an opinion, dated such Closing Date, of Fulbright & Jaworski L.L.P., counsel for the Selling Stockholders, to the effect that:

(i) Each Selling Stockholder has full legal right, power and authority, and all authorization and approval required by law, to enter into this Agreement and to sell, assign, transfer and deliver the Securities to be sold by such Selling Stockholder. Upon delivery of and payment for the Securities to be sold by each Selling Stockholder pursuant to this Agreement, and assuming that the Underwriters purchased such Securities without notice of any adverse claim within the meaning of the New York Uniform Commercial Code, the Underwriters will acquire all of the Selling Stockholders' interest in such Securities, free and clear of any adverse claims (as defined in the New York Uniform Commercial Code);

(ii) No consent, approval, authorization or order of, or filing with, any court or governmental agency or regulatory body is required to be obtained or made for the execution and delivery of the Agreement by the Company or the Selling Stockholders or the consummation or the transactions contemplated by this Agreement or the Custody Agreement, except (a) such as have been obtained under the Securities Act, (b) such as may be required under the "Blue Sky" and state securities laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated in this Agreement and in the Prospectus (as to which we express no opinion), (c) such as may be required for the clearance of the underwriting arrangements relating to such offering with the NASD (as to which we express no opinion), and (d) such other approvals as have been obtained prior to the date of this Agreement;

(iii) The execution, delivery and performance of this Agreement and the Custody Agreements by the Selling Stockholders and the consummation by the Selling Stockholders of the transactions contemplated thereby does not and will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, (i) any agreement or instrument known to us to which any Selling Stockholder is a party or by which any Selling Stockholder is bound or to which any of the property or assets of any Selling Stockholder is subject, (ii) any statute or any order, rule or regulation known to us of any court or governmental agency or body having jurisdiction over any Selling Stockholder or the property or assets of any Selling Stockholder, or (iii) the limited partnership agreement of any Selling Stockholder;

(iv) The Custody Agreements of each Selling Stockholder have been duly authorized, executed and delivered by such Selling Stockholder and are valid and binding agreements of such Selling Stockholders enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles; and

(v) This Agreement has been duly authorized, executed and delivered by or on behalf of each Selling Stockholder.

(g) The Representative shall have received from Vinson & Elkins L.L.P., counsel for the Underwriters, such opinion or opinions, dated such Closing Date, with respect to the incorporation of the Company, the validity of the Offered Securities delivered on such Closing Date, the Registration Statements, the Prospectus and other related matters as the Representative may require, and the Selling Stockholders and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(h) The Representative shall have received a certificate, dated such Closing Date, of the President or any Vice President and a principal financial or accounting officer of the Company in which such officers, to the best of their knowledge after reasonable investigation, shall state that: the representations and warranties of the Company in this Agreement are true and correct; the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date; no stop order suspending the effectiveness of any Registration Statement has been issued and no proceedings for that purpose have been instituted or are contemplated by the Commission; the Additional Registration Statement (if any) satisfying the requirements of subparagraphs (1) and (3) of Rule 462(b) was filed pursuant to Rule 462(b), including payment of the applicable filing fee in accordance with Rule 111(a) or (b) under the Act, prior to the time the Prospectus was printed and distributed to any Underwriter; and, subsequent to the date of the most recent financial statements in the Prospectus, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or other), business, properties or results of

operations of the Company and its subsidiaries taken as a whole except as set forth in the Prospectus or as described in such certificate.

(i) The Representative shall have received a letter, dated such Closing Date, of Ernst & Young LLP which meets the requirements of subsection (a) of this Section, except that the specified date referred to in such subsection will be a date not more than three days prior to such Closing Date for the purposes of this subsection.

(j) The Representative shall have received a letter, dated such Closing Date, of BDO Seidman, LLP which meets the requirements of subsection (b) of this Section, except that the specified date referred to in such subsection will be a date not more than three days prior to such Closing Date for the purposes of this subsection.

(k) On or prior to the date of this Agreement, the Representative shall have received lock-up letters from each of the executive officers and directors of the Company who are not Selling Stockholders.

(l) The Custodian will deliver to CSFB a letter stating that they will deliver to each Selling Stockholder a United States Treasury Department Form 1099 (or other applicable form or statement specified by the United States Treasury Department regulations in lieu thereof) on or before January 31 of the year following the date of this Agreement.

(m) The Selling Stockholders and the Company will furnish the Representative with such conformed copies of such opinions, certificates, letters and documents as the Representative reasonably requests. CSFB may in its sole discretion waive on behalf of the Underwriters compliance with any conditions to the obligations of the Underwriters hereunder, whether in respect of an Optional Closing Date or otherwise.

(n) The Underwriters shall not have received notice of any adverse claim within the meaning of the New York Uniform Commercial Code with respect to the Securities to be sold by any Selling Stockholder.

7. *Indemnification and Contribution.* (a) The Company will indemnify and hold harmless each Underwriter, its partners, members, directors officers and its affiliates and each person, if any who controls such Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representative specifically for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in subsection (c) below.

(b) The Selling Stockholders, jointly and severally, will indemnify and hold harmless each Underwriter, its partners, members, directors officers and its affiliates and each person who controls such Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may

become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Selling Stockholders will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by an Underwriter through the Representative specifically for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in subsection (c) below; and provided further, that with respect to any untrue statement or alleged untrue statement in or alleged omission from any preliminary prospectus, the indemnity agreement contained in this subsection (b) shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased the Offered Securities concerned, to the extent that a prospectus relating to such Offered Securities was required to be delivered by such Underwriter under the Act in connection with such purchase and any such loss, claim, damage or liability of such Underwriter results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Offered Securities to such person, a copy of the Prospectus (exclusive of the material incorporated by reference) if the Company had previously furnished copies thereof to such Underwriter; and provided, further, that the liability under this subsection of each Selling Stockholder shall be limited to an amount equal to the aggregate gross proceeds after underwriting commissions and discounts, but before expenses, to such Selling Stockholder from the sale of Securities sold by such Selling Stockholder hereunder.

(c) Each Underwriter will severally and not jointly indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and each Selling Stockholder against any losses, claims, damages or liabilities to which the Company, such persons or such Selling Stockholder may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representative specifically for use therein, and will reimburse any legal or other expenses reasonably incurred by the Company and each Selling Stockholder in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred, it being understood and agreed that the only such information furnished by any Underwriter consists of (i) the following information in the Prospectus furnished on behalf of each Underwriter: the concession and reallowance figures appearing in the fourth paragraph under the caption "Underwriting"; and (ii) the following information in the Prospectus furnished on behalf of CSFB: the sentences regarding CSFB's role as financial advisor to the Company in connection with the ATS acquisition under the captions "Summary—Planned Acquisition of ATS", "Planned Acquisition of ATS" and "Underwriting."

(d) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under subsection (a), (b) or (c) above, notify the indemnifying party in writing of the commencement thereof; but the failure to notify the indemnifying party shall not relieve it from any liability that it may have under subsection (a), (b) or (c) above except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided further that the failure to notify the indemnifying party shall not relieve it from any liability that it may have to an indemnified party otherwise than under subsection (a), (b) or (c) above. In case any such action is brought against any indemnified party and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such (i) settlement includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of an indemnified party.

(e) If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an indemnified party under subsection (a), (b) or (c) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a), (b) or (c) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the Selling Stockholders bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, the Selling Stockholders or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (e). Notwithstanding the provisions of this subsection (e), (i) no Underwriter shall be required to contribute any amount in excess of the underwriting commissions or discounts applicable to the Securities purchased by such Underwriter hereunder, and (ii) no Selling Stockholder shall be required to contribute any amount in excess of the aggregate gross proceeds after underwriting commissions and discounts, but before expenses, to such Selling

Stockholder from the sale of Securities sold by such Selling Stockholder hereunder. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (e) to contribute are several in proportion to their respective underwriting obligations and not joint.

(f) The obligations of the Company and the Selling Stockholders under this Section shall be in addition to any liability which the Company and the Selling Stockholders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each director of the Company, to each officer of the Company who has signed a Registration Statement and to each person, if any, who controls the Company within the meaning of the Act.

8. *Default of Underwriters.* If any Underwriter or Underwriters default in their obligations to purchase Offered Securities hereunder on either the First or any Optional Closing Date and the aggregate number of shares of Offered Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the total number of shares of Offered Securities that the Underwriters are obligated to purchase on such Closing Date, CSFB may make arrangements satisfactory to the Company and the Selling Stockholders for the purchase of such Offered Securities by other persons, including any of the Underwriters, but if no such arrangements are made by such Closing Date, the non-defaulting Underwriters shall be obligated severally, in proportion to their respective commitments hereunder, to purchase the Offered Securities that such defaulting Underwriters agreed but failed to purchase on such Closing Date. If any Underwriter or Underwriters so default and the aggregate number of shares of Offered Securities with respect to which such default or defaults occur exceeds 10% of the total number of shares of Offered Securities that the Underwriters are obligated to purchase on such Closing Date and arrangements satisfactory to CSFB, the Company and the Selling Stockholders for the purchase of such Offered Securities by other persons are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter, the Company or the Selling Stockholders, except as provided in Section 9 (provided that if such default occurs with respect to Optional Securities after the First Closing Date, this Agreement will not terminate as to the Firm Securities or any Optional Securities purchased prior to such termination). As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section. Nothing herein will relieve a defaulting Underwriter from liability for its default.

9. *Survival of Certain Representations and Obligations.* The respective indemnities, agreements, representations, warranties and other statements of the Selling Stockholders, of the Company or its officers and of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter, any Selling Stockholder, the Company or any of their respective representatives, officers or directors or any controlling person, and will survive delivery of and payment for the Offered Securities. If this Agreement is terminated pursuant to Section 8 or if for any reason the purchase of the Offered Securities by the Underwriters is not consummated, the Company and the Selling Stockholders shall remain responsible for the expenses to be paid or reimbursed by them pursuant to Section 5 and the respective obligations of the Company, the Selling Stockholders, and the Underwriters pursuant to Section 7 shall remain in effect, and if any Offered Securities have been purchased hereunder the representations and warranties in Section 2 and all obligations under Section 5 shall also remain in effect. If the purchase of the Offered Securities by the Underwriters is not consummated for any reason other than solely because of the termination of this Agreement pursuant to Section 8 or the occurrence of any event specified in clause (iii), (iv), (vi), (vii) or (viii) of

Section 6(c), the Company and the Selling Stockholders will, jointly and severally, reimburse the Underwriters for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Offered Securities.

10. *Notices.* All communications hereunder will be in writing and, if sent to the Underwriters, will be mailed, delivered or faxed and confirmed to the Representative, c/o Credit Suisse First Boston LLC, Eleven Madison Avenue, New York, N.Y. 10010-3629, Attention: Transactions Advisory Group (fax: (212) 325-4296), or, if sent to the Company, will be mailed, delivered or faxed and confirmed to it at 555 IH-35 South, Suite 500, New Braunfels, Texas 78130, Attention: Martin Naegelin, Chief Financial Officer (fax: (830) 626-5313), or, if sent to the Selling Stockholders or any of them, will be mailed, delivered or telegraphed and confirmed to W. Marvin Rush at 555 IH-35 South, Suite 500, New Braunfels, Texas 78130; provided, however, that any notice to an Underwriter pursuant to Section 7 will be mailed, delivered or faxed and confirmed to such Underwriter.

11. *Successors.* This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective personal representatives and successors and the officers and directors and controlling persons referred to in Section 7, and no other person will have any right or obligation hereunder.

12. *Representation.* The Representative will act for the several Underwriters in connection with the transactions contemplated by this Agreement, and any action under this Agreement taken by the Representative jointly or by CSFB will be binding upon all the Underwriters. W. Marvin Rush will act for the Selling Stockholders in connection with such transactions, and any action under or in respect of this Agreement taken by W. Marvin Rush will be binding upon the Selling Stockholders.

13. *Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

14. *Applicable Law.* **This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to principles of conflicts of laws.**

The Company hereby submits to the non-exclusive jurisdiction of the Federal and state courts in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

If the foregoing is in accordance with the Representative's understanding of our agreement, kindly sign and return to the Company one of the counterparts hereof, whereupon it will become a binding agreement among the Selling Stockholders, the Company and the several Underwriters in accordance with its terms.

Very truly yours,

W. MARVIN RUSH

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3MR PARTNERS LP

By:

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W. Marvin Rush  
General Partner

RUSH ENTERPRISES, INC.

By:

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W. Marvin Rush  
Chairman and Chief Executive Officer

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

CREDIT SUISSE FIRST BOSTON LLC

By

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[Name]  
[Title]

Acting on behalf of itself and as the Representative of the several Underwriters.

**SCHEDULE A**

| Selling Stockholder | Number of<br>Firm Securities<br>to be Sold |
|---------------------|--|
| W. Marvin Rush      | 750,000                                    |
| 3MR Partners LP     | 2,000,000                                  |
| Total               | 2,750,000                                  |

SCHEDULE B

| Underwriter  | Number of Firm Securities to be Purchased |
|--|---|
| Credit Suisse First Boston LLC                                 |   |
| Morgan Keegan & Company, Inc.                                  |   |
| BB&T Capital Markets, a division of Scott & Stringfellow, Inc. |   |
| Total  | 10,000,000                                |

## QuickLinks

[Exhibit 1.1](#)

**Consent of Independent Registered Public Accounting Firm**

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated February 20, 2004, in the Registration Statement (Amendment No. 2 to Form S-3 No. 333-119131) and related Prospectus of Rush Enterprises, Inc. for the registration of 11,500,000 shares of its common stock.

/s/ Ernst & Young LLP

San Antonio, Texas  
November 5, 2004

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## QuickLinks

[Exhibit 23.1](#)

[BDO Letterhead]

Rush Enterprises, Inc.  
New Braunfels, Texas

We hereby consent to the incorporation in the Prospectus constituting a part of this Registration Statement of our report dated April 9, and September 14, 2004, relating to the consolidated financial statements of American TruckSource, Inc. and Subsidiaries for the years ended December 31, 2003 and 2002, appearing in Rush Enterprises, Inc.'s Form S-3 (Pre-Effective Amendment No. 2) filing dated November 9, 2004.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ BDO Seidman, LLP

Dallas, Texas

November 9, 2004

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## QuickLinks

[Exhibit 23.2](#)