

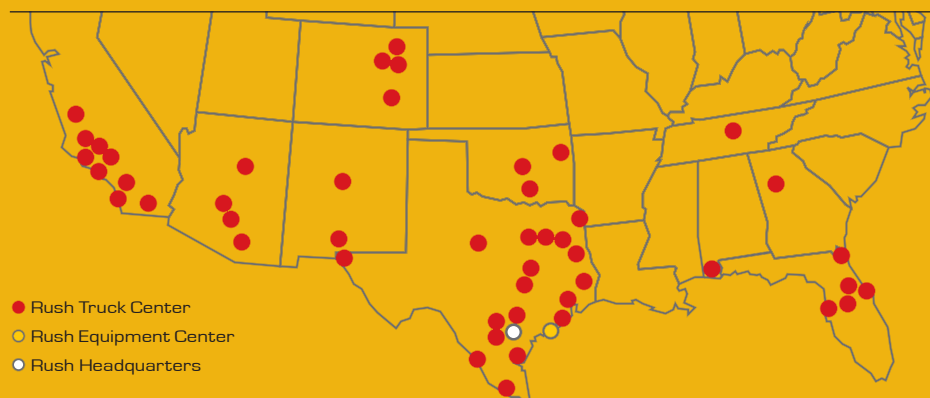
**Rush Enterprises, Inc.**  
2007 Annual Report

EXPERIENCE. STRATEGY. RESULTS.

## ABOUT THE COMPANY

Rush Enterprises (listed on NASDAQ®: RUSHA and RUSHB) operates the largest network of heavy- and medium-duty truck dealerships in North America, representing industry-leading brands including Peterbilt, GMC, Hino, Isuzu, Ford, UD and Volvo. Rush also operates a John Deere construction equipment dealership in Houston, Texas. Our current operations include a network of 49 dealership locations in Alabama, Arizona, California, Colorado, Florida, Georgia, New Mexico, Oklahoma, Tennessee and Texas. These dealerships provide an integrated, one-stop source for the retail sales of new and used heavy- and medium-duty trucks and construction equipment; aftermarket parts, service and body shop capabilities; a wide array of financial services, including the financing of truck and equipment sales, insurance products, leasing and rentals; upfitting and chrome accessories.

**THE RUSH NETWORK** as of December 31, 2007









## CHAIRMAN'S LETTER

**Y**ou might have noticed that the front cover of our annual report is different from covers you've seen in previous years. They say a picture is worth a thousand words, but we think this cover speaks for itself. It succinctly communicates our philosophy – *Experience. Strategy. Results.*

In other words, the decades of experience and knowledge of our team of employees, combined with an aggressive strategy to grow and diversify the business, has and will continue to allow us to achieve superior business results.

We do not limit our definition of superior business results only to increased profits. More importantly, we ask, do our results reflect our ability to withstand a market downturn? Is the business properly prepared to sell products and service customers given the current market conditions? Are we positioned for future growth? And, of course, are we providing a challenging and rewarding work environment for our people?

Our team of experienced professionals outperformed the Class 8 truck market in 2007. Due to their hard work, our revenues remained above \$2 billion, making 2007 the second-most profitable year in Rush Enterprises' 42-year history. We would not have been able to achieve the results we did in 2007 just a few years ago. During the last market downturn, our earnings plummeted due in large part to our low absorption rate. We learned from that experience, and since then, our people have focused on improving our absorption rate, which is now at a record 105%.

No doubt, our experience and strategies allowed us to favorably withstand this most recent



market slowdown. But that being said, have we built a sustainable business model and organization to move forward? My answer is yes.

I have always believed that our people make the difference. Rush Enterprises, Inc. may bear my family's name, but it is our family of employees who keep it successful. We will continue to invest in our people, and we recognize that our success is dependent on their individual contributions to common goals. Our cultural focus has helped create a common ideology that recognizes "*the customer is the boss*" and functions on the principles of excellence, fairness, productivity and positive attitude. Our employees are committed to these common values and to the success of the organization. 2007 is a tribute to their success.

A handwritten signature in black ink, appearing to read 'W. Marvin Rush', written in a cursive, flowing style.

W. Marvin Rush  
Chairman

## CHIEF EXECUTIVE OFFICER'S LETTER

I know it may seem odd to you that I believe 2007 was the best year in the company's history. Industry and economic conditions deteriorated rapidly during 2007, resulting in a 46% decline in heavy-duty truck sales and an 11% decline in medium-duty truck sales. But despite this significant market downturn, our earnings only decreased 12%.

A year ago, my letter to the shareholders of Rush Enterprises discussed how our company was better prepared than ever to operate profitably in a declining truck market due to the strategies we implemented over the past five years to diversify our earnings. These strategies included geographic network expansion, growth of our medium-duty business, focus on vocational markets and increased absorption in dealership operations. I am proud to say that the successful implementation of those strategies led us to superb financial results in 2007 considering the significant decline in the Class 8 truck market. While revenues from truck sales dropped substantially during 2007 as expected, our parts, service and body shop revenue grew by 9%. This growth was key to maintaining a healthy profit level in 2007.

Our goal of being the premier service provider in our industry requires us to offer exceptional service to support a range of customer needs. I have repeatedly said that *"trucks don't sell service, service sells trucks."* Our service programs assist our customers in driving efficiencies into their own organizations, which is especially important during an industry downturn.

We have worked hard for many years to increase the absorption rate of our dealerships. I believe that absorption rate is the most important metric we use to evaluate how efficiently our dealerships are operating. Absorption rate is defined as the gross profits from parts, service and body shop functions divided by the total costs of running a dealership. The only costs not included are the commissions on truck sales and the interest costs of owning the inventory. If a dealership is more than 100% absorbed, every dollar of gross profit from a truck sale, less commissions and carrying costs, goes to the bottom line.

When we sell a truck, many buyers purchase additional accessories in our parts departments. Those parts, in turn, are often installed on the truck by our service departments. Therefore, a decline in truck sales has a negative effect on parts and service sales. In 2007, our absorption rate held even with 2006 at a healthy 105%, which means we were able to increase our parts and service business to offset the negative impact that the decline in truck sales had on parts and service sales. The last time the truck industry experienced a significant downturn in truck sales, our absorption was near 80%. Consequently, our profitability declined substantially when truck sales dropped off. We learned from experience, and we proved in 2007 that we were better prepared.

Another strategy to diversify our earnings base is to expand our geographic footprint by adding new territories and constructing new dealerships in our areas of operation. In 2007, we acquired dealerships in Waco, Texas and San Luis Obispo, California, increasing our presence in the central and western parts of the U.S. In addition, we opened a new dealership in Pueblo, Colorado, expanding our presence in that state. We have also announced the acquisition of two dealerships in Charlotte, North Carolina, with Peterbilt, International, Hino and Isuzu franchises, expanding our network further into the Southeast.

We are expanding existing locations in Oklahoma and Arizona and evaluating other locations for expansion. As dealerships mature, the need arises for additional shop space. Over time, additional shop space translates into additional sales from the parts, service and body shop departments. Any expansion will initially decrease a location's absorption rate, but ultimately, the increased capacity will generate additional revenue. Our investment in our facilities is crucial to our continued success.

Our expansion into the medium-duty market is an example of how we can take advantage of our existing dealership network to sell products other than Class 8 trucks. We refer to this as leveraging our existing asset base. With our medium-duty truck sales increasing from 900 trucks in 2003 to more than 5,400 in 2007, we are excited about the progress we've achieved. Selling



medium-duty trucks is incremental to earnings, but the real benefit is the additional parts, service and body shop revenues realized when these trucks are serviced. This revenue assists in increasing our absorption rates. We believe that the day will come when we sell as many medium-duty trucks as Class 8 trucks.

We operate ancillary businesses such as finance and insurance, leasing, upfitting, chrome accessories and construction equipment, all of which offer tremendous growth opportunities. For example, our John Deere construction equipment location has increased market share for the past two years and increased profits by 87%. These ancillary businesses diversify our earnings base and further our strategy of providing premium equipment and services to the commercial market.

I thought 2006 was a great year until we completed 2007. I cannot begin to tell you how proud I am of the people who make this organization the success that it is. I was confident entering into 2007 that we were ready, but we exceeded even my expectations. I have said on numerous occasions that I believe our employees are the best in the industry, and I would match them against any other organization. I couldn't feel more strongly about that statement than I do today.

2008 is shaping up to be one of the most difficult business environments we have faced. Truck sales are expected to remain flat or decline from the already low levels of 2007. The current economic uncertainty facing the United States may only exacerbate the situation. We believe that normal customer trade cycles and price increases for engines that meet 2010 emission requirements will improve new truck sales during late 2008 and throughout 2009, but the magnitude of the 2009 U.S. heavy-duty truck market will be largely dictated by the economy. If general economic conditions in the U.S. improve, 2009 could be the second-best year in history for Class 8 deliveries.

We are the premier distribution and services provider in our industry, and we will execute our strategy to achieve sound financial results no matter what the environment. I am more confident in our people than ever before. We have proven that we perform in good times and tough times, and we are ready for whatever the future brings.

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



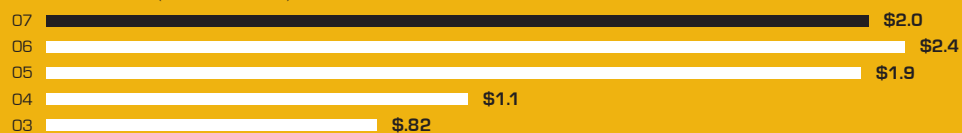


BJ Services site in Alice, Texas. BJ Services Company is a leading provider of pressure pumping and other oilfield services to the petroleum industry. They have been a Rush customer for 14 years.



## HIGHLIGHTS

### REVENUE (IN BILLIONS)



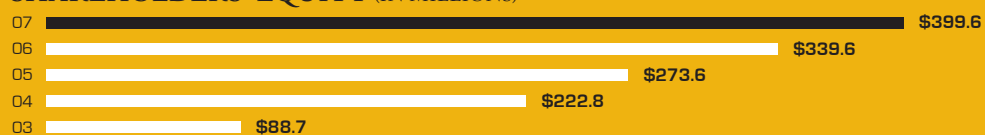
### INCOME FROM CONTINUING OPERATIONS (IN MILLIONS)



### EARNINGS PER SHARE (INCOME FROM CONTINUING OPERATIONS)



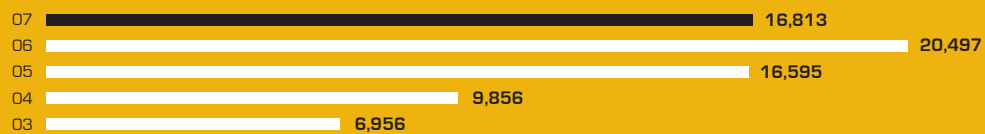
### SHAREHOLDERS' EQUITY (IN MILLIONS)



### PARTS AND SERVICE REVENUE (IN MILLIONS)



### NEW AND USED TRUCK SALES (UNITS)



*The best indicator  
of our success  
in 2007 is that we  
sustained our  
absorption rate  
at 105% despite  
the decline  
in truck sales.*

Rush expected new truck sales to decline in 2007, and they did. However, despite a 46% decline in industry truck sales, our profits only decreased 12%. In 2007, we proved that we can sustain financial success despite the cyclical nature of the Class 8 truck market.

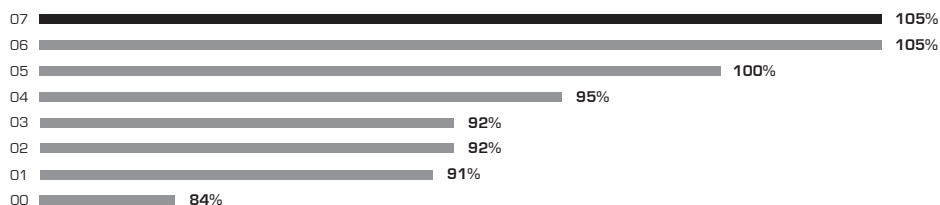
While industry sales of new Class 8 trucks dropped 46%, our Class 8 truck sales were down only 39% – outperforming the market and allowing us to gain market share. The sales recovery we expected in late 2007 did not happen, and it may not occur until late 2008. Class 8 truck owners, whether they are fleets or owner-operators, face new diesel emission regulations that take effect in 2010 and are expected to begin replacing their 2004, 2005 and 2006 truck purchases in the next couple of years. If economic conditions permit, we anticipate a significant improvement in truck sales during 2009.

Our Class 4-7 medium-duty truck sales grew 17% in 2007 despite an 11% decrease in the U.S. market. This was a direct result of our strategy to add dedicated medium-duty sales professionals throughout our dealership network as well as medium-duty-only dealerships in five cities. More importantly, in addition to the revenue medium-duty truck sales generated, the service schedules of medium-duty trucks are complementary to those of Class 8 trucks. Medium-duty trucks are often serviced within the local market on our second shift, increasing the productivity of our service bays and technicians, and adding another revenue stream to boost profitability. In 2007, we extended our medium-duty presence by acquiring a dealership in Waco, Texas, and now have more GMC and Hino medium-duty truck franchises than any dealer group in the country.

The best indicator of our success in 2007 is that we maintained an overall absorption rate of 105% despite the significant decline in truck sales. Once our absorption rate tops 100%, every dollar of gross profit on the sale of a truck, after commissions and carrying costs, goes to our bottom line. Maintaining an absorption rate above 100% is not only our greatest insulation against sales fluctuations, but it is also our fastest path to earnings growth when truck sales recover in late 2008 and 2009.

#### ABSORPTION RATE

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



We service all makes and models of heavy- and medium-duty trucks for fleets and owner-operators. Rush Truck Centers are designated warranty centers for the brands we sell and are the only authorized Peterbilt parts dealers in the markets we serve. Rush Truck Centers' body shops are designated direct-repair facilities for 18 of the industry's top insurance providers and major fleets.

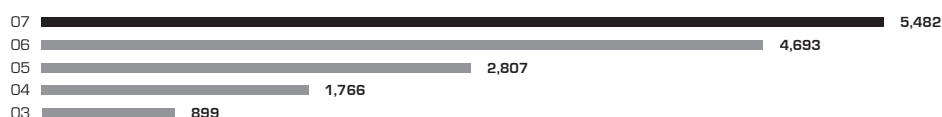






Rush also performed well in the vocational market segment in 2007. Our reach into that market segment includes specialized heavy- and medium-duty trucks for oilfield service vehicles, refuse haulers, dump trucks, concrete mixers, towing vehicles and truck-mounted cranes. We can up-fit standard or custom-build truck bodies to meet customer specifications. The customer base for vocational trucks is diverse and the market segment is highly profitable. By delivering a finished product, Rush works directly with the end user, which also translates into additional long-term revenue associated with the repair and maintenance of the truck. We see the vocational market as an opportunity for ongoing expansion.

#### MEDIUM-DUTY TRUCK SALES (UNITS)



Our customer base is diverse, and our success is not tied to any single geographic market. Each market segment has its own benefits, and maintaining the proper mix is a priority at Rush Enterprises. As we expand our business categories, we are also adding new premium products and new services that expand the opportunity to serve our customers.

Rush is continuing to grow its profitable John Deere construction equipment business. The Rush Equipment Center in Houston sells a full line of John Deere construction equipment to road contractors, concrete and aggregate haulers, construction companies and heavy equipment operators. It delivered another solid performance in 2007 with \$97 million in revenue, up 25% from the previous year. More than 40% of its customers are also Rush Truck Center customers, a profitable synergy.



The John Deere line of construction equipment offered by the Rush Equipment Center in Houston, Texas, delivered another solid performance with \$97 million in revenues in 2007.

*Rush serves its customers with premium truck and equipment brands they trust: Peterbilt, GMC, Hino, Isuzu, Ford, UD, Volvo and John Deere.*

*Rush Truck Centers  
is the largest  
network of  
heavy- and  
medium-duty  
truck dealerships in  
North America.*

In 2007, we expanded our insurance business, Associated Truck Insurance Services (ATIS), with an acquisition in California. Rush offers property, casualty, cargo and other insurance products in 48 states. We added four new locations and have regional offices in Florida, California and Texas. Our loyal customer base has an average renewal rate of 80%.

All of our dealerships offer third-party financing packages to assist customers in purchasing new and used trucks. In addition, our Rush Truck Leasing business, with 19 locations across the country, offers daily, monthly or long-term rental and lease programs on our fleet of more than 2,100 trucks.

Our World Wide Tires and Chrome Country businesses performed well in 2007 and continue to complement our strategy of maintaining a diverse earnings base.

Our wide range of products and services enables us to maintain a full-service, “one-stop” relationship with our customers. By offering a wide range of products and services, we not only build customer satisfaction and loyalty, we also expand the lifetime value of the original sale. At Rush, we believe the delivery of a truck or piece of construction equipment is not the end of the sales process, but the launch point to providing total support and building a long-term relationship with the customer.

Rush Enterprises operates the largest network of heavy- and medium-duty truck dealerships in North America with nearly 50 dealerships strategically located across the southern United States. This geographic diversity ideally positions Rush Truck Centers to serve the needs of virtually any trucking customer, from local pick-up and delivery operations to large over-the-road fleets and owner-operators. In 2007, we expanded the Rush Truck Center network with acquisitions of heavy- and medium-duty truck dealerships in Waco, Texas, a parts and service facility in San Luis Obispo, California, and we opened a new Peterbilt dealership in Pueblo, Colorado.

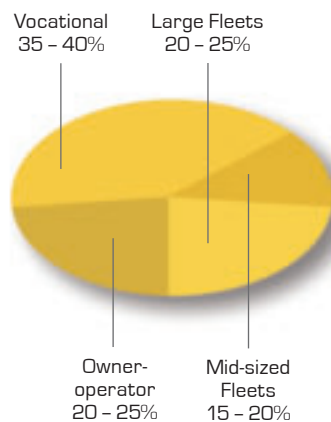
Geographic diversity also positions us to capitalize on regional and local market opportunities. In 2007, oilfield activity created a strong demand for new and used trucks and construction equipment. Our 24 dealerships in Texas, Oklahoma and Colorado were ideally positioned to benefit from this surge, as was our Perfection

Equipment operation in Oklahoma, which specializes in upfitting trucks used by oilfield and other service providers.

The reach and scale of our network is important to the marketplace. Our customers trust the network for service when and where they need it. They know that every Rush Truck Center has access to their service records, is staffed by factory-trained, ASE-certified service technicians, provides emergency roadside assistance and, in some locations, offers mobile service at their business or job site. When customers are ready to buy a new or used truck, they can search our entire inventory online

at [rushtruckcenters.com](http://rushtruckcenters.com) or call or visit any of our dealerships. Customers can schedule service through e-mail or a toll-free number. Whatever our customers need, they know they will get consistent, exceptional care, regardless of the Rush location they contact.

**CLASS 8 CUSTOMER MIX**









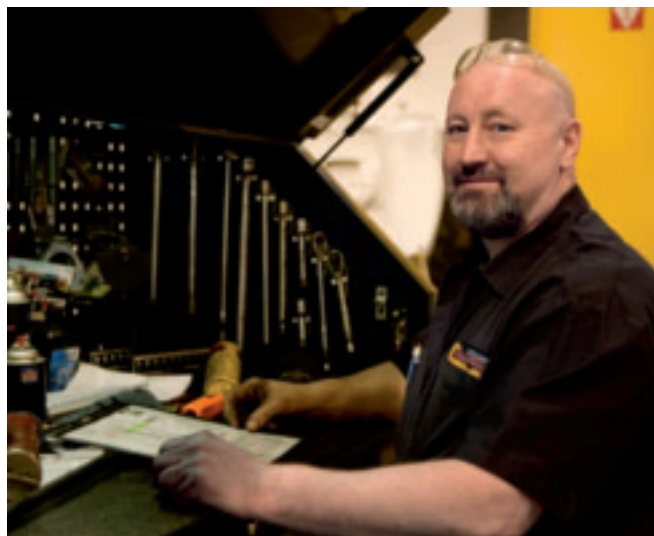
Rush's goal is to provide a customer experience that rivals that of a luxury car dealership. Our dealerships are conveniently located, first class facilities that offer extensive truck inventories, state-of-the-art service shops with advanced diagnostic equipment, well-stocked parts and accessories departments, fully-equipped body shops, well-appointed drivers' lounges and ample truck parking space for visitors. Our operations and employees are customer-focused as well. Extended and weekend hours of service, second-shift operations and well-trained professionals all make doing business with a Rush Truck or Equipment Center easy.

New business systems and processes being launched in 2008 will enable us to keep better track of customer purchasing history and lifetime value, empowering our managers with new information that they can use to continuously refine their sales and service strategies.

The depth and quality of our products and services strengthen customer loyalty and give us a significant competitive advantage over smaller, standalone dealers in our markets. To reinforce and expand our market position, we introduced a new branding campaign in 2007 to give our customers one consistent view of our network and all that it offers. Regardless of the dealership location, customers know they can depend on a consistent level of quality from anywhere in the Rush network. In addition to adding consistency to local advertising across the country, we launched our first-ever national advertising campaign in retail magazines to reinforce the buying decision of our existing customers and attract new business.

We are a goal-oriented, results-driven organization.

We make it easy to do business with us and consider the lifetime value of a customer as a benchmark for measuring our success. At the same time, we recognize that our employees are what make it all work.



Rush service technicians have access to maintenance history for every customer, ensuring they have a consistent, high-quality service experience at any dealership in the network.

More than 2,700 employees carry the Rush coin and share the common beliefs that the customer is the boss and that productivity, fairness, a positive attitude and excellence are the cornerstones of our culture. They are rewarded for new ideas and encouraged to express their opinions. Every Rush employee understands our goals and their role and responsibility in achieving them.

Many of our employees have spent their entire careers at Rush, and we want to keep it that way. We attract, develop and retain good people. Succession programs are in place, and management candidates have assigned mentors. Additionally, in 2007 we created a leadership position in organizational development to reinforce management's commitment to our employees through expanded communication programs and to ensure that we operate an effective organizational structure that exceeds market expectations.

Rush Refuse Systems has one of the largest refuse inventories of work-ready trucks in the country.



We have a streamlined organization that opens the lines of communication into the highest levels of our company.

## The general managers of our dealerships drive our success locally, regionally and nationally.

Our general managers work with a sense of ownership and urgency. They are empowered to make decisions and trusted with managing millions in assets. We relieve them of administrative burdens, like credit checks, receivables and payroll, so they are free to do what they do best – create value. Individually they are responsible for understanding their market and developing sales and service programs to achieve dominant market share. Collectively, they collaborate to provide seamless support to over-the-road and national customers.

Communications with our general and departmental managers are frequent and direct. For example, each general manager receives a daily gross profit report for each profit center, so they can track progress toward annual goals. They attend monthly conference calls with our senior management team to review opportunities and solve problems. Revenue creation strategies are shared and adopted. Relationships and teamwork within the group are encouraged and reinforced at our annual management conference. Themed “*Evolution of Excellence*,” 2007’s three-day conference was an extension of our open communication philosophy. This year, a new Rush strategic plan was introduced. It was enthusiastically endorsed, and many new ideas created at the conference were put into action.

Our service technicians are constantly challenged with change. As truck engines get more sophisticated, so do the diagnostic and repair technologies that they use to service them. Investment in their education and certification is a continuous process and they are rewarded for performing at a high level.

This year, we held our second annual Service Technician Skills Rodeo, where 60 technicians competed in four categories to earn more than \$100,000 in cash and prizes and one earned the Best All Around Technician title. The 60 semi-finalists were hosted in Nashville, Tennessee. They earned the trip by being top scorers on a written exam from among more than 350 technicians, who voluntarily entered the Rush competition. The event builds teamwork and morale, helps improve overall skill levels and rewards service contribution to the business. It received national media coverage, which enhanced the Rush image of service excellence.

*The depth  
and quality of  
our products and  
services strengthen  
customer loyalty  
and give us  
a significant  
competitive  
advantage.*





*As we look ahead,  
we are confident  
and excited  
about the course  
we are on  
and the future  
of the industries  
that we serve.*



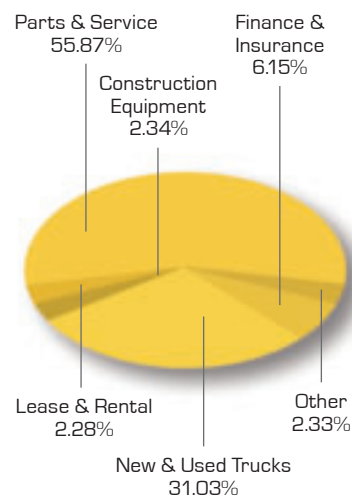
Customers trust the experience of our parts professionals to locate what they need, when they need it. Every dealership has online access to the parts inventory throughout the network.

It looks like we have another tough year ahead of us in 2008, but we are ready for the challenge. The strategies that sustained Rush's financial success through the 2007 slowdown will continue to combat cyclicity in the Class 8 truck market. Rush Enterprises will continue to expand the reach of our dealer network and leverage it to increase our sales of new products and services. As always, we will remain focused on increasing parts, service and body shop sales to maximize our absorption rate.

Above all, Rush will continue its investment in its management and employees. We will continue to attract, develop and retain good people who perform at a high level and relentlessly pursue excellence.

As we look ahead, we are confident and excited about the course we are on and the future of the industries that we serve.

#### GROSS PROFIT BY PROFIT CENTERS



## 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 the Company has previously filed with the SEC. This information should be read together with those consolidated financial statements and the notes to those consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future. The selected financial data presented below may not be comparable between periods in all material respects or indicative of the Company's future financial position or results of operations due primarily to acquisitions and discontinued operations which occurred during the periods presented. See Note 16 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)	2007	2006	2005	2004	2003
<b>SUMMARY OF INCOME STATEMENT DATA</b>					
Revenues					
New and used truck sales	\$ 1,393,253	\$ 1,780,418	\$ 1,400,736	\$ 738,225	\$ 501,757
Parts and service	480,611	441,424	365,908	285,206	249,818
Construction equipment sales	74,986	59,545	41,692	32,305	28,263
Lease and rental	52,103	41,776	33,975	27,193	25,847
Finance and insurance	21,663	19,197	15,356	7,909	6,286
Other	8,163	8,163	7,103	4,141	3,361
Total revenues	2,030,779	2,350,523	1,864,770	1,094,979	815,332
Cost of products sold	1,678,711	1,997,856	1,582,078	909,837	662,082
Gross profit	352,068	352,667	282,692	185,142	153,250
Selling, general and administrative	240,661	230,056	188,667	141,947	124,207
Depreciation and amortization	14,935	12,889	10,487	9,119	8,929
Operating income from continuing operations	96,472	109,722	83,538	34,076	20,114
Interest expense, net	14,909	15,718	12,895	5,950	6,348
Gain on sale of assets	239	54	495	624	1,984
Income from continuing operations before income taxes	81,802	94,058	71,138	28,750	15,750
Provision for income taxes	30,310	35,272	26,513	11,574	6,300
Income from continuing operations	51,492	58,786	44,625	17,176	9,450
(Loss) from discontinued operations, net	0	0	0	(260)	(621)
Net income	\$ 51,492	\$ 58,786	\$ 44,625	\$ 16,916	\$ 8,829

### Earnings Per Share:

#### Earnings per Common Share – Basic

Income from continuing operations	\$ 1.35	\$ 1.57	\$ 1.23	\$ 0.73	\$ 0.45
Net income	\$ 1.35	\$ 1.57	\$ 1.23	\$ 0.72	\$ 0.42

#### Earnings per Common Share – Diluted

Income from continuing operations	\$ 1.33	\$ 1.55	\$ 1.19	\$ 0.69	\$ 0.42
Net income	\$ 1.33	\$ 1.55	\$ 1.19	\$ .068	\$ 0.39

Basic weighted average shares	38,059	37,476	36,303	23,526	21,063
Diluted weighted average shares and assumed conversions	38,746	37,890	37,436	24,911	22,536

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,				
	2007	2006	2005	2004	2003
<b>OPERATING DATA</b>					
Number of locations –	54	52	48	39	38
Unit truck sales –					
New trucks	12,712	16,492	12,918	7,140	4,535
Used trucks	4,101	4,005	3,677	2,716	2,421
Total unit trucks sales	16,813	20,497	16,595	9,856	6,956
Truck lease and rental units	2,404	2,345	1,798	1,427	1,397

	Year Ended December 31,				
	2007	2006	2005	2004	2003
<b>BALANCE SHEET DATA</b>					
Working capital	\$ 197,805	\$ 156,297	\$ 126,137	\$ 138,241	\$ 14,113
Inventories	365,947	484,696	338,212	189,792	137,423
Inventory included in assets held for sale	–	–	–	–	2,496
Fixed assets included in assets held for sale	–	–	–	–	6,328
Total assets	1,031,591	1,128,410	840,234	565,933	366,878
Floor plan notes payable	273,653	446,354	315,985	168,002	108,235
Line-of-credit borrowings	–	–	2,755	2,434	17,732
Long-term debt, including current portion	198,945	192,124	133,152	96,056	90,028
Capital lease obligations, including					
current portion	17,543	17,732	16,905	—	—
Shareholders' equity	399,577	339,608	273,620	222,807	88,706



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

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### General

The Company expects industry Class 8 deliveries to continue to remain soft in 2008. The Company anticipates that Class 8 order intake will begin to increase in the second half of 2008, but deliveries will not increase significantly until the fourth quarter of 2008. It is more difficult than ever to forecast future demand for trucks because of the current uncertainty with regard to U.S. economic conditions and the uncertainty regarding the magnitude of the pre-buy in anticipation of the 2010 emissions regulations. There have historically been large pre-buys of Class 8 trucks in the periods prior to the implementation of new emissions standards due to uncertainties regarding the price, performance and reliability of equipment designed to meet the new standards. The magnitude of the 2008 and 2009 pre-buy in anticipation of the 2010 emissions regulations, if any, will depend upon the general economic conditions in the U.S., among other factors. A.C.T. Research Co., LLC ("A.C.T. Research"), a truck industry data and forecasting service provider, currently predicts retail sales of Class 8 trucks of approximately 157,000 units in 2008 compared to 156,000 units in 2007. However, we believe that U.S. Class 8 truck sales may be 5% to 10% lower than the 156,000 units in 2007, if general economic conditions in the U.S. do not begin to improve.

While industry deliveries of U.S. Class 8 units were down 46.2% for 2007, according to A.C.T. Research, the Company's Class 8 deliveries were only down 38.7%. The Company's Class 4 through 7 (medium-duty) truck sales increased 16.8% during 2007 compared to the industry's overall decrease of 11.0%. The increase in medium-duty truck sales was a direct result of recent acquisitions and the Company's focus to penetrate the medium-duty market segment in recent years by providing a knowledgeable, dedicated sales staff and offering a breadth of products to meet the varied needs of the medium-duty customer base. The Company expects long-term growth in this segment as its medium-duty franchises mature in their respective markets and the Company strengthens relationships with its customers in this segment.

The Company's parts, service and body shop sales increased 8.9% in 2007 compared to 2006. The Company's truck dealership's overall absorption rate was 104.5% in 2007 compared to 105.2% in 2006, while same store absorption rate remained flat at 105.2% in 2007 compared to 2006.

In 2007, the Company increased its construction equipment segment revenue by 25% as it continued efforts to increase John Deere's market share in the Houston construction equipment market.

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.

### 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 the 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, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, 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. Actual results may differ from those estimates. The Company believes the following accounting policies, which are also described in Note 2 of the Notes to Consolidated Financial Statements, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

### Inventories

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

### Goodwill

As stated in Note 2 of the Notes to Consolidated Financial Statements, Financial Accounting Standards Board Statement No. 142 ("SFAS 142") provides that goodwill and other intangible assets that have indefinite useful lives will not be amortized, but instead must be tested at least annually for impairment, and that intangible assets that have finite useful lives should continue to be amortized over their useful lives. SFAS 142 also provides specific guidance for testing goodwill and other nonamortized intangible assets for impairment. SFAS 142 requires management to make certain estimates and assumptions in order to allocate goodwill to reporting units and to determine the fair value of a reporting unit's net assets

and liabilities, including, among other things, an assessment of market condition, projected cash flows, interest rates and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. SFAS 142 requires, in lieu of amortization, an annual impairment review of goodwill. The Company did not record an impairment charge related to the goodwill for its continuing operations as a result of its December 31, 2007, impairment review.

#### Revenue Recognition Policies

Income on the sale of a vehicle or a piece of construction equipment is recognized when the customer executes a purchase contract with us, the unit has been delivered to the customer and there are no significant uncertainties related to financing or collectability. Lease and rental income is recognized over the period of the related lease or rental agreement. Parts and service revenue is earned at the time the Company sells the parts to its customers or at the time the Company completes the service work order related to service provided to the customer's unit. Payments received on prepaid maintenance plans are deferred as a component of accrued expenses and recognized as income when the maintenance is performed.

#### Finance and Insurance Revenue Recognition

Finance income related to the sale of a unit is recognized when the finance contract is sold to a finance company. During 2007, 2006 and 2005, finance contracts were not retained by the Company for any significant length of time because finance contracts are generally sold to finance companies concurrent with the sale of the related unit. The majority of finance contracts are sold without recourse against the Company. A majority of the Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. The Company arranges financing for customers through various retail funding sources and receives a commission from the lender equal to either the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. The Company also receives commissions from the sale of various insurance products and extended service contracts to customers. Revenue is recognized by the Company upon the sale of such finance and insurance contracts to the finance and insurance companies net of a provision for estimated repossession losses and interest chargebacks on finance contracts. The Company is not the obligor under any of these underlying contracts. In the case of finance contracts, a customer may prepay, or fail to pay, thereby terminating the underlying contract. If the customer terminates a retail finance contract or other insurance product prior to scheduled maturity, a portion of the commissions previously paid to the Company may be charged back to the Company depending on the terms of the relevant contracts. The estimate of ultimate charge back

exposure is based on the Company's historical chargeback expense arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on other insurance products. The actual amount of historical chargebacks has not been significantly different than the Company's estimates.

#### Insurance Accruals

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

#### Accounting for Income Taxes

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

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

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Effective January 1, 2007, the Company adopted FIN 48. FIN 48 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. FIN 48 prescribes how a company should recognize, measure, present and disclose uncertain tax positions that the company has taken or expects to take in its income tax returns. FIN 48 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.

For additional information regarding the adoption of FIN 48, see Note 14 of Notes to Consolidated Financial Statements.

### Stock-Based Compensation

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

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company's Consolidated Financial Statements as of December 31, 2007, and 2006 reflect the impact of SFAS 123(R). Stock-based compensation expense related to stock options and employee stock purchases under SFAS 123(R) for the year ended December 31, 2007, was \$3.4 million and for the year ended December 31, 2006, was \$2.6 million. In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

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

Stock-based compensation expense recognized during 2007

and 2006 is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. In conjunction with the adoption of SFAS 123(R), compensation expense for all share-based payment awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized in the Consolidated Statement of Operations for 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

Upon adoption of SFAS 123(R), the Company continues to use the Black-Scholes option-pricing model, which was previously used for the Company's pro forma information required under SFAS 123. For additional information, see Note 12. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's stock options. Although the fair value of stock options is determined in accordance with SFAS 123(R) using an option-pricing model, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and a willing seller.

### New Accounting Standards

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and early application is allowed under certain circumstances. The Company did not elect to measure eligible financial instruments at fair value as specified in SFAS 159.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141(R)"), which establishes principles and requirements for how the acquirer: (a) recognizes



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

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value to be recognized in earnings until settled. SFAS 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) to have a significant impact on its consolidated results of operations or financial position.

### Key Performance Indicator

**Absorption Rate.** The management of the Company uses several performance metrics to evaluate the performance of its dealerships. The Company considers its "absorption rate" to be of critical importance. Absorption rate is calculated by dividing the gross profit from the parts, service and body shop departments by the overhead expenses of all of a dealership's departments, except for the selling expenses of the new and used truck departments and carrying costs of new and used truck inventory. When 100% absorption is achieved, then gross profit from the sale of a truck, after sales commissions and inventory carrying costs, directly impacts operating profit. In 1999, the Company's truck dealership's absorption rate was approximately 80%. The Company has made a concerted effort to increase its absorption rate since then. Management believes that maintaining an absorption rate in excess of 100% is critical to the Company's ability to generate consistent earnings in a cyclical business. The Company's truck dealerships achieved a 104.5% absorption rate in 2007.

### Results of Operations

The following discussion and analysis includes the Company's historical results of operations for 2007, 2006 and 2005.

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

	Year Ended December 31,		
	2007	2006	2005
New and used truck sales	68.6 %	75.8%	75.1 %
Parts and service	23.7	18.8	19.6
Construction equipment sales	3.7	2.5	2.3
Lease and rental	2.5	1.8	1.8
Finance and insurance	1.1	0.8	0.8
Other	0.4	0.3	0.4
Total revenues	100.0	100.0	100.0
Cost of products sold	82.7	85.0	84.8
Gross profit	17.3	15.0	15.2
Selling, general and administrative	11.9	9.8	10.1
Depreciation and amortization	0.7	0.5	0.6
Operating income	4.7	4.7	4.5
Interest expense, net	0.7	0.7	0.7
Income before income taxes	4.0	4.0	3.8
Income taxes	1.5	1.5	1.4
Net income	2.5 %	2.5 %	2.4 %

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

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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

	% Change				
	2007	2006	2005	2007 vs 2006	2006 vs 2005
<b>Truck unit sales:</b>					
New heavy-duty trucks	7,230	11,799	10,111	-38.7%	16.7%
New medium-duty trucks	5,482	4,693	2,807	16.8%	67.2%
Total new trucks	12,712	16,492	12,918	-22.9%	27.7%
Used trucks	4,101	4,005	3,677	2.4%	8.9%
<b>Truck revenue:</b>					
New heavy-duty trucks	\$ 871.8	\$ 1,317.9	\$ 1,074.4	-33.8%	22.7%
New medium-duty trucks	289.4	253.0	158.0	14.4%	60.1%
Total new trucks	\$ 1,161.2	\$ 1,570.9	\$ 1,232.4	-26.1%	27.5%
Used trucks	\$ 211.7	\$ 191.9	\$ 160.5	10.3%	19.6%
Other (1)	\$ 20.4	\$ 17.6	\$ 7.8	15.9%	125.6%
<b>Truck dealership absorption rate:</b>	104.5%	105.2%	100.4%	-0.7%	4.8%

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

### Industry

We currently operate in the heavy- and medium-duty truck and construction equipment markets. There has historically been a high correlation in both of these markets among 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 trucks have historically been subject to substantial cyclical variation based on such general economic conditions. According to data published by A.C.T. Research, in recent years total domestic retail sales of new Class 8 trucks have ranged from a low of approximately 140,000 in 2001 to a high of approximately 291,000 in 2006. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds. The Company's share of the U.S. Class 8 truck sales market was approximately 4.6% in 2007, up from 4.1% in 2006.

Typically, Class 8 trucks are assembled by manufacturers utilizing certain components manufactured by other companies, including engines, transmissions, axles, wheels and other

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

A.C.T. Research currently estimates approximately 157,000 new Class 8 trucks will be sold in the United States in 2008, compared to approximately 156,000 new trucks sold in 2007. We believe that A.C.T. Research's estimates for 2008 Class 8 truck sales may be somewhat aggressive. If general economic conditions in the U.S. do not improve in the first half of 2008, we believe 2008 U.S. Class 8 truck sales could decrease 5% to 10% compared to 2007. A.C.T. Research currently forecasts sales of Class 8 trucks in the U.S. to be approximately 235,000 in 2009 and 187,000 in 2010.

#### Medium-Duty Truck Market

Many Rush Truck Centers sell medium-duty trucks manufactured by Peterbilt, GMC, Hino, UD, Ford and Isuzu, and all 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 generally do not venture out of their service areas overnight. The nature of the medium-duty truck market promotes the use of our service facilities during our evening shift, which is traditionally a slow period for heavy-duty truck service.

A.C.T. Research currently forecasts sales of Class 4 through 7 trucks in the U.S. to be approximately 243,000 in 2008 compared to 247,000 in 2007. A.C.T. Research currently forecasts sales of Class 4 through 7 trucks in the U.S. to be approximately 265,000 in 2009 and 250,000 in 2010. See Note 16 to the Company's Consolidated Financial Statements for a discussion of the Company's medium-duty acquisitions in 2007.

#### Construction Equipment Market

Our Rush Equipment Center is an authorized John Deere construction equipment dealer serving Houston, Texas and the surrounding area. According to data compiled by John Deere, approximately 2,949 units of construction equipment were put into use in our area of responsibility in 2007 compared to 2,585 in 2006. In 2008, we expect new construction equipment unit sales to decrease approximately 7% to 10% in our area of responsibility to approximately 2,700 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 the Rush Equipment Center, increased to 22.2% in 2007 from 21.9% in 2006. The Company's market share in the Houston area construction equipment market increased to 18.4% in 2007 from 17.8% in 2006. Rush Equipment Center has the right to sell new John Deere construction equipment and parts within its assigned area of responsibility, which means competition within its market comes primarily from dealers of competing manufacturers and rental companies.

John Deere equipment users are a diverse group that includes residential and commercial construction businesses, independent rental companies, utility companies, government agencies and various petrochemical, industrial and material

supply businesses. Industry statistics suggest that a majority of all construction equipment is owned by a relatively small percentage of the customer base. Accordingly, John Deere and its dealer group, including the Rush Equipment Center, are aggressively developing more sophisticated ways to serve large equipment fleet owners.

Market factors affecting the construction equipment industry include the following:

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

#### Year Ended December 31, 2007, Compared to Year Ended December 31, 2006

##### Revenues

Revenues decreased \$319.7 million, or 13.6%, in 2007 compared to 2006. Sales of new and used trucks decreased \$387.2 million, or 21.7%, in 2007 compared to 2006. This decrease in new and used truck revenue is primarily due to decreased sales of new Class 8 trucks due to the diesel engine emissions guidelines that caused a pre-buy of Class 8 trucks in 2006 and has decreased demand for new Class 8 trucks with engines built subsequent to January 1, 2007. Uncertain economic conditions in the U.S. and decreased freight demand also contributed to decreased demand for Class 8 trucks in 2007. The decrease was offset by increased sales of medium-duty trucks primarily due to acquisitions, and increased demand for used trucks.

Unit sales of new Class 8 trucks decreased 38.7% in 2007 compared to 2006. According to A.C.T. Research, the U.S. Class 8 truck market decreased 46.2% in 2007 compared to 2006. In 2007, the Company's share of the U.S. Class 8 truck market increased to 4.6% compared to 4.1% in 2006. The Company expects its share to range between 4.1% and 4.6% of the U.S. Class 8 truck market in 2008, which would result in the sale of approximately 6,500 to 7,200 Class 8 trucks based on our current retail sales estimates of 145,000 to 156,000 units.

Unit sales of new medium-duty trucks increased 16.8% in 2007 compared to 2006. Acquisitions during the past eighteen months contributed to this increase in unit sales of medium-duty trucks. Overall, new medium-duty truck sales revenue increased approximately \$36.4 million, or 14.4%, in 2007 compared to 2006. A.C.T. Research currently expects a 1.4% decline in U.S. retail sales of Class 4, 5, 6, and 7 medium-duty trucks during 2008. In 2007, the Company achieved a 2.2% share of the Class 4 through 7 truck sales market in the U.S. The Company expects its share to be approximately 2.2% of the U.S. Class 4 through 7 truck sales market in 2008, which would result in the sale of approximately 5,000 to 5,500 Class 4 through 7 trucks based on A.C.T. Research's current 2008 U.S. retail sales estimates of 243,000 units.



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Unit sales of used trucks increased 2.4% in 2007 compared to 2006. Used truck average revenue per unit increased by approximately 7.7%. In 2008, used truck sales volumes and prices will be primarily driven by the number of trade-in units the Company receives. The Company expects to sell approximately 3,800 – 4,100 used trucks in 2008.

Parts and service sales increased \$39.2 million, or 8.9%, in 2007 compared to 2006. Same store parts and service sales increased \$25.7 million, or 5.8%, in 2007 compared to 2006. The parts and service sales increase was consistent with management's expectations, which take into account general economic conditions, successful business development, acquisitions and price increases for parts and labor. The Company expects parts and service sales to achieve a 5% to 8% same store growth level during 2008.

Sales of new and used construction equipment increased \$15.4 million, or 25.9%, in 2007 compared to 2006. During 2007, the Company continued its concerted effort to increase its market share in the Houston area. According to data compiled by John Deere, approximately 2,949 units of construction equipment were put into use in our area of responsibility in 2007 compared to 2,585 in 2006. In 2008, we expect new construction equipment unit sales to decrease approximately 7% to 10% in our area of responsibility to approximately 2,700 units. The Company believes it can maintain its market share in the Houston area at approximately 18.0% to 20.0% for the year ended 2008.

Truck lease and rental revenues increased \$10.3 million, or 24.7%, in 2007 compared to 2006. 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 the last quarter of 2006. The lease and rental fleet increased approximately 2.5% to 2,404 units at December 31, 2007 from 2,345 units at December 31, 2006. The Company expects lease and rental revenue to increase approximately 2% to 5% in 2008 compared to 2007.

Finance and insurance revenues increased \$2.5 million, or 12.8%, in 2007 compared to 2006. This increase is due to the Company arranging financing on a higher percentage of trucks it sold during 2007 than during 2006 and to a \$1.4 million nonrecurring reserve release related to the Company's new early repayment chargeback program. The Company expects to be charged fewer early repayment penalties under this new program which was put into place in May 2007. See Note 15 of the Notes to Consolidated Financial Statements for a discussion of the new program. The Company expected finance income from new Class 8 truck sales to decrease during 2007 compared to 2006 because of the expected decline in new Class 8 truck sales. However, this decrease was offset by increases in finance revenue from medium-duty truck sales, the nonrecurring reserve release and insurance revenue resulting from product expansion and recent acquisitions. The Company expects overall finance and insurance revenue to fluctuate proportionately in 2008

with the new Class 8 truck market. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

Other income remained flat at \$8.2 million in 2007 compared to 2006. Other income consists of the gain on sale realized on trucks from the lease and rental fleet, commissions earned from John Deere for direct manufacturer sales into our area of responsibility, document fees related to truck sales and purchase discounts.

### Gross Profit

Gross profit decreased \$0.6 million, or 0.2%, in 2007 compared to 2006. Gross profit as a percentage of sales increased to 17.3% in 2007 from 15.0% in 2006. This increase is primarily a result of a change in our product sales mix. Truck sales, a lower margin revenue item, decreased as a percentage of total revenue to 68.6% in 2007 from 75.7% in 2006. Parts and service revenue, a higher margin revenue item, increased as a percentage of total revenue to 23.7% in 2007 from 18.8% in 2006.

Gross margins on Class 8 truck sales increased to 8.6% in 2007 from 7.2% in 2006. The Company's 2007 gross margins on Class 8 trucks increased because a larger percentage of sales were to non-fleet customers. For 2008, the Company expects overall gross margins from Class 8 truck sales of approximately 7.0% to 8.0%. The Company continually evaluates its reserve for new truck valuation losses. The Company recorded an expense of \$3.3 million to increase its new heavy-duty truck valuation allowance in 2007 and \$1.3 million in 2006.

Gross margins on medium-duty truck sales decreased to 5.5% in 2007 from 5.7% in 2006. For 2008, the Company expects overall gross margins from medium-duty truck sales of approximately 5.5% to 6.5%. The Company's gross margins on medium-duty trucks 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 trucks sold. The Company recorded an expense of \$2.8 million to increase its new medium-duty truck valuation allowance in 2007 and \$1.6 million in 2006.

Gross margins on used truck sales decreased to 8.6% in 2007 from 9.1% in 2006. The challenge for the Company's used truck business is always procuring a sufficient quantity of quality used trucks for resale at acceptable prices. The Company believes it will be able to continue to achieve margins of approximately 8.5% to 9.5% during 2008. The Company continually evaluates its reserve for used truck valuation losses. The Company recorded an expense of \$2.9 million to increase its used truck valuation allowance in 2007 and \$0.4 million in 2006.

Gross margins from the Company's parts, service and body shop operations decreased to 40.9% in 2007 from 41.1% in 2006. Gross profit for the parts, service and body shop departments increased to \$196.7 million in 2007 from \$181.6 million in 2006. The Company expects gross margins on parts, service and body shop operations of approximately 39.0% to 41.0% during 2008.

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Gross margins on new and used construction equipment sales decreased to 11.0% in 2007 from 11.8% in 2006. The lower gross margins for 2007 are due to the Company's efforts to increase its market share in the Houston area. Additionally, gross margins on new and used construction equipment can fluctuate depending on the mix of products sold. The Company expects 2008 gross margins to remain in a range of approximately 10.0% to 11.0% as the Company attempts to increase its market share.

Gross margins from truck lease and rental sales decreased to 15.4% in 2007 from approximately 21.9% in 2006. The decrease in the gross margin from lease and rental sales is primarily due to the decline in the utilization of the rental fleet, which is a result of the additions to our rental fleet in 2006. The Company expects gross margins from lease and rental sales of approximately 15.0% to 18.0% during 2008. 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 increased \$10.6 million, or 4.6%, in 2007 compared to 2006. SG&A expenses as a percentage of sales increased to 11.9% in 2007 from 9.8% in 2006. SG&A expenses as a percentage of sales have historically ranged from 10.0% to 15.0%. In 2007, the selling portion of SG&A expenses, which consists primarily of commissions on truck sales, decreased 12.6%, and the general and administrative portion of SG&A increased 7.3% compared to 2006. In 2008, the Company expects the selling portion of SG&A expenses to be approximately 30% to 33% of new and used truck gross profit. The selling portion of SG&A varies based on the gross profit derived from truck sales. The general and administrative portion of SG&A will increase approximately 5% to 8% due to the full-year effect of 2007 acquisitions and inflation. The Company has taken action to reduce overhead expenses to a level more reflective of its needs given the expected business activity in 2008.

#### **Interest Expense, Net**

Net interest expense decreased \$0.8 million, or 5.1%, in 2007 compared to 2006. In 2007, floor plan interest expense decreased compared to 2006 primarily due to the decrease in floor plan notes payable. To take advantage of increased truck demand in 2006, the Company maintained higher levels of truck inventory than it has traditionally maintained, which increased the Company's floor plan notes payable in 2006 and

the first half of 2007. The decrease in net interest expense in 2007 was compounded by earnings on the Company's investment of available cash. Due to lower floor plan liability, lower floor plan interest rates and our increase in available cash, the Company expects net interest expense in 2008 to decrease approximately 30.0% compared to 2007.

#### **Income Before Income Taxes**

Income before income taxes decreased \$12.3 million, or 13.0%, in 2007 compared to 2006, as a result of the factors described above. The Company believes that income from continuing operations in 2008 will slightly decrease compared to 2007 based on the factors described above.

#### **Income Taxes**

Income taxes decreased \$5.0 million, or 14.1%, in 2007 compared to 2006. The Company provided for taxes at a 37.0% effective rate in 2007 and expects the effective tax rate to be approximately 37.5% in 2008.

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

#### **Revenues**

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

Unit sales of new Class 8 trucks increased 16.7% in 2006 compared to 2005. The Class 8 truck sales market in the U.S. increased 12.4% in 2006 compared to 2005. In 2006, the Company retained a 4.1% share of the Class 8 truck sales market in the U.S.

Unit sales of new medium-duty trucks increased 67.2% in 2006 compared to 2005. Overall, new medium-duty truck sales revenue increased approximately \$95.0 million, or 60.1%, in 2006 compared to 2005.

Unit sales of used trucks increased 8.9% in 2006 compared to 2005. Used truck average revenue per unit increased by approximately 9.8%.

Parts and service sales increased \$75.5 million, or 20.6%, in 2006 compared to 2005. Same store parts and service sales increased \$62.6 million, or 17.1%, in 2006 compared to 2005.

Sales of new and used construction equipment increased \$17.9 million, or 42.8%, in 2006 compared to 2005. Approximately 2,500 units of construction equipment were put into use in the Company's area of responsibility in 2006 compared to approximately 2,700 in 2005. John Deere's market share in the Houston area construction equipment market increased to 22.7% in 2006 from 19.9% in 2005.

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

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Truck lease and rental revenues increased \$7.6 million, or 22.3%, in 2006 compared to 2005. The lease and rental fleet increased approximately 30.4% to 2,345 units at December 31, 2006 from 1,798 units at December 31, 2005.

Finance and insurance revenues increased \$3.8 million, or 25.0%, in 2006 compared to 2005.

Other income increased \$1.1 million, or 14.9%, in 2006 compared to 2005.

#### Gross Profit

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

Gross margins on Class 8 truck sales increased to 7.2% in 2006 from 6.7% in 2005. The Company recorded an expense of \$1.3 million to increase its new heavy-duty truck valuation allowance in 2006 and did not record a similar expense in 2005.

Gross margins on medium-duty truck sales decreased to 5.7% in 2006 from 6.2% in 2005. The Company recorded an expense of \$1.6 million to increase its new medium-duty truck valuation allowance in 2006 and did not record a similar expense in 2005.

Gross margins on used truck sales remained relatively constant, with a slight decrease to 9.1% in 2006 from 9.2% in 2005. The Company recorded an expense of \$350,000 to increase its used truck valuation allowance in 2006 and \$150,000 in 2005.

Gross margins from the Company's parts, service and body shop operations remained constant at 41.1% in 2006 and 2005. Gross profit for the parts, service and body shop departments increased to \$181.6 million in 2006 from \$150.5 million in 2005.

Gross margins on new and used construction equipment sales decreased to 11.8% in 2006 from 12.4% in 2005.

Gross margins from truck lease and rental sales decreased to 21.2% in 2006 from approximately 23.5% in 2005. The decrease in gross margin from lease and rental sales was primarily due to increases in interest rates and increases in the cost of new trucks for use in the lease and rental fleet.

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

#### Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses increased \$41.4 million, or 33.0%, in 2006 compared to 2005. The increase in SG&A in 2006 was due in large part to increased sales compensation as a result of the 32.2% increase in truck gross profit over 2005, expansion of dealership facilities in Mobile, Alabama, and Nashville, Tennessee, the opening of a new dealership in Alice, Texas, and acquisitions of new dealerships in Texarkana, Texas,

Orlando and Jacksonville, Florida, Atlanta, Georgia, and Denver, Colorado, from July 2005 through November 2006. Additionally, on January 1, 2006, the Company implemented SFAS 123(R), which resulted in stock-based compensation expense of \$2.6 million for 2006. SG&A expenses as a percentage of sales decreased to 9.8% in 2006 from 10.1% in 2005.

#### Interest Expense, Net

Net interest expense increased \$2.8 million, or 21.9%, in 2006 compared to 2005. In 2006, floor plan interest expense increased compared to 2005 primarily due to the increase in floor plan notes payable and an increase in the Company's borrowing rate. To take advantage of increased truck demand in 2006, the Company maintained higher levels of truck inventory than it has traditionally maintained, which increased the Company's floor plan notes payable. The increase in net interest expense in 2006 was offset by earnings on the Company's investment of available cash.

#### Income Before Income Taxes

Income before income taxes increased \$22.9 million, or 32.2%, in 2006 compared to 2005, as a result of the factors described above.

#### Income Taxes

Income taxes increased \$8.8 million, or 33.0%, in 2006 compared to 2005. The Company provided for taxes at a 37.5% effective rate in 2006.

#### Liquidity and Capital Resources

The Company's short-term cash requirements are primarily for working capital, inventory financing, the improvement and expansion of existing facilities, and the construction of new facilities. Historically, these cash requirements have been met through the retention of profits and borrowings under our floor plan arrangements. As of December 31, 2007, the Company had working capital of approximately \$197.5 million, including \$187.0 million in cash available to fund operations.

The Company may request working capital advances in the minimum amount of \$100,000 from GE Capital, its primary truck lender. However, such working capital advances may not cause the total indebtedness owed GE Capital to exceed an amount equal to the wholesale advances made against the then current inventory less any payment reductions then due. There were no working capital advances outstanding under this agreement as of December 31, 2007.

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 as of December 31, 2007. However, \$6.2 million was pledged to secure various letters of credit related to self-insurance products, leaving \$1.8 million available for future borrowings as of December 31, 2007.



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

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Titan Technology Partners is currently implementing SAP enterprise software and a new SAP dealership management system for the Company. The cost of the SAP software and implementation is estimated at \$15.0 million. During 2007, the Company had expenditures of \$10.9 related to the SAP project. The Company has no other material commitments for capital expenditures as of December 31, 2007. However, the Company will continue to purchase vehicles that are necessary to operate its lease and rental division. Furthermore, management will continue to authorize capital expenditures for improvement and expansion of dealership facilities based on market opportunities.

#### Cash Flows

Cash and cash equivalents increased by \$25.5 million during the year ended December 31, 2007, and increased by \$28.5 million during the year ended December 31, 2006. 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 2007, operating activities resulted in net cash provided by operations of \$258.7 million. Cash provided by operating activities was primarily impacted by the decreased levels of new truck inventory. The majority of truck inventory is financed through the Company's floor plan financing provider. The Company maintained higher levels of new truck inventory in 2006 than it has traditionally maintained, in order to take advantage of increased demand for new trucks. During 2006, operating activities resulted in net cash used in operations of \$6.9 million.

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

	Year ended December 31,	
	2007	2006
Net cash provided by (used in) operating activities as reported	\$ 258,701	\$ (6,862)
Draws (payments) on floor plan notes payable as reported	(172,701)	120,003
Net cash provided by operating activities including all floor plan notes payable	\$ 86,000	\$ 113,141

#### Cash Flows from Investing Activities

Cash flows from investing activities consist primarily of cash used for capital expenditures and business acquisitions. During

2007, the Company used \$67.5 million in investing activities. Capital expenditures consisted of purchases of property and equipment, and improvements to existing dealership facilities of \$65.3 million. Of this amount, \$37.6 million was used to purchase additional units for the rental and leasing operations during 2007, which was directly offset by borrowings of long-term debt. The Company expects truck purchases of approximately \$40.0 million for its leasing operations in 2008, depending on customer demand. During 2008, the Company expects to make capital expenditures for recurring items such as computers, shop equipment and vehicles of approximately \$12.0 million, in addition to \$2.7 million for the SAP software implementation described above. Cash used in business acquisitions was \$7.9 million during the year ended December 31, 2007. See Note 16 of the Notes to Consolidated Financial Statements for a detailed discussion of these acquisitions.

During 2006, cash used in investing activities was \$141.9 million. Capital expenditures consisted of purchases of property and equipment, and improvements to our existing dealership facilities of \$116.1 million. Of this amount, \$73.6 million was used to purchase additional units for the rental and leasing operations, which was directly offset by borrowings of long-term debt. Cash used in business acquisitions was \$36.1 million during the year ended December 31, 2006. See Note 16 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 \$165.7 million during the year ended December 31, 2007. The Company had borrowings of long-term debt of \$43.2 million and repayments of long-term debt of \$37.9 million during the year ended December 31, 2007. The Company had net payments of floor plan notes payable of \$172.7 million during the year ended December 31, 2007. The borrowings of long-term debt are primarily related to the increase in the lease and rental fleet and real estate refinancing.

Cash provided by financing activities was \$177.2 million during the year ended December 31, 2006. The Company had borrowings of long-term debt of \$102.4 million and repayments of long-term debt of \$44.3 million during the year ended December 31, 2006. The Company had net borrowings of floor plan notes payable of \$120.0 million during the year ended December 31, 2006. The borrowings of long-term debt are primarily related to the increase in the lease and rental fleet and real estate financing.

The Company arranges financing for customers through various financial institutions including GE Capital and PACCAR Financial. The Company arranged customer financing for approximately 30% of our new and used truck sales in 2007. The Company receives a commission from the lender equal to either the difference between the interest rates

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

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. A majority of finance contracts are sold without recourse to the Company. The Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. The Company provides an allowance for repossession losses and early repayment penalties that it may be liable for under finance contracts sold without recourse.

In addition, through The CIT Group, CitiCapital, John Deere Credit and others, the Company arranged customer financing for approximately \$47.5 million of our new and used construction equipment sales in 2007. Generally, construction equipment financings are memorialized through the use of installment or lease contracts, which are secured by the construction equipment financed, and generally require a down payment up to 10% of the value of the financed piece of construction equipment, with the remaining balance being financed over a three- to five-year period. The Company experiences no repossession loss on construction equipment financings because such financings are sold to third parties without recourse.

Substantially, all of the Company's truck purchases are made on terms requiring payment within 15 days or less from the date the trucks are invoiced from the factory. On August 15, 2007, the Company entered into an Amended and Restated Wholesale Security Agreement with GE Capital, which was effective August 1, 2007. Interest under the floor plan financing agreement is payable monthly, and the rate varies from LIBOR plus 1.15% to 1.50% depending on the average aggregate month-end balance of debt. The Company finances substantially all of the purchase price of its new truck inventory, and the loan value of its used truck inventory under the floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new trucks. The Company makes monthly interest payments to GE Capital on the amount financed, but is not required to commence loan principal repayments on any vehicle until such vehicle has been floor planned for 12 months or is sold. The floor plan financing agreement allows for prepayments and working capital advances with monthly adjustments to the interest due on outstanding advances. On December 31, 2007, the Company had approximately \$257.9 million outstanding under its floor plan financing agreement with GE Capital.

During 2007, substantially all of the Company's new construction equipment purchases were financed by John Deere and CitiCapital. The agreement with John Deere provides an interest-free financing period, after which the amount financed is required to be paid in full. When construction equipment is sold prior to the expiration of the interest-free finance period, the Company is required to repay the principal within approximately ten days of the sale. If the construction equipment financed by John Deere is not sold within the interest-free finance period, it is transferred to the CitiCapital floor

plan arrangement. The Company makes principal payments for sold inventory to CitiCapital on the 15th day of each month. Used and rental construction equipment is financed to a maximum of book value under a floor plan arrangement with CitiCapital. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on rental construction equipment as book value is reduced. Principal payments for sold used construction equipment are made no later than the 15th day of each month following the sale. The loans are collateralized by a lien on the construction equipment. As of December 31, 2007, the Company's floor plan arrangement with CitiCapital permitted the financing of up to \$13.5 million in construction equipment. On December 31, 2007, the Company had \$6.2 million outstanding under its floor plan financing arrangements with John Deere and \$9.6 million outstanding under its floor plan financing arrangement with CitiCapital.

In January 2008, the Company entered into a loan agreement with Chase to replace the CitiCapital facility. The new facility with Chase expires in June 2009, and the interest rate is LIBOR plus 1.15%. The Company's floor plan agreements limit the aggregate amount of borrowings based on the book value of new and used construction equipment units.

#### Cyclicality

The Company's business is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, economic recessions, environmental and other government regulations and customer business cycles. Unit sales of new trucks have historically been subject to substantial cyclical variation based on these general economic conditions. According to data published by A.C.T. Research, in recent years total domestic retail sales of new Class 8 trucks have ranged from a low of approximately 140,000 in 2001 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 can reduce the negative impact on the Company's earnings of adverse general economic conditions and cyclical trends affecting the heavy-duty truck industry.

#### Effects of Inflation

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

#### Off-Balance Sheet Arrangements

The Company does not have 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

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

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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.

#### Contractual Obligations

The Company has certain contractual obligations that will impact its short- and long-term liquidity. At December 31, 2007, such obligations were as follows:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	\$198,945	\$33,593	\$86,879	\$64,842	\$13,631
Capital lease obligations(2)	21,354	5,635	7,562	6,865	1,292
Operating lease obligations(3)	39,734	8,502	12,545	7,382	11,305
Floor plan debt obligations	273,653	273,653	—	—	—
Interest obligations(4)	51,547	29,187	16,525	5,385	450
Purchase obligations	5,970	2,739	1,671	1,248	312
Total	\$591,203	\$353,309	\$125,182	\$85,722	\$26,990

(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 estimated interest expense on variable-rate debt by using the variable rate in effect December 31, 2007.

#### Quantitative and Qualitative Disclosures about Market Risk

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

The Company is exposed to some market risk through interest rates related to our floor plan borrowing arrangements, variable-rate debt and discount rates related to finance sales. Floor plan borrowings are based on the LIBOR rate of interest and are used to meet working capital needs. As of December 31, 2007, the Company had floor plan borrowings of approximately \$273.7 million. Assuming an increase in the LIBOR rate of interest of 100 basis points, interest expense could increase by approximately \$2.7 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 \$187.0 million on December 31, 2007. These funds are generally invested in highly liquid money market accounts, government-sponsored enterprises and corporate bonds 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 interest income could correspondingly increase or decrease by approximately \$1.9 million. We have 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, 2007, and 2006, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, in 2006 the Company changed its method of accounting for share based payments and in 2007 the Company changed its method for accounting for income taxes.

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, 2007, 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 10, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP  
San Antonio, Texas  
March 10, 2008

## CONSOLIDATED BALANCE SHEETS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,	
(in thousands, except shares and per share amounts)	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 187,009	\$ 161,558
Accounts receivable, net	48,781	74,441
Inventories	365,947	484,696
Prepaid expenses and other	1,699	2,128
Deferred income taxes, net	7,028	7,496
Total current assets	610,464	730,319
Property and equipment, net	299,013	278,690
Goodwill, net	120,582	117,071
Other assets, net	1,532	2,330
Total assets	\$ 1,031,591	\$ 1,128,410
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Floor plan notes payable	\$ 273,653	\$ 446,354
Current maturities of long-term debt	33,593	25,999
Current maturities of capital lease obligations	4,444	2,933
Trade accounts payable	40,452	37,449
Accrued expenses	60,517	61,287
Total current liabilities	412,659	574,022
Long-term debt, net of current maturities	165,352	166,125
Capital lease obligations, net of current maturities	13,099	14,799
Deferred income taxes, net	40,904	33,856
Shareholders' equity:		
Preferred stock, par value \$.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2007 and 2006	—	—
Common stock, par value \$.01 per share; 60,000,000 class A shares and 20,000,000 class B shares authorized; 26,070,595 class A shares and 12,265,437 class B shares outstanding in 2007; 25,604,241 class A shares and 12,108,339 class B shares outstanding in 2006	383	251
Additional paid-in capital	178,274	169,801
Retained earnings	220,920	169,556
Total shareholders' equity	399,577	339,608
Total liabilities and shareholders' equity	\$ 1,031,591	\$ 1,128,410

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,		
(in thousands, except per share amounts)	2007	2006	2005
<b>Revenues:</b>			
New and used truck sales	\$ 1,393,253	\$ 1,780,418	\$ 1,400,736
Parts and service	480,611	441,424	365,908
Construction equipment sales	74,986	59,545	41,692
Lease and rental	52,103	41,776	33,975
Finance and insurance	21,663	19,197	15,356
Other	8,163	8,163	7,103
Total revenues	2,030,779	2,350,523	1,864,770
<b>Cost of products sold:</b>			
New and used truck sales	1,283,993	1,652,913	1,304,290
Parts and service	283,912	259,801	215,419
Construction equipment sales	66,737	52,527	36,509
Lease and rental	44,069	32,615	25,860
Total cost of products sold	1,678,711	1,997,856	1,582,078
Gross profit	352,068	352,667	282,692
Selling, general and administrative	240,661	230,056	188,667
Depreciation and amortization	14,935	12,889	10,487
Operating income	96,472	109,722	83,538
<b>Interest income (expense):</b>			
Interest income	2,840	2,162	2,508
Interest expense	(17,749)	(17,880)	(15,403)
Total interest expense, net	(14,909)	(15,718)	(12,895)
Gain on sale of assets, net	239	54	495
Income before taxes	81,802	94,058	71,138
Provision for income taxes	30,310	35,272	26,513
Net income	\$ 51,492	\$ 58,786	\$ 44,625
<b>Earnings per common share:</b>			
Basic	\$ 1.35	\$ 1.57	\$ 1.23
Diluted	\$ 1.33	\$ 1.55	\$ 1.19

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 Issued and Outstanding		\$.01 Par Value	Additional Paid-In Capital	Retained Earnings	Total
	Class A	Class B				
<b>Balance, December 31, 2004</b>	24,513	11,333	\$ 239	\$ 156,423	\$ 66,145	\$ 222,807
Stock options exercised						
(including tax benefit of \$3,076)	597	512	8	5,912		5,920
Issuance of common stock under employee stock purchase plan	45			339		339
Issuance cost of common stock				(71)		(71)
Net income					44,625	44,625
<b>Balance, December 31, 2005</b>	25,155	11,844	247	162,603	110,770	273,620
Stock options exercised						
(including tax benefit of \$2,349)	392	264	4	4,091		4,095
Stock-based compensation related to stock options and employee stock purchase plan				2,647		2,647
Issuance of common stock under employee stock purchase plan	57			460		460
Net income					58,786	58,786
<b>Balance, December 31, 2006</b>	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
<b>Balance, December 31, 2007</b>	26,071	12,265	\$ 383	\$ 178,274	\$ 220,920	\$ 399,577

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)	2007	2006	2005
<b>Cash flows from operating activities:</b>			
Income from continuing operations	\$ 51,492	\$ 58,786	\$ 44,625
Adjustments to reconcile net income to net cash used in operating activities, net of acquisitions-			
Depreciation and amortization	35,798	27,074	21,010
Gain on sale of property and equipment, net	(239)	(825)	(1,669)
Stock-based compensation expense related to employee stock options and employee stock purchases	3,442	2,647	—
Provision for deferred income tax expense	7,516	6,877	1,286
Tax benefit realized from exercise of stock options	—	—	3,076
Excess tax benefits from stock-based compensation	(2,239)	(2,349)	—
Change in accounts receivable, net	25,689	(10,133)	(32,844)
Change in inventories	132,357	(114,380)	(102,308)
Change in prepaid expenses and other, net	429	(280)	(230)
Change in trade accounts payable	3,003	14,039	6,357
Change in accrued expenses	1,453	11,682	8,537
Net cash provided by (used in) operating activities	258,701	(6,862)	(52,160)
<b>Cash flows from investing activities:</b>			
Acquisition of property and equipment	(65,268)	(112,766)	(47,385)
Proceeds from the sale of property and equipment	4,916	6,333	8,457
Business acquisitions	(7,866)	(36,087)	(66,026)
Change in other assets	712	664	(139)
Net cash used in investing activities	(67,506)	(141,856)	(105,093)
<b>Cash flows from financing activities:</b>			
(Payments) draws on floor plan notes payable, net	(172,701)	120,003	113,345
(Payments) borrowings on lines of credit, net	—	(2,755)	321
Proceeds from long-term debt	43,211	102,448	52,099
Payments on long-term debt	(37,890)	(44,334)	(34,979)
Payments on capital lease obligations	(3,344)	(2,512)	(1,511)
Issuance of shares relating to employee stock options and employee stock purchase plan	2,796	2,206	3,183
Excess tax benefits from stock-based compensation	2,239	2,349	—
Capitalized expenditures related to issuance of 8,750,000 shares relating to the public offering	—	—	(71)
Debt issuance costs	(55)	(198)	(240)
Net cash provided by (used in) financing activities	(165,744)	177,207	132,147
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>25,451</b>	<b>28,489</b>	<b>(25,106)</b>
Cash and cash equivalents, beginning of year	161,558	133,069	158,175
Cash and cash equivalents, end of year	\$ 187,009	\$ 161,558	\$ 133,069
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 23,690	\$ 20,761	\$ 15,274
Income taxes	\$ 18,716	\$ 31,758	\$ 21,703
<b>Non cash investing and financing activities:</b>			
Assets acquired under capital leases	\$ 3,511	\$ 3,339	\$ 18,416
Note payable related to acquisition	\$ 1,500	—	—

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### NOTE 1. ORGANIZATION AND OPERATIONS:

Rush Enterprises, Inc. (the “Company”) was incorporated in 1965 under the laws of the State of Texas. The Company now operates a Truck segment and a Construction Equipment segment. The Truck segment operates a regional network of Rush Truck Centers. Rush Truck Centers sell trucks manufactured by Peterbilt, Volvo, GMC, Hino, UD, Ford or Isuzu. Through its strategically located network of Rush Truck Centers, the Company provides one-stop service for the needs of its customers, including retail sales of new and used trucks, aftermarket parts sales, service and repair facilities, financing, leasing and rental, and Insurance products. The Company’s truck centers are located in areas on or near major highways in Alabama, Arizona, California, Colorado, Florida, Georgia, New Mexico, Oklahoma, Tennessee and Texas. The Construction Equipment segment, formed during 1997, operates a John Deere equipment center in Houston, Texas. 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 18 of the Notes to Consolidated Financial Statements for segment information.

As part of the Company’s corporate reorganization in connection with its initial public offering (“Offering”) in June 1996, the Company acquired, as a wholly owned subsidiary, a managing general agent (the “MGA”) to manage all of the operations of Associated Acceptance, Inc. (“AA”). The Texas Insurance Code previously required that every shareholder of a corporation licensed to act as a local recording agent be individually licensed to act as an insurance agent. Accordingly, as a licensed insurance agent in the State of Texas, W. Marvin Rush had been the sole shareholder of AA. Recent regulatory changes no longer necessitate Mr. Rush’s ownership of AA. As a result, the Company and Mr. Rush transferred ownership of AA to a subsidiary of the Company. Therefore, the financial position and operations of AA have been included as part of the Company’s consolidated financial position and results of operations for all periods presented.

Effective at the close of business on July 9, 2002 (the “Record Date”), pursuant to action taken by the shareholders at the Annual Meeting of the Company held July 9, 2002, and described in the Proxy Statement dated May 15, 2002, the Board of Directors of the Company reclassified the outstanding common stock, \$0.01 par value per share (the “Old Common Stock”), as Class B Common Stock, \$0.01 par value per share (the “Class B Common Stock”), and declared a stock dividend of one share of a new Class A Common Stock, \$0.01 par value per share (the “Class A Common Stock”), for each share of Class B Common Stock held by shareholders of record on the Record Date. The adjustment caused each option outstanding prior to July 9, 2002 to become an option to purchase Class A Common Stock and an option to purchase Class B Common

Stock, each with an exercise price of 50% of the exercise price of the option originally granted. Each share of Class A Common Stock ranks substantially equal to each share of Class B Common Stock with respect to receipt of any dividends or distributions declared on shares of common stock and the right to receive proceeds on liquidation or dissolution of the Company after payment of the Company’s indebtedness and liquidation preference payments to holders of preferred shares. However, holders of Class A Common Stock have 1/20th of one vote per share on all matters requiring a shareholder vote, while holders of Class B Common Stock have one vote per share on all matters requiring a shareholder vote. The Company’s stock trades on NASDAQ Global Select Market<sup>sm</sup> under the symbols RUSHA and RUSHB.

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, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, 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.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES:

#### Principles of Consolidation

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

#### Estimates in Financial Statements

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

#### Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by specific identification for new and used truck and construction equipment inventory and by the first-in,



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

first-out method for tires, parts and accessories. An allowance is provided when it is anticipated that cost will exceed net realizable value.

#### Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the useful life of the improvement, or the term of the lease, whichever is shorter. Provision for depreciation of property and equipment is calculated primarily on a straight-line basis. The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest, when incurred, is added to the cost of underlying assets and is amortized over the estimated useful life of such assets. The Company did not incur any capitalized interest related to major capital projects in the periods presented. The cost, accumulated depreciation and amortization and estimated useful lives are summarized as follows (in thousands):

	2007	2006	Estimated Life (Years)
Land	\$ 37,333	\$ 36,117	—
Buildings and improvements	76,350	72,328	31 - 39
Leasehold improvements	16,712	13,590	2 - 35
Machinery and shop equipment	26,679	25,748	5 - 15
Furniture, fixtures and computers	26,717	25,033	3 - 7
Transportation equipment	28,046	27,352	2 - 15
Lease and rental vehicles	170,765	154,416	2 - 8
Construction in progress	16,562	4,813	
Accumulated depreciation and amortization	(100,151)	(80,707)	
Total	\$ 299,013	\$ 278,690	

As of December 31, 2007, the Company had \$16.7 million (net of accumulated depreciation of \$6.1 million) in lease and rental vehicles under various capital leases included in property and equipment. The charge to income resulting from amortization of these assets recorded under capital leases is included with depreciation expense.

#### Allowance for Doubtful Receivables and Repossession Losses

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

#### Goodwill

Goodwill related to acquisitions was approximately \$120.6 million as of December 31, 2007 and \$117.1 million as of December 31, 2006. Goodwill increased \$3.5 million in 2007 and \$16.3 million in 2006. Accumulated amortization of goodwill was approximately \$3.8 million at December 31, 2007 and December 31, 2006.

Goodwill represents the excess purchase price over the fair value of net assets acquired. The Company applies the provisions of Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), in our accounting for goodwill. SFAS 142 requires that goodwill and other intangible assets that have indefinite lives not be amortized but instead be tested at least annually by reporting unit for impairment, or more frequently when events or changes in circumstances indicate that the asset might be impaired. For indefinite lived intangible assets, impairment is tested by comparing the carrying value of the asset to the fair value of the reporting unit to which they are assigned. Goodwill was tested for impairment at December 31, 2007 and no impairment write down was required. However, the Company is exposed to the possibility that changes in market conditions could result in significant impairment charges in the future, thus resulting in a potential increase in earnings volatility.

#### Other Assets

Other assets include the long-term portion of notes receivable of \$0.7 million at December 31, 2007 and \$1.3 million at December 31, 2006. The Company recognizes interest income on notes receivable monthly as earned. Accumulated amortization of other assets was approximately \$0.9 million at December 31, 2007 and \$0.8 million at December 31, 2006. The Company annually assesses the appropriateness of the asset valuations of other assets and the related amortization period as applicable.

#### Income Taxes

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

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

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), effective January 1, 2007. FIN 48 prescribes how a company should recognize, measure, present and disclose uncertain tax positions that the company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits meeting the "more likely than not" recognition threshold be recognized or continue to be recognized on its effective date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### 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 collectability. 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 2007, 2006 and 2005, no finance contracts were retained for any significant length of time by the Company but were generally sold, with limited recourse, to certain finance companies concurrent with the sale of the related unit. Gain or loss is recognized by the Company upon the sale of such finance contracts to the finance companies, net of a provision for estimated repossession losses and early repayment penalties. Lease and rental income is recognized over the period of the related lease or rental agreement. Parts and services revenue is earned at the time the Company sells the parts to its customers or at the time the Company completes the service work order related to service provided to the customer’s unit. Payments received on prepaid maintenance plans are deferred as a component of accrued expenses and recognized as income when the maintenance is performed.

### Cost of Sales

For the Company’s new and used truck and construction equipment operations and its parts operations, cost of sales consists primarily of the Company’s actual purchase price, less manufacturer’s incentives, for new and used trucks and construction equipment and parts. The Company is subject to a chargeback of manufacturer incentives for trucks that are not sold to the customer for which they were ordered. The Company 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, rent and interest expense on the lease and rental fleet owned and leased by the Company, and the maintenance cost of the lease and rental fleet. There are no costs of sales associated with the Company’s finance and insurance revenue or other revenue.

### Selling, General and Administrative Expenses

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

### Stock-Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment,” (“SFAS 123(R)”) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including grants of stock options and employee stock purchases under the Company’s Employee Stock Purchase Plan based on estimated fair values. SFAS 123(R) supersedes the Company’s

previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) for periods beginning in 2006.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company’s Consolidated Financial Statements as of December 31, 2007, and 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company’s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

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

Stock-based compensation expense recognized during the year ended December 31, 2007, and 2006 is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company’s Consolidated Statement of Operations for the years ended December 31, 2007, and 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), compensation expense for all share-based payment awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized in the Consolidated Statement of Operations for the year ended December 31, 2007, and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company’s pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

Following the adoption of SFAS 123(R), the Company continues to use the Black-Scholes option-pricing model which was previously used for the Company’s pro forma information required under SFAS 123. For additional information, see Note 12. 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's stock options. Although the fair value of stock options is determined in accordance with SFAS 123(R) using an option-pricing model, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and a willing seller.

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:

	2007	2006	2005
Expected stock volatility	36.7 - 38.9%	25.5 - 32.2%	22.5 - 34.5%
Weighted-average stock volatility	38.78%	26.86%	31.89%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	4.66%	4.69%	4.03%
Expected life (years)	5.0	5.0 - 7.0	7.0
Weighted-average fair value of stock options granted	\$ 5.66	\$ 4.95	\$ 4.36

The Company computes its historical stock price volatility in accordance with SFAS 123(R). The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The expected life of stock options represents the weighted-average period the stock options are expected to remain outstanding.

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

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

	2005
Net income as reported for the prior period (1)	\$ 44,625
Stock-based compensation expense related to stock options and employee stock purchases	1,737
Tax benefit	684
Stock-based compensation expense related to stock options and employee stock purchases, net of tax	1,053
Pro forma net income, including the effect of stock-based compensation expense	\$ 43,572
Basic earnings per share – as reported for the prior period (1)	\$ 1.23
Pro forma basic earnings per share, including the effect of stock-based compensation expense	1.20
Diluted earnings per share – as reported for the prior period (1)	\$ 1.19
Pro forma diluted earnings per share, including the effect of stock-based compensation expense	1.16

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

#### Advertising Costs

Advertising costs are expensed as incurred. Advertising and marketing expense related to operations was \$4.2 million for 2007, \$3.1 million for 2006 and \$2.5 million for 2005. Advertising and marketing expense is included in selling, general and administrative expense.

#### Cash and Cash Equivalents

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

#### Accounting for Internal Use Software

The American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1") in March 1998. SOP 98-1 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's accounting policy with respect to accounting for computer software developed or obtained for internal use is consistent with SOP 98-1. The Company has capitalized software of approximately \$11.9 million at December 31, 2007, and \$1.0 million at December 31, 2006.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted SFAS 157 on January 1, 2008 and it did not have a significant impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and early application is allowed under certain circumstances. The Company did not elect to measure eligible financial instruments at fair value as specified in SFAS 159.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141(R)"), which establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value to be recognized in earnings until settled. SFAS 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) 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 companies ("Manufacturers"). These agreements are nonexclusive agreements that allow the Company to stock, sell at retail and service trucks, equipment and products of the Manufacturers in the Company's defined market. The agreements allow the Company to use the Manufacturers' names, trade symbols and intellectual property and expire as follows:

Distributor	Expiration Dates
Peterbilt	April 2008 through January 2010
Volvo	August 2010
GMC	October 2010
Isuzu	Indefinite
Hino	December 2009
UD	September 2008 through Indefinite
Ford	Indefinite
John Deere	Indefinite

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

The Company purchases its new Peterbilt vehicles and most of its parts from PACCAR, the maker of Peterbilt trucks and parts, at prevailing prices charged to all franchised dealers. Sales of new Peterbilt trucks accounted for approximately 83% of the Company's new vehicle sales for the year ended December 31, 2007, and 90% of the Company's new vehicle sales for the year ended December 31, 2006.

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 91.5% of the Company's new equipment sales for the year ended December 31, 2007, and 91% of the Company's new equipment sales for the year ended December 31, 2006.

#### Primary Lenders

The Company purchases its new and used truck and construction equipment inventories with the assistance of floor plan financing programs offered by various financial institutions and John Deere. Additional floor plan financing is provided by John Deere pursuant to the Company's equipment dealership agreement. These agreements provide that the occurrence of certain events will be considered events of default. There were no known events of default as of December 31, 2007. In the event that the Company's financing becomes insufficient, or its relationship with the current primary lenders terminates, the Company would need to obtain similar financing from other sources. Management believes it can obtain additional floor plan financing or alternative financing if necessary.

The Company's debt agreements include certain restrictive covenants. The Company was in compliance with these and all debt covenants as of December 31, 2007.

#### 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, 2007, the Company had deposits in excess of federal insurance protection totaling approximately \$198.8 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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 heavy- and medium-duty truck and construction equipment markets and related aftermarkets.

The Company generally sells finance contracts it enters into with customers to finance the purchase of trucks 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,	
	2007	2006
Trade accounts receivable from sale of vehicles and construction equipment	\$ 23,284	\$ 52,157
Other trade receivables	6,605	5,874
Warranty claims	6,046	5,677
Other accounts receivable	13,173	11,202
Less allowance for bad debt and warranty receivable	(327)	(469)
Total	\$ 48,781	\$ 74,441

#### NOTE 5. INVENTORIES:

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

	December 31,	
	2007	2006
New vehicles	\$ 223,444	\$ 362,881
Used vehicles	28,646	33,979
New construction equipment	18,243	11,992
Used construction equipment	606	807
Parts and accessories	95,019	74,832
Other	5,058	3,652
Less allowance	(5,069)	(3,447)
Total	\$ 365,947	\$ 484,696

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### 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
<b>2007</b>					
Reserve for warranty 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 truck inventory	1,014	8,953		(6,829)	3,138
<b>2006</b>					
Reserve for warranty receivable	273	676		(480)	469
Reserve for parts inventory	1,448	2,183	709	(2,315)	2,025
Reserve for equipment inventory	0	443		(35)	408
Reserve for truck inventory	150	3,223		(2,359)	1,014
<b>2005</b>					
Reserve for warranty receivable	350	147		(224)	273
Reserve for parts inventory	1,126	1,201	234	(1,113)	1,448
Reserve for truck inventory	350	150		(350)	150

#### Allowance for Doubtful Receivables

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

#### Inventory

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

The valuation for new and used truck and equipment inventory is based on specific identification. A detail of new and used truck 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 trucks and construction

equipment. These notes are collateralized by the inventory purchased and accounts receivable arising from the sale thereof. The Company's floor plan notes have interest rates based on the prime rate or LIBOR, as defined in the agreements. The interest rates applicable to these agreements ranged from approximately 6.28% to 8.75% as of December 31, 2007. Amounts borrowed under these agreements are due when the related truck or construction equipment inventory (collateral) is sold and the sales proceeds are collected by the Company, or in the case of construction equipment rentals, when the carrying value of the equipment is reduced. These agreements may be modified, suspended or terminated by the lender as described in Note 4.

The Company finances substantially all of the purchase price of its new truck inventory, and the loan value of its used truck inventory under a floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new trucks. On December 31, 2007, the Company had approximately \$257.9 million outstanding under its floor plan financing agreement with GE Capital.

The Company's floor plan agreement with CitiCapital is based on the book value of the Company's construction equipment inventory. As of December 31, 2007, the aggregate amount of borrowing capacity with this lender was \$13.5 million, with approximately \$9.6 million outstanding. Additional amounts are available under the Company's John Deere dealership agreement. At December 31, 2007, approximately \$6.2 million was outstanding pursuant to the John Deere dealership agreement.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Assets pledged as collateral as of December 31, 2007 and 2006 were as follows (in thousands):

	December 31,	
	2007	2006
Inventories, new and used trucks and construction equipment at cost based on specific identification, net of allowance	\$ 267,472	\$ 407,829
Truck and construction equipment sale related accounts receivable	23,284	52,157
Total	\$ 290,756	\$ 459,986
Floor plan notes payable	\$ 273,653	\$ 446,354
Accounts payable – truck manufacturer	—	7,579
Total borrowings related to truck and construction equipment	\$ 273,653	\$ 453,933

#### Lines of Credit

The Company may request working capital advances in the minimum amount of \$100,000 from GE Capital, its primary truck lender. However, such working capital advances may not cause the total indebtedness owed GE Capital to exceed an amount equal to the wholesale advances made against the then current inventory less any payment reductions owed to GE Capital. There were no working capital advances outstanding under this agreement at December 31, 2007. 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, 2007, however, \$6.2 million was pledged to secure various letters of credit related to self-insurance products, leaving \$1.8 million available for future borrowings as of December 31, 2007.

#### NOTE 8. LONG-TERM DEBT:

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

	December 31,	
	2007	2006
Variable interest rate term note	\$ 3,200	\$ —
Fixed interest rate term notes	195,745	192,124
Total debt	198,945	192,124
Less- current maturities	(33,593)	(25,999)
Total	\$ 165,352	\$ 166,125

As of December 31, 2007, debt maturities were as follows (in thousands):

2008	\$ 33,593
2009	36,331
2010	50,548
2011	42,582
2012	22,260
Thereafter	13,631
Total	\$ 198,945

The interest rate on the Company's variable interest rate note is based on LIBOR on December 31, 2007. The interest rate on the note was approximately 5.95% on December 31, 2007. The note payment is \$53,333 per quarter, plus interest. The note matures in December 2012.

The Company's fixed interest rate notes are primarily with financial institutions and had interest rates that ranged from approximately 4.74% to 9.68% on December 31, 2007. Payments on the notes range from \$68 to \$76,196 per month, plus interest. Maturities of these notes range from January 2008 to December 2015.

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.

#### NOTE 9. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

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

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

#### NOTE 10. DEFINED CONTRIBUTION PLAN:

The Company has a defined contribution plan (the "Rush Plan"), which is available to all Company employees and the employees of certain affiliates. Each employee who has completed 90 days of continuous service is entitled to enter the Rush Plan on the first day of the following month. Participating employees may contribute from 1% to 50% of total gross compensation. However, certain higher paid employees are limited to a maximum contribution of 15% of total gross compensation. For the first 10% of an employee's contribution, the Company, at its discretion, may contribute an amount equal to 25% of the employees' contributions for those employees with less than five years of service and an amount equal to 50% of the employees' contributions for those employees with more than five years of service. The Company incurred expenses related to the Rush Plan of approximately \$3.6 million during the year ended December 31, 2007, \$3.1 million during the year ended December 31, 2006, and \$2.6 million during the year ended December 31, 2005.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### NOTE 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. 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 \$38.8 million. 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, 2007, the Company guaranteed vehicle residual values of \$7.0 million under operating lease arrangements and \$8.1 million under capital lease arrangements. Historically, the Company purchases these vehicles at the end of the lease term and recognizes a gain on the sale of the vehicle. The residual values are not reflected in the future minimum lease payments for operating leases. Vehicle lease expenses were approximately \$4.8 million for the year ended December 31, 2007, \$4.8 million for the year ended December 31, 2006, and \$5.5 million for the year ended December 31, 2005.

Future minimum lease payments under capital and non-cancelable vehicle leases as of December 31, 2007, are as follows (in thousands):

	Capital Leases	Operating Leases
2008	\$ 5,635	\$ 4,345
2009	4,068	3,635
2010	3,494	2,765
2011	4,045	2,051
2012	2,820	1,670
Thereafter	1,292	1,323
Total minimum lease payments	\$ 21,354	\$ 15,789
Less amount representing interest	(3,811)	
Present value of net minimum		
capital lease payments	17,543	
Less current portion	(4,444)	
Obligations under capital leases		
less current portion	\$ 13,099	

#### Customer Vehicle Leases as Lessor

A division of the Company leases both owned and leased vehicles 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, 2007 consisted of minimum rental payments of approximately \$34.2 million and contingent rental payments of \$5.4 million. Rental income during the year ended December 31, 2006, consisted of minimum rental payments of approximately \$24.7 million and contingent rentals payments

of approximately \$4.1 million. Rental income during the year ended December 31, 2005, consisted of minimum rental payments of approximately \$20.6 million and contingent rental payments of \$3.5 million. Minimum lease payments to be received for non-cancelable leases and subleases in effect at December 31, 2007, are as follows (in thousands):

2008	\$ 34,305
2009	31,396
2010	26,351
2011	19,280
2012	11,183
Thereafter	6,548
Total	\$ 129,063

As of December 31, 2007, the Company had \$131.0 million (net of accumulated depreciation of \$39.8 million) of lease vehicles included in property and equipment. As of December 31, 2006, the Company had \$125.6 million (net of accumulated depreciation of \$28.9 million) of lease vehicles included in property and equipment.

#### Other Leases - Land and Buildings

The Company leases various assets under operating leases with expiration dates ranging from April 2008 through November 2027. Monthly rental payments range from approximately \$802 per month to \$36,500 per month. Rental expense was \$4.3 million for the year ended December 31, 2007, \$4.2 million for the year ended December 31, 2006, and \$3.2 million for the year ended December 31, 2005. Future minimum lease payments under non-cancelable leases at December 31, 2007, are as follows (in thousands):

2008	\$ 4,157
2009	3,297
2010	2,848
2011	2,396
2012	1,265
Thereafter	9,982
Total	\$ 23,945

### NOTE 12. STOCK OPTIONS AND STOCK PLANS:

#### 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, held by shareholders of record as of 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.

#### 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<sup>sm</sup>. 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, 900,000 shares of the Company's Class A common stock have been reserved for issuance. During the year ended December 31, 2007, the Company issued 58,713 shares under the Employee Stock Purchase Plan. During the year ended December 31, 2006, the Company issued 57,046 shares under the Employee Stock Purchase Plan. Of the 2,952 employees eligible to participate, 275 were participants in the plan as of December 31, 2007.

#### 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 replaced the Company's Amended and Restated 1997 Non-Employee Director Stock Option Plan (the "1997 Director Plan") effective May 17, 2006. The Director Plan is designed to attract and retain highly qualified non-employee directors. Traditionally, each non-employee director receives options to purchase 20,000 shares of the Company's Class A common stock upon their respective date of appointment and each year on the date that they are elected or reelected by the shareholders to serve on the Board of Directors. Each option has a ten year term from the grant date and vests immediately. Under the Director Plan, 1,500,000 shares of the Company's Class A common stock have been reserved for issuance. The Company granted 120,000 options of Class A common stock under the Director Plan during the year ended December 31, 2007 and 120,000 options of Class A common stock under the 1997 Director Plan during the year ended December 31, 2006.

#### Employee Stock Option 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 and 100,000 shares of Class B common stock. Each option has a ten year term from the grant date and vests in three equal annual installments beginning on the third anniversary of the grant date. The Company has 2,550,000 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. During the year ended December 31, 2007, the Company granted 561,832 options under the Incentive Plan and 37,500 shares under the 2007 Incentive Plan. During the year ended December 31, 2006, the Company granted 478,687 options under the Incentive Plan.

#### Valuation and Expense Information under SFAS 123(R)

On January 1, 2006, the Company adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors including stock options and employee stock purchases related to the Employee Stock Purchase Plan based on estimated fair values. Stock-based compensation expense related to stock options and employee stock purchases under SFAS 123(R) for the year ended December 31, 2007 was \$3.4 million and for the year ended December 31, 2006 was \$2.6 million. There was no stock-based compensation expense related to stock options and employee stock purchases recognized during the year ended December 31, 2005 because the company had not adopted SFAS 123(R).

Prior to the adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The excess tax benefit classified as a financing cash inflow that would have been classified as an operating cash inflow if the Company had not adopted SFAS 123(R) was \$2.2 million for the year ended December 31, 2007, and \$2.3 million for the year ended December 31, 2006. Cash received from options exercised and shares purchased under all share-based payment arrangements was \$2.8 million for the year ended December 31, 2007, \$2.2 million for the year ended December 31, 2006, and \$3.2 million for the year ended December 31, 2005.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

A summary of the Company's stock option activity and related information for the year ended December 31, 2007, follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Balance at January 1, 2007	2,463,469	\$ 7.45		
Granted	719,325	13.68		
Exercised	(564,728)	3.94		
Forfeited	(11,497)	12.84		
Balance at December 31, 2007	2,606,569	\$ 9.91	7.36	\$ 21,103,691
Vested and exercisable at December 31, 2007	698,591	\$ 7.68	6.31	\$ 7,201,880

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on an average of the closing price as of December 31, 2007, of the Company's Class A common stock and Class B common stock of \$17.99. The total intrinsic value of options exercised was \$6.1 million during the year ended December 31, 2007, \$6.3 million during the year ended December 31, 2006, and \$8.3 million during the year ended December 31, 2005.

A summary of the status of the Company's non-vested shares as of December 31, 2007, and changes during the year ended December 31, 2007, follows:

Non-vested Shares	Shares	Average Grant Date Fair Value
Non-vested at January 1, 2007	1,853,329	\$ 3.63
Granted	719,325	5.66
Vested	(653,179)	3.11
Forfeited	(11,497)	5.18
Non-vested at December 31, 2007	1,907,978	\$ 4.56

As of December 31, 2007, there was \$4.1 million of total unrecognized compensation cost related to non-vested 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 3.1 years. The total fair value of options vested was \$2.0 million during the year ended December 31, 2007, \$1.6 million during the year ended December 31, 2006, and \$1.3 million during the year ended December 31, 2005.

### NOTE 13. 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 warrants 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. Share and per share data for 2006 and 2005 have been adjusted and restated to reflect the stock dividend discussed above.

	2007	2006	2005
Numerator-			
Numerator for basic and diluted earnings per share-			
Net income available to common shareholders	\$ 51,492,000	\$ 58,786,000	\$ 44,625,000
Denominator-			
Denominator for basic earnings per share, weighted average shares	38,059,240	37,475,426	36,303,012
Effect of dilutive securities-			
Stock options	686,477	413,904	1,131,848
Denominator for diluted earnings per share, adjusted weighted average shares and assumed conversions	38,745,717	37,889,330	37,434,860
Basic earnings per common share	\$ 1.35	\$ 1.57	\$ 1.23
Diluted earnings per common share and common share equivalents	\$ 1.33	\$ 1.55	\$ 1.19

Options to purchase shares of common stock that were outstanding for the years ended December 31, 2007, 2006 and 2005 that were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market prices of the common shares are as follows:

	2007	2006	2005
Options	157,500	393,925	288,325
Total anti-dilutive securities	157,500	393,925	288,325



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### NOTE 14. INCOME TAXES:

#### Provision for Income Taxes

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

	Year ended December 31,		
	2007	2006	2005
Current provision-			
Federal	\$ 20,516	\$ 26,189	\$ 23,349
State	2,278	2,469	1,878
	22,794	28,658	25,227
Deferred provision-			
Federal	8,027	6,173	950
State	(511)	441	336
	7,516	6,614	1,286
Provision for income taxes	\$ 30,310	\$ 35,272	\$ 26,513

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

	Year Ended December 31,	
	2007	2006
Current:		
Deferred tax assets:		
Inventory	\$ 2,083	\$ 1,641
Accounts receivable	179	176
Capital lease obligations	1,616	1,662
Stock options	403	190
Other	2,747	3,827
Current deferred tax asset	\$ 7,028	\$ 7,496
Non-Current:		
Deferred tax assets:		
Capital lease obligations	\$ 4,849	\$ 4,987
Stock options	1,611	759
Other	622	24
	7,082	5,770
Deferred tax liabilities:		
Difference between book and tax basis	(47,986)	(39,626)
Net non-current tax liability	\$ (40,904)	\$ (33,856)

The Company's various state net operating loss carry forwards expire from 2011 through 2021.

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

	Year Ended December 31,		
	2007	2006	2005
Income taxes at the federal statutory rate	\$ 28,631	\$ 32,920	\$ 24,898
State income taxes, net of federal benefit	1,148	1,995	1,439
Tax effect of permanent differences	(143)	17	(77)
State tax valuation allowance	—	(73)	50
Other, net	674	413	203
Provision for income taxes	\$ 30,310	\$ 35,272	\$ 26,513

The Company included accruals for unrecognized income tax benefits totaling \$1.4 million as a component of accrued liabilities as of January 1, 2007, and \$2.0 million as of December 31, 2007. The unrecognized tax benefits of \$1.4 million at January 1, 2007, and \$2.0 million at December 31, 2007, if recognized, would impact the Company's effective tax rate. The interest expense liability of \$171,000 related to unrecognized tax benefits on December 31, 2007, was included in income tax expense. 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, 2007, the tax years ended December 31, 2002, through 2006 remained subject to examination by tax authorities.

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

	Year ended December 31,
	2007
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

### NOTE 15. COMMITMENTS AND CONTINGENCIES:

The Company is contingently liable to finance companies for certain notes initiated on behalf of such finance companies related to the sale of trucks and construction equipment. The majority of finance contracts are sold without recourse against the Company. A majority of the Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. 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.

During the second quarter of 2007, the Company renegotiated its contractual obligations with its retail funding sources regarding early repayment penalties, which occur as a result of a premature termination of finance contracts sold by the Company. As a result of these negotiations, the Company expects to decrease the amount of finance income it will recognize at the time the contract is sold and to decrease the amount of early repayment penalties it will owe its retail funding sources in the future.

In 2006, the Company signed an agreement with Titan Technology Partners to implement SAP enterprise software and

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

a new SAP dealership management system. The cost of the SAP software and implementation is estimated at \$15.0 million, of which \$11.9 million was expended at December 31, 2007.

#### NOTE 16. ACQUISITIONS:

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 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 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 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.

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

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

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

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### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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

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

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

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

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

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

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

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

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

### NOTE 17. UNAUDITED QUARTERLY FINANCIAL DATA:

(in thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2007</b>				
Revenues	\$ 531,258	\$ 519,404	\$ 521,598	\$ 458,519
Gross Profit	89,496	91,725	89,741	81,106
Operating income	25,446	25,511	24,192	21,323
Income before income taxes	21,006	21,046	20,839	18,911
Net income	\$ 13,024	\$ 13,048	\$ 13,128	\$ 12,292
Earnings per share:				
Basic	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.32
Diluted	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.32
<b>2006</b>				
Revenues	\$ 497,885	\$ 569,187	\$ 651,321	\$ 632,130
Gross Profit	81,600	87,915	93,083	90,069
Operating income	22,036	27,288	30,589	29,809
Income before income taxes	18,523	23,787	26,261	25,487
Net income	\$ 11,577	\$ 14,868	\$ 16,412	\$ 15,929
Earnings per share:				
Basic	\$ 0.31	\$ 0.40	\$ 0.44	\$ 0.42
Diluted	\$ 0.31	\$ 0.39	\$ 0.43	\$ 0.42

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

### NOTE 18. SEGMENTS:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise and in condensed financial statements of interim periods issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers.

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

John Deere dealership that serves the Houston, Texas area. 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, 2007, 2006 and 2005.

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, 2007, 2006 and 2005 (in thousands):

<i>(in thousands, except per share amounts)</i>	Truck Segment	Construction Equipment Segment	All Other	Totals
<b>2007</b>				
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	70,363	1,022	592	71,977
<b>2006</b>				
Revenues from external customers	\$ 2,254,123	\$ 77,816	\$ 18,584	\$ 2,350,523
Interest income	2,162	—	—	2,162
Interest expense	16,697	830	353	17,880
Depreciation and amortization	12,056	367	466	12,889
Segment income before income tax	86,116	5,624	2,318	94,058
Segment assets	1,084,343	22,914	21,153	1,128,410
Goodwill	112,535	4,075	461	117,071
Expenditures for segment assets	109,938	443	5,724	116,105
<b>2005</b>				
Revenues from external customers	\$ 1,795,441	\$ 57,731	\$ 11,598	\$ 1,864,770
Interest income	2,508	—	—	2,508
Interest expense	14,640	586	177	15,403
Depreciation and amortization	9,894	291	302	10,487
Segment income before income tax	64,921	4,566	1,651	71,138
Segment assets	801,917	24,080	14,237	840,234
Goodwill	96,539	4,075	111	100,725
Expenditures for segment assets	64,592	392	817	65,801



## STOCK TRADING, PRICE RANGES, DIVIDENDS AND PERFORMANCE GRAPH

### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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

Our common stock trades on The NASDAQ Global Select Market<sup>sm</sup> 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 NASDAQ Global Select Market<sup>sm</sup>.

	2007		2006	
	High	Low	High	Low
<b>Class A Common Stock</b>				
First Quarter	\$ 13.65	\$ 11.07	\$ 13.03	\$ 9.89
Second Quarter	17.12	12.66	13.26	10.63
Third Quarter	19.95	14.55	12.79	9.84
Fourth Quarter	18.85	13.97	12.65	10.99
<b>Class B Common Stock</b>				
First Quarter	\$ 12.93	\$ 10.34	\$ 12.37	\$ 9.55
Second Quarter	16.23	11.93	12.57	9.95
Third Quarter	18.86	14.09	11.96	9.24
Fourth Quarter	18.58	13.81	11.80	10.24

As of March 7, 2008, there were approximately 47 record holders of the Class A common stock and approximately 50 record holders of the Class B common stock and approximately 5,203 beneficial holders of the Class A common stock and the Class B common stock.

On September 20, 2007, 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. The high and low sales prices set forth above have been adjusted and restated to reflect the stock dividend as if it occurred on the first day of the earliest period presented.

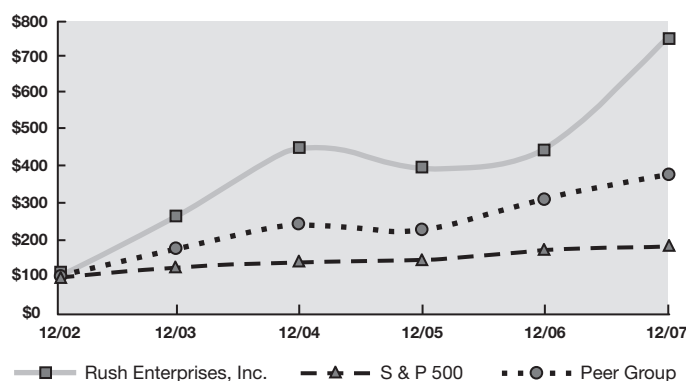
Other than the stock dividend in connection with the stock split described above, the Company did not pay dividends during the fiscal year ended December 31, 2007 or the fiscal year ended December 31, 2006. The Board of Directors intends to retain any earnings of the Company to support operations and to finance expansion and does not intend to pay cash dividends in the foreseeable future. Any future determination as to the payment of dividends will be at the discretion of the Board of Directors of the Company and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

### Performance Graph

The chart set forth below shows the value of an investment of \$100 on December 31, 2002 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 12/31/02 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

	Cumulative Total Return		
	Rush Enterprises, Inc.	S & P 500	Peer Group
12/31/02	\$ 100.00	\$ 100.00	\$ 100.00
12/31/03	\$ 270.61	\$ 128.68	\$ 179.02
12/31/04	\$ 456.33	\$ 142.69	\$ 246.15
12/31/05	\$ 398.37	\$ 149.70	\$ 229.66
12/31/06	\$ 444.90	\$ 173.34	\$ 314.36
12/31/07	\$ 734.29	\$ 182.87	\$ 377.04

## NOTE REGARDING FORWARD LOOKING STATEMENTS

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RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Certain statements contained in this Form 10-K (or otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission, 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 beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Use of the words "may," "should," "continue," "plan," "potential," "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements reflect the current view of the Company with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those in such statements. Important factors that could cause actual results to differ materially

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

## CORPORATE AND SHAREHOLDER INFORMATION

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### RUSH ENTERPRISES, INC. AND SUBSIDIARIES

#### Board of Directors

**W. Marvin Rush**

Chairman

**W. M. “Rusty” Rush**

President and Chief Executive Officer

**Thomas A. Akin**

Partner

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

**Ronald J. Krause**

Former President and  
Chief Operating Officer  
Associates Corporation  
of North America

**Harold D. Marshall**

Former President and  
Chief Operating Officer  
Associates First Capital Corporation

**James C. Underwood**

Former Vice Chairman of  
Isuzu Commercial Truck of  
America, Inc.

#### Board Committees

**Audit Committee**

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

**Compensation Committee**

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

**Nominating  
& Governance Committee**

Ronald J. Krause\*  
Thomas A. Akin  
Harold D. Marshall  
James C. Underwood

\*Committee Chair

In memoriam:

This annual report is dedicated  
to John D. Rock.

#### Executive Officers Rush Enterprises, Inc.

**W. Marvin Rush**

Chairman

**W. M. “Rusty” Rush**

President and Chief Executive Officer

**Martin A. Naegelin, Jr.**

Executive Vice President

**Steven L. Keller**

Vice President  
Chief Financial Officer  
and Treasurer

**Daryl J. Gorup**

Senior Vice President  
Dealership Operations

**David C. Orf**

Senior Vice President  
Marketing, Fleets and  
Specialized Equipment

**James E. Thor**

Senior Vice President  
Retail Sales

**Scott Anderson**

Senior Vice President  
Finance and Insurance

**J.M. “Spike” Lowe**

Senior Vice President  
Corporate Development

**Richard D. Hall**

Vice President  
Insurance

**Derrek Weaver**

Chief Compliance Officer  
Vice President of Legal Affairs  
and Secretary

#### Forward-looking Statements

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

#### Shareholder Information

**Executive Offices**

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

**Independent Public  
Accountants**

Ernst & Young LLP  
San Antonio, TX

**Corporate and  
Securities Counsel**

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

**Annual Meeting**

The annual meeting of shareholders of  
the Company will be held at  
10:00 A.M. CDT on May 20, 2008  
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<sup>sm</sup> under the symbols RUSHA  
and RUSHB.

**Website**

[www.rushenterprises.com](http://www.rushenterprises.com)



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