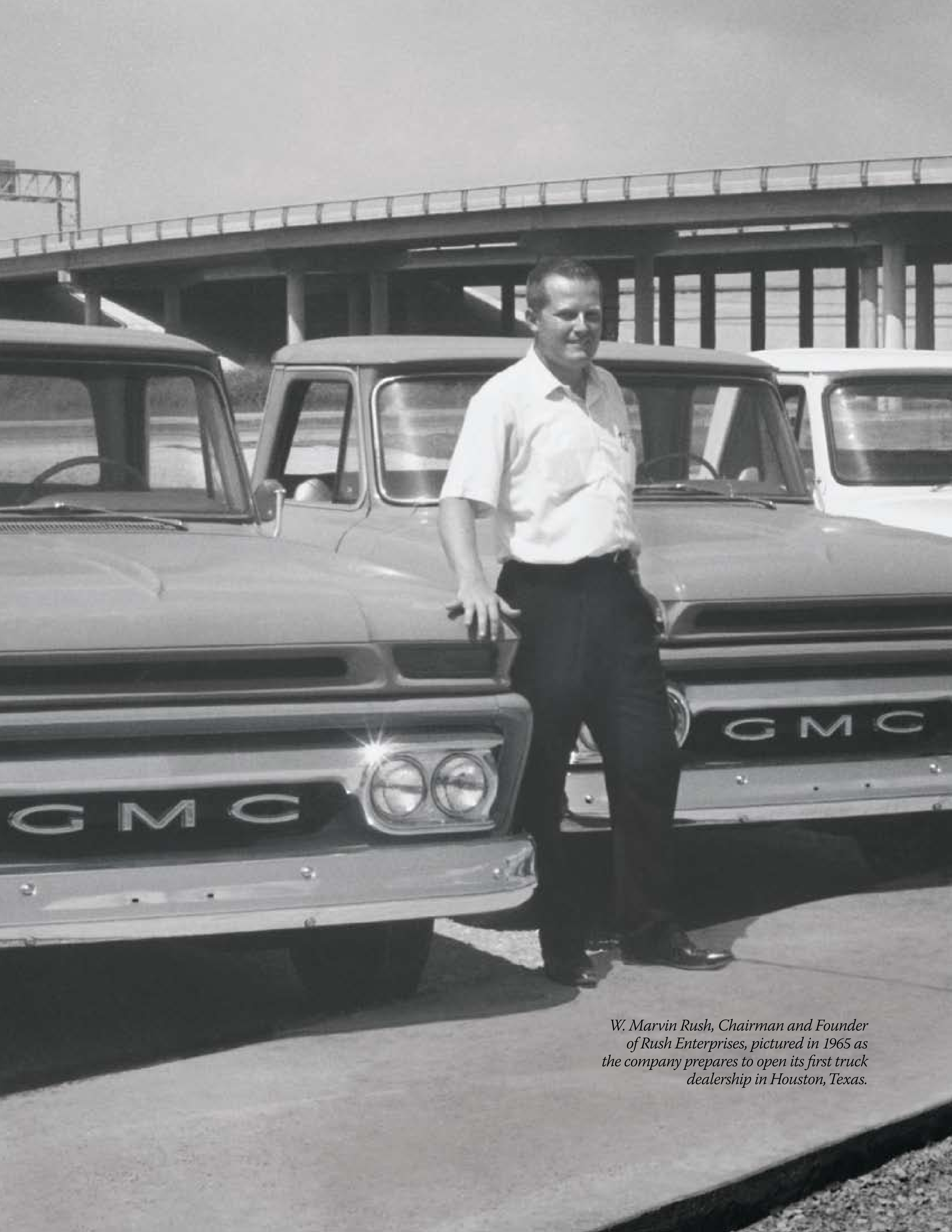
RUSH ENTERPRISES, INC. 2009 ANNUAL REPORT

FACING TOUGH TIMES HEAD ON

ABOUT THE COMPANY

Rush Enterprises, Inc. (listed on NASDAQ® as RUSHA and RUSHB) owns and operates the largest network of commercial vehicle dealerships in the United States, representing truck and bus manufacturers including Peterbilt, Hino, International, Isuzu, Ford, UD, Blue Bird, Diamond and Elkhart, and two dealerships in Texas representing John Deere construction equipment. The company's vehicle and equipment centers are strategically located in high traffic areas on or near major highways in eleven southern states. These one-stop centers offer an integrated approach to meeting customer needs, from sales of new and used vehicles and equipment to aftermarket parts, service and body shop operations. Rush Enterprises also offers an extensive array of financial services, including financing, insurance, leasing and rental; plus vehicle up-fitting, chrome accessories, and tires. For more information, please visit www.rushenterprises.com.

Rush Truck Center-Pharr services customers in the Texas Rio Grande Valley.



W. Marvin Rush, Chairman and Founder of Rush Enterprises, pictured in 1965 as the company prepares to open its first truck dealership in Houston, Texas.

CHAIRMAN'S LETTER

In the opening line of *A Tale of Two Cities*, Charles Dickens wrote "It was the best of times, it was the worst of times, …" This sentiment describes my viewpoint as I look back and attempt to summarize the year Rush Enterprises had in 2009.

It was the worst of times because 2009 was the weakest truck sales and service markets since the early 1980s. The economic recession and the prolonged extent of the downturn in new Class 8 truck sales combined to make 2009 one of the toughest operating environments that I have experienced in my 45 years in the truck dealership business.

Having said that, it was also the best of times because the employees of Rush Enterprises exercised diligent cost control efforts and an unrelenting commitment to making customers the boss that helped the company achieve profitable performance despite the dismal conditions of the market. Most importantly, the employees of Rush Enterprises maintained our standard of excellence in customer service. Our experienced management team, dedicated workforce, strong corporate culture and proven business model made this possible. I am grateful to our employees for their perseverance and hard work during yet another extremely challenging year.

Our employees made the company profitable in this downturn.

It was the worst of times, as Rush Enterprises' revenues fell 25 percent compared to 2008 revenues, but it was the best of times as we continued to prove that our business can profitably sustain the cyclicality of the Class 8 truck market – even under extreme conditions.

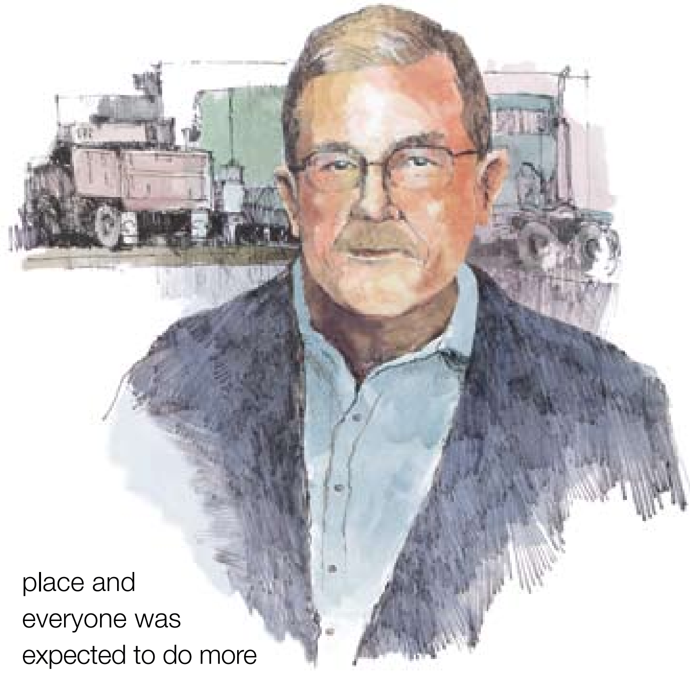
We sold nearly 9,500 new and used trucks in 2009, despite the recession and its impact on the trucking industry. Additionally, we continued to invest in the future of Rush Enterprises by adding truck franchises to our existing infrastructure, renovating existing and opening new dealership facilities,

creating a towing and recovery sales division to address another specialty vocational market and expanding our service capabilities across the network.

In 1965, as I stood between some of our first trucks for sale on the lot of our single dealership in Houston, Texas, who would have thought that Rush Enterprises would grow into the largest commercial vehicle dealer organization in the country? 2010 marks the 45th anniversary of the founding of Rush Enterprises, and despite the market ups and downs, we're still standing – financially strong, investing in the future, poised for continued growth and armed with, in my belief, the best employees a company could have. I am truly grateful and am personally proud of this organization. Happy Anniversary, Rush Enterprises. Here's to the next 45.

W. Marvin Rush
Chairman

CHIEF EXECUTIVE OFFICER'S LETTER



We expected 2009 to be a tough year, but not many predicted just how difficult a year it would be. We themed this year's annual report "Facing Tough Times Head On" because 2009 presented Rush Enterprises with the most difficult market conditions that the truck dealership industry has seen in nearly 30 years. U.S. retail sales of Class 8 trucks in 2009 were 97,000 units, not only falling nearly 31 percent below 2008 but falling to a level not seen since 1983. U.S. retail sales of medium-duty trucks were also off 36 percent compared to 2008.

Despite the dismal market conditions in 2009, Rush Enterprises generated a profit, increased our cash position, maintained a healthy balance sheet and positioned itself well, increasing the diversity of our product offerings and expanding our network of Rush Truck Centers.

We knew entering 2009 that the recessionary economy, tight credit and low used truck values would continue to negatively impact new truck sales. Experts believed that in the second half of the year, truck sales would begin to rebound as a result of a possible pre-buy created by 2010 diesel engine emissions regulations and the need for fleets to replace aging vehicles. However, depressed consumer spending continued to impact over-the-road freight movement throughout the year. Decreased freight tonnage and overall weakness in almost every vocational market we serve created excess capacity for our customers, causing them to delay the purchase of new trucks.

Excess truck capacity allowed fleets to delay maintenance on the trucks they already owned by putting other unused trucks into service or using parts from parked trucks for repairs. This impacted our aftermarket operations more severely than at any time I can remember. Our same store aftermarket parts, service and body shop gross profit decreased by $37.3 million, or 20 percent. This sharp decline in aftermarket gross profit caused our annual absorption rate to decrease by 10 percent to 95.7 percent.

Although our absorption rate fell below the 100 percent mark in 2009, I remain very proud of our employees' efforts to maximize absorption in a terrible market. Significant cost control measures remained in place and everyone was expected to do more with less. And, true to form, our employees did. Through their day-to-day efforts, we were able to control spending so as to help offset revenues lost from drastically reduced truck sales and parts, service and body shop business. Their effort was the primary reason we were able to remain profitable in 2009.

I have always believed that "Trucks don't sell service. Service sells trucks." Through all of our cost reduction efforts in recent years, we have been mindful of the fact that we must always maintain a high level of customer service. Many of our dealerships expanded service offerings for customers through increased mobile service, parts delivery and mobile technician staffing. Other locations implemented new strategies to reach vocational customers, such as ready mix, refuse, crane, towing and bus.

In the wake of GM's announcement to terminate its GMC medium-duty truck production, we were forced to take a $3.0 million pre-tax asset impairment charge related to the winding-down of our GMC medium-duty franchises. We were the largest GMC medium-duty dealership group in the country with 15 franchise locations in six states. Despite GM's decision to exit the medium-duty truck market, we remain committed to provide superior parts and service support to our customers who own GMC trucks. Throughout the year, we added new Hino and Isuzu franchises in several states to help offset lost GMC truck sales and, more importantly, meet new medium-duty truck buyers' needs with a wider breadth of product.

2009 was clearly a year to focus on fundamentals. Much of our effort concentrated on operating our core business as efficiently as possible. But we did not lose sight of our long term objective – to become the premier solutions provider to the commercial vehicle industry. To that end, we created another specialty market sales division when we became the distributor for Jerr-Dan towing bodies in three states. This new business unit complements our growing specialty markets group which currently serves refuse and crane customers, and adds another opportunity to increase parts and service revenues at our existing dealerships. We continued to add products to our growing Rig Tough proprietary truck parts line, expanded our reach of commercial buses and expanded our leasing business with dedicated contract maintenance shops for several customers. We led the industry in selling alternative fuel and hybrid powered vehicles, and provided assistance to our customers in applying for millions of dollars in federal and state grants and incentives. We made progress with the rollout of our new enterprise business system, and we continued to invest in existing dealership facilities and build new facilities.

Looking ahead, we believe 2010 will be another difficult year. Industry experts currently estimate U.S. Class 8 retail sales for 2010 to be 114,000 units, up 17.5 percent from 2009. We believe U.S. Class 8 retail sales will only increase to about 105,000 units. Likewise, current industry projections are for U.S. Class 4-7 retail sales in 2010 to be 123,500 units, up about 11 percent over last year. As uncertainty about the economy continues and as new diesel engine technology is introduced into the marketplace, we do not expect to see any sustainable increase in retail sales until late in 2010.

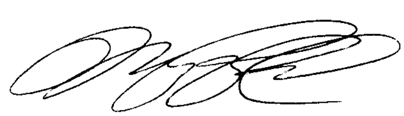
However, I expect a strong recovery in retail sales in 2011, 2012 and 2013. As freight volumes increase, excess truck capacity will be reduced and trucks will need to be replaced, as the fleet age is now the oldest on record.

Experts believe the general economy is showing early, but slow signs of recovery that will likely result in a "U-shaped" growth cycle in the foreseeable future. Unlike the general economy, I believe that when the Class 8 truck market recovers, it will come back faster and more robust, creating a "V-shaped" growth cycle due to pent-up demand created from four consecutive years of below normal replacement cycles.

I also believe we will begin to see new trends in our industry. Our customers' business practices have changed throughout this down cycle, and we will begin to see the full effect of those changes as the trucking industry stabilizes. As credit has tightened and interest rates are expected to rise, our customers will seek to streamline assets and focus on efficiencies. They are looking to outsource non-core business activities such as vehicle maintenance and repair. These changes present tremendous opportunity for Rush in the future. We have the contiguous network of Rush Truck Centers and the financial and human resources available to be the premier service solutions provider to the commercial vehicle market.

We also expect our network of Rush Truck Centers to continue to grow in the future. We recently entered into an agreement to acquire substantially all of the assets of Lake City International – a dealer group with 11 locations in Utah, Idaho and Oregon. Upon completion, the proposed acquisition will provide us with significant entry into three western states and expand our network to 60 truck centers. We will divide the management of Rush Truck Centers into two divisions – an International division and a Peterbilt division. Both divisions will remain operationally independent, but senior management of each will report directly to me. As always, we will continue to evaluate other acquisition opportunities.

Despite the dismal market conditions, Rush Enterprises remained profitable.

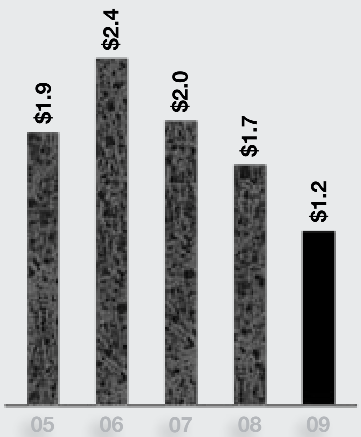


W.M. "Rusty" Rush
President & Chief Executive Officer

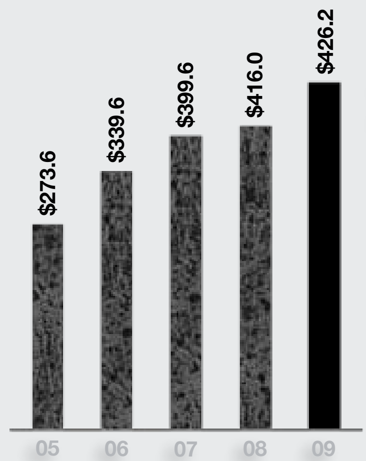
An Apple Towing wrecker helps a customer in need in Houston, Texas. Apple Towing is a customer of Rush Towing Systems, which serves the towing and recovery markets in Texas, Oklahoma and New Mexico with Jerr-Dan wreckers and carriers on a wide range of truck chassis.

HIGHLIGHTS

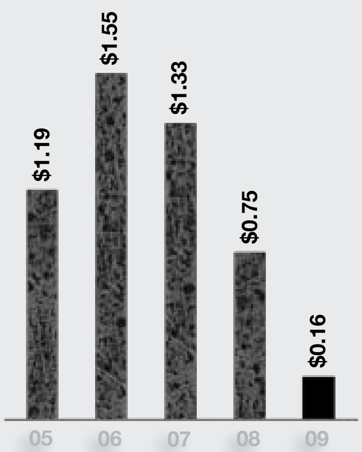
Revenue
(in billions)



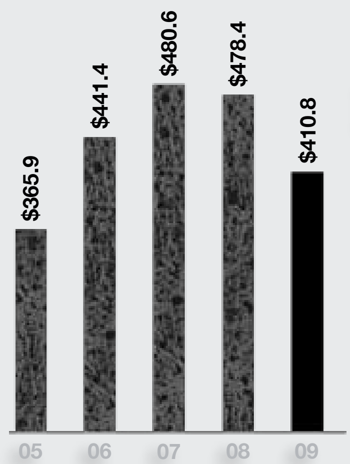
Shareholders' Equity
(in millions)



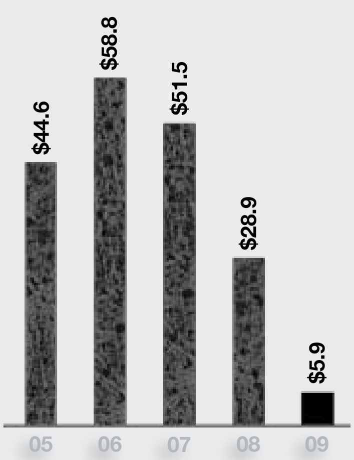
Earnings Per Share



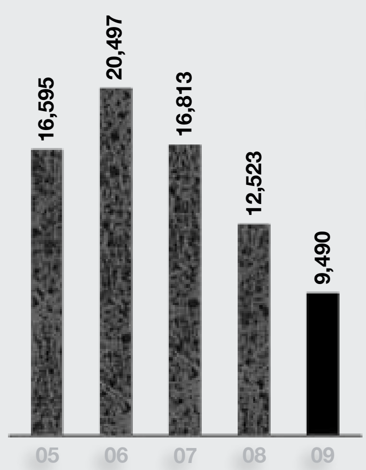
Parts & Service Revenue
(in millions)



Net Income
(in millions)



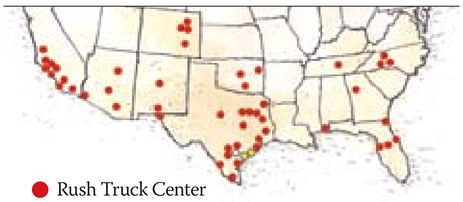
New & Used Truck Sales
(in units)



A FORCE TO BE RECKONED WITH

DESPITE EXTREMELY WEAK MARKET CONDITIONS, RUSH EMPLOYEES READILY MET THE CHALLENGE HEAD ON WITH POSITIVE ATTITUDES AND OUTSTANDING CUSTOMER SERVICE. THEIR COLLECTIVE EFFORTS MADE THE COMPANY PROFITABLE IN THIS UNPRECEDENTED DOWNTURN.

THE RUSH NETWORK (as of December 31, 2009)



● Rush Truck Center
● Rush Equipment Center
○ Rush Headquarters

While 2009 turned out to be an even weaker market than the industry expected, we were prepared and able to meet the challenges that came our way. With a diverse business model which has been strategically implemented to lessen the impact of Class 8 truck market cyclicality, a proactive approach to cost management, an experienced management team, a strong corporate culture, and a dedicated workforce, we were able to maintain a healthy balance sheet and increase our cash position in 2009, rare results in these times. Sustained profitability in this unprecedented downturn is no accident, and our financial performance proves that the Rush business model works.

With more than 2,400 employees, a contiguous geographic network of truck and equipment centers, and the largest truck inventory in the United States, Rush Enterprises provides integrated, coast-to-coast, one-stop sales and service to customers in a range of commercial vehicle applications.

Through the years we have earned a solid reputation for excellence in customer satisfaction, relying on a philosophy that drives almost everything we do: *"Trucks don't sell service. Service sells trucks."* The Rush culture of superior customer service is our most coveted asset, and consistently fuels our strategies – regardless of what challenges the current economic climate presents.

Last year provided plenty of challenges. Freight movement remained sluggish due to general economic conditions, customers were left with an excess capacity of trucks stemming from a large pre-buy prior to the downturn, and tight credit kept used truck values low. Collectively, this had an adverse effect on new and used truck sales. Only 97,000 Class 8 trucks were sold in the United States, the lowest number since 1983. Fleets were able to utilize their excess truck capacity to replace trucks needing repair, thereby delaying maintenance expense, which in turn negatively impacted aftermarket parts, service and body shop revenue.

Absorption rate is a key metric we use to evaluate our performance. Absorption rate is the gross profit from parts, service and body shop operations, divided by total overhead, exclusive of commissions on truck sales and interest on truck inventory. In 2009 Rush Enterprises had a 95.7 percent absorption rate, down only 10 percent from 2008. Disciplined cost management clearly paid off this year, helping offset lost revenues from dramatically reduced truck sales. This was not the case during the previous downturn when our absorption dropped to 80 percent and the company showed financial loss.

The employees of Rush Truck Center – Pharr in Pharr, Texas show their enthusiasm for their contribution to the company's success.

WE WORKED HARD TO KEEP OUR SERVICE MODEL ALIVE IN AN EXTREMELY DEPRESSED MARKET.

Rush Truck Centers sells and services Ford commercial trucks from its Denver, Colorado location.

97,000

In 2009 only 97,000 Class 8 trucks were sold in the U.S., the fewest since 1983.

Throughout the year, we diligently controlled expenses while maintaining the high level of customer service our customers expect. Our perseverance in the face of a difficult economic environment helped us maintain our position as an industry leader:

- We are still the largest heavy- and medium-duty truck dealer group in the United States, and the largest distributor of Peterbilt, Hino, and Isuzu trucks.
- We continue to lead the commercial vehicle market as a provider of alternative fuel trucks, buses and services. Effectively serving municipalities contributed to our overall profitability and allowed us to issue millions of dollars of rebates in several markets.
- We established Rush Towing Systems, which sells Jerr-Dan towing products in Texas, Oklahoma and New Mexico.

- We added new Hino and Isuzu truck franchises to existing dealership locations, helping offset the loss of GMC franchises as a result of General Motors exiting the medium-duty truck market.
- Although a very weak construction market impacted our construction equipment segment, Rush Equipment Centers in southeast Texas remained profitable.
- The Oklahoma City dealership is on track to open in 2010. This new state-of-the-art facility sits on 20 acres, spans 115,000 square feet and includes 35 service bays and 20 body shop bays.

WE STRENGTHENED INFRASTRUCTURE, IMPLEMENTED COST SAVINGS, AND PROMOTED INNOVATIVE THINKING.

We continued implementation of the SAP business enterprise software, having brought Rush Truck Leasing online in 2008 and Rush Truck Center-Austin online in 2009. Rush Truck Center-San Antonio will be online soon, and we expect the rollout to our entire network to be complete by 2012. SAP is a sophisticated, customized business system that maximizes functionality, streamlines our business operations, and provides a 360-degree view of our customers. Substantial training on new processes and process development are taking place with each rollout.

Additionally, we challenged managers to think of inventive ways to increase revenue streams, and they responded with creative, nontraditional approaches to growing our business across the network. As a result, the following represent just a few of the new ideas we implemented:

- Phoenix has instituted an incentive program for their outside sales personnel to bring in body shop repairs, with plans to expand this program to the new truck salespeople.
- Atlanta and Charlotte have recently been certified to perform work for high rail vehicles.
- Many locations in the network have installed Zonar tracking systems on outside sales representatives' vehicles to ensure all customers are being contacted. Sales by customer are also being tracked daily.
- The move toward a cleaner environment has generated a number of aftermarket opportunities selling, installing and maintaining emissions reduction devices in Houston, Nashville, Pico Rivera, Dallas and Denver.
- Houston, San Antonio and Dallas, among many other locations, have taken mobile repair to a new level, expanding the number of vehicles in operation to more than 120 across the country to better serve customers.

Rush Truck Centers represent the industry's leading heavy- and medium-duty truck brands – (from left) Peterbilt, UD, Hino, Isuzu, Ford and International.

Technicians improve their skills while competing for cash and prizes at the fourth annual Rush Technician Skills Rodeo. More than 350 technicians entered the competition around the country.

OUR PEOPLE DRIVE OUR SUCCESS

"MY FATHER TOLD ME, 'SURROUND YOURSELF WITH GOOD PEOPLE AND RECOGNIZE WHAT THEY DO EVERY DAY.' PEOPLE ARE THE KEY IN THIS BUSINESS; THEY MAKE THE DIFFERENCE FOR US." — Marvin Rush

Ultimately, the Rush tradition of service excellence always comes back to our employees, including approximately 700 ASE-certified and factory-trained techs and 130 body shop techs, that we consider the heartbeat of our business. We empower our people to better serve our customers – encouraging freedom of thought and action, and innovative thinking. Many of our employees have spent their entire careers at Rush.

We have responded to the downturn by relying on a workforce that can always be counted on to provide the ultimate in customer service:

- Mobile service. Our state-of-the-art mobile service trucks provide assistance 24/7, including weekends, going wherever needed to perform service needs for our customers. Vehicles are fully equipped with on-board diagnostics, air delivery, and even welding capabilities.

- Mobile techs. Our technicians can work at customers' locations for as long as needed or we can completely staff their service operation, eliminating the burden of staffing, training, and investment in diagnostic equipment for many of our customers. Our mobile techs are some of the most experienced techs available and most of them are ASE-certified.

- Contract maintenance. We have increased the number of service contracts by providing customers with scheduled maintenance. In many cases, our customers drop off their trucks for overnight servicing, and we return their trucks, ready for operation, by the next morning.

- Free oil analysis. Analyzing customers' oil allows early detection of potential problems. We have added this service at most locations and our customers are taking advantage of this win-win service.

SOME THINGS NEVER CHANGE

Every employee still carries the Rush coin, engraved with our core values of productivity, fairness, excellence and positive attitude – and an important reminder of how we conduct our business on a day-to-day basis: The customer is the boss.

THE RUSH TECHNICIAN SKILLS RODEO: CONTINUING A DYNAMIC TRADITION

For our service techs, the annual Technician Skills Rodeo has become one of the most anticipated events of the past four years. In December 2009, we held this event for the first time in San Antonio, attracting national truck industry media coverage that helped to further enhance the Rush brand.

Our techs often quietly make a bigger contribution to the company's bottom line than the more widely recognized new truck sales force. The Tech Rodeo began as a way to honor their contributions, along with an opportunity for them to sharpen their skills, build camaraderie, and learn from one another.

In 2009, 350 techs across the Rush network participated in 650 written exams. But the real test came in the finals, when the 60 techs with the highest test scores were sent to San Antonio to find, diagnose, and fix "bugs" put into the trucks. Two were selected as "Best All Around Champions" in the categories of heavy-duty and medium-duty trucks, taking home – along with first, second, and third place finishers – more than $100,000 in cash and prizes and a pay increase.

SURVIVING ADVERSITY THROUGH DIVERSITY

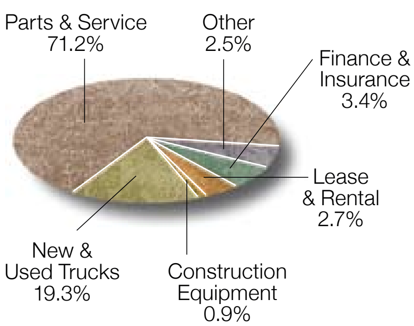
EVOLUTION IN BUSINESS DOESN'T DIFFER TOO MUCH FROM WHAT HAPPENS IN NATURE. IT COMES DOWN TO SURVIVAL OF THE FITTEST, ADAPTABILITY, AND THE ABILITY TO OUTRUN AND OUTLAST EVEN THE STORMIEST ECONOMIC CLIMATE.

Strategic diversification is essential to a strong and dynamic company that possesses the flexibility to survive and thrive under any economic conditions. Rush Enterprises has never stood still. In good times and bad, we constantly look for innovative ways to leverage our network and our customer base to maximize and diversify our earnings base. To that end, we offer an extensive menu of products and services unparalleled in the industry:

RUSH TRUCK CENTERS

With 48 state-of-the-art locations, Rush Truck Centers is the largest heavy- and medium-duty dealer organization in the United States. Our locations span from Florida to California, as far south as the Mexican border and as far north as Colorado, Tennessee and North Carolina. We are accessible to most interstate highways, including IH-10 and 20, major metropolitan cities and major trucking thoroughfares. Our dealerships sit on nearly two million square feet of space and offer spacious showrooms, extensive truck and parts inventories, 650 service bays, comfortable drivers' lounges with recliners and TVs, and even shower and laundry facilities in many truck centers.

GROSS PROFIT BY PROFIT CENTERS



RUSH EQUIPMENT CENTERS

The diversity of the John Deere line broadens our customer base to residential and commercial contractors, utility companies, and petrochemical, industrial, and material supply businesses. Our two equipment centers located in southeast Texas provide the full line of John Deere construction equipment including backhoe loaders, hydraulic excavators, crawler dozers and four-wheel drive loaders.

RUSH BUS CENTERS

The largest school bus distributor in Texas, with commercial bus-only dealerships in Oklahoma and Florida, Rush Bus Centers provide one-stop sales and service support at 21 convenient locations. We offer the industry's leading brands including Blue Bird school buses and Diamond and Elkhart commercial buses.

RUSH TOWING SYSTEMS

Serving Texas, Oklahoma and New Mexico, we offer the full line of Jerr-Dan bodies, including wreckers and carriers, all available on a wide range of truck brands including Peterbilt, Ford, Hino, International, Isuzu, and UD. Our network of state-of-the-art sales, parts, service and collision centers offer exceptional service support for these bodies.

RUSH REFUSE SYSTEMS

Supported by the network of Rush Truck Centers, Rush Refuse Systems sells new and used work-ready refuse trucks including roll-offs, grapple trucks, and front, rear and automated side loaders, and offers leasing, rental, and financing services for customers.

RUSH CRANE SYSTEMS

Operating from headquarters in Texas and through the Rush Truck Centers network, Rush Crane System sells, rents and services National and Manitex crane and boom trucks as well as cranes, man-baskets and radio remote controls, all in combination with the rugged Peterbilt chassis.

RIG TOUGH TRUCK PARTS

Rig Tough Truck Parts is our proprietary line of parts and accessories for all makes and models of heavy-duty trucks. Offering hundreds of parts in a wide range of product categories, Rig Tough truck parts are made from durable materials, manufactured to exacting standards, tested to ensure quality and backed by industry-standard manufacturer's warranties. All of this is supported by technical support materials, a coast-to-coast distribution network, convenient delivery options and competitive pricing. Rig Tough truck parts are currently available exclusively through Rush Truck Centers around the country.

RUSH TRUCK LEASING

Our leasing business provides a broad line of work-ready trucks for lease or rent. We offer PacLease and IdeaLease full service, finance, TRAC, and walk-away leases, as well as contract maintenance and truck rentals.

RUSH TRUCK FINANCING

As a complete service provider of financial services, we work through an extensive network of third-party financial companies to assist customers in obtaining financing for new and used truck and construction equipment purchases, or major repair services.

ATIS TRUCK INSURANCE

ATIS Truck Insurance is a leading provider of insurance services for the transportation industry. We offer a full line of insurance products: liability, damage, cargo and accident insurance for most commodities, all of which are available through Rush Truck Centers and other locations across the southern United States.

CHROME COUNTRY

A retailer of chrome parts and accessories with more than 50,000 items in stock at its Nashville, Tennessee showroom, Chrome Country is also a quality installer of custom chrome parts for all brands of trucks.

PERFECTION EQUIPMENT

Located in Oklahoma City, Perfection Equipment carries more than 120 lines of truck and industrial parts and more than 100 lines of equipment, specializing in up-fitting trucks used by oil field and special service providers.

WORLD WIDE TIRES

With three locations in Texas, World Wide Tires provides commercial tires to the Class 8 truck market and tires for passenger cars, light trucks and ATV vehicles as well as ultra-high performance (UHP) and specialty tires to the wholesale tire market.

GOING GREEN: NURTURING A GROWING MARKET

AT RUSH ENTERPRISES, GREEN ISN'T A TRENDY BUZZWORD – IT'S A COMMITMENT WE MADE YEARS AGO TO POSITION OURSELVES AS A LEADER IN THE MOVEMENT. WE WILL CONTINUE TO PUT OUR RESOURCES TOWARD HELPING EDUCATE OUR CUSTOMERS SORT THROUGH THIS IMPORTANT AND OFTEN COMPLICATED SUBJECT.

When it comes to going green, Rush is in the forefront of an exciting discussion on how to develop a more eco-friendly transportation infrastructure and help our customers be more responsible corporate citizens. We represent leading truck brands that sell vehicles powered by alternative fuels (CNG, LNG, propane) and hybrid technology, reducing emissions to improve air quality, reduce fuel consumption and comply with federal and state regulations. Of course, all of these efforts help reduce dependency on foreign oil. We also work extensively with our customers to provide valuable information on constantly changing emissions regulations and assist them in taking advantage of millions of dollars in available federal and state clean air grants and incentives.

In April 2009, Rush Enterprises held our first "Go Green" event in Anaheim, California. It was the first dealer-sponsored event of its kind, drawing about 160 customers who received knowledge that helped them understand the technology and regulations that affect their operations as well as an opportunity to speak to the companies that develop and produce "green" vehicle and aftermarket technology. The event received extensive trucking media coverage.

Hundreds of visitors log on to www.RushGoGreen.com every month to learn about green technologies.

RUSH HAS BEEN PROACTIVE AND IS FULLY COMMITTED TO LEADING THE WAY IN GREEN TECHNOLOGIES:

- Our new web site, www.RushGoGreen.com, keeps our customers, employees, industry analysts, shareholders, and the public informed about green models from Peterbilt, International and Blue Bird, retrofit technologies, upcoming green events and more.
- We added a dedicated green consultant to our staff whose responsibilities include monitoring new technology and government regulations, assisting Rush Enterprises in prioritizing our green initiatives, and helping customers prepare applications for federal and state grants and incentives.
- We have contracted with industry experts to keep us abreast of government regulations and available funding and green initiatives.
- DPF (diesel particulate filters) cleaning systems have been installed at most Rush Truck Centers. DPFs were part of the 2007 emissions reduction engine technology and need to be regenerated between 150,000 to 200,000 miles for peak performance. Our significant investment in equipment and training to provide this new cleaning service is just part of our commitment to green technology and opens up additional service opportunities.

■ We are working with the Ports of Los Angeles and Long Beach as part of their Clean Ports Program. They are replacing 15,000 pre-emission regulation trucks over the next few years. This represents a substantial growth opportunity.

■ We are working with our manufacturers to transition from 2007 emissions-compliant diesel trucks to new 2010 emissions-compliant diesel trucks.

GREEN CHAMPIONS IN PLACE ACROSS THE NETWORK

In every state where Rush Enterprises operates, we have appointed either the general, sales, or parts manager to be Green Champions. Their job is to keep track of industry news, monitor state legislation, and help our customers navigate the growing maze of state laws and rapidly changing regulations as more businesses make the move to green technologies. They are the Rush point-of-contact for their state regarding green technological innovations, government regulations and rebate opportunities.

Dale Snowden, Green Champion and Sales Manager for three dealerships in California – Pico Rivera, Sylmar, and San Luis Obispo – has been leading the charge with LNG technology for their high-profile customers.

"As part of the Long Beach Clean Ports Program, we have had the opportunity to work with Peterbilt in developing an LNG tractor for private industry. The best part about being a Green Champion is helping customers with the application process for grants to purchase alternative fuel vehicles, which will ultimately help better our environment."

According to Jim Thor, Senior Vice President–Retail Sales, Rush keeps up-to-date on numerous green technology programs, summarizing complicated information, and educating customers on not only the products but also the funding opportunities available to the end user.

"We have contracted with a government affairs consultant who stays on top of green technology that is changing the business environment. Educating the customer is how we add value to our services. Rush has made a significant investment to be on the forefront of green technology and assisting our customers in understanding these new products and practices. It is very rewarding to help our customers as they pave their way to a new business model."

Rush Truck Centers across the network invested in DPF cleaning equipment to help customers meet maintenance requirements on new engines.

RIDING IT OUT WITH STRENGTH AND STABILITY

NO STORM CAN LAST FOREVER. WHEN THE ECONOMY BEGINS TO TURN, RUSH ENTERPRISES WILL EMERGE ON THE OTHER SIDE, READY TO MEET THE PENT-UP DEMAND UNLEASHED AS THE ECONOMY IMPROVES AND FREIGHT DEMAND INCREASES.

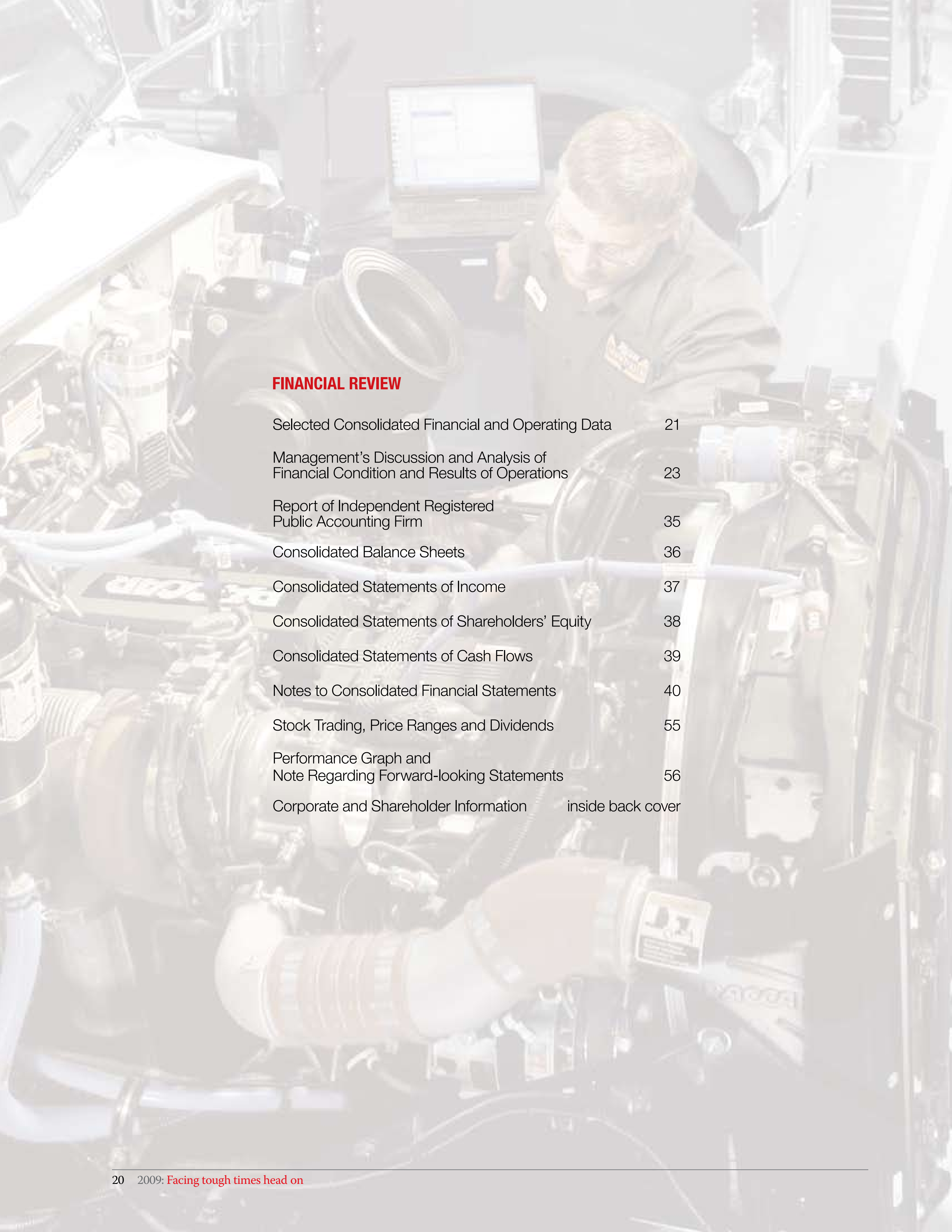
In 2009, Rush Enterprises continued to weather this unprecedented economic storm, but the storm is not quite over yet. We anticipate that the first half of 2010 will be every bit as tough as 2009, with one difference–unlike last year, we believe 2010 will end with a glimmer of light at the end of the economic tunnel. Rush Enterprises will be in prime position to take full advantage of more favorable market conditions, and poised for peak performance.

Our success is not only a tribute to our long-standing commitment to excellence, but also a reassuring sign of things to come. We are a forward-thinking, proactive organization with generations of experience, a strong customer-focused philosophy, and a diverse customer base that will put us in good stead no matter what economic climate lies ahead.

Rush Enterprises has a strong balance sheet, a history of results-oriented performance, and the most respected dealer name in the industry. We will continue to leverage our network to maximize our shareholders' investments and maintain their confidence in a company designed to weather any storm.

Rush invests more than $2.5 million annually to make sure that our service technicians receive training in the latest technologies.

Rush Truck Centers use the latest in electronic cataloging to access their extensive parts inventory to help ensure customers receive the right part the first time.



FINANCIAL REVIEW

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

The information below was derived from the audited consolidated financial statements included in this report and reports we have previously filed with the SEC. This information should be read together with those consolidated financial statements and the notes to those consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future. The selected financial data presented below may not be comparable between periods in all material respects or indicative of the Company's future financial position or results of operations due primarily to acquisitions which occurred during the periods presented. See Note 17 to the Company's Consolidated Financial Statements for a discussion of such acquisitions. The selected financial data presented below should be read in conjunction with the Company's other financial information included elsewhere herein.

	Year Ended December 31,				
(in thousands, except per share amounts)	**2009**	**2008**	**2007**	**2006**	**2005**
SUMMARY OF INCOME STATEMENT DATA					
Revenues					
New and used commercial vehicle sales	$ 738,705	$1,041,189	$1,393,253	$1,780,418	$1,400,736
Parts and service	410,839	478,439	480,611	441,424	365,908
Construction equipment sales	22,799	62,168	74,986	59,545	41,692
Lease and rental	53,710	54,813	52,103	41,776	33,975
Finance and insurance	7,630	12,291	21,663	19,197	15,356
Other	5,606	6,056	8,163	8,163	7,103
Total revenues	1,239,289	1,654,956	2,030,779	2,350,523	1,864,770
Cost of products sold	1,014,198	1,358,244	1,678,711	1,997,856	1,582,078
Gross profit	225,091	296,712	352,068	352,667	282,692
Selling, general and administrative	199,496	228,057	240,661	230,056	188,667
Depreciation and amortization	16,440	15,878	14,935	12,889	10,487
Gain on sale of assets	160	140	239	54	495
Operating income	9,315	52,917	96,711	109,776	84,033
Interest expense, net	6,099	7,830	14,909	15,718	12,895
Income before income taxes	3,216	45,087	81,802	94,058	71,138
(Benefit) provision for income taxes	(2,668)	16,222	30,310	35,272	26,513
Net income	$ 5,884	$ 28,865	$ 51,492	$ 58,786	$ 44,625
Earnings Per Share:					
Basic	$ 0.16	$ 0.75	$ 1.35	$ 1.57	$ 1.23
Diluted	$ 0.16	$ 0.75	$ 1.33	$ 1.55	$ 1.19
Basic weighted average shares	37,066	38,089	38,059	37,476	36,303
Diluted weighted average shares and assumed conversions	37,597	38,587	38,746	37,890	37,436

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,				
	2009	2008	2007	2006	2005
OPERATING DATA					
Unit vehicle sales					
New vehicles	6,615	9,289	12,712	16,492	12,918
Used vehicles	2,875	3,234	4,101	4,005	3,677
Total unit vehicles sales	9,490	12,523	16,813	20,497	16,595
Truck lease and rental units (including units under contract maintenance)	3,033	2,570	2,404	2,345	1,798

	Year Ended December 31,				
(in thousands)	2009	2008	2007	2006	2005
BALANCE SHEET DATA					
Working capital	$ 159,182	$ 177,117	$ 197,805	$ 156,297	$ 126,137
Inventories	269,955	362,234	365,947	484,696	338,212
Total assets	977,297	1,056,790	1,031,591	1,128,410	840,234
Floor plan notes payable	189,256	282,702	273,653	446,354	315,985
Line-of-credit borrowings	–	–	–	–	2,755
Long-term debt, including current portion	209,502	209,677	198,945	192,124	133,152
Capital lease obligations, including current portion	34,444	14,820	17,543	17,732	16,905
Shareholders' equity	426,225	416,041	399,577	339,608	273,620

General

While 2009 was one of the most difficult operating environments since the 1980s, and even worse than originally anticipated, the Company was able to remain profitable. The Company was able to generate positive cash flow despite the worst market conditions in over 25 years, while making significant investments in technology and facilities. The Company is continuing its strategic focus to improve the quality of earnings by building a network that is diverse in product offerings, customer base and geography.

During the second quarter of 2009, the Company recorded a $4.9 million pre-tax impairment charge related to General Motors' decision to discontinue manufacturing medium-duty trucks and to wind-down the Company's GMC Medium-Duty Truck Dealership Agreements. A significant portion of the impairment charge was an estimate of the inventory valuation allowance associated with the disposal of the Company's remaining GMC truck and parts inventories. During the third and fourth quarters of 2009, the Company made a $1.9 million reduction of the estimated impairment charge related to its GMC truck and parts inventory because it was able to sell some of the GMC inventory at higher prices than originally estimated.

The Company opened new facilities and expanded existing facilities in 2009, and is on schedule to open its new Rush Truck Center facility in Oklahoma City in 2010. The Company also added Hino and Isuzu franchises to some of its truck centers to compensate for the effects of GMC's departure from the truck market and its loss of GMC franchises. The Company continued to establish itself as a leading provider of alternative fuel commercial vehicles and aftermarket services, and rebated several million dollars to municipalities and fleets who have been early adopters of these technologies. In 2009, the Company continued to expand its breadth of product across vocational markets with the launch of Rush Towing Systems, which represents Jerr-Dan carriers and wreckers at locations in Texas, Oklahoma and New Mexico.

The Company believes that weak general economic conditions in the United States will make 2010 another difficult year. A.C.T. Research Co., LLC ("A.C.T. Research"), a truck industry data and forecasting service provider, currently predicts U.S. retail sales of Class 8 trucks of approximately 114,000 units in 2010, a 17.5% increase from 2009. However, Company management believes that U. S. Class 8 retail sales will only increase to about 105,000 units, an 8% increase from 2009.

U.S. medium-duty commercial vehicle sales declined 36% in 2009, compared to 2008, as reported by A.C.T. Research. A.C.T. Research currently predicts U.S. retail sales of Class 4, 5, 6, and 7 medium-duty commercial vehicles of approximately 123,500 units in 2010, an 11% increase from the number of deliveries in 2009.

The Company expects to see a slight increase in new commercial vehicle sales during the first quarter of 2010, as compared to the fourth quarter of 2009, as commercial vehicles with engines manufactured before new diesel emissions regulations took effect on January 1, 2010, are delivered from its inventory. The Company expects commercial vehicle sales to be extremely sluggish in the second and third quarters of 2010 as new technology begins to gradually gain acceptance in the marketplace. The Company does not believe any sustainable increase in retail commercial vehicle sales will occur until late in 2010.

The Company's parts, service and body shop sales decreased approximately 14% in 2009 compared to 2008. The Company's truck dealerships' overall absorption rate, as described below, was 95.7%, in 2009 compared to 105.5% in 2008. If general economic conditions in the United States continue to improve in 2010, the Company is hopeful that it can increase its absorption rate (as described below) and increase parts, service and body shop sales over 2009 levels as excess capacity begins to be utilized. Aftermarket parts, service and body shop sales were negatively impacted by excess truck capacity during 2009, as many customers have been able to put their excess truck capacity into service, allowing them to delay repair and maintenance and use trucks not being utilized for replacement parts needs.

In 2009, the Company's construction equipment segment revenue decreased by 53.6%. This decrease was largely attributable to the weakening construction market in the Houston area. Current industry forecasts suggest that construction equipment sales will decline approximately 10% in the Houston area during 2010, compared to 2009.

The Company earns federal income tax credits on the sale of alternative fuel vehicles to tax-exempt entities. These tax credits are reflected as tax benefits in the Company's Consolidated Statements of Income. A portion of these tax credits are passed back to the tax-exempt customer and are reflected as SG&A expense to the Company in the quarter in which the commercial vehicles are sold. These alternative fuel tax credits and the amount passed back to the customers are directly attributable to the sale of a commercial vehicle. Accordingly, the Company believes the tax credits and the amounts passed back to customers should be considered operating items when analyzing the financial performance of the Company. The Company believes its history of serving municipalities and other tax-exempt customers that cannot claim these federal tax credits, its ability to utilize tax credits and pass back savings to these tax-exempt customers, and its position as a leading dealer of alternative fuel vehicles provide the Company with a distinct advantage over its competition when offering alternative fuel vehicles to tax-exempt entities.

Key Performance Indicator

Absorption Rate. The management of the Company uses several performance metrics to evaluate the performance of its dealerships. The Company considers its "absorption rate" to be of critical importance. Absorption rate is calculated by dividing the gross profit from the parts, service and body shop departments by the overhead expenses of all of a dealership's departments, except for the selling expenses of the new and used commercial vehicle departments and carrying costs of new and used commercial vehicle inventory. When 100% absorption is achieved, then gross profit from the sale of a commercial vehicle, after sales commissions and inventory carrying costs, directly impacts operating profit. In 1999, the Company's truck dealerships' absorption rate was approximately 80%. The Company has made a concerted effort to increase its absorption rate since then. The Company's truck dealerships achieved a 105.5% absorption rate for the year in 2008 and 95.7% absorption rate for the year in 2009.

Stock Dividend

On September 20, 2007, our shareholders approved an amendment to Rush Enterprises, Inc.'s Restated Articles of Incorporation increasing the total number of authorized shares of Class A common stock from 40,000,000 to 60,000,000 and total number of authorized shares of Class B common stock from 10,000,000 to 20,000,000. On the same date, our Board of Directors declared a 3-for-2 stock split of the Class A common stock and Class B common stock, to be effected in the form of a stock dividend. On October 10, 2007, Rush Enterprises, Inc. distributed one additional share of stock for every two shares of Class A common stock and Class B common stock held by shareholders of record as of October 1, 2007. All share and per share data (except par value) in this Form 10-K have been adjusted and restated to reflect the stock dividend as if it occurred on the first day of the earliest period presented.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. The Company believes the following accounting policies, which are also described in Note 2 of the Notes to the Consolidated Financial Statements, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Inventories

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

Goodwill

Goodwill and other intangible assets that have indefinite lives are not amortized but instead are tested at least annually by reporting unit for impairment, or more frequently when events or changes in circumstances indicate that the asset might be impaired.

Goodwill is reviewed for impairment utilizing a two-step process. The first step requires the Company to compare the fair value of the reporting unit, which is the same as the segment, to the respective carrying value. The Company considers each of its segments to be a reporting unit for purposes of this analysis. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and a second step is required. In the second step of the analysis, the implied fair value of the goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

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

The Company has historically performed an annual impairment review of goodwill during the fourth quarter of each year, however, an interim evaluation of goodwill was required during the second quarter of 2009 due to General Motors' decision to terminate production of medium-duty GMC trucks, which resulted in the winding-down of the Company's medium-duty GMC truck franchises. The goodwill allocation was based on the relative fair values of the medium-duty GMC truck franchises and the portion of the Company's Truck Segment remaining. The Company's Truck Segment recorded a non-cash charge of $0.8 million related to the impairment of the goodwill of its medium-duty GMC truck franchises. See Note 19 for further discussion of the wind-down of the Company's medium-duty GMC truck franchise agreements.

Goodwill was tested for impairment during the fourth quarter of 2009 and no impairment write down was required. The fair value of each of our reporting units exceeded the carrying value of its net assets. As a result, we were not required to conduct the second step of the impairment test. The Company does not believe any of its reporting units are at risk of failing step one of the impairment test.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions it used to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, or certain events occur that might adversely affect the reported value of goodwill in the future, the Company may be exposed to an impairment charge that could be material. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions or the impact of the current economic environment.

Finance and Insurance Revenue Recognition

Finance income related to the sale of a unit is recognized when the finance contract is sold to a finance company. During 2009, 2008 and 2007, finance contracts were not retained by the Company for any significant length of time because finance contracts are generally sold to finance companies concurrent with the sale of the related unit. The Company arranges financing for customers through various institutions and receives financing fees from the lender equal to either the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. The Company also receives commissions from the sale of various insurance products to customers.

The Company may be charged back for unearned financing or insurance contract fees in the event of early termination of the contracts by customers. In the case of finance contracts, a customer may prepay, or fail to pay, thereby terminating the underlying contract. Revenues from these fees are recorded at the time of the sale of a unit and a reserve for future amounts which might be charged back is established based on historical chargeback results and the termination provisions of the applicable contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on other insurance products. The Company's finance and insurance revenue recognition accounting methodology contains uncertainties because it requires management to make assumptions and to apply judgment to estimate future charge-backs. The Company's estimate of future charge-backs is based primarily on historical experience. The actual amount of historical charge-backs has not been significantly different than the Company's estimates.

Insurance Accruals

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

Changes in the frequency, severity, and development of existing claims could influence the Company's reserve for claims and financial position, results of operations and cash flows. The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions it used to calculate its self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, the Company may be exposed to losses or gains that could be material. A 10% change in the Company's estimate would have changed its reserve for these losses at December 31, 2009 by $0.5 million.

Accounting for Income Taxes

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

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

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

New Accounting Standards

On January 21, 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06. ASU 2010-06 amends ASC 820, "Fair Value Measurements," and adds new requirements for disclosures about transfers into and out of Levels 1 and 2 in the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. Additionally, it clarifies existing fair value disclosures about the level of disaggregation about inputs and valuation techniques used to measure fair value. ASU 2010-06 is generally effective for the first reporting period beginning after December 15, 2009. The Company does not expect the adoption of ASU 2010-06 to have a significant impact on its consolidated results of operations and financial position.

Results of Operations

The following discussion and analysis includes the Company's historical results of operations for 2009, 2008 and 2007.

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

	Year Ended December 31, 2009	2008	2007
New and used commercial vehicle sales	59.6 %	62.9 %	68.6%
Parts and service	33.2	28.9	23.7
Construction equipment sales	1.8	3.8	3.7
Lease and rental	4.3	3.3	2.5
Finance and insurance	0.6	0.7	1.1
Other	0.5	0.4	0.4
Total revenues	100.0	100.0	100.0
Cost of products sold	81.8	82.0	82.7
Gross profit	18.2	18.0	17.3
Selling, general and administrative	16.1	13.8	11.9
Depreciation and amortization	1.3	1.0	0.7
Operating income	0.8	3.2	4.7
Interest expense, net	0.5	0.5	0.7
Income before income taxes	0.3	2.7	4.0
(Benefit) provision for income taxes	(0.2)	1.0	1.5
Net income	0.5 %	1.7 %	2.5%

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

	2009	2008	2007	% Change 2009 vs 2008	% Change 2008 vs 2007
Vehicle unit sales:					
New heavy-duty vehicles	3,972	5,516	7,230	-28.0%	-23.7%
New medium-duty vehicles	2,643	3,773	5,482	-29.8%	-31.2%
Total new vehicle unit sales	6,615	9,289	12,712	-28.8%	-26.9%
Used vehicles	2,875	3,234	4,101	-11.1%	-21.1%
Vehicle revenue:					
New heavy-duty vehicles	$ 467.1	$ 665.5	$ 871.8	-29.8%	-23.7%
New medium-duty vehicles	163.7	222.1	289.4	-26.3%	-23.3%
Total new vehicle revenue	$ 630.8	$ 887.6	$ 1,161.2	-28.9%	-23.6%
Used vehicle revenue	$ 106.5	$ 149.9	$ 211.7	-29.0%	-29.2%
Other vehicle revenue(1)	$ 1.4	$ 3.7	$ 20.4	-62.2%	-81.9%
Truck dealership absorption rate:	95.7%	105.5%	104.5%	-9.3%	1.0%

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

Industry

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

Heavy-Duty Truck Market

The Company serves the southern U.S. retail heavy-duty truck market, which is affected by a number of factors relating to general economic conditions, including fuel prices, government regulation, interest rate fluctuations, economic recessions and customer business cycles. In addition, unit sales of new commercial vehicles have historically been subject to substantial cyclical variation based on general economic conditions. According to data published by A.C.T. Research, in recent years total U.S. retail sales of new Class 8 trucks have ranged from a low of approximately 97,000 in 2009 to a high of approximately 291,000 in 2006. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds. The Company's share of the U.S. Class 8 truck sales market increased approximately 5% to 4.1% in 2009, up from 3.9% in 2008.

Typically, Class 8 trucks are assembled by manufacturers utilizing certain components manufactured by other companies, including engines, transmissions, axles, wheels and other components. As commercial vehicles and commercial vehicle components have become increasingly complex, the ability to provide state-of-the-art service for a wide variety of truck equipment has become a competitive factor in the industry. The ability to provide such service requires a significant capital investment in diagnostic and other equipment, parts inventory and highly trained service personnel. Environmental Protection Agency ("EPA") and U.S. Department of Transportation ("DOT") regulatory guidelines for service processes, including body shop, paint work and waste disposal, require sophisticated operating and testing equipment to ensure compliance with environmental and safety standards. Additionally, we believe that more of our customers will lease Class 8 trucks as fleets, particularly private fleets, and seek to establish full-service leases or rental contracts, which provide for turnkey service including parts, maintenance and, potentially, fuel, fuel tax reporting and other services. Differentiation between commercial vehicle dealers has become less dependent on pure price competition and is increasingly based on a dealer's ability to offer a wide variety of services to their clients. Such services include the following: efficient, conveniently located and easily accessible commercial vehicle service centers with an adequate supply of replacement parts; financing for commercial vehicle purchases; leasing and rental programs; and the ability to accept multiple unit trade-ins related to large fleet purchases. We believe our one-stop center concept and the size and geographic diversity of our dealer network gives us a competitive advantage in providing these services.

A.C.T. Research currently estimates approximately 114,000 new Class 8 trucks will be sold in the United States in 2010, compared to approximately 97,000 new Class 8 trucks sold in 2009. However, Company management believes that U.S. Class 8 retail sales will only increase to about 105,000 units in 2010, an 8% increase from 2009. The Company believes that demand for new Class 8 trucks will gradually increase throughout 2010 due to the age of vehicles in operation if general economic conditions continue to improve. A.C.T. Research currently forecasts sales of Class 8 trucks in the U.S. to be approximately 193,000 in 2011.

Medium-Duty Truck Market

Many of our Rush Truck Centers sell medium-duty trucks manufactured by Peterbilt, International, GMC, Hino, UD, Ford or Isuzu, and all of our Rush Truck Centers provide parts and service for medium-duty trucks. Medium-duty trucks are principally used in short haul, local markets as delivery vehicles. Medium-duty trucks typically operate locally and generally do not venture out of their service areas overnight. During the second quarter of 2009, General Motors Corporation made the decision to discontinue the production of its medium-duty truck line and to wind-down the Company's GMC Medium-Duty Truck Dealership Agreements.

A.C.T. Research currently forecasts sales of Class 4 through 7 commercial vehicles in the U.S. to be approximately 123,500 in 2010 compared to 111,415 in 2009. A.C.T. Research currently forecasts sales of Class 4 through 7 commercial vehicles in the U.S. to be approximately 151,000 in 2011.

Construction Equipment Market

Our Rush Equipment Centers are authorized John Deere construction equipment dealers serving Southeast Texas. According to data compiled by John Deere, approximately 966 units of construction equipment were put into use in our area of responsibility in 2009 compared to 2,405 in 2008. In 2010, we expect new construction equipment unit sales to decrease approximately 10% compared to 2009 in our area of responsibility to approximately 870 units. John Deere's market share in the Houston area construction equipment market, which includes shipments of John Deere equipment to customers that did not purchase such equipment from a Rush Equipment Center, increased to 22.4% in 2009 from 18.2% in 2008. The Company's market share in the Houston area construction equipment market increased to 22.3% in 2009 from 16.9% in 2008. Our Rush Equipment Centers have the right to sell new John Deere construction equipment and parts within its assigned area of responsibility, which means competition within its market comes primarily from dealers of competing manufacturers and rental companies.

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

Market factors affecting the construction equipment industry include the following:

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

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues

Revenues decreased $415.7 million, or 25.1%, in 2009, compared to 2008. Sales of new and used commercial vehicles decreased $302.5 million, or 29.1%, in 2009, compared to 2008. Uncertain economic conditions, the weak freight environment, slowing construction markets and tight credit markets contributed to decreased demand for commercial vehicles and construction equipment as well as aftermarket service in 2009. The Company believes that demand for its products and services will increase if general economic conditions in the United States continue to improve and credit is made available on reasonable terms to a wider range of buyers.

The Company sold 3,972 heavy-duty trucks in 2009, a 28.0% decrease compared to 5,516 heavy-duty trucks in 2008. According to A.C.T. Research, the U.S. Class 8 truck market decreased 30.6% in 2009, compared to 2008. The Company's share of the U.S. Class 8 truck sales market was approximately 4.1% in 2009. The Company expects its market share to range between 4.1% and 4.4% of U.S. Class 8 truck sales in 2010. This market share percentage would result in the sale of approximately 4,300 to 4,700 of Class 8 trucks in 2010 based on the Company's belief that U.S. retail sales will increase to 105,000 units.

The Company sold 2,643 medium-duty commercial vehicles, including 368 buses, in 2009, a 29.9% decrease compared to 3,773 medium-duty commercial vehicles, including 239 buses, in 2008. A.C.T. Research estimates that unit sales of Class 4 through 7 commercial vehicles in the U.S. decreased approximately 33.2% in 2009, compared to 2008. In 2009, the Company achieved a 2.4% share of the Class 4 through 7 commercial vehicle sales market in the U.S. The Company expects its market share to range between 2.4% and 2.5% of U.S. Class 4 through 7 commercial vehicle sales in 2010. This market share percentage would result in the sale of approximately 2,900 to 3,100 of Class 4 through 7 commercial vehicles in 2010 based on A.C.T. Research's current U.S. retail sales estimates of 123,500 units.

The Company sold 2,875 used commercial vehicles in 2009, an 11.1% decrease compared to 3,234 used commercial vehicles in 2009. For 2010, used commercial vehicle sales volumes and prices will be primarily driven by general economic conditions and the availability of credit, which collectively have had a severe impact on this market since 2008. The Company expects to sell approximately 2,900 to 3,200 used commercial vehicles in 2009.

Parts and service sales decreased $67.6 million, or 14.1%, in 2009, compared to 2008. Aftermarket parts, service and body shop sales were negatively impacted by excess capacity during 2009, as many customers have been able to put their excess truck capacity into service, allowing them to delay repair and maintenance and use trucks not being utilized for replacement parts needs. The Company expects parts and service sales to begin to increase in the second half of 2010 if general economic conditions in the United States continue to improve.

Sales of new and used construction equipment decreased $39.4 million, or 63.3%, in 2009, compared to 2008. This decrease was largely attributable to the weakening construction market in the Houston area. John Deere's rolling twelve month average market share in the Houston area construction equipment market increased to 22.4% as of December 31, 2009, from a rolling twelve month average of 18.2% as of December 31, 2008. In 2010, the Company expects new construction equipment unit sales in our area of responsibility to decrease approximately 10%, compared to 2009.

Truck lease and rental revenues decreased $1.1 million, or 2.0%, in 2009, compared to 2008. The decrease in lease and rental revenue is primarily attributable to decreased utilization of vehicles in the Company's rental fleet and decreased variable lease revenue that is based on the miles that vehicles being leased are driven. The Company expects lease and rental revenue to increase 10% to 15% during 2010, compared to 2009 based on the increase of units in the lease and rental fleet.

Finance and insurance revenues decreased $4.7 million, or 37.9%, in 2009, compared to 2008. The decrease in finance and insurance revenue is a direct result of the decline in commercial vehicle sales and the tight credit market. The Company expects finance and insurance revenue to fluctuate proportionately with the new Class 8 truck market in 2010. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

Other income decreased $0.5 million, or 7.4% in 2009, compared to 2008. Other income consists primarily of the gain on sale realized on trucks from the lease and rental fleet, commissions earned from John Deere for direct manufacturer sales into our area of responsibility, document fees related to commercial vehicle sales, mineral royalties and purchase discounts.

Gross Profit

Gross profit decreased $71.6 million, or 24.1%, in 2009, compared to 2008. Gross profit as a percentage of sales increased to 18.2% in 2009, from 17.9% in 2008. This slight increase is primarily a result of a change in our product sales mix. Commercial vehicle sales, a lower margin revenue item, decreased as a percentage of total revenue to 59.6% in 2009, from 62.9% in 2008. Parts and service revenue, a higher margin revenue item, increased as a percentage of total revenue to 33.2% in 2009, from 28.9% in 2008.

Gross margins on Class 8 truck sales decreased to 5.8% in 2009, from 7.7% in 2008. Gross margins on Class 8 truck sales were negatively impacted by decreased demand for new trucks and a change in our product sales mix that included increased fleet sales, which are typically lower margin sales. In 2010, the Company expects overall gross margins from Class 8 truck sales of approximately 5.0% to 7.0%, but this will largely depend upon general economic conditions and the availability of credit to retail customers. The Company recorded expense of $5.8 million to increase its new heavy-duty truck valuation allowance in 2009 and $5.2 million in 2008.

Gross margins on medium-duty commercial vehicle sales increased to 5.5% in 2009, from 5.1% in 2008. For 2010, the Company expects overall gross margins from medium-duty commercial vehicle sales of approximately 5.0% to 7.0%, but this will largely depend upon general economic conditions and the availability of credit to retail customers. The Company recorded expense of $2.5 million to increase its new medium-duty commercial vehicle valuation allowance in 2009 and $1.7 million in 2008.

Gross margins on used commercial vehicle sales increased to 6.9% in 2009, from 3.6% in 2008. This increase is primarily a result of write-downs of used commercial vehicle inventory values throughout 2008 that caused gross margins on used commercial vehicle sales to decrease below normal levels in 2008. The Company expects margins on used commercial vehicles will be in the range of approximately 6.5% to 8.5% during 2010, but this will largely depend upon general economic conditions and the availability of credit to retail customers. The Company recorded expense of $5.0 million to increase its used commercial vehicle valuation allowance in 2009 and $8.5 million in 2008.

Gross margins from the Company's parts, service and body shop operations decreased to 39.0% in 2009, from 41.4% in 2008. Gross profit for the parts, service and body shop departments decreased to $160.2 million in 2009, from $196.5 million in 2008. The Company expects gross margins on parts, service and body shop operations to range 39.0% to 41.0% in 2010.

Gross margins on new and used construction equipment sales decreased to 9.1% in 2009, from 9.8% in 2008. This decrease in gross margin is primarily attributable to a decrease in demand for construction equipment and a change in our product sales mix. The Company expects gross margins for 2010 to range from approximately 6.0% to 8.0% due to the dramatic decrease in demand for construction equipment in the Houston market, but this will largely depend upon general economic conditions and the availability of credit to retail customers.

Gross margins from truck lease and rental sales decreased to 11.5% in 2009, from approximately 14.5% in 2008. The decrease in lease and rental revenue is primarily attributable to decreased utilization of vehicles in the Company's rental fleet and decreased variable rental revenue that is based on the miles that vehicles being leased are driven. The Company expects gross margins from lease and rental sales of approximately 11.0% to 15.0% during 2010 depending upon whether general economic conditions in the United States continue to improve. The Company's policy is to depreciate its lease and rental fleet using a straight line method over the customer's contractual lease term. The lease unit is depreciated to a residual value that approximates fair value at the expiration of the lease term. This policy results in the Company realizing reasonable gross margins while the unit is in service and a corresponding gain or loss on sale when the unit is sold at the end of the lease term.

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

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses decreased $28.6 million, or 12.5%, in 2009, compared to 2008. SG&A expenses as a percentage of sales increased to 16.1% in 2009, from 13.8% in 2008. Prior to 2009, SG&A expenses as a percentage of sales historically ranged from 10.0% to 15.0%. In general, when new and used commercial vehicle revenue decreases as a percentage of revenue, SG&A expenses as a percentage of revenue will be at, or exceed, the higher end of this range. The Company earns federal income tax credits on the sale of alternative fuel vehicles to tax-exempt entities. A portion of these tax credits are passed back to the tax-exempt customer and are reflected as SG&A expense to the Company. In 2009, the selling portion of SG&A expenses, which consists primarily of commissions on commercial vehicle and construction equipment sales, decreased 27.4% and the general and administrative portion of SG&A expenses decreased 11.1% compared to 2008. For 2010, the Company expects the selling portion of SG&A expenses to be approximately 25% to 28% of new and used commercial vehicle gross profit. The selling portion of SG&A expenses varies based on the gross profit derived from commercial vehicle sales.

The Company has taken continuous action throughout the past two years to reduce overhead expenses to a level more appropriate to serve the declining market. The Company analyzes all areas of the business when making expense reductions. A majority of the overhead expense reduction was in personnel and employee benefits, training, travel and entertainment, and advertising expense. The Company believes it has reduced expenses in relation to the reduction in sales volumes without reducing services to customers or impairing the value of its operations. The Company will continue to adjust the general and administrative portion of SG&A expenses in accordance with market conditions.

Interest Expense, Net

Net interest expense decreased $1.7 million, or 22.1%, in 2009, compared to 2008. The Company expects net interest expense in 2010 to increase compared to 2009 based on increased inventory levels and impending modification to the Company's floor plan agreement in the second half of 2010, which will result in increased interest rates.

Income Before Income Taxes

Income before income taxes decreased $41.9 million, or 92.9%, in 2009, compared to 2008, as a result of the factors described above.

Income Taxes

Income taxes decreased $18.9 million, or 116.4%, in 2009, compared to 2008. Prior to the application of alternative fuel tax credits, the Company's tax rate during 2009 increased primarily due to state regulations that assess taxes based on gross profit, a federal income tax settlement, and non-deductible expenses. Historically, the Company's effective tax rate has been approximately 36% to 38% of pretax income. When pretax income is low, state taxes that are calculated based on gross profit and non-deductible expenses become a larger percentage of pretax income, thereby increasing the Company's effective tax rate in relation to its historical rates. If pretax income for 2010 is similar to pretax income in 2009, the Company expects its effective tax rate to be approximately

45.0% before the application of alternative fuel tax credits. In 2009, the Company received $5.3 million in tax credits for sales of alternative fuel vehicles to tax-exempt entities, compared to $0.7 million in 2008. The Company's effective tax rate may vary significantly depending on the number of alternative fuel vehicles sold to tax-exempt entities.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenues

Revenues decreased $375.8 million, or 18.5%, in 2008 compared to 2007. Sales of new and used commercial vehicles decreased $352.1 million, or 25.3%, in 2008 compared to 2007. Uncertain economic conditions, the weak freight environment, slowing construction markets, historically high fuel prices and tight credit markets contributed to decreased demand for Class 8, medium-duty and used commercial vehicles in 2008.

The Company sold 5,516 heavy-duty trucks in 2008, a 23.7% decrease compared to 7,230 heavy-duty trucks in 2007. According to A.C.T. Research, the U.S. Class 8 truck market decreased 11.2% in 2008 compared to 2007. The Company's share of the U.S. Class 8 truck sales market decreased approximately 15% to 3.9% in 2008, down from 4.6% in 2007.

The Company sold 3,773 medium-duty commercial vehicles in 2008, a 31.2% decrease compared to 5,482 medium-duty commercial vehicles in 2007. Overall, new medium-duty commercial vehicle sales revenue decreased approximately $67.3 million, or 23.3%, in 2008 compared to 2007. A.C.T. Research estimates that unit sales of Class 4 through 7 commercial vehicles in the U.S. decreased approximately 27% in 2008 compared to the 2007. In 2008, the Company achieved a 2.1% share of the Class 4 through 7 commercial vehicle sales market in the U.S. down from 2.2% in 2007.

The Company sold 3,234 used commercial vehicles in 2008, a 21.1% decrease compared to 4,101 used commercial vehicles in 2007. Used commercial vehicle average revenue per unit decreased by approximately 10.2% in 2008. For 2009, used commercial vehicle sales volumes and prices will be primarily driven by general economic conditions, fuel prices and the availability of credit, which collectively have had a severe impact on this market during 2008.

Parts and service sales decreased $2.2 million, or 0.5%, in 2008 compared to 2007. Same store parts and service sales decreased $19.9 million, or 4.1%, in 2008 compared to 2007 primarily due to weakening economic conditions.

Sales of new and used construction equipment decreased $12.8 million, or 17.1%, in 2008 compared to 2007. This decrease was largely attributable to the weakening construction market in the Houston area. John Deere's rolling twelve month average market share in the Houston area construction equipment market decreased to 18.2% as of December 31, 2008 from a rolling twelve month average of 22.2% as of December 31, 2007. This decrease in market share was largely attributable to other manufacturer's dealers purchasing large quantities of equipment to add to their rental fleets.

Truck lease and rental revenues increased $2.7 million, or 5.2%, in 2008 compared to 2007. This increase in lease and rental revenue is consistent with management's expectations, considering the increased number of units put into service in the rental fleet during 2008, which was primarily due to the acquisition of an Idealease location in North Carolina. The lease and rental fleet increased approximately 6.9% to 2,570 units at December 31, 2008 from 2,404 units at December 31, 2007.

Finance and insurance revenues decreased $9.4 million, or 43.3%, in 2008 compared to 2007. The decrease in finance and insurance revenue is a direct result of the decline in commercial vehicle sales and the tight credit market. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

Other income decreased $2.1 million, or 25.8% in 2008 compared to 2007. Other income consists primarily of the gain on sale realized on commercial vehicles from the lease and rental fleet, commissions earned from John Deere for direct manufacturer sales into our area of responsibility, document fees related to commercial vehicle sales and purchase discounts.

Gross Profit

Gross profit decreased $55.4 million, or 15.7%, in 2008 compared to 2007. Gross profit as a percentage of sales increased to 18.0% in 2008 from 17.3% in 2007. This increase is primarily a result of a change in our product sales mix. Commercial vehicle sales, a lower margin revenue item, decreased as a percentage of total revenue to 62.9% in 2008 from 68.6% in 2007. Parts and service revenue, a higher margin revenue item, increased as a percentage of total revenue to 28.9% in 2008 from 23.7% in 2007.

Gross margins on Class 8 truck sales decreased to 7.7% in 2008 from 8.6% in 2007. A large portion of the decrease in gross margins on Class 8 trucks was due to write-downs on the value of new truck inventory throughout 2008. Gross margins on Class 8 truck sales were also negatively impacted by decreased demand for new commercial vehicles as a result of uncertain economic conditions, the weak freight environment, historically high fuel prices throughout most of 2008, and tightening credit markets. The Company continually evaluates its reserve for new truck valuation losses. The Company recorded expense of $5.2 million to increase its new heavy-duty truck valuation allowance in 2008 and $3.3 million in 2007.

Gross margins on medium-duty commercial vehicle sales decreased to 5.1% in 2008 from 5.5% in 2007. Medium-duty commercial vehicle gross margins were negatively impacted by the same factors that adversely impacted gross margins on Class 8 truck sales in 2008. Gross margins on medium-duty commercial vehicles are difficult to forecast accurately because gross margins vary significantly depending upon the mix of fleet and non-fleet purchasers and types of medium-duty commercial vehicles sold. The Company recorded expense of $1.7 million to increase its new medium-duty commercial vehicle valuation allowance in 2008 and $2.8 million in 2007.

Gross margins on used commercial vehicle sales decreased to 3.6% in 2008 from 8.6% in 2007. Write-downs of used commercial vehicle inventory values throughout 2008 caused gross margins on used commercial vehicle sales to decrease in 2008 compared to 2007. The write-downs were necessary because of decreased demand for used commercial vehicles as a result of worsening general economic conditions, decreased freight demand, and the tight credit market. The Company continually evaluates its reserve for used commercial vehicle valuation losses. The Company recorded expense of $8.5 million to increase its used commercial vehicle valuation allowance in 2008 and $2.9 million in 2007.

Gross margins from the Company's parts, service and body shop operations increased to 41.1% in 2008 from 40.9% in 2007. Gross profit for the parts, service and body shop departments decreased slightly to $196.5 million in 2008 from $196.7 million in 2007.

Gross margins on new and used construction equipment sales decreased to 9.8% in 2008 from 11.0% in 2007. This decrease in gross margin was primarily attributable to decreased demand for construction equipment in the Houston market and our continued efforts to increase John Deere's market share.

Gross margins from truck lease and rental sales decreased to 14.5% in 2008 from approximately 15.4% in 2007. The decrease in the gross margin from lease and rental sales was primarily due to the decreased utilization of crane-mounted trucks in our rental fleet. The Company's policy is to depreciate its lease and rental fleet using a straight line method over the customer's contractual lease term. The lease unit is depreciated to a residual value that approximates fair value at the expiration of the lease term. This policy results in the Company realizing reasonable gross margins while the unit is in service and a corresponding gain or loss on sale when the unit is sold at the end of the lease term.

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

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses decreased $12.6 million, or 5.2%, in 2008 compared to 2007. SG&A expenses as a percentage of sales increased to 13.8% in 2008 from 11.9% in 2007. SG&A expenses as a percentage of sales have historically ranged from 10.0% to 15.0%. In 2008, the selling portion of SG&A expenses, which consists primarily of commissions on commercial vehicle and construction equipment sales, decreased 25.0% and the general and administrative portion of SG&A decreased 2.8% compared to 2007.

Interest Expense, Net

Net interest expense decreased $7.1 million, or 47.5%, in 2008 compared to 2007. In 2008, floor plan interest expense decreased compared to 2007 primarily due to the decrease in floor plan notes payable throughout most of 2008 and lower floor plan interest rates.

Income Before Income Taxes

Income before income taxes decreased $36.7 million, or 44.9%, in 2008 compared to 2007, as a result of the factors described above.

Income Taxes

Income taxes decreased $14.1 million, or 46.5%, in 2008 compared to 2007. Prior to the application of alternative fuel vehicle tax credits, the Company provided for taxes at a 37.5% rate in 2008, compared to a rate of 37.0% in 2007. The tax rate in 2008 was offset $0.7 million by tax credits for sales of alternative fuel vehicles to tax-exempt entities.

Effects of Inflation

Inflationary factors such as increases in the cost of products and overhead costs may adversely affect the Company's operating results. Although the Company does not believe that inflation has had a material impact on its financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on its ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of revenues if the selling prices of our products do not increase with these increased costs.

Liquidity and Capital Resources

The Company's short-term cash requirements are primarily for working capital, inventory financing, the improvement and expansion of existing facilities, the development and implementation of SAP enterprise software and dealership management system, and the construction of new facilities. Historically, these cash requirements have been met through the retention of profits and borrowings under our floor plan arrangements. As of December 31, 2009, the Company had working capital of approximately $159.2 million, including $149.1 million in cash available to fund our operations. The Company believes that these funds are sufficient to meet its short-term and long-term cash requirements.

The Company has a secured line of credit that provides for a maximum borrowing of $8.0 million. There were no advances outstanding under this secured line of credit at December 31, 2009, however, $6.1 million was pledged to secure various letters of credit related to self-insurance products, leaving $1.9 million available for future borrowings as of December 31, 2009.

The Company's long-term real estate debt agreements require the Company to satisfy various financial ratios such as the debt to worth ratio and the fixed charge coverage ratio. The Company's floor plan financing agreement with GE Capital does not contain financial covenants. At December 31, 2009, the Company was in compliance with all debt covenants. The Company does not anticipate any breach of the covenants in the foreseeable future.

Titan Technology Partners is currently implementing SAP enterprise software and a new SAP dealership management system for the Company. The total cost of the SAP software and implementation is estimated to be approximately $34.0 million. As of December 31, 2009, the Company had cumulative expenditures of $28.4 million related to the SAP project. The Company expects to spend approximately $5.0 million to $5.5 million related to the SAP project during 2010.

During 2009, the Company constructed a new facility for its Rush Truck Center location in Oklahoma City, Oklahoma at a cost of approximately $14.8 million. The Company financed $9.1 million of the total construction cost of this facility.

The Company also expects to make capital expenditures for recurring items such as computers, shop tools and equipment and vehicles of approximately $8.0 million during 2010.

On July 22, 2008, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase, from time to time, up to an aggregate of $20,000,000 of its shares of Class A common stock and/or Class B common stock. Repurchases will be made at times and in amounts as the Company deems appropriate and will be made through open market transactions, privately negotiated transactions and other lawful means. The manner, timing and amount of any repurchases will be determined by the Company based on an evaluation of market conditions, stock price and other factors, including those related to the ownership requirements of its dealership agreements with manufacturers it represents. The stock repurchase program has no expiration date and may be suspended or discontinued at any time. While the stock repurchase program does not obligate the Company to acquire any particular amount or class of common stock, the Company anticipates that it will be repurchasing primarily shares of its Class B common stock. As of December 31, 2009, the Company has repurchased 1,639,843 shares of its Class B common stock at an aggregate cost of $17.9 million, none of which occurred during the fourth quarter of 2009.

The Company currently anticipates funding its capital expenditures relating to the implementation of the SAP enterprise software and SAP dealership management system, improvement and expansion of existing facilities, construction of new facilities, recurring expenses and any stock repurchases through its operating cash flow. The Company expects to finance 70% to 80% of the appraised value of any newly constructed Rush Truck Centers upon completion, which will increase the Company's cash and cash equivalents by that amount.

The Company has no other material commitments for capital expenditures as of December 31, 2009, except that the Company will continue to purchase vehicles for its lease and rental division and authorize capital expenditures for improvement and expansion of its existing dealership facilities and construction of new facilities based on market opportunities. The Company expects to purchase or lease trucks worth approximately $35.0 million for its leasing operations in 2010, depending on customer demand, all of which will be financed.

Cash Flows

Cash and cash equivalents increased by $2.7 million during the year ended December 31, 2009, and decreased by $40.6 million during the year ended December 31, 2008. The major components of these changes are discussed below.

Cash Flows from Operating Activities

Cash flows from operating activities include net income adjusted for non-cash items and the effects of changes in working capital. During 2009, operating activities resulted in net cash provided by operations of $150.3 million. Cash provided by operating activities was primarily impacted by the decreased levels of commercial vehicle inventory and accounts receivable, offset by decreases in accounts payable and accrued expenses. The majority of commercial vehicle inventory is financed through the Company's floor plan financing provider. During 2008, operating activities resulted in net cash provided by operations of $83.1 million.

Cash flows from operating activities as adjusted for all draws and (payments) on floor plan notes ("Adjusted Cash Flows from Operating Activities") was $56.8 million for the year ended December 31, 2009, and $88.9 million for the year ended December 31, 2008. Generally, all vehicle and construction equipment dealers finance the purchase of vehicles and construction equipment with floor plan borrowings, and our agreements with our floor plan providers require us to repay amounts borrowed for the purchase of such vehicles and equipment immediately after they are sold. As a result, changes in floor plan notes payable are directly linked to changes in vehicle and construction equipment inventory. However, as reflected in our consolidated statements of cash flows, changes in inventory are recorded as cash flows from operating activities, and draws and (payments) on floor plan notes are recorded as cash flows from financing activities.

Management believes that information about Adjusted Cash Flows from Operating Activities provides investors with a relevant measure of liquidity and a useful basis for assessing the Company's ability to fund its activities and obligations from operating activities. Floor plan notes payable is classified as a current liability and, therefore, is included in the working capital amounts discussed above.

Adjusted Cash Flows from Operating Activities is a non-GAAP financial measure and should be considered in addition to, and not as a substitute for, cash flows from operating activities as reported in our consolidated statements of cash flows in accordance with U.S. GAAP. Additionally, this measure may vary among other companies; thus, Adjusted Cash Flows from Operating Activities as presented herein may not be comparable to similarly titled non-GAAP financial measures of other companies. Set forth below is a reconciliation of cash flow from operating activities as reported in our consolidated statement of cash flows, as if all changes in floor plan notes payable were classified as an operating activity (in thousands).

	Year ended December 31, 2009	2008
Net cash provided by operating activities (GAAP)	$ 150,293	$ 83,059
(Payments) draws on floor plan notes payable	(93,446)	5,864
Adjusted Cash Flows from Operating Activities (Non-GAAP)	$ 56,847	$ 88,923

Cash Flows from Investing Activities

During 2009, cash used in investing activities was $49.8 million. Cash flows used in investing activities consist primarily of cash used for capital expenditures. Capital expenditures of $50.5 million consisted of purchases of property and equipment, improvements to our existing dealership facilities and construction of our new facility in Oklahoma City, Oklahoma. Property and equipment purchases during 2009 consisted of $21.2 million for additional units for the rental and leasing operations, which was directly offset by borrowings of long-term debt. The Company expects to purchase or lease trucks worth approximately $35.0 million for its leasing operations in 2010, depending on customer demand, all of which will be financed. During 2010, the Company expects to make capital expenditures for recurring items such as computers, shop equipment and vehicles of approximately $8.0 million, in addition to $5.0 million to $5.5 million for the SAP project described above.

During 2008, the Company used $111.0 million in investing activities. Capital expenditures consisted of purchases of property and equipment, and improvements to our existing dealership facilities of $68.2 million. Of this amount, $31.2 million was used to purchase additional units for the rental and leasing operations during 2008, which was directly offset by borrowings of long-term debt. Cash used in business acquisitions was $37.4 million during the year ended December 31, 2008. See Note 17 of the Notes to Consolidated Financial Statements for a detailed discussion of these acquisitions.

Cash Flows from Financing Activities

Cash flows used in financing activities include borrowings and repayments of long-term debt and net payments of floor plan notes payable. Cash used in financing activities was $97.9 million during 2009. The Company had borrowings of long-term debt of $50.4 million and repayments of long-term debt and capital lease obligations of $55.3 million during 2009. The Company had net payments of floor plan notes payable of $93.4 million during 2009. The borrowings of long-term debt were primarily related to units for the rental and leasing operations, refinancing existing real estate and financing the new Rush Truck Center in Oklahoma City.

Cash used in financing activities was $12.6 million during the year ended December 31, 2008. The Company had borrowings of long-term debt of $46.7 million and repayments of long-term debt and capital lease obligations of $49.0 million during the year ended December 31, 2008. The Company had net draws of floor plan notes payable of $5.9 million during the year ended December 31, 2008. The borrowings of long-term debt are primarily related to the increase in the lease and rental fleet and real estate refinancing. During the year ended December 31, 2008, the Company repurchased 1,639,843 shares of Class B common stock at a cost of $17.9 million pursuant to a stock repurchase program approved by the Company's Board of Directors. See Note 13 of the Notes to Consolidated Financial Statements for a detailed discussion of the stock repurchase program.

Substantially all of the Company's commercial vehicle purchases are made on terms requiring payment within 15 days or less from the date the commercial vehicles are invoiced from the factory. Effective August 1, 2007, the Company entered into an Amended and Restated Wholesale Security Agreement with GE Capital. Interest under the floor plan financing agreement is payable monthly and the rate varies from LIBOR plus 1.15% to LIBOR plus 1.50% depending on the month-end average aggregate amount outstanding under our GE Capital floor plan arrangement. The Company finances substantially all of the purchase price of its new commercial vehicle inventory, and the loan value of its used commercial vehicle inventory under the floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new commercial vehicles. The Company makes monthly interest payments to GE Capital on the amount financed, but is not required to commence loan principal repayments on any vehicle until such vehicle has been floor planned for 12 months or is sold. The floor plan financing agreement allows for prepayments with monthly adjustments to the interest due on outstanding advances. On December 31, 2009, the Company had approximately $173.0 million outstanding under its floor plan financing agreement with GE Capital. In connection with the Amended and Restated Wholesale Agreement with GE Capital, the Company executed a Continuing Guaranty in favor of GE Capital to a maximum principal amount of $600 million, plus unpaid interest and reasonable costs of collection. Except for the procedures and other terms and conditions set forth in the Amended and Restated Wholesale Agreement, the Company is not aware of any limitation on the Company's ability to access capital through this facility.

Substantially all of the Company's new construction equipment purchases are financed by John Deere and JPMorgan Chase ("Chase"). The agreement with John Deere provides for interest at prime plus 1.5%, however, there is an interest free financing period, after which time the amount financed is required to be paid in full. When construction equipment is sold prior to the expiration of the interest free finance period, the Company is required to repay the principal within approximately ten days of the sale. If the construction equipment financed by John Deere is not sold within the interest free finance period, the Company transfers the financed equipment to the Chase floor plan arrangement. New and used construction equipment is financed to a maximum of book value under a floor plan arrangement with Chase. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on construction equipment as book value is reduced. Principal payments for sold new and used construction equipment are made to Chase no later than the 15th day of each month following the sale. The loans are collateralized by a lien on the construction equipment. As of December 31, 2009, the Company's floor plan arrangement with Chase permitted the financing of up to $20.0 million in construction equipment. The facility with Chase expires in June 2010 and the interest rate is the prime rate less 0.65%. On December 31, 2009, the Company had $1.1 million outstanding under its floor plan financing arrangements with John Deere and $15.2 million outstanding under its floor plan financing arrangement with Chase.

Cyclicality

The Company's business is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, credit availability, economic recessions, environmental and other government regulations and customer business cycles. Unit sales of new commercial vehicles have historically been subject to substantial cyclical variation based on these general economic conditions. According to data published by A.C.T. Research, in recent years total U.S. retail sales of new Class 8 trucks have ranged from a low of approximately 97,000 in 2009 to a high of approximately 291,000 in 2006. Through geographic expansion, concentration on higher margin parts and service operations and diversification of its customer base, the Company believes it has reduced the negative impact on the Company's earnings of adverse general economic conditions or cyclical trends affecting the heavy-duty truck industry.

Off-Balance Sheet Arrangements

Other than operating leases, the Company does not have any obligation under any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the Company is a party, that has or is reasonably likely to have a material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. A summary of our operating lease obligations by fiscal year is included in the "Contractual Obligations" section below.

Contractual Obligations

The Company has certain contractual obligations that will impact its short and long-term liquidity. At December 31, 2009, such obligations were as follows:

(in thousands) Payments Due by Period

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	$209,502	$55,545	$84,339	$61,954	$7,664
Capital lease obligations(2)	38,645	7,296	14,951	11,171	5,227
Operating lease obligations(3)	30,056	6,878	9,813	5,139	8,226
Floor plan debt obligations	189,248	189,248	—	—	—
Interest obligations(4)	29,352	14,078	11,376	3,661	237
Purchase obligations(5)	2,607	1,047	1,248	312	—
Total	$499,410	$274,092	$121,727	$82,237	$21,354

(1) Refer to Note 8 of Notes to Consolidated Financial Statements.
(2) Refer to Note 11 of Notes to Consolidated Financial Statements. Amounts include interest.
(3) Refer to Note 11 of Notes to Consolidated Financial Statements.
(4) In computing interest expense, the Company used its weighted average interest rate outstanding on fixed rate debt to estimate its interest expense on fixed rate debt. The Company used its weighted average variable interest rate on outstanding variable rate debt at December 31, 2009 and added 0.25 percent per year to estimate its interest expense on variable rate debt.
(5) Purchase obligations represent non-cancelable contractual obligations at December 31, 2009 related to our SAP implementation.

Quantitative and Qualitative Disclosures about Market Risk

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

The Company is exposed to some market risk through interest rates related to our floor plan financing agreements, variable rate real estate debt and discount rates related to finance sales. The majority of floor plan debt and variable rate real estate debt is based on LIBOR. As of December 31, 2009, the Company had floor plan borrowings and variable rate real estate debt of approximately $233.8 million. Assuming an increase or decrease in LIBOR of 100 basis points, annual interest expense could correspondingly increase or decrease by approximately $2.3 million. The Company provides all customer financing opportunities to various finance providers. The Company receives all finance charges in excess of a negotiated discount rate from the finance providers in the month following the date of the financing. The negotiated discount rate is variable, thus subject to interest rate fluctuations. This interest rate risk is mitigated by the Company's ability to pass discount rate increases to customers through higher financing rates.

The Company is also exposed to some market risk through interest rates related to the investment of our current cash and cash equivalents which totaled $149.1 million on December 31, 2009. These funds are generally invested in variable interest rate instruments in accordance with the Company's investment policy. As such instruments mature and the funds are reinvested, we are exposed to changes in market interest rates. This risk is mitigated by management's ongoing evaluation of the best investment rates available for current and noncurrent high quality investments. If market interest rates were to increase or decrease immediately and uniformly by 100 basis points, the Company's annual interest income could correspondingly increase or decrease by approximately $1.5 million.

In the past, the Company invested in interest-bearing short-term investments consisting of investment-grade auction rate securities classified as available-for-sale. As a result of the recent liquidity issues experienced in the global credit and capital markets, auctions for investment grade securities held by the Company have failed. The auction rate securities continue to pay interest in accordance with the terms of the underlying security; however, liquidity will be limited until there is a successful auction or until such time as other markets for these investments develop.

As of December 31, 2009, the Company holds $7.6 million of auction rate securities with underlying tax-exempt municipal bonds with stated maturities of 21 years. Given the current market conditions in the auction rate securities market, if the Company determines that the fair value of these securities has temporarily decreased by 10%, the Company's equity could correspondingly decrease by approximately $0.8 million. If it is determined that the fair value of these securities is other-than-temporarily impaired by 10%, the Company could record a loss on its Consolidated Statements of Operations of approximately $0.8 million. For further discussion of the risks related to our auction rate securities, see Note 18 – Investments of the Notes to Consolidated Financial Statements and Item 1A – Risk Factors.

The Company has not used derivative financial instruments in our investment portfolio.

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

We have audited the accompanying consolidated balance sheets of Rush Enterprises, Inc. and subsidiaries ("the Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rush Enterprises, Inc. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Rush Enterprises, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP
San Antonio, Texas
March 12, 2010

CONSOLIDATED BALANCE SHEETS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,	
(in thousands, except shares and per share amounts)	**2009**	**2008**
Assets		
Current assets:		
Cash and cash equivalents	$ 149,095	$ 146,411
Investments	—	7,575
Accounts receivable, net	38,869	55,274
Inventories	269,955	362,234
Prepaid expenses and other	3,650	3,369
Deferred income taxes, net	11,414	6,730
Total current assets	472,983	581,593
Investments	7,575	—
Property and equipment, net	354,749	332,147
Goodwill, net	140,836	141,904
Other assets, net	1,154	1,146
Total assets	$ 977,297	$ 1,056,790
Liabilities and shareholders' equity		
Current liabilities:		
Floor plan notes payable	$ 189,256	$ 282,702
Current maturities of long-term debt	55,545	37,665
Current maturities of capital lease obligations	5,730	3,454
Trade accounts payable	22,427	31,530
Accrued expenses	40,843	49,125
Total current liabilities	313,801	404,476
Long-term debt, net of current maturities	153,957	172,011
Capital lease obligations, net of current maturities	28,714	11,366
Deferred income taxes, net	54,600	52,896
Shareholders' equity:		
Preferred stock, par value $.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2009 and 2008	—	—
Common stock, par value $.01 per share; 60,000,000 class A shares and 20,000,000 class B shares authorized; 26,437,848 class A shares and 10,689,375 class B shares outstanding in 2009; and 26,255,974 class A shares and 10,685,144 class B shares outstanding in 2008	388	386
Additional paid-in capital	188,116	183,818
Treasury stock, at cost: 1,639,843 shares	(17,948)	(17,948)
Retained earnings	255,669	249,785
Total shareholders' equity	426,225	416,041
Total liabilities and shareholders' equity	$ 977,297	$ 1,056,790

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

CONSOLIDATED STATEMENTS OF INCOME

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands, except per share amounts)	Year Ended December 31, 2009	2008	2007
Revenues:			
New and used commercial vehicle sales	$ 738,705	$ 1,041,189	$ 1,393,253
Parts and service	410,839	478,439	480,611
Construction equipment sales	22,799	62,168	74,986
Lease and rental	53,710	54,813	52,103
Finance and insurance	7,630	12,291	21,663
Other	5,606	6,056	8,163
Total revenues	1,239,289	1,654,956	2,030,779
Cost of products sold:			
New and used commercial vehicle sales	695,334	973,404	1,283,993
Parts and service	250,592	281,902	283,912
Construction equipment sales	20,727	56,095	66,737
Lease and rental	47,545	46,843	44,069
Total cost of products sold	1,014,198	1,358,244	1,678,711
Gross profit	225,091	296,712	352,068
Selling, general and administrative	199,496	228,057	240,661
Depreciation and amortization	16,440	15,878	14,935
Gain on sale of assets, net	160	140	239
Operating income	9,315	52,917	96,711
Interest income (expense):			
Interest income	54	2,636	2,840
Interest expense	(6,153)	(10,466)	(17,749)
Total interest expense, net	(6,099)	(7,830)	(14,909)
Income before taxes	3,216	45,087	81,802
(Benefit) provision for income taxes	(2,668)	16,222	30,310
Net income	$ 5,884	$ 28,865	$ 51,492
Earnings per common share:			
Basic	$ 0.16	$ 0.76	$ 1.35
Diluted	$ 0.16	$ 0.75	$ 1.33

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands)	Common Stock Shares Outstanding Class A	Common Stock Shares Outstanding Class B	$.01 Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance, December 31, 2006	25,604	12,108	$ 251	$ 169,801	$ —	$ 169,556	$ 339,608
Stock options exercised (including tax benefit of $2,239)	408	157	4	4,459			4,463
Stock-based compensation related to stock options and employee stock purchase plan	—	—	—	3,442			3,442
Issuance of common stock under employee stock purchase plan	59	—	—	572			572
Stock dividend (50%)	—	—	128	—		(128)	—
Net income	—	—	—	—	—	51,492	51,492
Balance, December 31, 2007	26,071	12,265	383	178,274	—	220,920	399,577
Stock options exercised (including tax benefit of $791)	130	60	2	1,295			1,297
Stock-based compensation related to stock options and employee stock purchase plan	—	—	—	3,632			3,632
Issuance of common stock under employee stock purchase plan	55	—	1	617			618
Common stock repurchases		(1,640)			(17,948)		(17,948)
Net income	—	—	—	—	—	28,865	28,865
Balance, December 31, 2008	26,256	10,685	386	183,818	(17,948)	249,785	416,041
Stock options exercised (including tax effect of ($191))	23	4	—	(55)			(55)
Stock-based compensation related to stock options, restricted shares and employee stock purchase plan	—	—	—	3,664			3,664
Vesting of restricted share awards	68		1	(1)			—
Issuance of common stock under employee stock purchase plan	91	—	1	690			691
Net income	—	—	—	—	—	5,884	5,884
Balance, December 31, 2009	26,438	10,689	$ 388	$ 188,116	$ (17,948)	$ 255,669	$ 426,225

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,		
(in thousands)	**2009**	**2008**	**2007**
Cash flows from operating activities:			
Net income	$ 5,884	$ 28,865	$ 51,492
Adjustments to reconcile net income to net cash used in operating activities, net of acquisitions-			
Depreciation and amortization	40,698	38,508	35,798
Gain on sale of property and equipment, net	(160)	(276)	(239)
Stock-based compensation expense related to employee stock options and employee stock purchases	3,664	3,632	3,442
Provision (benefit) for deferred income tax expense	(2,980)	9,944	7,516
Excess tax provision (benefits) from stock-based compensation	191	(791)	(2,239)
Change in accounts receivable, net	16,405	(4,821)	25,689
Change in inventories	104,450	30,057	132,357
Change in prepaid expenses and other, net	(281)	(1,670)	429
Change in trade accounts payable	(9,103)	(8,922)	3,003
Change in accrued expenses	(8,473)	(11,467)	1,453
Net cash provided by operating activities	150,295	83,059	258,701
Cash flows from investing activities:			
Purchase of investments	—	(355,575)	—
Proceeds from the sale of investments	—	348,000	—
Acquisition of property and equipment	(50,485)	(68,160)	(65,268)
Proceeds from the sale of property and equipment	481	1,487	4,916
Business acquisitions	—	(37,397)	(7,866)
Other	246	602	712
Net cash used in investing activities	(49,758)	(111,043)	(67,506)
Cash flows from financing activities:			
(Payments) draws on floor plan notes payable, net	(93,446)	5,864	(172,701)
Proceeds from long-term debt	50,417	46,728	43,211
Payments on long-term debt	(50,591)	(43,344)	(37,890)
Payments on capital lease obligations	(4,693)	(5,672)	(3,344)
Issuance of shares relating to employee stock options and employee stock purchase plan	827	1,124	2,796
Excess tax benefits from stock-based compensation	(191)	791	2,239
Purchase of treasury stock	—	(17,948)	—
Debt issuance costs	(176)	(157)	(55)
Net cash used in financing activities	(97,853)	(12,614)	(165,744)
Net increase (decrease) in cash and cash equivalents	2,684	(40,598)	25,451
Cash and cash equivalents, beginning of year	146,411	187,009	161,558
Cash and cash equivalents, end of year	$ 149,095	$ 146,411	$ 187,009
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 14,298	$ 16,605	$ 23,690
Income taxes, net of refunds	$ 2,392	$ 6,387	$ 18,716
Non cash investing and financing activities:			
Assets acquired under capital leases	$ 24,317	$ 2,949	$ 3,511
Note payable related to acquisition	—	—	$ 1,500

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

NOTE 1. ORGANIZATION AND OPERATIONS:

Rush Enterprises, Inc. (the "Company") was incorporated in 1965 under the laws of the State of Texas. The Company operates a Truck segment and a Construction Equipment segment. The Truck segment operates a regional network of Rush Truck Centers. Rush Truck Centers primarily sell commercial vehicles manufactured by Peterbilt, International, GMC, Hino, UD, Ford, Isuzu or Blue Bird. Through its strategically located network of Rush Truck Centers, the Company provides one-stop service for the needs of its customers, including retail sales of new and used commercial vehicles, aftermarket parts sales, service and repair facilities, financing, leasing and rental, and Insurance products. The Company's truck centers are located in areas on or near major highways in Alabama, Arizona, California, Colorado, Florida, Georgia, New Mexico, North Carolina, Oklahoma, Tennessee and Texas. The Construction Equipment segment, formed in 1997, operates two John Deere equipment centers in Southeast Texas. Construction equipment dealership operations include the retail sale of new and used construction equipment, aftermarket parts and service facilities, equipment rentals and the financing of new and used equipment. See Note 21 of the Notes to Consolidated Financial Statements for segment information.

On September 20, 2007, the Company's shareholders approved an amendment to our Restated Articles of Incorporation increasing the total number of authorized shares of Class A common stock from 40,000,000 to 60,000,000 and total number of authorized shares of Class B common stock from 10,000,000 to 20,000,000. On the same date, our Board of Directors declared a 3-for-2 stock split of the Class A common stock and Class B common stock, to be effected in the form of a stock dividend. On October 10, 2007, Rush Enterprises, Inc. distributed one additional share of stock for every two shares of Class A common stock and Class B common stock held by shareholders of record as of October 1, 2007. All share and per share data (except par value) in this Form 10-K have been adjusted and restated to reflect the stock dividend as if it occurred on the first day of the earliest period presented.

The Company has reviewed and evaluated events and transactions which have occurred subsequent to December 31, 2009 through March 12, 2010, the date of issuance of these financial statements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

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

Estimates in Financial Statements

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

Cash and Cash Equivalents

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

Allowance for Doubtful Receivables and Repossession Losses

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

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by specific identification of 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 plus a reasonable profit margin.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the useful life of the improvement, or the term of the lease, whichever is shorter. Provision for depreciation of property and equipment is calculated primarily on a straight-line basis. The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest, when incurred, is added to the cost of underlying assets and is amortized over the estimated useful life of such assets. The Company capitalized interest of $0.2 million related to major capital projects during 2009. The cost, accumulated depreciation and amortization and estimated useful lives are summarized as follows (in thousands):

	2009	2008	Estimated Life (Years)
Land	$ 45,432	$ 44,523	—
Buildings and improvements	93,755	86,862	31 - 39
Leasehold improvements	20,584	18,330	2 - 39
Machinery and shop equipment	28,057	27,851	5 - 20
Furniture, fixtures and computers	26,171	26,541	3 - 15
Transportation equipment	30,735	30,670	2 - 15
Lease and rental vehicles	207,820	189,107	2 - 8
Construction in progress	46,082	32,860	
Accumulated depreciation and amortization	(143,887)	(124,597)	
Total	$ 354,749	$ 332,147	

As of December 31, 2009, the Company had $33.0 million in lease and rental vehicles under various capital leases included in property and equipment, net of accumulated depreciation of $9.0 million. The Company recorded depreciation expense of

$36.1 million and amortization expense of $4.6 million for the year ended December 31, 2009, and depreciation expense of $36.0 million and amortization expense of $2.5 million for the year ended December 31, 2008. Depreciation and amortization of vehicles related to lease and rental operations is included in lease and rental cost of products sold.

Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. The Company does not amortize goodwill, but tests goodwill for impairment annually in the fourth quarter, or when indications of potential impairment exist. These indicators would include a significant change in operating performance, or a planned sale or disposition of a significant portion of the business, among other factors. The Company tests for goodwill impairment utilizing a fair value approach at the reporting unit level. A reporting unit is an operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. The Company has deemed its reporting units to be its operating segments, the Truck Segment and the Equipment Segment, which is the level at which segment management regularly reviews operating results and makes resource allocation decisions.

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

An interim evaluation of goodwill was required during the second quarter of 2009 due to General Motors' decision to terminate production of medium-duty GMC trucks, which resulted in the winding-down of the Company's medium-duty GMC truck franchises. The goodwill allocation was based on the relative fair values of the medium-duty GMC truck franchises and the portion of the Company's Truck Segment remaining. The Company's Truck Segment recorded a non-cash charge of $0.8 million related to the impairment of the goodwill of its medium-duty GMC truck franchises. See Note 19 for further discussion of the wind-down of the Company's medium-duty GMC truck franchise agreements.

Goodwill was tested for impairment during the fourth quarter of 2009 and no impairment write down was required. However, the Company cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill in the future. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions or another significant decrease in general economic conditions in the United States.

Goodwill related to acquisitions was approximately $140.8 million as of December 31, 2009 and $141.9 million as of December 31, 2008. Goodwill decreased $1.1 million in 2009 and increased $21.4 million in 2008.

Income Taxes

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

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

The Company's income tax returns, like those of most companies, are periodically audited by U.S. federal, state and local tax authorities. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions. At any one time, multiple tax years are subject to audit by the various tax authorities. In evaluating the tax benefits associated with the Company's various tax filing positions, it records a tax benefit for uncertain tax positions. A number of years may elapse before a particular matter, for which the Company has established a liability, is audited and effectively settled. The Company adjusts its liability for unrecognized tax benefits in the period in which it determines the issue is effectively settled with the tax authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available. The Company includes its liability for unrecognized tax benefits, including accrued interest, in accrued liabilities on the Company's Consolidated Balance Sheet and in income tax expense in the Company's Consolidated Statement of Income.

Additionally, despite the Company's belief that its tax return positions are consistent with applicable tax law, management believes that certain positions may be challenged by taxing authorities. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations.

Effective January 1, 2007, the Company adopted ASC topic 740-10, "Income Taxes." ASC topic 740-10 clarified the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. ASC topic 740-10 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return. ASC topic 740-10 requires that only income tax benefits that meet the "more likely than not" recognition threshold be recognized or continue to be recognized on its effective date. The Company's income tax expense includes the impact of reserve provisions and changes to reserves that it considers appropriate, as well as related interest. Unfavorable settlement of any particular issue would require use of the Company's cash and a charge to income tax expense. Favorable resolution would be recognized as a reduction to income tax expense at the time of resolution.

Revenue Recognition Policies

Income on the sale of a vehicle or a piece of construction equipment (each a "unit") is recognized when the seller and customer execute a purchase contract, delivery has occurred and there are no significant uncertainties related to financing or collectibility. Finance income related to the sale of a unit is recognized over the period of the respective finance contract, based on the effective interest rate method, if the finance contract is retained by the Company. During 2009, 2008 and 2007, 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 commercial vehicle 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 commercial vehicles and construction equipment and parts. The Company is subject to a chargeback of manufacturer incentives for commercial vehicles that are not sold to the customer for which they were ordered. The Company records a liability for a potential chargeback of manufacturer incentives in its financial statements. For the Company's service and body shop operations, technician labor cost is the primary component of cost of sales. For the Company's rental and leasing operations, cost of sales consists primarily of depreciation and amortization, rent, and interest expense on the lease and rental fleet owned and leased by the Company, and the maintenance cost of the lease and rental fleet. There are no costs of sales associated with the Company's finance and insurance revenue or other revenue.

Taxes Assessed by a Governmental Authority

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

Selling, General and Administrative Expenses

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

Stock Based Compensation

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

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

Stock-based compensation expense recognized is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. Compensation expense for all share-based payment awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized in the Consolidated Statements of Income is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company uses the Black-Scholes option-pricing model. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's stock options. Although the fair value of stock options is determined in accordance with ASC topic 718-10 using an option-pricing model, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and a willing seller.

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

	2009	2008	2007
Expected stock volatility	46.3%	35.7 - 36.7%	36.7 - 38.9%
Weighted-average stock volatility	46.3%	36.7%	38.8%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	1.87%	2.41%	4.66%
Expected life (years)	5.0	5.0	5.0
Weighted-average fair value of stock options granted	$ 3.25	$ 5.62	$ 5.66

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising and marketing expense related to operations was $2.1 million for 2009, $3.6 million for 2008 and $4.2 million for 2007. Advertising and marketing expense is included in selling, general and administrative expense.

Accounting for Internal Use Software

The Company's accounting policy with respect to accounting for computer software developed or obtained for internal use is consistent with ASC topic 350-40 which provides guidance on accounting for the costs of computer software developed or obtained for internal use and identifies characteristics of internal-use software. The Company has capitalized software costs of approximately $28.4 million at December 31, 2009, and $20.9 million at December 31, 2008.

New Accounting Pronouncements

On January 21, 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06. ASU 2010-06 amends ASC 820, "Fair Value Measurements," and adds new requirements for disclosures about transfers into and out of Levels 1 and 2 in the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. Additionally, it clarifies existing fair value disclosures about the level of disaggregation about inputs and valuation techniques used to measure fair value. ASU 2010-06 is generally effective for the first reporting period beginning after December 15, 2009. The Company does not expect the adoption of ASU 2010-06 to have a significant impact on its consolidated results of operations and financial position.

NOTE 3. SUPPLIER AND CUSTOMER CONCENTRATION:

Major Suppliers and Dealership Agreements

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

Distributor	Expiration Dates
Peterbilt	March 2010 through October 2012
International	May 2013
Volvo	August 2010
GMC	October 2010
Isuzu	Indefinite
Hino	Indefinite
UD	Indefinite
Ford	Indefinite
Blue Bird	August 2013
John Deere	Indefinite

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

The Company purchases its new Peterbilt vehicles and most of its parts from PACCAR, the maker of Peterbilt trucks and parts, at prevailing prices charged to all franchised dealers. Sales of new Peterbilt trucks accounted for approximately 80.5% of the Company's new vehicle sales for the year ended December 31, 2009, and 83.4% of the Company's new vehicle sales for the year ended December 31, 2008.

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 approximately 93.0% of the Company's new equipment sales for the year ended December 31, 2009, and 86.6% of the Company's new equipment sales for the year ended December 31, 2008.

Primary Lenders

The Company purchases its new and used commercial vehicle and construction equipment inventories with the assistance of floor plan financing programs offered by various financial institutions. Additional floor plan financing is provided by John Deere pursuant to floor plan financing programs and the Company's construction equipment dealership agreement.

The Company's floor plan financing agreements provide that the occurrence of certain events will be considered events of default. There were no known events of default as of December 31, 2009. In the event that the Company's floor plan financing becomes insufficient, or its relationship with any of its current primary lenders terminates, the Company would need to obtain similar financing from other sources. Management believes it can obtain additional floor plan financing or alternative financing if necessary.

The Company's long-term real estate debt agreements require the Company to satisfy various financial ratios such as the debt to worth ratio and the fixed charge coverage ratio. The Company's floor plan financing agreement with GE Capital does not contain financial covenants. On December 31, 2009, the Company was in compliance with all debt covenants. The Company does not anticipate any breach of the covenants in the foreseeable future.

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with what it considers to be quality financial institutions. As of December 31, 2009, the Company had deposits in excess of federal insurance protection totaling approximately $54.9 million.

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

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

NOTE 4. ACCOUNTS RECEIVABLE:

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

	December 31,	
	2009	2008
Trade accounts receivable from sale of vehicles and construction equipment	$ 14,419	$ 25,187
Other trade receivables	10,073	10,390
Warranty claims	5,505	8,091
Other accounts receivable	9,629	12,117
Less allowance for bad debt and warranty receivable	(757)	(511)
Total	$ 38,869	$ 55,274

NOTE 5. INVENTORIES:

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

	December 31,	
	2009	2008
New commercial vehicles	$ 147,213	$233,712
Used commercial vehicles	24,918	23,081
New construction equipment	17,911	17,854
Used construction equipment	26	321
Parts and accessories	81,836	87,883
Other	4,413	5,182
Less allowance	(6,362)	(5,799)
Total	$ 269,955	$ 362,234

NOTE 6. VALUATION ACCOUNTS:

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

	Balance Beginning of Year	Net Charge to Costs and Expenses	Acquisitions	Net Write-Offs	Balance End of Year
2009					
Reserve for warranty receivable and accounts receivable	$ 511	$ 1,047		$ (801)	$ 757
Reserve for parts inventory	1,613	1,638		(1,295)	1,956
Reserve for equipment inventory	723	900		(126)	1,497
Reserve for commercial vehicle inventory	3,463	13,277		(13,831)	2,909
2008					
Reserve for warranty receivable and accounts receivable	$ 327	$ 469		$ (285)	$ 511
Reserve for parts inventory	1,603	933	$ 315	(1,238)	1,613
Reserve for equipment inventory	328	911		(516)	723
Reserve for commercial vehicle inventory	3,138	15,413		(15,088)	3,463
2007					
Reserve for warranty receivable and accounts receivable	$ 526	$ 170		$ (369)	$ 327
Reserve for parts inventory	2,025	894	$ 232	(1,548)	1,603
Reserve for equipment inventory	408	(31)		(49)	328
Reserve for commercial vehicle inventory	1,014	8,953		(6,829)	3,138

Allowance for Doubtful Receivables

The Company provides an allowance for uncollectible warranty receivables. The Company evaluates the collectibility of its warranty claims receivable based on a combination of factors, including aging and correspondence with the applicable manufacturer. Management reviews the warranty claims receivable aging and adjusts the allowance based on historical experience. The Company records charge-offs related to warranty receivables on an as-needed basis. The Company sells a majority of its customer accounts receivable on a non-recourse basis to a third party that is responsible for qualifying the customer for credit at the point of sale. If the third party approves the customer for credit, then the third party assumes all credit risk related to the transaction.

Inventory

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

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

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

Floor Plan Notes Payable

Floor plan notes are financing agreements to facilitate the Company's purchase of new and used commercial vehicles 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 benchmarked to the prime rate or LIBOR, as defined in the agreements. The interest rates applicable to these agreements ranged from approximately 1.48% to a maximum rate of 4.75% as of December 31, 2009. The Company's weighted average interest rate for floor plan notes payable was 1.28% for the year ended December 31, 2009, and 3.03% for the year ended December 31, 2008. Amounts borrowed under these agreements are due when the related commercial vehicle or construction equipment inventory (collateral) is sold and the sales proceeds are collected by the Company, or in the case of construction equipment rentals, when the carrying value of the equipment is reduced. These agreements may be modified, suspended or terminated by the lender as described in Note 3.

The Company finances substantially all of the purchase price of its new commercial vehicle inventory, and the loan value of its used commercial vehicle inventory under a floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new commercial vehicles. On December 31, 2009, the Company had approximately $173.0 million outstanding under its floor plan financing agreement with GE Capital.

The Company's floor plan agreement with Chase is based on the book value of the Company's construction equipment inventory. As of December 31, 2009, the aggregate amount of borrowing capacity with this lender was $20.0 million, with approximately $15.2 million outstanding. Additional amounts are available for construction equipment inventory purchases under the Company's John Deere dealership agreement. At December 31, 2009, approximately $1.1 million was outstanding pursuant to the John Deere dealership agreement.

Assets pledged as collateral as of December 31, 2009 and 2008 were as follows (in thousands):

	December 31,	
	2009	2008
Inventories, new and used vehicles and construction equipment at cost based on specific identification, net of allowance	$ 185,046	$ 270,630
Vehicle and construction equipment sale related accounts receivable	14,419	25,185
Total	$ 199,465	$ 295,815
Floor plan notes payable related to vehicle and construction equipment	$ 189,256	$ 282,702

Lines of Credit

The Company has a secured line of credit that provides for a maximum borrowing of $8.0 million. There were no advances outstanding under this secured line of credit at December 31, 2009; however, $6.1 million was pledged to secure various letters of credit related to self-insurance products, leaving $1.9 million available for future borrowings as of December 31, 2009.

NOTE 8. LONG-TERM DEBT:

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

	December 31,	
	2009	2008
Variable interest rate term note	$ 44,543	$ 18,171
Fixed interest rate term notes	164,959	191,505
Total debt	209,502	209,676
Less- current maturities	(55,545)	(37,665)
Total	$ 153,957	$ 172,011

As of December 31, 2009, debt maturities were as follows (in thousands):

2010	$ 55,545
2011	50,717
2012	33,622
2013	36,876
2014	25,078
Thereafter	7,664
Total	$ 209,502

The interest rates on the Company's variable interest rate notes are based on LIBOR. The interest rates on the notes range from approximately 1.50% to 3.25% on December 31, 2009. Payments on the notes range from $9,722 to $59,027 per month, plus interest. Maturities of these notes range from March 2010 to December 2014.

The Company's fixed interest rate notes are with financial institutions and had interest rates that ranged from approximately 3.66% to 8.50% on December 31, 2009. Payments on the notes range from $228 to $76,196 per month, plus interest. Maturities of these notes range from January 2010, to May 2019.

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.

The Company's long-term real estate debt agreements require the Company to satisfy various financial ratios such as the debt to worth ratio and the fixed charge coverage ratio. The Company's floor plan financing agreement with GE Capital does not contain financial covenants. At December 31, 2009, the Company was in compliance with all debt covenants. The Company does not anticipate any breach of the covenants in the foreseeable future.

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Certain methods and assumptions were used by the Company in estimating the fair value of financial instruments at December 31, 2009. The carrying value of current assets and current liabilities approximates the fair value due to the short maturity of these items.

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

NOTE 10. DEFINED CONTRIBUTION PLAN:

The Company has a defined contribution plan (the "Rush 401K Plan"), which is available to all Company employees and the employees of certain affiliates. Each employee who has completed 90 days of continuous service is entitled to enter the Rush 401K Plan on the first day of the following month. Participating employees may contribute from 1% to 50% of total gross compensation. However, certain higher paid employees are limited to a maximum contribution of 15% of total gross compensation. For the first 10% of an employee's contribution, the Company, at its discretion, may contribute an amount equal to 25% of the employees' contributions for those employees with less than five years of service and an amount equal to 50% of the employees' contributions for those employees with more than five years of service. In March 2009, the Company discontinued its matching contributions to the Rush 401K plan. The Company incurred expenses related to the Rush 401K Plan of approximately $0.6 million during the year ended December 31, 2009, $3.4 million during the year ended December 31, 2008, and $3.6 million during the year ended December 31, 2007.

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

NOTE 11. LEASING ACTIVITIES:

Vehicle Leases as Lessee

The Company leases vehicles, as lessee, primarily over periods ranging from one to ten years under operating lease and capital lease arrangements. Generally, the Company is required to incur all operating costs and pay a minimum rental. The Company guarantees the residual value of vehicles under operating lease and capital lease arrangements. At December 31, 2009, the Company guaranteed vehicle residual values of $5.5 million under operating lease arrangements and $12.5 million under capital lease arrangements. Historically, the Company purchases these vehicles at the end of the lease term and recognizes a gain on the subsequent sale of the vehicle. The residual values are not reflected in the future minimum lease payments for operating leases. Vehicle lease expenses were approximately $3.8 million for the year ended December 31, 2009, $4.4 million for the year ended December 31, 2008, and $4.8 million for the year ended December 31, 2007.

As discussed below, these vehicles are then subleased by the Company to customers under various agreements. Future minimum sublease rentals to be received by the Company under non-cancelable subleases, as described below, are $47.4 million.

Future minimum lease payments under capital and non-cancelable vehicle leases as of December 31, 2009, are as follows (in thousands):

	Capital Leases	Operating Leases
2010	$ 7,296	$ 3,015
2011	7,298	2,627
2012	7,653	2,184
2013	5,046	1,442
2014	6,125	663
Thereafter	5,227	236
Total minimum lease payments	$ 38,645	$ 10,167
Less amount representing interest	(4,201)	
Present value of net minimum capital lease payments	34,444	
Less current portion	(5,730)	
Obligations under capital leases less current portion	$ 28,714	

Customer Vehicle Leases as Lessor

The Company leases both owned and leased trucks to customers primarily over periods of one to ten years under operating lease arrangements. These leases require a minimum rental payment and a contingent rental payment based on mileage. Rental income during the year ended December 31, 2009, consisted of minimum rental payments of approximately $47.2 million and contingent rental payments of $6.3 million. Rental income during the year ended December 31, 2008, consisted of minimum rental payments of approximately $41.9 million and contingent rental payments of $6.9 million. Rental income during the year ended December 31, 2007, consisted of minimum rental payments of approximately $34.2 million and contingent rentals payments of approximately $5.4 million. Minimum lease payments to be received for non-cancelable leases and subleases in effect at December 31, 2009, are as follows (in thousands):

2010	$ 39,518
2011	33,213
2012	26,161
2013	17,364
2014	8,761
Thereafter	4,593
Total	$ 129,610

As of December 31, 2009, the Company had $142.4 million of lease vehicles included in property and equipment, net of accumulated depreciation of $65.4 million. As of December 31, 2008, the Company had $133.6 million of lease vehicles included in property and equipment, net of accumulated depreciation of $55.5 million.

Other Leases - Land and Buildings

The Company leases various assets under operating leases with expiration dates ranging from May 2010, through November 2027. Monthly rental payments range from approximately $1,289 per month to $36,926 per month. Rental expense was $4.2 million for the year ended December 31, 2009, $4.8 million for the year ended December 31, 2008, and $4.3 million for the year ended December 31, 2007. Future minimum lease payments under non-cancelable leases at December 31, 2009, are as follows (in thousands):

2010	$ 3,863
2011	3,138
2012	1,864
2013	1,579
2014	1,455
Thereafter	7,990
Total	$ 19,889

NOTE 12. STOCK OPTIONS AND INCENTIVE PLANS:

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan that allows eligible employees to contribute up to 10% of their base earnings toward the semi-annual purchase of the Company's Class A common stock. The employee's purchase price is 85% of the lesser of the closing price of the Class A common stock on the first business day or the last business day of the semi-annual offering period, as reported by The NASDAQ Global Select Market[sm]. Employees may purchase shares having a fair market value of up to $25,000 (measured as of the first day of each semi-annual offering period) for each calendar year. Under the Employee Stock Purchase Plan, there are approximately 560,000 shares remaining of the 900,000 shares of the Company's Class A common stock that have been reserved for issuance. The Company issued 91,355 shares under the Employee Stock Purchase Plan during the year ended December 31, 2009 and 54,532 shares during the year ended December 31, 2008. Of the 2,465 employees eligible to participate, 270 were participants in the plan as of December 31, 2009.

Non-Employee Director Stock Option Plan

On May 16, 2006, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. 2006 Non-Employee Director Stock Option Plan (the "Director Plan"), reserving 1,500,000 shares of Class A common stock for issuance upon exercise of any awards granted under the plan. This Director Plan was Amended and Restated on May 20, 2008 to expand the type of award that may be granted under the plan to include Class A common stock awards.

The Director Plan is designed to attract and retain highly qualified non-employee directors. Historically, each non-employee director received options to purchase 20,000 shares of the Company's Class A common stock upon their respective date of appointment and each year on the date that they are elected or reelected by the shareholders to serve on the Board of Directors. Each option has a ten year term from the grant date and vested immediately. The Company changed this practice in 2008. Each non-employee director received a grant of 8,756 shares of the Company's Class A common stock in 2009 and 7,566 shares of the Company's Class A common stock in 2008, on the date that they were reelected by the shareholders to serve on the Board of Directors. Under the Director Plan, there are approximately 1,336,000 shares remaining for issuance of the 1,500,000 shares of the Company's Class A common stock that have been reserved for issuance. The Company granted 43,780 shares of Class A common stock under the Director Plan during the year ended December 31, 2009 and 30,264 shares of Class A common stock under the Director Plan during the year ended December 31, 2008.

Employee Incentive Plans

In May 2007, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. 2007 Long-Term Incentive Plan (the "2007 Incentive Plan"). The 2007 Incentive Plan provides for the grant of stock options (which may be nonqualified stock options or incentive stock options for tax purposes), stock appreciation rights issued independent of or in tandem with such options ("SARs"), restricted stock awards and performance awards. The 2007 Incentive Plan replaced the Rush Enterprises, Inc. Long-Term Incentive Plan ("Incentive Plan") effective May 22, 2007.

The aggregate number of shares of common stock subject to stock options or SARs that may be granted to any one participant in any year under the 2007 Incentive Plan is 100,000 shares of Class A common stock or 100,000 shares of Class B common stock. Each option has a ten year term from the grant date and vests in three equal annual installments beginning on the third anniversary of the grant date. The Company has 2,550,000 shares of Class A common stock and 450,000 shares of Class B common stock reserved for issuance upon exercise of any awards granted under the Company's 2007 Incentive Plan. As of December 31, 2009, there remains approximately 1,347,000 shares of Class A common stock and 450,000 shares of Class B common stock available for issuance upon exercise of any awards granted under the Company's 2007 Incentive Plan. During the year ended December 31, 2009, the Company granted 617,430 options to purchase Class A common stock and 100,775 restricted Class A common stock awards under the 2007 Incentive Plan. During the year ended December 31, 2008, the Company granted 396,865 options and 73,190 restricted stock awards under the 2007 Incentive Plan.

Valuation and Expense Information

Stock-based compensation expense related to stock options, restricted stock awards and employee stock purchases was $3.7 million, $3.6 million, and $3.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Cash received from options exercised and shares purchased under all share-based payment arrangements was $0.8 million for the year ended December 31, 2009, $1.1 million for the year ended December 31, 2008, and $2.8 million for the year ended December 31, 2007.

A summary of the Company's stock option activity and related information for the year ended December 31, 2009, follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Balance of Outstanding Options at January 1, 2009	2,792,970	$ 11.04		
Granted	617,430	7.67		
Exercised	(27,061)	4.97		
Forfeited	(87,212)	13.24		
Balance of Outstanding Options at December 31, 2009	3,296,127	$ 10.40	6.52	$ 7,773,830
Vested and exercisable at December 31, 2009	1,320,141	$ 8.45	4.68	$ 5,057,933

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the weighted-average of the closing price as of December 31, 2009, of the Company's Class A common stock and Class B common stock of $11.82. The total intrinsic value of options exercised was $0.2 million during the year ended December 31, 2009, $1.7 million during the year ended December 31, 2008, and $6.1 million during the year ended December 31, 2007.

A summary of the status of the number of shares underlying Company's non-vested options as of December 31, 2009, and changes during the year ended December 31, 2009, follows:

Non-vested Shares	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2009	1,793,602	$ 5.19
Granted	617,430	3.25
Vested	(392,710)	4.68
Forfeited	(42,336)	4.97
Non-vested at December 31, 2008	1,975,986	$ 4.69

The total fair value of vested options was $1.8 million during the year ended December 31, 2009, $1.4 million during the year ended December 31, 2008, and $2.0 million during the year ended December 31, 2007.

Stock Awards

The Company granted restricted stock awards to its employees under the 2007 Incentive Plan and unrestricted stock awards to its non-employee directors under the Director Plan during the year ended December 31, 2009. The shares granted to employees vest in three equal installments on the first, second and third anniversary of the grant date and are forfeited in the event the recipient's employment or relationship with the Company is terminated prior to vesting. The fair value of the restricted stock awards to the Company's employees is amortized to expense on a straight-line basis over the restricted stock's vesting period. The shares granted to non-employee directors are expensed on the grant date.

The following table presents a summary of the Company's stock awards outstanding at December 31, 2009:

Stock Awards	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2009	71,760	$ 15.65
Granted	144,555	8.81
Vested	(67,705)	12.91
Forfeited	—	—
Outstanding, December 31, 2009	148,610	$ 10.24

The total fair market value of the shares issued upon the vesting of stock awards during the year ended December 31, 2009 was $0.9 million.

As of December 31, 2009, there was $3.9 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Incentive Plan and the 2007 Incentive Plan. That cost is expected to be recognized over a weighted-average period of 2.8 years.

NOTE 13. STOCK DIVIDEND AND STOCK REPURCHASE PLAN:

Stock Dividend

On September 20, 2007, our shareholders approved an amendment to our Restated Articles of Incorporation increasing the total number of authorized shares of Class A common stock from 40,000,000 to 60,000,000 and total number of authorized shares of Class B common stock from 10,000,000 to 20,000,000. On the same date, our Board of Directors declared a 3-for-2 stock split of the Class A common stock and Class B common stock, to be effected in the form of a stock dividend. On October 10, 2007, Rush Enterprises, Inc. distributed one additional share of stock for every two shares of Class A common stock and Class B common stock held by shareholders of record as of October 1, 2007. All share and per share data (except par value) in this Form 10-K have been adjusted and restated to reflect the stock dividend as if it occurred on the first day of the earliest period presented.

Stock Repurchase Plan

On July 22, 2008, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase, from time to time, up to an aggregate of $20,000,000 of its shares of Class A common stock and/or Class B common stock. Repurchases will be made at times and in amounts as the Company deems appropriate and will be made through open market transactions, privately negotiated transactions and other lawful means. The manner, timing and amount of any repurchases will be determined by the Company based on an evaluation of market conditions, stock price and other factors, including those related to the ownership requirements of its dealership agreements with manufacturers it represents. The stock repurchase program has no expiration date and may be suspended or discontinued at any time. While the stock repurchase program does not obligate the Company to acquire any particular amount or class of common stock, the Company anticipates that it will be repurchasing primarily shares of its Class B common stock.

As of December 31, 2009, the Company repurchased 1,639,843 shares of Class B common stock at a cost of $17.9 million. The Company is holding the repurchased shares of the common stock as treasury stock and is accounting for the treasury stock pursuant to the cost method. The Company includes treasury stock as a component of stockholders' equity.

NOTE 14. EARNINGS PER SHARE:

Basic earnings per share ("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 restricted shares that were outstanding during the period. The Company's Class A common stock and Class B common stock have equal claims on earnings of the Company. The following is a reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income.

	2009	2008	2007
Numerator-			
Numerator for basic and diluted earnings per share-			
Net income available to common shareholders	$ 5,884,000	$28,865,000	$ 51,492,000
Denominator-			
Denominator for basic earnings per share, weighted average shares	37,065,654	38,088,687	38,059,240
Effect of dilutive securities-			
Stock options and restricted shares	530,853	498,263	686,477
Denominator for diluted earnings per share, adjusted weighted average shares and assumed conversions	37,596,507	38,586,950	38,745,717
Basic earnings per common share	$ 0.16	$ 0.76	$ 1.35
Diluted earnings per common share and common share equivalents	$ 0.16	$ 0.75	$ 1.33

Options to purchase shares of common stock that were outstanding for the years ended December 31, 2009, 2008 and 2007 that were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive are as follows:

	2009	2008	2007
Options	1,557,356	545,215	157,500
Total anti-dilutive securities	1,557,356	545,215	157,500

NOTE 15. INCOME TAXES:

Provision for Income Taxes

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

	Year ended December 31,		
	2009	2008	2007
Current provision (benefit)-			
Federal	$ (688)	$ 4,468	$ 20,516
State	889	1,805	2,278
	201	6,273	22,794
Deferred provision (benefit)-			
Federal	(2,614)	9,809	8,027
State	(255)	140	(511)
	(2,869)	9,949	7,516
(Benefit) provision for income taxes	$ (2,668)	$ 16,222	$ 30,310

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

	Year Ended December 31,	
	2009	2008
Current:		
Deferred tax assets:		
Inventory	$ 3,915	$ 2,210
Accounts receivable	204	139
Capital lease obligations	3,179	1,360
Stock options	770	595
Alternative fuel tax credits	933	—
Accrued liabilities	1,129	1,318
State net operating loss carry forward	600	344
State tax credit	587	584
Other	97	180
Current deferred tax asset	$ 11,414	$ 6,730
Non-Current:		
Deferred tax assets:		
Capital lease obligations	$ 9,538	$ 4,079
Stock options	3,079	2,379
Other	—	474
	12,617	6,932
Deferred tax liabilities:		
Difference between book and tax basis		
Depreciation	(66,399)	(57,901)
LIFO inventory valuation	(818)	(1,927)
Net non-current tax liability	$ (54,600)	$ (52,896)

The Company's various state net operating loss carry forwards expire from 2011 through 2024.

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

	Year Ended December 31,		
	2009	2008	2007
Income taxes at the federal statutory rate	$ 1,126	$ 15,781	$ 28,631
State income taxes, net of federal benefit	422	1,236	1,148
Tax effect of permanent differences	540	(684)	(143)
Alternative fuel tax credit	(5,304)	—	—
Federal tax settlement	700	—	—
Other, net	(152)	(111)	674
(Benefit) provision for income taxes	$ (2,668)	$ 16,222	$ 30,310

The Company included accruals for unrecognized income tax benefits totaling $1.8 million as a component of accrued liabilities as of December 31, 2009, and $1.9 million as of December 31, 2008. The unrecognized tax benefits of $1.8 million at December 31, 2009, if recognized, would impact the Company's effective tax rate. An unfavorable settlement would require a charge to income tax expense and a favorable resolution would be recognized as a reduction to income tax expense. As of December 31, 2009, the

Company accrued interest of $135,000 related to unrecognized tax benefits in the current provision for income taxes. No amounts were accrued for penalties.

The Company does not anticipate a significant change in the amount of unrecognized tax benefits in the next 12 months. As of December 31, 2009, the tax years ended December 31, 2008 through 2009 remained subject to audit by federal tax authorities and the tax years ended December 31, 2005 through 2009, remained subject to audit by state tax authorities.

A reconciliation of the change in the unrecognized tax benefits from January 1, 2007, to December 31, 2009, is as follows:

Unrecognized tax benefits at January 1, 2007	$ 1,430,204
Gross increases – tax positions in prior years	535,224
Unrecognized tax benefits at December 31, 2007	1,965,428
Gross increases – tax positions in current year	426,590
Reductions due to lapse of statute of limitations	(453,334)
Unrecognized tax benefits at December 31, 2008	1,938,684
Gross increases – tax positions in prior year	345,863
Gross increases – tax positions in current year	94,053
Decreases related to settlements with taxing authorities	(344,737)
Reductions due to lapse of statute of limitations	(272,468)
Unrecognized tax benefits at December 31, 2009	$ 1,761,395

NOTE 16. COMMITMENTS AND CONTINGENCIES:

The Company is contingently liable to finance companies for certain notes initiated on behalf of such finance companies related to the sale of commercial vehicles and construction equipment. The majority of finance contracts are sold without recourse against the Company. A majority of the Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. The Company provides for an allowance for repossession losses and early repayment penalties that it may be liable for under finance contracts sold without recourse.

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

In 2006, the Company signed an agreement with Titan Technology Partners to implement SAP enterprise software and a new SAP dealership management system. The cost of the SAP software and implementation is estimated at approximately $34.0 million, of which $28.4 million was expended at December 31, 2009.

NOTE 17. ACQUISITIONS:

All of the following acquisitions, unless otherwise noted, were considered business combinations accounted for under ASC topic 805.

In June 2008, the Company acquired certain assets of Capital Bus Sales and Service of Texas, Inc., which included a Blue Bird bus franchise for the majority of Texas. As a result, the Company now sells and provides factory service for Blue Bird buses at most Rush Truck Centers in Texas. The transaction was valued at approximately $5.6 million, with the purchase price paid in cash.

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

Inventories	$ 3,645
Accrued expenses	(27)
Goodwill	2,020
Total	$ 5,638

All of the goodwill acquired in the Capital Bus Sales and Service of Texas, Inc. acquisition will be amortized over 15 years for tax purposes.

In May 2008, the Company acquired certain assets of Peterbilt Carolina, Inc. which consisted of a Peterbilt, Hino and Isuzu heavy- and medium-duty truck dealership in Charlotte, North Carolina. The Company is operating the facility as a full-service Rush Truck Center offering Peterbilt heavy- and medium-duty trucks as well as medium-duty trucks manufactured by Hino and Isuzu, and parts and service. The transaction was valued at approximately $13.4 million, with the purchase price paid in cash.

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

Cash	$ 1
Inventories	8,529
Property and equipment	99
Accrued expenses	(626)
Goodwill	5,383
Total	$ 13,386

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

In May 2008, the Company executed agreements to acquire the common stock of Adams International Trucks, Inc., an International heavy- and medium-duty truck dealership in Charlotte, North Carolina. The Company is operating the facility as a full-service Rush Truck Center offering International heavy- and medium-duty trucks, parts and service as well as leasing. The transaction was valued at approximately $20.1 million, with the purchase price paid in cash.

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

Cash	$ 3,225
Prepaid expenses	44
Accounts receivable	1,672
Inventories	6,313
Property and equipment	3,071
Other assets	10
Accrued expenses	(2,587)
Floor plan notes payable	(3,185)
Notes payable	(2,379)
Goodwill	13,918
Total	$ 20,102

The portion of goodwill related to the stock purchase of Adams International Trucks, Inc. will not be amortized for tax purposes, while the portion of goodwill related to the acquisition of the International franchise rights will be amortized over 15 years for tax purposes.

In addition to the stock and asset purchases described above, the Company purchased the real estate of the North Carolina dealership operations for $6.2 million. The real estate transaction was financed by a financial institution with a $5.0 million note payable.

In August 2007, the Company purchased certain assets of San Luis Truck Service Garage, Inc., which consisted of a parts and service center in San Luis Obispo, California. The Company is operating the facility as a Rush Truck Center offering parts and service. The transaction was valued at approximately $0.8 million, with the purchase price paid in cash.

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

Inventories	$ 200
Property and equipment	36
Accounts receivable	1
Accrued expenses	(5)
Goodwill	584
Total	$ 816

All of the goodwill acquired in the San Luis Truck Service Garage, Inc. acquisition will be amortized over 15 years for tax purposes.

In March 2007, the Company purchased certain assets of Allen-Jensen, Inc., which consisted of a GMC and Isuzu truck dealership in Waco, Texas. The Company is operating the facility as a full-service Rush Truck Center offering Peterbilt heavy- and medium-duty trucks as well as medium-duty trucks manufactured by GMC and Isuzu, and parts and service. The transaction was valued at approximately $6.3 million, with the purchase price paid in cash.

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

Inventories	$5,570
Property and equipment	47
Accounts receivable	28
Accrued expenses	(11)
Goodwill	678
Total	$6,312

All of the goodwill acquired in the Allen-Jensen, Inc. acquisition will be amortized over 15 years for tax purposes.

In March 2007, the Company purchased certain assets of Advanced Transportation Insurance Services, Inc., an insurance agency headquartered in Laguna Niguel, California. In connection with this acquisition, the Company also purchased the stock of Advance Premium Finance, Inc., a premium finance company associated with Advanced Transportation Insurance Services, Inc. The total transaction was valued at approximately $2.1 million, with the purchase price financed with cash of $0.6 million and notes payable of $1.5 million. Pro forma information is not included because Advanced Transportation Insurance Services, Inc.'s results of operations would not have had a material effect on the Company's financial statements. The entire purchase price was allocated to goodwill and $1.6 million of the goodwill will be amortized over 15 years for tax purposes.

NOTE 18. INVESTMENTS:

The Company assesses its investments for impairment on a quarterly basis. If the investments are deemed to be impaired, the Company determines whether the impairment is temporary or other than temporary. If the impairment is deemed to be temporary, the Company records an unrealized loss in other comprehensive income. If the impairment is deemed other than temporary, the Company records the impairment in the Company's consolidated statement of operations.

The Company historically invested in interest-bearing short-term investments primarily consisting of investment-grade auction rate securities classified as available-for-sale and reported at fair value. These types of investments were designed to provide liquidity through an auction process that reset the applicable interest rates at predetermined periods ranging from 1 to 35 days. This reset mechanism was intended to allow existing investors to continue to own their respective interest in the auction rate security or to gain immediate liquidity by selling their interests at par.

As a result of the liquidity issues experienced in the global capital markets, auctions for investment grade securities held by the Company have failed. An auction fails when there is insufficient demand. However, a failed auction does not represent a default by the issuer. The auction rate securities continue to pay interest in accordance with the terms of the underlying security; however, liquidity will be limited until there is a successful auction or until such time as other markets for these investments develop. The Company has the intent and ability to hold these auction rate securities until liquidity returns to the market. The Company does not believe that the lack of liquidity relating to its auction rate securities will have a material impact on its ability to fund operations.

As of December 31, 2009 and December 31, 2008, the Company held $7.6 million of auction rate securities with underlying tax-exempt municipal bonds with stated maturities of 21 years. These bonds have credit wrap insurance and a credit rating of A by Standard & Poor's.

The Company believes that the credit quality and fair value of the auction rate securities it holds has not been negatively impacted; therefore, no impairment charges have been recorded as of December 31, 2009. As of December 31, 2009, the Company has valued these investments at fair value, which approximates cost. The Company used observable inputs to determine fair value, including consideration of broker quotes, the overall quality of the underlying municipality, the credit quality of the insurance company, as well as successful subsequent auctions. Accordingly, the Company has considered this fair value to be a Level 2 valuation under ASC topic 820-10, "Fair Value Measurements and Disclosures." If the credit quality of these investments deteriorates, or adverse developments occur in the bond insurance market, the Company may be required to record an impairment charge on these investments in the future.

As of December 31, 2008, the Company classified its investments in auction rate securities as a current asset as the Company reasonably expected that these assets would be sold or redeemed within a year. The Company believed its auction rate securities would sell within twelve months because, at that time, similar municipal-backed auction rate securities had experienced successful auctions. The Company no longer believes these assets should be classified as current and has classified the auction rate securities to long-term investments as of December 31, 2009.

NOTE 19. MEDIUM-DUTY GMC TRUCK FRANCHISES:

During the second quarter of 2009, General Motors made the decision to terminate its medium-duty GMC truck production and wind-down the Company's medium-duty GMC truck franchises, which forced the Company to take a $6.7 million pre-tax asset impairment charge. The impairment charge was offset by $1.8 million in assistance from General Motors. In the second quarter of 2009, this impairment charge resulted in a net charge to cost of sales of $4.0 million, a net charge to SG&A expense of $0.1 million and a charge to amortization expense of $0.8 million. During the third and fourth quarters of 2009, the Company adjusted the estimated impairment charge related to the medium-duty GMC truck and parts inventories, which resulted in a net credit to cost of sales of $1.9 million.

NOTE 20. UNAUDITED QUARTERLY FINANCIAL DATA:

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009				
Revenues	$ 329,086	$ 312,128	$ 302,438	$ 295,637
Gross Profit	61,700	52,718	57,004	53,669
Operating income (loss)	5,726	(2,451)	1,292	4,748
Income (loss) before income taxes	4,102	(3,958)	(250)	3,322
Net income (loss)	$ 2,863	$ (1,521)	$ 3,008	$ 1,534
Earnings (loss) per share:				
Basic	$ 0.08	$ (.04)	$ 0.08	$ 0.04
Diluted	$ 0.08	$ (.04)	$ 0.08	$ 0.04
2008				
Revenues	$ 403,858	$ 454,718	$ 413,696	$ 382,684
Gross Profit	78,179	74,413	76,385	67,735
Operating income	17,408	11,479	14,000	10,030
Income before income taxes	15,481	9,706	12,167	7,733
Net income	$ 9,675	$ 6,067	$ 8,000	$ 5,123
Earnings per share:				
Basic	$ 0.25	$ 0.16	$ 0.21	$ 0.14
Diluted	$ 0.25	$ 0.16	$ 0.21	$ 0.14

NOTE 21. SEGMENTS:

The Company currently has two reportable business segments: the Truck segment and the Construction Equipment segment. The Truck segment operates a network of Rush Truck Centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new and used commercial vehicles; aftermarket parts, service and body shop facilities; and a wide array of financial services, including the financing of new and used commercial vehicle purchases, insurance products and truck leasing and rentals. The truck centers are deemed as a single reporting unit because they have similar economic characteristics. The Company's chief operating decision maker considers the entire Truck segment, not individual dealerships when making decisions about resources to be allocated to the segment and assess its performance.

The Construction Equipment segment operates two full-service John Deere dealerships that serve the Southeast Texas area. Construction Equipment dealership operations include the retail sale of new and used construction equipment, aftermarket parts and service facilities, equipment rentals, and the financing of new and used construction equipment.

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

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. There were no material intersegment sales during the years ended December 31, 2009, 2008 and 2007.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different technology and marketing strategies. Business units were maintained through expansion and acquisitions. The following table contains summarized information about reportable segment profit or loss and segment assets for the years ended December 31, 2009, 2008 and 2007 (in thousands):

(in thousands, except per share amounts)	Truck Segment	Construction Equipment Segment	All Other	Totals
2009				
Revenues from external customers	$ 1,184,400	$ 38,836	$ 16,053	$ 1,239,289
Interest income	54	—	—	54
Interest expense	5,315	404	434	6,153
Depreciation and amortization	15,143	550	747	16,440
Segment income (loss) before income tax	3,962	1,294	(2,040)	3,216
Segment assets	924,703	27,779	24,815	977,297
Goodwill	134,352	4,075	2,409	140,836
Expenditures for segment assets	74,519	205	78	74,802
2008				
Revenues from external customers	$ 1,553,298	$ 83,763	$ 17,895	$ 1,654,956
Interest income	2,636	—	—	2,636
Interest expense	9,359	600	507	10,466
Depreciation and amortization	14,483	605	790	15,878
Segment income before income tax	38,549	6,045	493	45,087
Segment assets	1,000,470	29,570	26,750	1,056,790
Goodwill	135,191	4,075	2,638	141,904
Expenditures for segment assets	70,474	323	312	71,109
2007				
Revenues from external customers	$ 1,914,897	$ 97,130	$ 18,752	$ 2,030,779
Interest income	2,840	—	—	2,840
Interest expense	16,324	860	565	17,749
Depreciation and amortization	13,665	558	712	14,935
Segment income before income tax	71,736	8,527	1,539	81,802
Segment assets	973,434	30,494	27,663	1,031,591
Goodwill	113,869	4,075	2,638	120,582
Expenditures for segment assets	67,165	1,022	592	68,779

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

Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Our common stock trades on The NASDAQ Global Select Market[sm] under the symbols RUSHA and RUSHB.

The following table sets forth the high and low sales prices for the Class A common stock and Class B common stock for the fiscal periods indicated and as quoted on The NASDAQ Global Select Market[sm].

	2009		2008	
	High	Low	High	Low
Class A Common Stock				
First Quarter	$ 10.80	$ 6.00	$ 18.78	$ 14.00
Second Quarter	14.91	8.27	17.27	11.90
Third Quarter	14.88	10.16	15.14	10.66
Fourth Quarter	13.04	10.24	12.69	5.29
Class B Common Stock				
First Quarter	$ 10.08	$ 5.55	$ 18.25	$ 13.41
Second Quarter	12.84	7.44	16.16	10.35
Third Quarter	12.71	8.65	14.04	9.56
Fourth Quarter	10.93	8.41	12.70	5.75

As of March 4, 2010, there were approximately 44 record holders of the Class A common stock and approximately 50 record holders of the Class B common stock.

The Company did not pay dividends during the fiscal year ended December 31, 2009, or the fiscal year ended December 31, 2008. The Board of Directors intends to retain any earnings of the Company to support operations and to finance expansion and does not intend to pay cash dividends in the foreseeable future. Any future determination as to the payment of dividends will be at the discretion of the Board of Directors of the Company and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

The Company has not sold any securities in the last three years that were not registered under the Securities Act.

The Company did not repurchase any shares of its Class A Common Stock or Class B Common Stock during the fourth quarter of 2009.

	Period			
	Oct. 1–31, 2009	Nov. 1–30, 2009	Dec. 1–31, 2009	4th Quarter Total
Total number of shares purchased	—	—	—	—
Average price paid per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Total number of shares purchased as part of publicly announced plans or programs	—	—	—	—
Maximum Number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (1)(2)	$2,093,321	$2,093,321	$2,093,321	$2,093,321

(1) On July 22, 2008, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase, from time to time, up to an aggregate of $20,000,000 of its shares of Class A Common Stock and/or Class B Common Stock. The stock repurchase program has no expiration date and may be suspended or discontinued at any time.

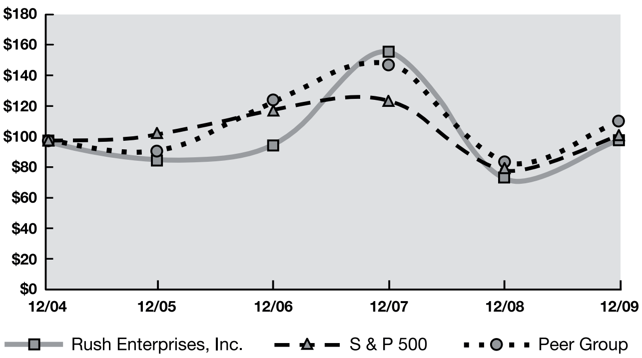
(2) As of December 31, 2009, the Company has repurchased 1,639,843 shares of its Class B common stock at a cost of $17.9 million, none of which occurred during the 2009 fiscal year.

Performance Graph

The chart set forth below shows the value of an investment of $100 on December 31, 2004 in the Company's Common Stock, the Standard & Poor's 500 Stock Index and a peer group of other public companies. The peer group is comprised of the following companies: Lithia Motors, Inc.; Paccar, Inc.; Penske Automotive Group formerly known as United Auto Group, Inc.; and Werner Enterprises, Inc.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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



*$100 invested on 12/31/04 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	Cumulative Total Return		
	Rush Enterprises, Inc.	S & P 500	Peer Group
12/31/04	$ 100.00	$ 100.00	$ 100.00
12/31/05	$ 87.30	$ 104.91	$ 93.30
12/31/06	$ 97.50	$ 121.48	$ 127.71
12/31/07	$ 160.91	$ 128.16	$ 153.17
12/31/08	$ 74.96	$ 80.74	$ 85.93
12/31/09	$ 100.18	$ 102.11	$ 114.23

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report (or otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission, news releases, conferences, website postings or otherwise) that are not statements of historical fact constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended (the "Exchange Act"), notwithstanding that such statements are not specifically identified. Forward-looking statements include statements about the Company's financial position, business strategy and plans and objectives of management of the Company for future operations. These forward-looking statements reflect the best judgments of the Company about the future events and trends based on the current beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Use of the words "may," "should," "continue," "plan," "potential," "anticipate," "believe," "estimate," "expect," "hopeful" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements reflect the current view of the Company with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those in such statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those set forth under Item 1A—Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as well as future growth rates and margins for certain of our products and services, future demand for our products and services, risks associated with the current recession and its impact on capital markets and liquidity, competitive factors, general economic conditions, cyclicality, market conditions in the new and used commercial vehicle and equipment markets, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, one-time events and other factors described herein and in the Company's quarterly and other reports filed with the Securities and Exchange Commission (collectively, "Cautionary Statements"). Although the Company believes that its expectations are reasonable, it can give no assurance that such expectations will prove to be correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described in any forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable Cautionary Statements. All forward-looking statements speak only as the date on which they are made and the Company undertakes no duty to update or revise any forward-looking statements.

Board of Directors

W. Marvin Rush
Chairman

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

Thomas A. Akin
Audit Committee Chairman
Partner
Akin, Doherty, Klein and Feuge, P.C.

Ronald J. Krause
Nominating and Governance
Committee Chairman
Former President and
Chief Operating Officer
Associates Corporation
of North America

Harold D. Marshall
Compensation Committee
Chairman
Former President and
Chief Operating Officer
Associates First Capital Corporation

Gerald R. Szczepanski
Former Chairman and
Chief Executive Officer
Gadzooks, Inc.

James C. Underwood
Former Vice Chairman of
Isuzu Commercial Truck of
America, Inc.

Executive Officers Rush Enterprises, Inc.

W. Marvin Rush
Chairman

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

Martin A. Naegelin, Jr.
Executive Vice President

Steven L. Keller
Vice President
Chief Financial Officer
and Treasurer

Daryl J. Gorup
Senior Vice President
Dealership Operations

David C. Orf
Senior Vice President
Marketing, Fleets and
Specialized Equipment

James E. Thor
Senior Vice President
Retail Sales

Scott Anderson
Senior Vice President
Finance and Insurance

Richard D. Hall
Vice President
Insurance

Derrek Weaver
Vice President
General Counsel
and Secretary

Shareholder Information

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

Independent Public Accountants
Ernst & Young LLP
San Antonio, TX

Corporate and Securities Counsel
Fulbright & Jaworski L.L.P.
San Antonio, TX

Annual Meeting
The annual meeting of shareholders of the Company will be held at 10:00 AM local time on May 18, 2010 at Rush Enterprises, Inc. Executive Offices 555 IH 35 South, Suite 500 New Braunfels, TX 78130

Availability of 10-K Report
Steven L. Keller
Rush Enterprises, Inc.
P.O. Box 34630
San Antonio, TX 78265
(830) 626-5200

Shares Listed
Rush Enterprises, Inc.'s common stock trades on the NASDAQ Global Select Market[sm] under the symbols RUSHA and RUSHB.

Website
www.rushenterprises.com

Forward-looking Statements

Certain statements in this Annual Report are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described in the forward-looking statements section on page 56.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