SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

Commission file number 0-20797

RUSH ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

TEXAS	74-1733016
(State or other jurisdiction of incorporation or organization)	(I.R. S. Employer Identification No.)
8810 IH-10 EAST, SAN ANTONIO, TEXAS	78219
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (210) 661-4511

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $.01 PAR VALUE
(Title of Class)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIODS THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES X NO
--- ---

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K.

The aggregate market value of voting stock held by non-affiliates of the registrant as of March 26, 1999 was approximately $33,032,000, based upon the last sales price on March 26, 1999 on the NASDAQ National Market for the Company's common stock. The registrant had 6,646,488 shares of Common Stock outstanding on March 26, 1999.

DOCUMENTS INCORPORATED BY REFERENCE
PORTIONS OF REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR THE REGISTRANT'S 1999 ANNUAL MEETING OF SHAREHOLDERS, TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION NOT LATER THAN APRIL 30, 1999 ARE INCORPORATED BY REFERENCE INTO PART III OF THIS FORM 10-K.

RUSH ENTERPRISES, INC.

INDEX TO FORM 10-K

YEAR ENDED DECEMBER 31, 1998

		PAGE NO.
	PART I	
Item 1.	Business	3
Item 2.	Properties	32
Item 3.	Legal Proceedings	33
Item 4.	Submission of Matters to a Vote of Security Holders	33
	PART II	
Item 5.	Market for Registrant's Common Equity and Related Shareholder Matters	34
Item 6.	Selected Consolidated Financial Data	34
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7a.	Quantitative and Qualitative Disclosures about Market Risks	50
Item 8.	Financial Statements and Supplementary Data	51
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	78
	PART III	
Item 10.	Directors and Executive Officers of the Registrant	78
Item 11.	Executive Compensation	78
Item 12.	Security Ownership of Certain Beneficial Owners and Management	78
Item 13.	Certain Relationships and Related Transactions	78
	PART V	
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.	79

Certain statements contained in this Form 10-K are "forward-looking statements" within the meaning of the Section 27A of the Securities Act of 1933, as amended and Section 21E of the Exchange Act of 1934, as amended. Specifically, all statements other than statements of historical fact included in this Form 10-K regarding the Company's financial position, business strategy and plans and objectives of management of the Company for future operations are forward-looking statements. These forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "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. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, 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 Registration Statement on Form S-1 (File No. 333-3346) and in the Company's annual, 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 herein as anticipated, believed, estimated, expected, or intended. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements. The Company does not intend to update these forward-looking statements.

PART I

ITEM 1. BUSINESS

References herein to the "Company" or "Rush Enterprises" mean Rush Enterprises, Inc., a Texas corporation, its subsidiaries and Associated Acceptance, Inc., the insurance agency affiliated with the Company, unless the context requires otherwise. The Company was incorporated in Texas 1965 and currently consists of two reportable segments: the Heavy Duty Truck segment, and the Construction Equipment segment.

GENERAL

The Heavy Duty Truck segment operates a regional network of truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; after-market 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 Company's truck centers are strategically

located in high truck traffic areas on or near major highways in Texas, California, Oklahoma, Colorado and Louisiana. The Company is the largest Peterbilt truck dealer in the United States, representing approximately 19.5% of all new Peterbilt truck sales in 1998, and is the sole authorized vendor for new Peterbilt trucks and replacement parts in its market areas. The Company was named Peterbilt Dealer of the Year for North America for the 1993-1994 year. The criteria used to determine the recipients of this award include, among others, image, customer satisfaction, sales activity and profitability.

The Company believes that large, multi-location, full-service dealerships, which offer a large selection of new and used trucks, parts and sophisticated service and body shop facilities, are able to realize economies of scale and have a competitive advantage in the truck sales and services industry. The Company's growth strategy is to continue the expansion of its existing facilities, to open new facilities in its existing territories and to acquire additional Peterbilt dealerships in new territories.

The Construction Equipment segment, formed during 1997, operates full-service John Deere dealerships in Texas and Michigan. Dealership operations include the retail sale of new and used equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used equipment. The Company believes the construction equipment industry is highly-fragmented and offers opportunities for consolidation. As a result, the Company's growth strategy is to realize economies of scale, favorable purchasing power, and cost savings by continuing to develop a network of John Deere dealerships through acquisitions and growth inside existing territories.

During 1998, the Company developed the Rush Retail Centers division and acquired the stock of D & D Farm and Ranch Supermarket, Inc. (D&D). D&D operates a retail farm and ranch superstore in the greater San Antonio area. D&D is a virtual one-stop shopping center for farm and ranch supplies with wide array of products including horse tack, saddles, western-wear, veterinarian supplies, fencing, gates, and cattle shoots, guards and trailers. The Company believes that D&D is the only store of its kind and offers opportunities for expansion. As a result, the Company's growth strategy is to open new D&D stores in existing farm and ranch territories. During 1998, D&D's operations were immaterial to the Company's results of operations representing less than 2.5% of total sales and less than 1.0% of operating income.

The Company's executive offices are located at the San Antonio, Texas truck center at 8810 I.H. 10 East, San Antonio, Texas 78219, and its mailing address is P. O. Box 34630, San Antonio, Texas 78265-4630. The Company's phone number is (210) 661-4511.

INDUSTRY OVERVIEW

Heavy-duty trucks are primarily used for over-the-road and off-highway hauling of general freight and a number of vocational applications, including the hauling of petroleum, wood products, refuse, construction materials and other specialty uses. Trucks are purchased for commercial purposes and are outfitted to perform according to the specifications of the user.

Customers include owner-operators, regional and national fleets, corporations and government organizations.

Trucks marketed by the Company are typically classified in the Class 8 heavy-duty truck category. Class 8 trucks are constructed on a heavy-duty chassis, which includes the engine, drive train and operations components and have a minimum gross vehicle weight ("gvw") rating above 33,000 pounds, with the typical heavy-duty truck having a gross combined weight ("gcw") of approximately 80,000 pounds. Industry-wide negotiated sales prices for new Class 8 heavy-duty trucks generally range from $57,000 to $110,000 and negotiated sales prices for new Peterbilt trucks generally range from $65,000 to $115,000, depending upon features and component specifications.

Typically, Class 8 trucks are assembled by the manufacturer utilizing certain components manufactured by other companies, including engines, transmissions, axles, wheels and other components. As trucks and truck components have become increasingly complex, including the use of computerized controls and diagnostic systems, the ability to provide state-of-the-art service for a wide variety of truck equipment has become a competitive factor in the industry. Such service requires a significant capital investment in advanced equipment, parts inventory and a high level of training of service personnel. Additionally, Environmental Protection Agency ("EPA") and 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. Differentiation between truck dealers has become less dependent on pure price competition and is increasingly based on their ability to offer a wide variety of trucking services. These include the ability to provide easily accessible, efficient and sophisticated truck service, replacement parts, the ability to offer financing for truck purchases, leasing and rental programs and the ability to accept multiple unit trade-ins related to large fleet purchases.

The United States retail heavy-duty truck industry is highly fragmented with over 1,600 dealerships nationwide, including 80 Peterbilt dealers operating 201 locations. New heavy-duty truck sales historically have shown a high correlation to the rate of change in industrial production and gross domestic product. According to data published by R. L. Polk, during 1998 new heavy-duty truck sales in the United States were 212,602 units, increasing by 15.4% from the 184,211 units sold in 1997. Annual domestic retail heavy-duty truck sales have averaged approximately 195,950 units for the five years ended December 31, 1998. New Peterbilt truck registrations during the calendar year ended December 31, 1998 were 21,619, for a national market share, based on new truck registrations, of 10.2%. In the Company's eleven primary market areas 20,424 new heavy-duty trucks were registered in 1998, 4,096 of which were new Peterbilts, resulting in an average market share for Peterbilts of 20.1%.

Customers of the Company's Construction Equipment segment include contractors, for both residential and commercial construction, utility companies, federal, state and local government agencies, and various petrochemical, industrial and material supply type businesses that require construction equipment in their daily operations. The Construction Equipment segment has a diverse customer base and provides a full line of equipment for light to medium size applications

and related product support to its customers. Its primary products include John Deere backhoe loaders, hydraulic excavators, crawler dozers, and four-wheel drive loaders. Industry-wide negotiated sales prices for this type of equipment generally range from $20,000 to $350,000.

The United States construction equipment industry is highly fragmented with over 90 John Deere dealers nationwide, operating 410 locations. New construction equipment sales historically have shown a high correlation to the rate of change in industrial production and gross domestic product. In the Company's primary market area (Houston) 2,667 new construction equipment units were sold in 1998, 435 of which were manufactured by John Deere, resulting in an average market share for John Deere of 16.3%.

BUSINESS STRATEGY

Heavy Duty Truck Segment

The Company's business strategy for the Heavy Duty Truck segment is to operate an integrated full-service dealer network marketing Peterbilt heavy-duty trucks and related services in the Western and Southern regions of the United States. As part of its business strategy, the Company will seek to expand its existing dealerships, establish new full-service and parts/service Peterbilt dealerships in its existing and newly appointed territories and make strategic acquisitions of additional Peterbilt heavy-duty truck dealers in new territories. The Company has successfully implemented its business strategy which has resulted in significant market penetration within both existing and new market areas. The Company's objective is to continue to build upon this base of operations and enhance its position as a leading dealer of heavy-duty trucks and related services by emphasizing the following key elements of its business strategy.

One-Stop Center. The Company has developed its "one-stop truck center" where customers can purchase new Peterbilt or used heavy-duty trucks, lease and rent heavy-duty Peterbilt trucks, purchase after-market parts and accessories and have virtually any kind of truck serviced by factory-certified technicians, all at one convenient location. Rush Truck Centers are the sole authorized vendor for new Peterbilt trucks and replacement parts in their market areas and have expansive parts departments that display many of the parts in open showrooms in a mix tailored to local buying patterns and market trends. As part of its one-stop sales and service strategy, the Company, through its wholly owned subsidiary, Rush Financial Services, offers third-party financing and insurance products to assist customers purchasing a new or used truck, as well as truck leasing and rentals. The Company's truck centers, three of which are open 24 hours a day, five days a week for parts and service, are located on or near major highways in high truck traffic areas. The continued implementation and enhancement of its one-stop truck center concept is an integral element of the Company's business strategy.

Dealership Network. The Company believes it is one of the few organizations in the heavy-duty truck sales and service industry to operate a large, multi-state, full-service dealership network in an effort to realize economies of scale. The Company believes that its expansion and increasing economies of scale have resulted in superior purchasing power, favorable financing

terms and cost savings from centralized management, which have enabled the Company to maximize profitability and offer competitive prices to its customers. In addition, the Company's dealership network and consistency in service have allowed it to reinforce relationships with fleet customers and attract those customers traveling throughout the Company's territories by guaranteeing them competitive and uniform pricing for parts and service at each of its truck centers. Management believes that this has resulted in continuing customer relationships. Furthermore, because of its large size, strong relationships with fleet customers and its ability to handle large quantities of used truck trade-ins, the Company, unlike most dealers, markets and sells to fleets nationwide.

The Company believes that its aggressive expansion program into California, Oklahoma, Louisiana, and Colorado, and diversification into truck-related services, including financial services, leasing, renting and service and parts, has reduced cyclicality in the Company's operations due to geographic diversity and reduced reliance on new and used truck sales. The geographic diversity of the Company's dealer network has significantly increased the Company's customer base while ameliorating the effects of certain local and regional economic downswings that more severely affect single dealership operators. Management believes that the Company's full-service concept and continued geographic expansion will help to mitigate and correct the adverse impact on the Company's operations resulting from reduced demand for new and used heavy-duty trucks and regional economic downturns.

Rush Truck Center Development. In 1995, the Company has began to employ a branding program for its facilities, designating each as a Rush Truck Center through distinctive signage and uniform marketing programs to enhance its name recognition and to communicate the standardized high level of quality products and services throughout its truck center network. The Company believes the Rush Truck Center strategy will increase its market recognition and encourage its customers to utilize multiple locations throughout its dealership network. Currently all locations are branded Rush Truck Centers.

Expansion in Existing and New Territories. Since 1990, the Company has opened eight facilities in its existing and new territories, including a used truck sales lot in Austin, Texas and a combination full-service truck and construction equipment dealership in Beaumont, Texas during 1998. As part of its expansion strategy, the Company intends to continue to open both full-service and parts/service truck centers to enhance market coverage in its existing territories and to enter newly appointed territories. In identifying new areas for expansion and acquisition, the primary focus of the Company is the market's historic level of new heavy-duty truck registrations, customer buying trends and the availability of suitable facilities. During 1999, management plans to expand its existing full service dealership in Fontana, California, relocate and expand its existing parts facility in Southern California into a full service dealership, relocate and expand its Houston, Texas and Laredo, Texas dealerships.

The parts/service truck centers offer a variety of product and service combinations, including parts, rental and leasing services; parts, service and body shop facilities; and parts only. Management often analyzes the performance of a parts/service truck center as a factor to determine whether a full-service facility is warranted in a market area. The Company's truck

centers in Lufkin and Laredo, Texas, and Bossier City, Louisiana, were originally opened as parts/service facilities and later expanded into full-service dealerships. The Company also intends to continue to open parts/service facilities in areas of its territory to maximize market coverage.

PACCAR, Inc., the parent company to Peterbilt, typically evaluates the management and capitalization of a prospective dealer in determining whether to grant such prospective dealer additional Peterbilt territories. The Company believes that its management and capitalization allow it to effectively compete for such additional dealership locations. Although the Company does not have exclusive territories, management believes that it is unlikely that PACCAR will create additional dealerships in the market areas in which the Company currently operates. The Company is not aware of any policies of PACCAR that would limit its ability to continue to acquire additional Peterbilt dealerships; however, there can be no assurance that PACCAR will not object to ownership concentration of Peterbilt dealerships beyond a certain level.

Expansion by Acquisition. The Company has, since 1990, acquired six full-service and two parts/service truck centers, and its current expansion plan focuses beyond its existing presence in Texas, California, Louisiana, Oklahoma and, most recently, Colorado. The Company's operating strategy and management systems establish a framework for continued acquisitions into the foreseeable future. Management believes that it can improve the operating results of acquired dealers as a result of economies of scale, sophisticated management information systems, purchasing power, merchandising capability and the introduction of enhanced financial services and products.

In March 1997, the Company purchased the assets of Denver Peterbilt, Inc., which consisted of two full-service Peterbilt dealerships in Denver and Greeley, Colorado. The purchase price was approximately $7.9 million, funded by (i) $6.5 million of cash and (ii) $1.4 million of borrowings under the Company's floor plan financing arrangement with GMAC to purchase new and used truck and parts inventory. The Company also entered into an agreement whereby the principal of Denver Peterbilt, Inc. may receive additional amounts based on future sales of new Peterbilt trucks at the Colorado locations, through March 1999. The Company paid the principal of Denver Peterbilt, Inc. $2.0 million in March 1999 satisfying all terms of the agreement.

Any prospective heavy-duty truck acquisition which the Company may be able to negotiate would require the willingness of PACCAR to accept the Company as a Peterbilt dealer at such additional retail locations. Although the Company is constantly evaluating acquisition opportunities, as of the date of this Form 10-K, the Company does not have any agreements or understandings, written or oral, with any third party regarding a potential acquisition or business combination of a heavy-duty truck dealership.

Construction Equipment Segment

The Company currently operates full-service John Deere dealerships in Texas and Michigan. Due to the highly fragmented nature of the construction equipment industry, the Company perceives an opportunity to grow its integrated full-service dealer network to market John Deere construction equipment and related services in the United States. The Company intends to take advantage of this

opportunity by duplicating the business strategy that it utilized to create its network of Heavy Duty Truck dealerships. This business strategy has allowed the Company to achieve significant market penetration within both existing and new market areas for its Heavy Duty Truck segment. In attempting to duplicate this business strategy in its Construction Equipment segment, the Company intends to make strategic acquisitions of additional John Deere construction equipment dealerships in new territories and grow facilities and sales in existing territories. The Company's objective is to establish itself as a leading dealer of construction equipment and related services by emphasizing the following key elements of its business strategy.

One-Stop Center. The Company is developing a "one-stop equipment center" where customers can purchase new John Deere or used construction equipment, lease and rent John Deere construction equipment, as well as purchase after-market parts and accessories and have virtually any kind of construction equipment serviced by factory-certified technicians, all at one convenient location. Additionally, the equipment centers operate a fleet of field service technicians that perform repair and maintenance services at the customer's location. Rush Equipment Centers are the sole authorized vendor for new John Deere construction equipment and replacement parts in their market areas and have expansive parts departments that display many of the parts in an open showroom in a mix tailored to local buying patterns and market trends. As part of its one-stop sales and service strategy, the Company, through Rush Financial Services, offers third-party financing and insurance products to assist customers purchasing new or used equipment, as well as equipment leasing and rentals. The continued implementation and enhancement of its one-stop equipment center concept is an integral element of the Company's business strategy.

Dealership Network. The Company believes that building a large multi-state, full-service network of construction equipment dealerships will provide economies of scale that will lead to superior purchasing power, favorable financing terms and cost savings from centralized management. Furthermore, the Company believes that the similarities between the Heavy Duty Truck segment and the Construction Equipment segment will create synergies that will benefit both segments. Approximately 40% of the Company's heavy duty truck customers in the Houston market are involved in businesses that use construction equipment and regularly purchase and rent construction equipment, parts and service. Management believes that strong customer relationships developed in the Heavy Duty Truck segment will benefit the Construction Equipment segment in its early stages.

The Company believes that by establishing a geographically diverse construction equipment dealership network, that the associated growth of equipment related services, including financial services, renting, service, and parts, will reduce cyclicality in the Company's operations. Furthermore, such geographic diversification would support the sale of used equipment retired from the rental fleet through the ability to relocate used equipment to various geographic regions based on market demand, the access to an expanded customer base, and the availability of trained personnel to service the used equipment to enhance its resale value.

Rush Equipment Center Development. The Company is also applying its branding program for its facilities to the Construction Equipment segment, designating each facility as a Rush

Equipment Center through distinctive signage and marketing programs to enhance its name recognition and to communicate the standardized high level of quality products and services. The Company believes the Rush Equipment Center strategy will increase its market recognition and intends to establish any newly acquired facilities as Rush Equipment Centers.

Expansion by Acquisition. The Company acquired its first full-service equipment center in October of 1997, opened a full-service equipment center in Beaumont, Texas in July 1998, and acquired another full-service equipment center, with four locations, in western Michigan in September 1998. The Company's operating strategy and management systems establish a framework for continued acquisitions into the foreseeable future. Management believes that it can improve the operating results of any acquired dealers through economies of scale, sophisticated management information systems, purchasing power, merchandising capability and the introduction of enhanced financial services and products.

In October 1997, the Company purchased certain assets and assumed certain liabilities of C. Jim Stewart & Stevenson, Inc., which consisted of one full-service John Deere dealership in Houston, Texas. The acquisition provides the Company with an immediate presence in the construction equipment industry in the state of Texas. The purchase price was approximately $30.2 million, funded by (i) $4 million of cash, (ii) $21.1 million of borrowings under the Company's floor plan financing arrangement with Associates Commercial Corp. and John Deere Inc., (iii) $3,080,000 in real estate borrowings from the Company's primary commercial lending institution, and (iv) a $2,062,500 promissory note payable to the seller.

In September 1998, the Company purchased substantially all of the assets of Klooster Equipment, Inc. which consisted of three full-service dealerships and one retail only location covering 54 counties in Western Michigan. The acquisition provides the Company with an immediate presence in the construction equipment industry in the state of Michigan. The purchase price of approximately $13.1 million was funded by (i) $2.5 million of cash, (ii) $9.8 million of borrowings under the Company's floor plan financing arrangements with Associates Commercial Corp. and John Deere Inc., and (iii) $836,000 of borrowings from John Deere Credit Corp.

Any prospective construction equipment store acquisition which the Company may be able to negotiate would require the willingness of John Deere, Inc., to accept the Company as a John Deere dealer at such additional retail locations. Although the Company is constantly evaluating acquisition opportunities, as of the date of this Form 10-K, the Company does not have any agreements or understandings, written or oral, with any third party regarding a potential acquisition or business combination. There can be no assurances that the Company will continue to successfully establish a construction equipment center dealership network, that it will be able to acquire additional construction equipment dealerships, or that if such dealerships are acquired or such network is created, that the Company will be able to successfully achieve economies of scale and improved operating results of such acquired dealerships.

TRUCK CENTERS

The Company currently operates twelve full-service and six parts/service truck centers in Texas, California, Oklahoma, Louisiana and Colorado. Rush Truck Centers are strategically located in high truck traffic areas on or near major highways. The Company's original dealership opened in Houston, Texas in 1965, and, since 1990, the Company has grown through a combination of acquisitions and new store openings in its existing and newly-appointed territories. The Company currently operates four full-service truck centers in Texas, two in Southern California, two in Oklahoma, one in Louisiana and two in Colorado.

The full-service truck centers provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; parts, service and body shop facilities; and a wide array of financial products. The Company's six parts/service facilities offer a variety of product and service combinations in areas of the Company's markets to maximize market coverage. Three of the Company's truck centers are open 24 hours a day, five days a week for parts and services. Recently, the Company opened a used truck sales lot in Austin, Texas, and its first combined Peterbilt and John Deere dealership in Beaumont, Texas. Management intends to expand its existing full service dealership in Fontana, California, relocate and expand its existing parts facility in Southern California into a full service dealership, relocate and expand its Houston, Texas, Laredo, Texas, and Tulsa, Oklahoma dealerships.

The full-service truck centers range in size from 13,500 to 73,000 square feet, with from six to 50 service bays, and are situated on lots ranging from three to 14 acres, while the parts/service facilities range in size from 2,500 to 6,200 square feet, with from six to 25 service bays, and are situated on lots ranging from 0.4 to five acres. The typical full-service Rush Truck Center displays between 10 and 100 new and used trucks, has six to 40 repair and maintenance service bays, four to 20 body shop bays, one to four paint bays, an open retail parts showroom ranging from 600 to 2,000 square feet, a parts warehouse ranging from 3,000 to 20,000 square feet and administrative and sales offices ranging from 1,000 to 7,000 square feet. Facility characteristics are determined by market needs.

Set forth below is a summary description of each the Company's heavy duty truck facilities:

RUSH TRUCK CENTER LOCATION	DATE OPENED OR ACQUIRED	STATUS/ METHOD	TRUCK SALES	SERVICE	PARTS	BODY SHOP	LEASING AND RENTING	FINANCING AND INSURANCE
Existing Truck Centers								
San Antonio, TX.......	1968	Start-up	O	O	O	O	O(8)	O
Houston, TX(1)........	1988	Start-up	O					O
Houston, TX(1)........	1988	Start-up		O	O	O(2)		
Houston, TX(1)........	1993	Start-up		O	O		O(3)	
Houston, TX(1)........	1993	Start-up		O	O	O		
Lufkin, TX............	1991	Start-up	O	O	O	O		O
Laredo, TX(9).........	1993	Start-up	O	O	O	O(4)		O
Bossier City, LA......	1994	Start-up	O	O	O		O	O
Pico Rivera, CA.......	1994	Acquisition	O	O	O	O	O	O
Sun Valley, CA(5).....	1994	Acquisition			O			
Fontana, CA(13).......	1994	Acquisition	O	O	O	O	O	O
Tulsa, OK(9)..........	1995	Acquisition	O	O	O	O		O
Oklahoma City, OK.....	1995	Acquisition	O	O	O	O(6)		O
Oklahoma City, OK.....	1995	Acquisition		O	O		O	
Denver, CO(7)...................	1997	Acquisition	O	O	O	O	O	O
Greeley, CO(7)...................	1997	Acquisition	O	O	O	O		O
Rio Grande Valley, TX(10)..............	1997	Start-up	O	O	O		O	O
Austin, TX(11)........	1998	Start-up	O					O
Beaumont, TX(12)......	1998	Start-up	O	O	O			O
Planned Truck Centers								
Southern CA(5)........	1999	Start-up	O	O	O	O		
Expanded Facilities								
Houston, TX(1)....................	1998	Start-up	O	O	O	O	O	O

- --------------

(1) The Company started a full-service dealership in Houston, Texas in 1965, which was sold in 1979. The Company reacquired the dealership in 1988. Currently, the Company has begun construction on a facility that will relocate the dealership, parts and service, leasing and renting and finance and insurance facilities to a single location.

(2) Paint shop only.

(3) Operating at another location in Houston from 1988 to 1993.

(4) Trailer repair shop.

(5) The Company currently plans to relocate and expand into a full service dealership by late 1999.

(6) Body shop completed in mid 1997.

(7) The acquisition of the Denver, Colorado and Greeley, Colorado locations was completed in March 1997. The Company started leasing and rental and finance and insurance operations during 1997.

(8) The Company opened leasing and rental operation in San Antonio, Texas during 1997.

(9) The Company currently plans to relocate and expand this dealership during 1999.

(10) The Company completed construction and opened a full-service dealership, including leasing and rental in late 1997.

(11) The Company opened a used truck sales lot in mid 1998.

(12) The Company opened a combination heavy duty truck and construction equipment dealership in mid 1998.

(13) The Company currently plans to expand the dealership, including building of a state of the art body shop.

TRUCK SALES

New Truck Sales. Rush Truck Centers sell new trucks which are marketed under the Peterbilt nameplate primarily in the Class 8 diesel category. The Company also markets Class 7 Peterbilt trucks (having a gvw rating of 26,001 to 33,000 pounds), Peterbilt refuse chassis and cement mixer chassis, GMC medium-duty trucks and, at its Oklahoma facilities, Volvo Class 8 heavy-

duty trucks. The Company's new Class 8 Peterbilt trucks, which are manufactured and supplied to the Company by PACCAR, constitute over 90% of all new trucks sold by the Company. Peterbilt trucks have a reputation as premium-quality vehicles which are skillfully designed and driver friendly, and are typically customized to satisfy the requirements of its customers. Peterbilt's premium reputation is an important aspect of the Company's marketing of new and used trucks and management believes that such reputation has resulted in relatively higher resale prices for used Peterbilt trucks. New heavy-duty truck sales are the largest segment of the Company's business, accounting for approximately 55.8% of total revenues in 1998.

The Company's customers use Peterbilt heavy-duty trucks for over-the-road and off-highway handling of virtually all materials, including general freight, petroleum, wood products, refuse and construction materials. PACCAR purchases major truck components, such as engines, transmissions, tires, wheels and axles from other manufacturers, pursuant to each customer's specifications, to assemble its new trucks. The Company sells approximately 75% of its new heavy-duty trucks according to customer order, and the remaining 25% are sold out of inventory at its truck centers. It takes between 60 days and six months for the Company to receive delivery from PACCAR on a new truck order from the time an order is placed.

A new Peterbilt heavy-duty truck typically ranges in negotiated price from $65,000 to $110,000, while a typical Class 8 truck ranges in negotiated price from $57,000 to $100,000. The Company aggressively markets to regional and national fleets, with approximately 65% of all unit sales to fleet customers (those that purchase more than five trucks in a single 12-month period) and the balance of new truck sales to other owner-operators, corporations and local governments. An important competitive issue for the Company's customers is driver retention, with a typical fleet averaging in excess of 100% driver turnover annually. Management believes Peterbilt trucks, due to their premium reputation and attractiveness to the drivers, are increasingly being used by major fleets and carriers as incentives to attract new drivers and retain existing drivers.

The Company has a competitive advantage in that it can absorb multi-unit trade-ins often associated with fleet sales of new trucks and disperse the used trucks for resale throughout its dealership network. Because of its large size, strong relationships with fleet customers and its ability to handle large quantities of used truck trade-ins, the Company, unlike most dealers, markets and sells to fleets nationwide. Additionally, the Company believes that its attention to customer service and its broad range of trucking services, including its ability to offer truck financing and insurance, has resulted in a high level of customer loyalty. During 1998, approximately 70% of the Company's truck sales were to repeat customers. The Company sold 4,315 new trucks in 1998 compared with 3,040 in 1997.

Used Truck Sales. The Company sells used heavy-duty trucks of numerous manufacturers, including Peterbilt, Kenworth, Freightliner, Mack and Navistar. The Company is well positioned to market used heavy-duty trucks due to its ability to recondition used trucks for resale utilizing its parts and service departments and to shift inventory from location to location to satisfy customer demand. Approximately 80% of the Company's used truck fleet is comprised of trucks taken as trade-ins by new truck customers to be used as all or part of the new truck customer's down payment, and the remainder are purchased from third parties for resale on the Company's retail lots.

The Company's used truck sales staff is trained to evaluate each prospective used truck on the basis of wholesale value and the costs of delivery, reconditioning and otherwise making the truck ready for sale. In a fleet purchase of several new trucks, not all of the trucks traded in will be suitable for sale on a Rush Truck Center's retail lot. Trucks that are not acceptable are typically sold at wholesale. Most used trucks acquired by the Company require some reconditioning prior to resale. The reconditioning process generally takes between one and three weeks, depending on the type of services to be performed. The Company utilizes its on-site parts, service and body shop facilities to perform such reconditioning services. Unlike new trucks, the majority of the Company's used trucks are sold "as is" and without manufacturer's warranty, although manufacturers sometimes provide limited warranties on used vehicles if they have been reconditioned at a Rush Truck Center prior to resale or if the manufacturer's warranty is transferable and has not yet expired.

The Company closely monitors the age and quality of its used truck inventory and transfers such inventory between truck centers in order to maximize inventory turnover, avoid inventory overstock and understock situations and satisfy customer demand. The Company sold approximately 2,087 used trucks during 1998 compared with 1,952 in 1997.

CONSTRUCTION EQUIPMENT SALES

New Equipment Sales. The Rush Equipment Centers sell new equipment under the John Deere nameplate primarily in the construction industry. John Deere has a reputation of producing premium-quality, skillfully designed equipment. John Deere's premium reputation is an important aspect of the Company's marketing of new and used equipment and management believes that such reputation results in relatively higher prices for used John Deere equipment.

Customers of the Company's Construction Equipment segment include contractors, for both residential and commercial construction, utility companies, federal, state and local government agencies, and various petrochemical, industrial and material supply type businesses that require construction equipment in their daily operations. The Construction Equipment segment provides a full line of equipment for light to medium size applications and related product support to its customers. Its primary products include John Deere backhoe loaders, hydraulic excavators, crawler dozers, and four-wheel drive loaders. While the sale of new John Deere construction equipment is the main focus, the Rush Equipment Center construction equipment store also offers complementary equipment from other manufacturers, as well as used equipment taken as trade-ins.

A new John Deere piece of construction equipment typically ranges in price from $20,000 to $350,000. The Company aggressively markets to regional fleets and current truck customers that use construction equipment. An important competitive issue for the Company's customers is asset management. The availability of a well maintained rental fleet allows customers manage their assets by obtaining equipment on an as needed basis. Additionally, management believes

John Deere equipment, due its premium reputation and quality, provides lower maintenance and repair costs over its useful life, and provides a higher residual value at trade-in. The Company sold 247 new construction equipment units during the year ended December 31, 1998.

Used Equipment Sales. The Company sells used construction equipment of numerous manufacturers, including John Deere, Caterpillar, Komatsu and Case. The Company believes that future geographic diversification and the establishment of a well maintained rental fleet will be key in the marketing of used equipment and will afford the Company the ability to utilize additional parts and service departments for the reconditioning of used equipment, and to shift used equipment from location to location to satisfy customer demand. Management expects the majority of the used equipment inventory will be derived from the rental fleet, and the remainder to be taken as trade-ins from new equipment customers.

The Company's used equipment sales staff is trained to evaluate each prospective unit of used equipment on the basis of wholesale value and the costs of delivery, reconditioning and otherwise making the equipment ready for sale. The Company utilizes its on-site parts and service facilities to perform such reconditioning services. Unlike new equipment, the majority of the Company's used equipment is sold "as is" and without manufacturer's warranty, although manufacturers sometimes provide limited warranties on used equipment if the manufacturer's warranty is transferable and has not yet expired.

The Company closely monitors the age and quality of its used equipment inventory to maximize inventory turnover, avoid overstock and understock situations and to satisfy customer demand. The Company sold approximately 120 used construction equipment units during the year ended December 31, 1998.

FINANCIAL SERVICES

As part of its one-stop sales and service strategy, the Company offers third-party financing and insurance products to assist customers purchasing a new or used trucks and construction equipment. The Company also offers truck leasing and rentals at five of its locations and maintains a rental fleet at its equipment center. Revenues from truck related financial services were $9.1 million or 1.5% of total revenues in 1998 compared to $4.7 million or 1.2%, of total revenues in 1997.

New and Used Truck Financing. Each new and used truck customer is directed by the Company's truck sales staff to the Company's financial services sales personnel. The Company, through Associates, the largest third-party provider of heavy-duty truck financing in North America, and PACCAR Financial, financed approximately $183.6 million of new and used truck purchases by customers in 1998, an increase of 100.9% from the $91.4 million financed in 1997. The Company is one of the largest originators of Class 8 heavy-duty truck loans for Associates. At times, the Company also acts as a broker, matching truck purchasers with alternative financing sources in exchange for a fee that is determined on a case-by-case basis.

During 1998, the Company arranged customer financing for approximately 43.4% of its total new and used truck sales, and derived approximately 64% and 36% of its finance revenues from the sale of new and used trucks, respectively. The financings are typically installment contracts, which are secured by the trucks financed, and generally require a down payment of 10% to 30%, with the remaining balance financed over two to five years. The Company presents all of its truck financing opportunities in Texas, Oklahoma, Colorado, and Louisiana to Associates and its truck financing opportunities in California to both Associates and PACCAR Financial. Approximately 80% of the principal amount financed by the Company under installment contracts during 1998 was financed through Associates, with the remainder financed through PACCAR Financial. The Company's contracts with Associates and PACCAR Financial provide for payment to the Company of all finance charges in excess of a negotiated discount rate within 30 days of the date of financing. Such payments are subject to offsets resulting from the early pay-off of, or defaults under, installment contracts previously sold to Associates and PACCAR Financial by the Company. The Company has been able to negotiate favorable discount rates with Associates and PACCAR Financial because of its low historical delinquency rate, and, with respect to Associates, the large volume of trucks financed.

Associates and PACCAR Financial analyze each customer's credit risk and determine whether they will extend credit and the minimum terms for doing so. The Company evaluates the standards prescribed by Associates and PACCAR Financial and determines whether it is agreeable to completing the financing on such terms. The Company often requires an increased down payment, higher finance charges or additional collateral in order to complete the financing. The Company's agreements with Associates and PACCAR Financial limit the aggregate recourse liability of the Company for defaults under the installment contracts sold to Associates and PACCAR Financial to $400,000 and $200,000 per year, respectively. The Company carefully monitors its outstanding installment contracts and actively communicates with Associates and PACCAR Financial regarding delinquent accounts. Over the last five years, the default rate on loans originated by the Company has averaged less than .5% per year. The Company has not in the past experienced significant losses resulting from defaults on loans, and such losses have historically been significantly less than the amount of its total maximum recourse liability.

NEW AND USED EQUIPMENT FINANCING. Each new and used equipment customer is directed by the Company's equipment sales staff to the Company's financial services sales personnel. The Company, through The CIT Group, Associates Commercial Corp., and John Deere Credit, financed approximately $15.7 million of new and used equipment purchases by customers during the 1998. Revenues from construction equipment related financial services were approximately $603,000 during 1998.

During 1998, the Company arranged customer financing for approximately 44.4% of its total new and used equipment sales, with approximately 70% related to new equipment sales and the remaining 30% of financing related to used equipment sales. The financings are typically installment or lease contracts, which are secured by the equipment financed, and generally require a down payment of 0% to 7%, with the remaining balance financed over three to five years. The Company presents all of its equipment financing opportunities to The CIT Group, Associates Commercial Corp., and John Deere Credit, (Finance Providers). The Company's contract with

the Finance Providers provide for payment to the Company of all finance charges in excess of a negotiated discount rate within 30 days of the date of financing. The Company has been able to negotiate favorable discount rates with the Finance Providers because of its reputation in truck financing and performance.

The Finance Providers analyze each customer's credit risk and determine whether they will extend credit and the minimum terms for doing so. The Company evaluates the standards prescribed by the Finance Providers and determines whether they are agreeable to completing the financing on such terms. All finance contracts are sold to the Finance Providers without recourse.

Truck Leasing and Rental. The Company engages in full-service Peterbilt truck leasing under the PacLease trade name at eight of its locations. Under the terms of a full-service lease, all parts sales, service and maintenance for the lease or rental trucks is performed at the Company's facilities. The Company has increased its lease and rental fleet from less than 100 trucks in 1993 to approximately 667 trucks at December 31, 1998. The Company owns approximately 17% of its lease and rental fleet, and approximately 83% of the fleet is leased from PACCAR. The Company was named PacLease Western Region Franchise of the Year in 1995 and Midwest Region Franchise of the Year in 1996. The criteria used to determine the recipients of this award include, among others, image, customer satisfaction, rental utilization and profitability.

The Company offers both long-term leasing and short-term rentals to its customers. Approximately 68% of the Company's fleet is leased to customers for periods ranging from one to seven years, and the remainder of the trucks are rented or leased for periods ranging from one day to two years. The Company generally holds trucks in its lease and rental fleet for approximately five years and then typically sells such used trucks through its truck centers. The Company has consistently realized gains on the sale of such trucks in excess of lease purchase option values. The Company constantly monitors the age of its lease and rental fleet, and as trucks are taken out of the fleet, the Company adds new trucks as needed. The average age of trucks in the Company's lease and rental fleet is 28 months. The Company's lease and rental customers provide a market to support the Company's parts and service operations by creating additional parts sales and service work for the Company. The Company also receives a rebate from PACCAR for each Peterbilt truck purchased for use in its lease fleet.

Equipment Rental. The Company engages in full-service John Deere equipment rental. Under the terms of a full-service rental contract, all parts sales, service and maintenance for the rental equipment is performed at the Company's facilities. The Company's rental fleet consists of approximately 95 units as of December 31, 1998.

The Company offers both long-term and short-term rentals, and rental purchase options to its customers. Management believes that its rental operations will continue to benefit from the trend among businesses to outsource operations, including equipment ownership, in order to minimize their capital investment in equipment, as well as reducing or eliminating the down-time, maintenance, repair and storage costs associated with equipment ownership. The Company constantly monitors the age of its rental fleet, and as equipment is taken out of the rental fleet,

new equipment is added as needed. The average age of equipment in the rental fleet is eight months. Management believes that building a geographically diverse network of equipment centers would support the sale of used equipment retired from the rental fleet through the ability to relocate used equipment to various geographic regions based on market demand, the access to an expanded customer base, and the availability of trained personnel to service the used equipment to enhance its resale value.

Insurance Agency Services. The Company sells a complete line of property and casualty insurance, including collision and liability insurance on trucks, cargo insurance, standard automobile liability coverages, life, credit life and health, workers' compensation coverages and homeowner's insurance. The Company's agents are licensed in eight states to sell insurance for various insurance companies, including Associates Insurance and Motors Insurance Corporation, which underwrite the products offered by the Company. While the Company sells a majority of its insurance products to its truck-purchasing customers, the Company also sells to the general PUBLIC. The Company believes it has developed good relationships with its insurance-purchasing customers which resulted in an average renewal rate of 87% during 1998.

The Company provides insurance premium financing to its insurance customers. Lending operations are supported by the Company's insurance subsidiary's own capital base. Premiums for property and casualty insurance are typically payable at the time a policy is placed in force or renewed. The Company's premium financing services allow the insured to pay a portion of the premium when the policy is placed in force and the balance in monthly installments substantially over the life of the policy. As security, the Company retains a contractual right to cancel the insurance policy if a premium installment is not paid when due. In the event of such cancellation, the Company applies the unearned premium toward the payment obligation of the insured. Premium financing which the Company offers to its customers does not involve any credit risk since no funds are advanced to outside parties and the Company is fully secured by the unearned premiums on the financed policies.

PARTS, SERVICE AND BODY SHOP OPERATIONS

The parts, service and body shop operations of the Company provide relatively higher profit margins and tend to be less cyclical than new and used truck and equipment sales. Parts, service and body shop revenues accounted for approximately $108.0 million, or 17.6%, of the Company's total revenues in 1998.

Parts

Each Rush Truck Center carries a wide variety of Peterbilt and other parts inventory, with an average of approximately 5,000 items from over 50 suppliers at each location. The Company is the sole authorized Peterbilt parts and accessories supplier in each of its markets and estimates that approximately 65% of its truck service and parts functions are performed on Peterbilt heavy-duty trucks.

The Rush Equipment Center carries a wide variety of John Deere and other parts inventory, with over 12,000 items from over 15 suppliers. The Company is the sole authorized John Deere parts and accessories supplier in its market and estimates that approximately 92% of its construction equipment service and parts functions are performed on John Deere equipment.

The parts departments support the Company's sales and service functions. The Company utilizes its parts department when performing its repair, maintenance and body shop services, including all parts required to recondition used trucks and equipment for resale and maintain and repair the Company's lease fleets. In addition to supporting the Company's service and body shop functions, the Company markets its parts and accessories both at its truck and equipment centers, and through its outside sales staff. The Company's outside sales staff markets parts directly to fleet customers, who often perform truck and equipment maintenance and repairs at their own in-house service facilities.

The Company's real-time inventory management tracking systems reduces delays in parts delivery, helps maximize inventory turns and assists in controlling the potential of overstock and understock situations. The Company's inventory systems also assist management in determining the appropriate parts inventory mix in each location and tailoring such inventory to local buying patterns and market trends, while monitoring product mix to optimize pricing and maximize profit margins. The Company's automated reordering system assists each truck and the equipment center in maintaining the proper inventory levels and permits inventory delivery to each location, or directly to customers, typically within 24 hours from the time the order is placed. The Company provides the standard manufacturer's warranty on the parts that it sells, which is generally a 90-day to one-year replacement guarantee for truck parts and a 90 day replacement guarantee for construction equipment component parts.

The Company displays many of its higher margin truck parts and accessory items in open showrooms. Open parts showrooms are typically 600 to 2,000 square feet and feature up to 1,000 parts items and accessories in a mix tailored to local buying patterns and market trends. In order to maximize turnover, open parts showrooms are located near driver lounges and other high traffic areas of the Company's truck centers. The Company encourages qualified customers to open accounts for parts purchases.

Service and Body Shop

Rush Truck Centers feature various combinations of fully equipped service and body shop facilities capable of handling almost any type of truck repair on virtually any type of truck, from rebuilding entire trucks and engines to routine maintenance functions, including tune-ups, oil changes, tire balancing, front-end alignments and inspections. Rush Truck Centers offer such services in a relaxed and accommodating atmosphere. Most Rush Truck Centers have driver lounges equipped with televisions, recliners, sofas, phones and food and beverage machines to allow drivers to sleep, relax or conduct business while waiting for service to be performed. To simplify the buying process, the Rush Truck Centers offer "menu" pricing of service and body shop functions and offer expedited service at a premium price for certain routine repair and maintenance functions.

The Company has a total of 409 service bays, including 13 paint bays, throughout its heavy-duty truck network. The Company performs both warranty and non-warranty service work, with the cost of the warranty work being reimbursed by the manufacturer at retail consumer rates. The Company estimates that approximately 20% of its service functions are performed under manufacturers' warranties. Rush Truck Centers are Peterbilt designated warranty service centers and most are authorized service centers for a number of manufacturers of heavy-duty truck components, including Cummins, Detroit Diesel, Caterpillar, Eaton and Rockwell. Manufacturers permit warranty work to be performed only at designated warranty service centers. To enhance accuracy and timeliness in payment of warranty claims, the Company maintains a computerized system for sending warranty claims to PACCAR and various other manufacturers.

The Company's service and body shop facilities, three of which are open 24 hours a day, five days a week, are equipped with state-of-the-art tools and diagnostic equipment and staffed by manufacturer-trained and certified service technicians. The Company's service technicians perform full-service truck repairs and make-ready on Peterbilt and virtually any other type of heavy-duty truck. Rush Truck Centers' factory-certified service employees regularly attend manufacturer-sponsored training programs to remain abreast of current diagnostic and repair and maintenance techniques. The Company employs an innovative compensation program for its service technicians designed to encourage the performance of expedited and high quality repair and maintenance services. Rather than paying service technicians on an hourly basis, each technician receives a flat rate for each service or repair performed. If a service or repair is performed incorrectly, the technician making the initial repair or service must correct the situation without additional compensation. This compensation arrangement facilitates the retention of efficient service technicians who can increase their compensation by expeditiously and accurately completing service and repairs.

The Company's body shops, which include multiple EPA approved paint bays, are fully equipped to make virtually any type of truck body repair, from complete reconstruction of truck frames damaged in accidents to repairs and replacements of hoods, body panels and fenders. Rush Truck Centers' body shops are also used to refurbish trucks in need of updating due to changes in industry standards or to satisfy regulatory guidelines.

The equipment center maintains a fully equipped service facility capable of handling almost any type of equipment repair on virtually any type of equipment. Services range from rebuilding engines to routine maintenance functions, including tune-ups, oil changes, etc. The equipment center includes service bays staffed by highly trained service technicians, as well as a fleet of field service trucks and technicians who make on-site repairs at the customers location. The equipment center is a John Deere designated warranty service center and technicians receive training from John Deere and certain other suppliers, as well as additional on-site training conducted by the Company. Manufacturers permit warranty work to be performed only at designated warranty service centers. To enhance accuracy and timeliness in payment of warranty claims, the Company maintains a computerized system for sending warranty claims to John Deere.

SALES AND MARKETING

The Company's aggressive expansion program and long history of operations in the heavy duty truck segment have resulted in a customer base that is diverse in terms of geography, industry and scale of operations. The Company's customers include owner-operators, regional and national fleets, corporations and local governments, none of which accounted for more than 9% of its total sales in 1998. Because of its large size, strong relationships with fleet customers and its ability to handle large quantities of used truck trade-ins, the Company, unlike most dealers, markets and sells to fleets nationwide. Management also believes that the consistently reliable service received by customers at each Rush Truck Center and the Company's longevity have resulted in increased recognition of the "Rush" name, customer loyalty and continuing customer relationships. During 1998, approximately 70% of the Company's truck sales were to repeat customers.

The Company believes that large, multi-location, full-service dealerships, which offer a large selection of new and used trucks, parts and sophisticated service and body shop facilities, are able to realize economies of scale and have a competitive advantage in the truck sales and services industry. As part of its strategy, the Company has employed a Rush Truck Center branding program for its truck facilities to enhance the Company's name recognition and to communicate the standardized high level of quality products and services throughout its truck center network. Currently all of the Company's Peterbilt dealerships are branded as Rush Truck Centers.

The Company generally promotes its trucks and related services through its sales staff, trade magazine advertisements and attendance at industry shows, including the International Truck Show and the Southwest Trucking Show. In addition to cultivating walk-in customers, the Company's sales staff also makes customer visits and participates in organizations that support industries that utilize the Company's trucks. The Company uses its proprietary direct mail database to distribute its bi-monthly truck magazine, which includes new and used truck and parts specials, and other marketing materials to over 55,000 existing and potential customers. Support of the industry is achieved through membership and support of trucking organizations, such as the American Truck Dealers and American Trucking Association. In addition, the Company has a world-wide web site on the Internet featuring truck and parts specials at http://www.rushtruckcenters.com.

The Company's new truck sales staff consists of 155 employees, including a Senior Vice President of Sales and Marketing and ten regional sales managers. Used trucks are sold through 45 used truck sales personnel, including a Vice President of Used Trucks and five regional sales managers. The sales staff at each Rush Truck Center receives sales training, instruction on technical and operating aspects of the trucks and education with respect to the industries in which such trucks are utilized, including the waste-disposal, construction and forestry industries. The sales staff of each Rush Truck Center is compensated on a commission and salary basis, with a high percentage of compensation based on commission.

The Company has approximately 694 parts and service employees, including a Senior Vice President of Dealership Operations, a national director of parts, a national director of service and body shop operations, 22 regional service and body shop managers and 15 regional parts

managers. The Company sells parts in conveniently located open showrooms and parts counters at its truck centers and directly to fleet customers through its outside sales staff. The direct marketing to its fleet customers is intended to position the Company as the primary supplier of parts to such customers, who often perform truck maintenance and repairs at their own in-house service facilities.

The equipment centers' customer base includes contractors, for both residential and commercial construction, utility companies, federal, state and local government agencies, and various petrochemical, industrial and material supply type businesses that require construction equipment in their daily operations, none of which accounted for more than 4% of its total sales in the fourth quarter of 1997. The creation of a network of equipment centers large enough to handle large fleet sales nationwide would build economies of scale through favorable purchasing power and proportionately lower operating costs due to centralized management. Currently, strong marketing efforts are being made to truck customers who are involved in the construction business. Management believes that these customers are familiar with the consistently reliable service that is synonymous with the "Rush" name. As part of this strategy, the Company has branded its Houston facility as a Rush Equipment Center in order to enhance the Company's name recognition and to communicate the standardized high level of quality products and services that can be expected when visiting the Rush Equipment Center.

The equipment centers' staff consist of 145 employees, including a President, three General Managers, and 15 department managers. New and used equipment is sold, leased and rented through 38 sales personnel. The sales staff at all Rush Equipment Centers receive sales training and instruction on technical and operating aspects of the equipment and education with respect to the industries in which such equipment is utilized, primarily the construction and forestry industries. The sales staff is compensated on a commission and salary basis, with a high percentage of compensation based on commission. The equipment center has approximately 95 parts and service employees. The Company sells parts in showrooms and at its parts counter at its equipment center and directly to customers through its outside sales staff. The direct marketing to its customers is intended to position the Company as the primary supplier of parts to such customers, who often perform equipment maintenance and repairs at their own in-house service facilities.

FACILITY MANAGEMENT

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

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

The Company has been successful in retaining its senior management, general managers and other employees. The average tenure of the Company's current senior management is 12 years, and the average tenure of its current truck centers' general managers is approximately 8 years. To promote communication and efficiency in operating standards, general managers and members of senior management attend several Company-wide strategy sessions per year. In addition, management personnel attend various industry-sponsored leadership and management seminars and receive continuing education on Peterbilt products, John Deere products, marketing strategies and management information systems.

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

Purchasing and Suppliers. The Company believes that pricing is an important element of its marketing strategy. Because of its size, the Heavy Duty Truck segment benefits from volume purchases at favorable prices that permit it to achieve a competitive pricing position in the industry. The Company purchases its Peterbilt heavy-duty truck inventory and Peterbilt parts and accessories directly from PACCAR. All other manufacturers' parts and accessories, including those of Cummins, Detroit Diesel, Caterpillar and others are purchased through wholesale vendors or from PACCAR, who buys such products in bulk for resale to the Company and other Peterbilt dealers. All purchasing, volume and pricing levels and commitments are negotiated by the Company's corporate headquarters. The Company has been able to negotiate favorable terms, which facilitates the Company's ability to offer competitive prices for its products.

The Company purchases all of its John Deere construction equipment inventory and John Deere parts directly from John Deere. All other construction equipment manufacturers' parts and accessories are purchased through wholesale vendors by the Company. Management believes as the equipment center network of dealerships is developed, the Company will be able to negotiate favorable price terms through volume purchasing, and thereby achieve a competitive pricing position in the industry.

Management Information Systems. Each Rush truck and equipment center maintains a centralized real-time inventory tracking system which is accessible simultaneously by all locations and by the Company's corporate office. The Company utilizes the information assimilated from its management information systems to determine and monitor the appropriate inventory level at each facility. From this information, management has developed a model reflecting historic sales levels of different product lines. This information identifies the appropriate level and mix of inventory and forms the basis of the Company's operating plan. The Company's management information systems and databases are also used to monitor market conditions, sales information and assess product and expansion strategies. Information received from state and regulatory agencies, manufacturers and industry contacts allows the Company to determine market share statistics and gross volume sales numbers for its products as well as those of competitors. This information impacts ongoing operations by allowing the Company to remain abreast of changes within the market and allows management to react accordingly by realigning product lines and by adding new product lines and models.

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

Recent Acquisitions

In September 1998, the Company purchased substantially all of the assets of Klooster Equipment, Inc. which consisted of three full-service dealerships and one retail only location covering 54 counties in Western Michigan. The acquisition provides the Company with an immediate presence in the construction equipment industry in the state of Michigan. The purchase price was approximately $13.1 million funded by (i) $2.5 million of cash, (ii) $9.8 million of borrowings under the Company's floor plan financing arrangements with Associates Commercial Corp. and John Deere Inc., and (iii) $836,000 of borrowings from John Deere Credit Corp.

On March 2, 1998, the Company caused its wholly owned subsidiary, Rush Retail Centers of Texas, Inc., to acquire the stock of D&D Farm and Ranch Supermarket, Inc. for approximately $10.5 million, with the purchase price being a combination of cash and notes payable. The Company accounted for the acquisition as a purchase.

In October 1997, the Company purchased certain assets and assumed certain liabilities of C. Jim Stewart & Stevenson, Inc., and Stewart & Stevenson Realty Corp., which consisted of one full-service John Deere dealership in Houston, Texas. The acquisition provides the Company with an immediate presence in the construction equipment industry in the state of Texas. The purchase price was approximately $30.2 million, funded by (i) $4 million of cash, (ii) $21.1 million of borrowings under the Company's floor plan financing arrangement with Associates Commercial Corp. and John Deere Inc., (iii) $3,080,000 in real estate borrowings from Frost National Bank, and (iv) a $2,062,500 promissory note payable to the seller.

In March 1997, the Company purchased the assets of Denver Peterbilt, Inc., which consisted of two full-service Peterbilt dealerships in Denver and Greeley, Colorado. The Company believes that the acquisition of such facilities provides the Company with an immediate market presence in the state of Colorado. The purchase price was approximately $7.9 million, funded by (i) $6.5 million of cash and (ii) $1.4 million of borrowings under the Company's floor plan financing arrangement with GMAC to purchased new and used truck and parts inventory. The Company also entered into an agreement whereby the principal of Denver Peterbilt, Inc. may receive additional amounts based on future sales of new Peterbilt trucks at the Colorado locations. The Company paid the principal of Denver Peterbilt, Inc. $2.0 million in March 1999 satisfying all terms of the agreement.

COMPETITION

There is significant competition both within the markets currently being served by the Company and in new markets into which the Company may enter. Dealer competition continues to increase based on accessibility of dealership location, the number of the Company's dealership locations, price, value, quality and design of the product as well as attention to customer service (including technical service). The Company believes that it is competitive in all of these categories. Despite being what the Company believes to be one of the largest heavy duty truck dealers in the industry in terms of total revenues, during 1998 the Company accounted for approximately 2.0% of all new Class 8 truck sales in the United States.

The Company's heavy duty truck products compete with Class 8 and Class 7 trucks made by other manufacturers and sold through competing independent and factory-owned truck dealerships, including trucks manufactured by Navistar (International), Mack, Freightliner, Volvo, Ford, Western Star, other Class 8 trucks manufactured by PACCAR (Kenworth) and other manufacturers. Management believes it is able to effectively compete with dealerships and service providers on the basis of overall Peterbilt product quality, reputation and name recognition as well as its ability to provide full parts and service support, financing and insurance and other customer services, at easily accessible locations in high truck traffic areas on or near major highways.

The Company's construction equipment products compete with construction equipment manufactured by Caterpillar, Komatsu, Case, and other manufacturers. Management believes it is able to compete with other dealers and service providers on the basis of overall John Deere product quality, reputation and name recognition as well as its ability to provide full parts and service support, financing and insurance and other customer services.

DEALERSHIP AGREEMENTS

PACCAR. The Company has entered into non-exclusive dealership agreements (the "Dealership Agreements") with PACCAR with respect to each of the heavy duty truck territories. The Dealership Agreements each have current terms expiring between March 2000 and October 2000 and may be terminated by PACCAR upon a violation by the Company of the provisions contained therein. Upon the expiration of the term of the Dealership Agreements, written renewals of such agreements must be executed by PACCAR. Any termination or non-renewal of the Dealership Agreements must be done by PACCAR in accordance with both state and federal legislation designed to protect dealers from arbitrary termination or non-renewal of franchise agreements. The Automobile Dealers Day in Court Act and applicable state laws provide that termination or non-renewal of a dealership agreement must be done in "good faith" and upon a showing of "good cause" by the manufacturer for such termination or non-renewal, as those terms have been defined by statute and case law. The Company has consistently had its Dealership Agreements renewed and the Company anticipates obtaining renewals in the future. However, no assurances can be given that such renewals will be obtained.

The Company is not required to pay a royalty fee under the Dealership Agreements. Rather, the Company has agreed to stock, sell at retail and service Peterbilt trucks and products in its defined market areas. Pursuant to the terms of the Dealership Agreements, the Company is entitled to use the "Peterbilt" name, trade symbols and intellectual property. PACCAR periodically furnishes the Company general and specialized truck and parts sales and other service and technical training programs and makes available to the Company copies of service manuals and bulletins, publications and technical data to assist in the effective operation of the Company's services and parts operations. PACCAR also makes available field personnel who periodically advise the Company on sales, parts and service related subjects, including fleet sales, product quality, technical adjustments, repair, replacement and sale of products, customer relations, warranty administration, and service and parts merchandising, training and management. PACCAR maintains general advertising and promotion programs for the sale of Peterbilt products.

Each of the Company's truck dealerships is required to establish and maintain a ratio of net working capital to total assets ranging from .05 to .25 as provided in its Dealership Agreement. If at any time a dealership's net working capital falls below the minimum requirements as determined from time to time by PACCAR, the dealership is required to take steps reasonably necessary to meet such minimum capital requirements. The Company has had no problem in the past satisfying such minimum capitalization requirements and does not anticipate any problems through fiscal

1999. The Dealership Agreements also require the Company to maintain a uniform accounting system designated by PACCAR and provide PACCAR with monthly financial and operating data.

The Company is required to provide 60 days' prior written notice to PACCAR before it enters into a written agreement to sell and service the competitive vehicles of another truck manufacturer. The purpose of the notice is to provide PACCAR with an opportunity to evaluate and discuss with the Company the likely effect of such an action on the Company, PACCAR and the other Peterbilt dealers.

In the event of a change of control of the Company, the Dealership Agreement may be immediately terminated by PACCAR. For this purpose, a change of control occurs (i) if the Dealer Principals (collectively, W. Marvin Rush, W. M. "Rusty" Rush, Robin M. Rush and other executives of the Company) in the aggregate own less than 30% of the capital stock entitled to vote on the election of directors of the Company, or (ii) if any "person" (as that term is defined under the Securities Exchange Act of 1934, as amended) other than the Dealer Principals or any person who has been approved in writing by PACCAR, either (x) owns a greater percentage of the capital stock entitled to vote on the election of directors of the Company than the Dealer Principals in the aggregate, or (y) holds the office of Chairman of the Board, President or Chief Executive Officer of the Company. In the event that the Company were to find it necessary or advisable to sell any of its Peterbilt dealership locations, PACCAR retains the right of first refusal to purchase such dealership location in any proposed sale. The change of control and right of first refusal provisions may have anti-takeover effects.

In addition to its dealership agreements with PACCAR, the Company is also an authorized dealer for Volvo GM Heavy Truck Corporation ("Volvo") and General Motors Corporation ("GMC") at certain of the Company's locations.

Volvo. The Company is an authorized, exclusive retail dealer of new Volvo trucks and parts at its Oklahoma City and Tulsa, Oklahoma facilities. As part of the dealership agreement with Volvo (the "Volvo Agreement"), the Company is granted the right to use various Volvo trademarks in the conduct of its business and the benefit of Volvo materials and training. In order to remain in compliance with the terms of the Volvo Agreement, the Company must meet certain sales, service and facilities criteria established by Volvo, provide Volvo with various financial and planning documents on a regular basis and provide warranty repairs on covered Volvo trucks.

The Volvo Agreement is effective through March 31, 2000 and is renewed annually unless terminated according to the provisions of the Volvo Agreement. The occurrence of any of the following events constitutes grounds for termination by Volvo: (a) ownership of a majority of the capital stock of the Company by persons other than W. Marvin Rush and members of his family; (b) disputes among, or actions by, the Controlling Individuals which may adversely affect the reputation of Volvo; (c) the sale by the Company of any of its principal operating assets; (d) the sale or transfer of the Volvo Agreement to an unauthorized party; and (e) the occurrence of various other material breaches enumerated in the Volvo Agreement which are typical of dealership agreements.

GMC. Under the Company's non-exclusive dealership Agreement with GMC (the "GMC Agreement"), GMC provides the Company with, among other things, trucks, parts and training in the sales and service of GMC medium-duty trucks. GMC also allows the Company to use various GMC licenses, trade symbols and intellectual property owned by GMC. The Company is obligated to conform its operations to the standards established by the GMC Agreement and ongoing reviews of the Company's facilities and operations. The obligations of the Company include maintaining minimum size and appearance standards for its dealership facilities, maintaining its accounting records in conformance with GMC standards, performing GMC warranty repairs and responsibly promoting the sale and service of GMC products throughout the Company's assigned territory.

The GMC Agreement is effective through October 31, 2000 and may be terminated by GMC in specific circumstances. The GMC Agreement is based on the personal relationship between GMC and the Dealer Operators (W. Marvin Rush, W. M. "Rusty" Rush and Robin M. Rush) and prohibits any attempted assignment, including upon the death or incapacity of one or more of the Dealer Operators, of the GMC Agreement to a third party which is not expressly approved by GMC. With regard to any proposed assignment of the GMC Agreement, GMC retains a right of first refusal on any offers to purchase the GMC Agreement. The Company is also prohibited from making any transfer of more than a ten percent equity interest in the Company without the consent of GMC. Some of the additional grounds upon which GMC may terminate the GMC Agreement are: (a) material conflicts with GMC over the Company's facilities and operations; (b) misconduct by the Company or the Dealer Operators; or (c) failure to maintain the specified net capital requirement and an open line of credit pursuant to the terms of the GMC Agreement. The Company has remained in compliance with the terms of the GMC Agreement and anticipates no conflicts through at least 1999.

The Company believes that the change of ownership resulting from its initial public offering completed in June 1996 violated the GMC Agreement and that such agreements is terminable by GMC. The termination of the GMC Agreement would not have a material adverse impact on the Company.

John Deere. The Company has agreements with John Deere which authorizes the Company to act as a dealer of John Deere construction, utility and forestry equipment (the "Construction Dealer Agreement"). The Company's areas of responsibility for the sale of John Deere construction equipment are the Houston, Texas Metropolitan area and surrounding 20 counties and 54 counties in Western Michigan that includes Lansing, Grand Rapids and Traverse City.

Pursuant to the Construction Dealer Agreements, the Company is required, among other things, to maintain suitable facilities, provide competent management, actively promote the sale of construction equipment in the designated area of responsibility, fulfill the warranty obligations of John Deere, maintain inventory in proportion to the sales potential in the area of responsibility, provide service and maintain sufficient parts inventory to service the needs of its customers, maintain adequate working capital, and maintain stores only in authorized locations. John Deere is obligated to make available to the Company any finance plans, lease plans, floor plans, parts return programs, sales or incentive programs or similar plans of programs it offers to other

dealers. John Deere also provides the Company with promotional items and marketing materials prepared by John Deere for its construction equipment dealers. The Construction Dealer Agreements entitle the Company to use John Deere trademarks and tradenames, with certain restrictions.

Under the Construction Dealer Agreements the Company cannot acquire other John Deere dealerships without John Deere's prior written consent, which John Deere may withhold in its sole discretion. The prior consent of John Deere is required for the opening of any John Deere store within the Company's designated area of responsibility and for the acquisition of any other John Deere dealership. In addition, the Company is prohibited from making acquisitions, initiating new business activity, paying dividends, repurchasing its capital stock, or making any other distributions to stockholders if the Company's equity-to-assets ratio is below 20%, as calculated by John Deere pursuant to the provisions of the Construction Dealer Agreements, or if such ratio would fall below 20% as a result of such action. As of the end of fiscal 1998, the Company's equity-to-assets ratio was 24%.

In the event of a change of control of the Company, the Dealership Agreement may be immediately terminated by John Deere. For this purpose, a change of control occurs (i) if the Rush Principals (collectively, W. Marvin Rush, W. M. "Rusty" Rush, Robin M. Rush) in the aggregate own less than 30% of the capital stock entitled to vote on the election of directors of the Company, or (ii) if any "person" (as that term is defined under the Securities Exchange Act of 1934, as amended) other than the Rush Principals owns a greater percentage of the capital stock entitled to vote on the election of directors of the Company than the Rush Principals in the aggregate. In the event that the Company were to find it necessary or advisable to sell any of its John Deere dealership locations, John Deere retains the right of first refusal to purchase such dealership location in any proposed sale. The change of control and right of first refusal provisions may have anti-takeover effects.

The Company's John Deere dealer appointment is not exclusive. John Deere could appoint other dealers in close proximity to the Company's existing store. The areas of responsibility can be reduced or terminated by John Deere upon 120 days prior written notice. In addition, the Construction Dealer Agreements can be amended at any time without the Company's consent, so long as the same amendment is uniformly made to the dealer agreements of all other John Deere dealers. John Deere also has the right to sell directly to federal, state, or local governments, as well as national accounts. To the extent John Deere appoints other dealers in the Company's market, reduces the area of responsibility relating to the Company's construction equipment stores, or amends the Construction Dealer Agreements or directly sells substantial amounts of equipment to government entities and national accounts, the Company's results of operations and financial condition could be adversely affected.

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

FLOOR PLAN FINANCING

Substantially all of the Company's truck purchases from PACCAR are made on terms requiring payment within 15 days or less from the date of shipment of the trucks from the factory. The Company finances all, or substantially all, of the purchase price of its new truck inventory, and 75% of the loan value of its used truck inventory, under a floor plan arrangement with GMAC under which GMAC pays PACCAR directly with respect to new trucks. The Company makes monthly interest payments on the amount financed but is not required to commence loan principal repayments on new vehicles to GMAC for a period of 12 months and for used vehicles for a period of three months. The loan is collateralized by a lien on the vehicle. The Company's floor plan agreements with its primary lender limit the aggregate amount of borrowings based on the number of new and used trucks. At December 31, 1998, the Company's floor plan arrangements permit the financing of up to 1,133 new trucks and 432 used trucks and, the Company had approximately $45.9 million outstanding under its floor plan financing arrangement with GMAC. GMAC permits the Company to earn interest at the prime rate on overnight funds deposited by the Company with GMAC for up to 62.5% of the amount borrowed under its floor plan financing, real estate financing and revolving credit arrangements with GMAC. GMAC has indicated that it will continue to provide GMAC financing to the Company in the absence of a franchise agreement with GMC.

Substantially all of the Company's new construction equipment purchases are financed by John Deere and Associates Commercial Corp. The Company finances all , or substantially all, of the purchase price of its new equipment inventory under its floor plan facilities. The agreement with John Deere provides interest free financing for five months after which time the amount financed is required to be paid in full, or an immediate 3% discount with payment due in 30 days. When the equipment is sold prior to the expiration of the five month period, the Company is required to repay the principal within approximately 15 days of the sale. Should the equipment financed by John Deere not be sold within the five month period, it is transferred to the Associates Commercial Corp. floor plan arrangement. The Company makes principal payments to Associates Commercial Corp., for sold inventory, on the 15th day of each month . Used and rental equipment, to a maximum of book value, is financed under a floor plan arrangement with Associates Commercial Corp. The Company makes monthly interest payment on the amount financed and is required to commence loan principal repayments on rental equipment as book value reduces. Principal payments, for sold inventory, on used equipment are made the 15th day of each month following the sale. The loans are collateralized by a lien on the equipment. As of December 31, 1998, the Company's floor plan arrangement with Associates Commercial Corp. permit the financing of up to $25 million in equipment. At December 31, 1998, the Company had $21.7 million and $21.6 million, outstanding under its floor plan financing arrangements with John Deere and Associates Commercial Corp., respectively.

PRODUCT WARRANTIES

PACCAR provides retail purchasers of new trucks with a limited warranty against defects in materials and workmanship, excluding certain specified components which are separately warranted by component suppliers. The Company does not otherwise provide any warranty to retail purchasers of new trucks.

John Deere provides retail purchasers of new equipment with a limited warranty against defects in materials and workmanship, excluding certain specified components which are separately warranted by component suppliers. The Company does not otherwise provide any warranty to retail purchasers of new equipment.

The Company generally sells its used trucks and equipment "as is" and without manufacturer's warranty, although manufacturers sometimes provide limited warranties on used vehicles if they have been reconditioned at the Rush Truck Center prior to resale or if the manufacturer's warranty on the truck or equipment is transferable and has not yet expired. The customer does not receive any warranty from the Company.

BACKLOG

At December 31, 1998, the Company's backlog of truck orders was approximately $180 million, compared to $135.0 million at December 31, 1997. The Company includes in backlog only confirmed orders. It takes between 60 days and six months for the Company to receive delivery from PACCAR once an order is placed. The Company expects to fill at least 90% of these orders by the end of 1999. The Company sells approximately 75% of its new heavy-duty trucks by customer special order, with the remainder sold out of inventory. Included in the Company's backlog as of December 31, 1998 are orders from a number of the Company's major fleet customers.

GOVERNMENT REGULATION

The Heavy Duty Truck segment is subject to the National Traffic and Motor Vehicle Safety Act (the "Act"), Federal Motor Vehicle Safety Standards promulgated by the DOT and various state motor vehicle regulatory agencies. The Company believes that it is in compliance with the Act and applicable standards.

The Company's service and body shop facilities are subject to federal, state and local laws and regulations concerning environmental matters with respect to air quality and discharges into the environment, as well as storage, shipping, disposing and manifesting of hazardous materials and hazardous and non-hazardous waste. These environmental matters are associated with the repair and maintenance of heavy-duty trucks and construction equipment at the Company's facilities, and no location or operation exceeds small quantity generation status. In addition, these laws and regulations affect the storing, dispensing and discharge of petroleum-based products and other waste, and require the Company to secure permits in connection with its dealership operations. The securing of permits and compliance with all laws and regulations can be costly and could, in the future, affect the Company's earnings; however, to date, the cost of permitting and compliance has not been material. Further, each dealership must comply with local governmental requirements concerning zoning, land use and environmental factors. Although the Company has not experienced difficulties in obtaining the required licensing or approvals, difficulties in obtaining

such licensing or approvals in the future could result in delays in the opening of proposed new dealerships. State and local laws and regulations also require each dealership to obtain licenses to operate as a dealer in heavy-duty vehicles. The Company has obtained all necessary licenses and permits, and management believes the Company is in full compliance with all federal, state and local laws and regulations.

The Company's insurance and financing services are subject to the laws and regulations of the states in which it conducts business. These laws and regulations cover all aspects of the Company's insurance and financing business, including, with respect to insurance, licensing, regulation of insurance premiums financing rates and insurance agency legislation pertaining to insurance agencies and their affiliates; and with respect to financing, commercial finance regulations that in some states may be similar to certain consumer finance regulations, including those governing interest rates and charges, maximum amounts and maturities of credit and disclosure to debtor of certain terms of each transaction.

The Company is also subject to the regulations promulgated by the Occupational Safety and Health Administration ("OSHA"), which regulates workplace health and safety. The Company's facilities are periodically inspected by representatives of OSHA.

TRADEMARKS

The Peterbilt, Volvo, GMC and John Deere trademarks and trade names, which are licensed from each of the respective corporations, are recognized internationally and play an important role in the marketing of the Company's products. Each corporation engages in a continuous program of trademark and trade name protection in all marketing areas. The Company holds a registered trademark with the U. S. Patent and Trademark Office for the name "Rush."

PRODUCT LIABILITY

Products that have been or may be sold by the Company may expose it to potential liabilities for personal injury or property damage claims relating to the use of such products. Historically, product liability claims have not been material to the Company. While the Company maintains third-party product liability insurance which it believes to be adequate, there can be no assurance that the Company will not experience legal claims in excess of its insurance coverage, or claims which are ultimately not covered by insurance. Furthermore, if any significant claims are made against the Company or PACCAR, the Company's business may be adversely affected by related negative publicity.

EMPLOYEES

At December 31, 1998, the Company employed approximately 1,306 people, of which 155 were involved in the new truck department, 45 in the used truck department, 33 in equipment sales 789 in parts, service and body shop services, 14 in insurance agency services, seven in financing services, 78 in truck leasing and equipment rental operations, 69 in retail operations, and 116 in administrative, management and corporate functions.

The Company has no contracts or collective bargaining agreements with labor unions and has never experienced work stoppages. The Company considers its relations with employees to be satisfactory.

ITEM 2. PROPERTIES

The Company owns its truck center locations in Houston (4), San Antonio (1), and Pharr, Texas, as well as 6,000 square feet of administrative office space located in San Antonio, Texas, its Oklahoma City and Tulsa, Oklahoma facilities, its Bossier City, Louisiana facility, its Fontana, California facility, its equipment center in Houston, Texas, its retail center in Seguin, Texas and a 5,700-acre ranch located in Cotulla, Texas. The remaining facilities operate on leased premises, with the unexpired terms of the leases ranging from six months to six years, inclusive of options to renew. The Company has an option to terminate its leases on the Laredo, Texas locations, by providing notice and paying rent in an amount ranging from three to six months. In all cases the Company pays a fixed rent and is responsible for taxes, insurance, repairs and maintenance. For 1998, the total net rent expense for the Company's leased stores was approximately $1.4 million. The building square footage of the Company's full-service truck centers range in size from 13,500 to 73,000 square feet, and are situated on lots ranging from three to 14 acres, while the parts/service facilities range in size from 2,500 to 6,200 square feet, and are situated on lots ranging from 0.4 to five acres. The Company's equipment centers range in size form 3,000 to 44,000 square feet and are situated on lots ranging from .5 to 45 acres.

ITEM 3. LEGAL PROCEEDINGS AND INSURANCE

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's shareholder's during the fourth quarter of the fiscal year ended December 31, 1998.

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The Company's common stock, $0.01 par value ("Common Stock"), is listed for quotation on the Nasdaq National Market ("NASDAQ/NMS") under the symbol "RUSH." From June 7, 1996, the date of the Company's initial public offering, the following table sets forth the high and low closing sales prices for the Common Stock for the fiscal periods indicated, as reported by the Nasdaq/NMS. The quotations represent prices in the over-the-counter market between dealers in securities, do not include retail markup, markdown or commissions and may not necessarily represent actual transactions.

	High	Low
Fiscal 1998:		
First Quarter	$ 11.50	$ 7.63
Second quarter	$ 13.75	$ 10.38
Third quarter	$ 12.63	$ 8.63
Fourth quarter	$ 12.00	$ 7.38
Fiscal 1997:		
First Quarter	$ 12.38	$ 8.13
Second quarter	$ 9.00	$ 5.75
Third quarter	$ 9.63	$ 5.63
Fourth quarter	$ 9.75	$ 8.00

As of March 26, 1999, there were approximately 68 record holders of the common stock and approximately 1,271 beneficial holders of the common stock.

The Board of Directors intends to retain any earnings of the Company to support operations and to finance expansion and does not intend to pay cash dividends on the Common Stock 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.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following Selected Consolidated Financial and Operating Data relating to the Company has been taken or derived from the Consolidated Financial Statements and other records of the Company. The consolidated statements of income and consolidated balance sheets for each of the five years in the period ended December 31, 1998, have been audited by Arthur Andersen LLP, independent public accountants. The Financial and Operating Data presented below may not be

comparable between periods in all material respects or indicative of the Company's future financial position or results of operations due primarily to acquisitions which occurred during the periods presented, including the acquisition of the Company's California, Oklahoma, and Colorado heavy-duty truck operations in February 1994, in December 1995, and in March 1997, respectively, and the Company's acquisitions of the Houston, Texas and Michigan John Deere construction equipment centers in October 1997 and September 1998, respectively, and the acquisition of the Rush retail center in March of 1998 . See Note 17 to the Company's Consolidated Financial Statements for a discussion of such acquisitions. The Selected Consolidated Financial and Operating Data should be read in conjunction with the Company's Historical Consolidated Financial Statements and related notes and other financial information included elsewhere herein. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEAR ENDED DECEMBER 31,				
	1994	1995	1996	1997	1998
	(IN THOUSANDS)				
SUMMARY OF INCOME STATEMENT DATA					
Revenues					
New and used truck sales	$ 143,569	$ 192,949	$ 258,613	$ 290,495	$ 422,754
Parts and service	46.516	53,368	64,505	78,665	108,024
Construction Equipment sales	--	--	--	7,518	35,402
Lease and rental	5,476	10,058	13,426	14,761	18,594
Finance and insurance	3,774	3,980	5,855	6,026	11,432
Other	1,936	1,279	1,262	1,904	16,579
Total revenues	201,271	261,634	343,661	399,369	612,785
Cost of products sold	168.254	219,059	289,143	334,583	508,242
Gross profit	33,017	42,575	54,518	64,786	104,543
Selling, general and administrative expenses	25,789	31,238	40,552	50,618	75,849
Depreciation and amortization expense	1,615	1,846	2,416	2,977	4,813
Operating income	5,613	9,491	11,550	11,191	23,881
Interest expense	2,048	2,886	3,053	2,513	5,884
Minority interest	123	162	--	--	--
Income from continuing operations before income taxes	3,442	6,443	8,497	8,678	17,997
Income tax expense	--	--	2,295	3,298	7,200
Income from continuing operations	3,442	6,443	6,202	5,380	10,797
Discontinued operations --					
Operating income (loss)	283	(224)	--	--	--
Gain on disposal	--	1,785	--	--	--
Income from discontinued operations	283	1,561	--	--	--
Net income	$ 3,725	$ 8,004	$ 6,202	$ 5,380	$ 10,797

	YEAR ENDED DECEMBER 31,	
	1995	1996
	(IN THOUSANDS EXCEPT PER SHARE DATA)	
PRO FORMA INCOME STATEMENT DATA (Unaudited)		
Income from continuing operations before taxes	$6,443	$8,497
Pro forma adjustments to reflect federal and state income taxes(1)	2,448	3,229
Pro forma income from continuing operations after provision for income taxes	$3,995	$5,268
Pro forma basic and diluted income from continuing operations per share(2)	$ .93	$ .94
Weighted average shares outstanding used in the pro forma basic and diluted income from continuing operations per share calculation	4,297	5,590

	YEAR ENDED DECEMBER 31,				
	1994	1995	1996	1997	1998
	(IN THOUSANDS, EXCEPT OPERATING DATA)				
OPERATING DATA					
Number of locations --					
Full-service	6	8	8	11	12
Parts/service	5	6	6	6	6
Total locations	11	14	14	17	18
Unit truck sales --					
New trucks	1,705	2,263	2,871	3,040	4,315
Used trucks	889	1,135	1,349	1,952	2,087
Total unit trucks sales	2,594	3,398	4,220	4,992	6,402
Construction equipment unit sales --					
New units	--	--	--	90	227
Used units	--	--	--	35	120
Total construction equipment unit sales	--	--	--	125	347
Aggregate new and used truck finance contracts sold (in thousands)	$ 45,453	$ 53,165	$ 76,390	$ 91,445	$183,639
Truck lease and rental units	345	521	559	628	667

	YEAR ENDED DECEMBER 31,				
	1994	1995	1996	1997	1998
	(IN THOUSANDS)				
BALANCE SHEET DATA					
Working capital.........	$(937)	$626	$24,676	$18,364	$14,074
Inventories.............	20,755	36,517	36,688	66,757	107,140
Total assets............	44,185	76,079	109,217	155,478	220,700
Floor plan financing....	17,325	34,294	42,228	63,268	89,212
Line-of-credit borrowings............	860	10	20	20	10
Long-term debt, including current portion.......	8,887	17,287	15,547	25,181	39,259
Shareholders' equity....	4,376	7,685	36,692	42,072	52,869

(1) For all periods presented prior to the Company's public offering on June 7, 1996, the Company was an S corporation and was not generally subject to corporate income taxes. The pro forma income tax provision has been computed as if the Company were subject to corporate income taxes for all periods presented based on the tax laws in effect during the respective periods. See Note 15 to the Consolidated Financial Statements.

(2) Pro forma basic and diluted income from continuing operations per share was computed by dividing pro forma income from continuing operations by the weighted average number of common shares outstanding, as adjusted for the stock split of the Common Stock and giving pro forma effect for the issuance of 547,400 shares of Common Stock, at an initial public offering price of $12.00 per share, to repay the line-of-credit borrowings made to fund the approximately $6.0 million distribution to the Company's sole shareholder of the undistributed taxable S corporation earnings. See Notes 3 and 4 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Certain statements contained in this Item 7, "Management's Discussion of Financial Condition and Results of Operations" of the Form 10-K are "forward-looking statements" within the meaning of the Section 27A of the Securities Act of 1933, as amended and Section 21E of the Exchange Act of 1934, as amended. Specifically, all statements other than statements of historical fact included in this Form 10-K regarding the Company's financial position, business strategy and plans and objectives of management of the Company for future operations are forward-looking statements. These forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "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. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, 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 Registration Statement on Form S-1 (File No. 333-3346) and in the Company's annual, 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 herein as anticipated, believed, estimated, expected, or intended. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements. The Company does not intend to update these forward-looking statements.

Rush Enterprises consist of a Heavy Duty Truck segment and a Construction Equipment Segment. The Heavy Duty Truck segment operates a regional network of truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; 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 full-service John Deere dealerships whose operations include the retail sale of new and used equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used equipment. The Company also operates a retail division whose operations include primarily the sale of farm and ranch supplies including fencing, horse and cattle trailers, veterinarian supplies and the retail sale of western wear.

In March 1997, the Company purchased the assets of Denver Peterbilt, Inc., which consisted of two full-service Peterbilt dealerships in Denver and Greeley, Colorado. The Company believes that the acquisition of such facilities provides the Company with an immediate market presence in the state of Colorado. The purchase price was approximately $7.9 million, funded by (i) $6.5 million of cash and (ii) $1.4 million of borrowings under the Company's floor plan financing arrangement with GMAC to purchased new and used truck and parts inventory. The Company also entered into an agreement whereby the principal of Denver Peterbilt, Inc. may receive additional amounts based on future sales of new Peterbilt trucks at the Colorado locations. The Company paid the principal of Denver Peterbilt, Inc. $2.0 million in March 1999 satisfying all terms of the agreement.

In September 1997, the Company opened a new full-service Peterbilt dealership in Pharr, Texas. This location is strategically positioned to take advantage of increased heavy-duty truck traffic resulting from the North American Free Trade Agreement.

In October 1997, the Company purchased certain assets and assumed certain liabilities of C. Jim Stewart & Stevenson, Inc., which consisted of one full-service John Deere dealership in Houston, Texas. The acquisition provides the Company with an immediate presence in the construction equipment industry in the state of Texas. The purchase price was approximately $30.2 million, funded by (i) $4 million of cash, (ii) $21.1 million of borrowings under the Company's floor plan financing arrangement with Associates Commercial Corp. and John Deere Inc., (iii) $3,080,000 in real estate borrowings from Frost National Bank, and (iv) a $2,062,500 promissory note payable to the seller.

On March 2, 1998, the Company caused its wholly owned subsidiary, Rush Retail Centers of Texas, Inc., to acquire the stock of D&D Farm and Ranch Supermarket, Inc. for approximately $10.5 million, with the purchase price being a combination of cash and notes payable. The Company accounted for the acquisition as a purchase.

In 1998, the Company opened a used truck sales lot in Austin, Texas. This location is positioned to take advantage of the growing Austin truck market and to take advantage of the increasing heavy-duty truck traffic on the I-35 corridor.

In August 1998, the Company opened its first combination heavy-duty truck and construction equipment dealership in Beaumont, Texas. This dealership's operations include new, used, parts, service, finance and insurance sales for both heavy-duty trucks and construction equipment, as well as the lease and rental of construction equipment. This location is positioned to take advantage of synergies between heavy-duty truck and construction equipment customers in the Houston gulf coast area.

In September 1998, the Company purchased substantially all of the assets of Klooster Equipment, Inc. which consisted of three full-service dealerships and one retail only location covering 54 counties in Western Michigan. The acquisition provides the Company with an immediate presence in the construction equipment industry in the state of Michigan. The

purchase price was approximately $13.1 million funded by (i) $2.5 million of cash, (ii) $9.8 million of borrowings under the Company's floor plan financing arrangements with Associates Commercial Corp. and John Deere Inc., and (iii) $836,000 of borrowings from John Deere Credit Corp.

RESULTS OF OPERATIONS

The following discussion and analysis includes the Company's historical results of operations for 1996, 1997, and 1998.

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

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
New and used truck sales	75.3%	72.7%	69.0%
Parts and service	18.8	19.7	17.6
Construction Equipment Sales	--	1.9	5.8
Lease and rental	3.9	3.7	3.0
Finance and insurance	1.7	1.5	1.9
Other	0.4	0.5	2.7
Total revenues	100.0	100.0	100.0
Cost of products sold	84.1	83.8	82.9
Gross profit	15.9	16.2	17.1
Selling, general and administrative expenses	11.8	12.7	12.4
Depreciation and amortization	0.7	0.7	0.8
Operating income	3.4	2.8	3.9
Interest, net	0.9	0.6	0.8
Income from continuing operations	2.5%	2.2%	2.9%

FISCAL YEAR ENDED DECEMBER 31, 1998 COMPARED WITH FISCAL YEAR ENDED DECEMBER 31, 1997.

Revenues.

Revenues increased by approximately $213.4 million, or 53.4%, from $399.4 million to $612.8 million from 1997 to 1998. This increase was attributable to gains achieved from each of the Company's revenue categories, primarily as a result of improved operations, increased market demand, and revenues generated from acquisitions and new store openings.

Sales of new and used trucks increased by approximately $132.3 million, or 45.5%, from $290.5 million to $422.8 million from 1997 to 1998. Unit sales of new and used trucks increased by 41.9% and 6.9%, respectively. The large increase in new truck sales was mainly due to increasing fleet sales and an overall strong new truck market in 1998. The moderate growth rate in used truck sales is a result of a shortage of desirable used truck inventory during 1998 caused

by fewer used truck trade-ins. The average selling price of new trucks increased by 5.9% while used truck average selling prices increased by 13.8%. New truck and used truck prices increased due to product mix and increased market demand.

Parts and service sales increased by approximately $29.3 million, or 37.2%, from $78.7 million to $108.0 million from 1997 to 1998, with the inclusion of a full year of operations in Colorado, Pharr and at the Rush equipment center in Houston, Texas, and the 1998 additions of the Rush retail center and the equipment center in Michigan accounting for approximately $14.4 million or 49.2% of the increase and the remainder being attributed to growth at existing locations.

Sale of new and used construction equipment increased approximately $27.9 million or 372%, from $7.5 million to $35.4 million from 1997 to 1998. The increase is due the construction equipment segment only having 3 months of operations in 1997 and the addition of the Michigan construction equipment dealership in September of 1998. New and used equipment unit sales were 247 and 120 respectively for the year ended 1998.

Lease and rental revenues increased by approximately $3.8 million, or 25.7%, from $14.8 million to $18.6 million from 1997 to 1998, with the inclusion of a full year of operations at the Rush equipment center in Houston, Texas and the acquisition of the equipment center in Michigan accounting for approximately $2.4 million or 63.2% of the increase, and the remainder being attributed to growth at existing locations.

Finance and insurance revenues increased by approximately $5.4 million, or 90%, from $6.0 million to $11.4 million from 1997 to 1998. The growth resulted from increased truck sales coupled with lower borrowing costs during 1998 compared to 1997. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Other Income

Other income increased approximately $14.7 million or 773.7%, from $1.9 million to $16.6 million from 1997 to 1998, primarily due to the acquisition of D & D Farm & Ranch Supermarket, Inc. in March of 1998 which accounted for $13.9 million or 94.6% of the increase.

Gross Profit

Gross profit increased by approximately $39.7 million, or 61.3%, from $64.8 million to $104.5 million from 1997 to 1998. Approximately $17.4 million or 43.8% of the increase is attributable to the operations of new truck, equipment and retail locations previously described, either acquired in 1998 or conducting their first full year of operations in 1998. The remaining gross profit increase of $22.3 million or 56.2% is attributable to growth at existing locations. Gross profit as a percentage of sales increased from 16.2% during 1997 to 17.1% during 1998. The increase in gross margins was due to a .22% increase in gross margins on the sale of new and used trucks, a 1% increase in gross margins on heavy-duty truck parts, service and body shop sales, and the inclusion of a full year of construction equipment store operations which had a

gross margin of 23.4% on approximately $51.3 million in revenue in 1998 compared to a gross margin of 20.6% on approximately $10.2 million in sales in 1997.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately $25.2 million, or 49.8%, from $50.6 million to $75.8 million from 1997 to 1998. The increase includes $12.9 million or 51.2%,attributable to the operations of new truck, equipment and retail locations previously described, either acquired in 1998 or conducting their first full year of operations in 1998. The remaining increase resulted from an increase in salaries and sales commissions due to increases in revenues and gross profit in 1998 compared to 1997. Selling general and administrative expenses as a percent of revenue were 12.7% and 12.4% in 1997 and 1998, respectively.

Interest Expense, Net

Net interest expense increased by approximately $3.4 million, or 136.0%, from approximately $2.5 million to $5.9 million, from 1997 to 1998. Interest expense increased primarily as a result of increased levels of indebtedness due to higher floor plan liability levels and the refinancing of certain real property owned by the Company during the fourth quarter of 1997.

Income from Continuing Operations Before Income Taxes

Income from continuing operations increased by $9.3 million, or 106.9%, from $8.7 million to $18.0 million, from 1997 to 1998, as a result of the factors described above.

Income Taxes

Income taxes increased by $3.9 million, or 118.2%, from $3.3 million to $7.2 million, from 1997 to 1998. The Company has provided for taxes at the 40% effective rate.

FISCAL YEAR ENDED DECEMBER 31, 1997 COMPARED WITH FISCAL YEAR ENDED DECEMBER 31, 1996.

Revenues.

Revenues increased by approximately $55.8 million, or 16.2%, from $343.6 million to $399.4 million from 1996 to 1997. This increase was attributable to gains achieved from each of the Company's revenue categories, with the largest increase resulting from the acquisition of the Company's Colorado facilities in March 1997.

Sales of new and used trucks increased by approximately $31.9 million, or 12.3%, from $258.6 million to $290.5 million from 1996 to 1997. Unit sales of new and used trucks increased by 5.9% and 44.7%, respectively. The average selling price of new trucks increased by .61% while used

truck average selling prices increased by 1.76%. New truck and used truck prices increased due to product mix and increased market demand.

Parts and service sales increased by approximately $14.2 million, or 22.0%, from $64.5 million to $78.7 million from 1996 to 1997, with the inclusion of the Colorado, Pharr and John Deere operations accounting for approximately 73% of the increase and the remainder being attributed to growth at existing locations.

Lease and rental revenues increased by approximately $1.4 million, or 10.4%, from $13.4 million to $14.8 million from 1996 to 1997, primarily as a result of an increase of 12.3% in the size of the rental fleet in 1997 compared to 1996, and the addition of leasing facilities at the San Antonio and Pharr locations in December 1997.

Finance and insurance revenues increased by approximately $171,000, or 2.9%, from $5.8 million to $6.0 million from 1996 to 1997. The lack of substantial growth resulted from increased competition coupled with higher borrowing costs during the first half of 1997. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Gross Profit

Gross profit increased by approximately $10.3 million, or 18.8%, from $54.5 million to $64.8 million from 1996 to 1997, primarily due to the increase in revenues from the acquisition of the Colorado and John Deere operations, and opening of the Pharr location. Gross profit as a percentage of sales increased slightly from 15.9% during 1996 to 16.2% during 1997. The increase in gross margins was due to a .29% increase in gross profit on the sale of new and used trucks, the inclusion of the construction equipment store which had a gross margin of 20.6% on approximately $10.2 million in sales, which was offset by a .27% decrease in gross margins on parts and service sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately $10.0 million, or 24.6%, from $40.6 million to $50.6 million from 1996 to 1997. The increase includes $5.8 million attributable to the addition of the Colorado and Pharr truck stores and the John Deere construction equipment center. The remaining increase resulted from an increase in truck sales commissions, increases in salaries, and infrastructure costs associated with the opening of the Pharr facility. Selling general and administrative expenses as a percent of revenue were 11.8% and 12.7% in 1996 and 1997, respectively.

Interest Expense, Net

Net interest expense decreased by approximately $540,000, or 17.4%, from approximately $3.1 million to $2.5 million, from 1996 to 1997. Interest expense decreased primarily as a result of decreased levels of indebtedness due to the Company's initial public offering on June 7, 1996.

Income from Continuing Operations Before Income Taxes

Income from continuing operations increased by $181,000, or 2.1%, from $8.5 million to $8.7 million, from 1996 to 1997, as a result of the factors described above.

Income Taxes

Income taxes increased by $1 million, or 43.5%, from $2.3 million to $3.3 million, from 1996 to 1997. The increase is a result of the Company's initial public offering and termination of its subchapter S tax status during June of 1996, thus only incurring federal income tax expense for approximately half of 1996. The company's effective tax rate for 1996 and 1997 was 38%.

FISCAL YEAR ENDED DECEMBER 31, 1996 COMPARED WITH FISCAL YEAR ENDED DECEMBER 31, 1995.

Revenues

Revenues increased by approximately $82.0 million, or 31.4%, from $261.6 million to $343.7 million from 1995 to 1996. This increase was attributable to gains achieved from each of the Company's revenue categories, with the largest increase resulting from the acquisition of the Company's Oklahoma facilities in December 1995.

Sales of new and used trucks increased by approximately $65.7 million, or 34.0%, from $192.9 million to $258.6 million from 1995 to 1996. Unit sales of new and used trucks increased by 26.9% and 18.9%, respectively. The average selling price of new trucks increased by 5.0% while used truck average selling prices increased by 15.9%. Unit sales increases were due to the factors described above. New truck and used truck prices increased due to product mix and increased market demand.

Parts and service sales increased by approximately $11.1 million, or 20.9%, from $53.4 million to $64.5 million from 1995 to 1996, with the inclusion of the Oklahoma operations accounting for most of the increase.

Lease and rental revenues increased by approximately $3.4 million, or 33.5%, from $10.1 million to $13.4 million from 1995 to 1996, primarily as a result of the acquisition of the Company's Oklahoma facilities in December 1995.

Finance and insurance revenues increased by approximately $1.9 million, or 47.1%, from $4.0 million to $5.9 million from 1995 to 1996, with approximately $800,000 in growth resulting from the acquisition of the Company's Oklahoma operations in December 1995.

Gross Profit

Gross profit increased by approximately $11.9 million, or 28.1%, from $42.6 million to $54.5 million from 1995 to 1996, primarily due to the increase in revenues from the acquisition of the Oklahoma operations discussed above. Gross profit as a percentage of sales decreased slightly from 16.3% during 1995 to 15.9% during 1996. The decrease in gross margins was due to a 1% decrease in gross profit on the sale of new and used trucks, which was offset by a 1.8% increase in gross margins on parts and service sales and increased spreads on customer financings due to improved financing terms. The Company believes that its increase in gross margins on parts and service activities was in part the result of integration of distribution and inventory management information systems in the Company's Oklahoma operations in December 1995 and in its California operations in April 1996.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately $9.3 million, or 29.8%, from $31.2 million to $40.6 million from 1995 to 1996, primarily as a result of the increase in revenues described above. As a percentage of revenues, selling, general and administrative expenses decreased from 11.9% to 11.8%, respectively, primarily due to the spreading of fixed costs over a larger base of sales..

Interest Expense, Net

Net interest expense increased by approximately $167,000, or 5.8%, from approximately $2.9 million to $3.1 million, from 1995 to 1996, respectively, primarily as a result of increased levels of floor plan financing associated with increased sales and higher inventory levels during 1996, and the acquisition of the Company's Oklahoma facilities in December 1995, offset by proceeds from the Company's initial public offering.

Income from Continuing Operations Before Income Taxes

Income from continuing operations increased by $2.1 million, or 31.9%, from $6.4 million to $8.5 million, from 1995 to 1996, as a result of the factors described above

Income Taxes

As a result of the Company's initial public offering and termination of its subchapter S tax status, the Company incurred $2.3 million in income taxes from the period of the initial public offering to December 31, 1996. The Company has provided for taxes at a 38% effective rate.

LIQUIDITY AND CAPITAL RESOURCES

The Company's short-term cash needs are primarily for working capital, including inventory requirements, expansion of existing facilities and acquisitions of new facilities. These short-term

cash needs have historically been financed with retention of profits and borrowings under credit facilities available to the Company.

At December 31, 1998, the Company had working capital of approximately $14.1 million, including $22.5 million in cash, $19.5 million in accounts receivable, $107.1 million in inventories, and $607,000 in prepaid expenses offset by $89.2 million outstanding under floor plan financing, $7.1 million in current maturities of long-term debt, $6.9 million of accounts payable, $21.7 million in accrued expenses, and $10.7 million in a note payable to shareholder. The aggregate maximum borrowing limits under working capital lines of credit with its primary truck lender are approximately $8.0 million. The Company's floor plan agreements with its primary truck lender limit the aggregate amount of borrowings based on the number of new and used trucks. As of December 31, 1998, the Company's floor plan arrangements permit the financing of up to 1,133 new trucks and 432 used trucks, respectively, and the availability for new and used trucks is 679 and 105, respectively. The Company's floor plan agreement with its primary construction equipment lender is based on the book value of the Company's construction equipment inventory. As of December 31, 1998, the aggregate amount of borrowing capacity was $25 million, with approximately $21.6 million outstanding. Additional amounts are available under the Company's John Deere dealership agreement. At December 31, 1998, approximately $21.7 million was outstanding pursuant to the John Deere dealership agreement.

For 1998, operating activities resulted in net cash provided by activities of approximately $0.6 million. Net income of $10.8 million, a decrease in accounts receivable of $2.1 million, increases in depreciation and amortization, deferred income tax expense, trade accounts payable and accrued expenses of $4.8 million, $0.5 million, $1.0 million and $6.8 million respectively, more than offset increases in inventory and other assets of $25.0 million and $0.2 million respectively, and the gain on sale of property and equipment of $0.2 million.

During 1998, the Company used $31.2 million of net cash in investing activities, including expenditures of $8.6 million related to the acquisitions of the Rush retail center and the Michigan John Deere locations, and $22.9 million that was related to the expansion of various facilities, and the purchase of units placed in the Company's truck leasing fleet. These expenditure have resulted in a net increase of $23.2 in property and equipment from 1997 to 1998.

Net cash provided by financing activities in 1998 amounted to $33.2 million. Cash flows from financing activities included proceeds of $22.6 million from notes payable due to the financing of expansion projects and the purchase of units placed in the Company's truck leasing fleet, a net increase of $16.5 million in floor plan financings due mainly to the addition of the Michigan John Deere locations, and principal payments on notes payable of $5.9 million.

For 1997, operating activities resulted in net cash provided by operations of approximately $9.3 million. Net income of $5.4 million, decreases in accounts receivable and other assets of $2.2 million and $1.1 million respectively, and increases in depreciation and amortization, accounts payable, accrued expenses, and the provision for deferred income taxes, of $3.0 million, $594,000 $3.9 million and, $153,000 more than offset an increase in inventory of $6.7 million and the gain on sale of property and equipment of $305,000.

During 1997, the Company used $46.1 million of net cash in investing activities, including expenditures of $36.1 million related to the acquisition of the Colorado Peterbilt locations and the Texas John Deere dealership and $10.2 million that was principally related to the expansion of its various facilities, including the construction of the Pharr store.

Net cash provided by financing activities in 1997 amounted to $35.1 million. Cash flows from financing activities included proceeds of $21.0 million from notes payable primarily due to the refinancing of real estate, a net increase of $21.0 million in floor plan financings due to the addition of the Texas John Deere dealership and principal payments on notes payable of $6.9 million.

For 1996, operating activities resulted in net cash provided by operations of approximately $109,000. The cash provided by operations was primarily due to higher levels of income and non-cash related depreciation and amortization offset by increases in accounts receivable and other current assets. Accounts receivable increased by $6.7 million during 1996, primarily as a result of the acquisition of the Oklahoma facilities and several medium sized fleet sales made at the end of the year. Prepaid and other current assets increased by $1.2 million during 1996 as the Company escrowed a down payment of $1.0 million for the acquisition of Denver Peterbilt, Inc.

During 1996, the Company used $8.1 million of net cash in investing activities, including capital expenditures of $8.5 million in 1996 that were principally related to the expansion of its various facilities.

Net cash provided by financing activities in 1996 amounted to $27.4 million. Cash flows from financing activities included proceeds of $31.4 million from the Company's initial public offering and exercise of stock options, a net increase of $7.9 million in floor plan financings and net proceeds from notes payable of $3.1 million. The Company paid dividends of $10.2 million to its shareholder to distribute approximately $6.0 million of previously taxed subchapter S earnings and approximately $4.2 million to enable its shareholder to make required tax payments.

During 1998, the Company arranged customer financing for approximately 43.4% of its total new and used truck sales, and derived approximately 64% and 36% of its finance revenues from the sale of new and used trucks, respectively. The Company's new and used truck financing is typically provided through Associates and PACCAR Financial. The Company financed approximately $183.6 million of new and used truck purchases in 1998. The Company's contracts with Associates and PACCAR Financial provide for payment to the Company of all finance charges in excess of a negotiated discount rate within 30 days of the date of financing, with such payments subject to offsets resulting from the early pay-off, or defaults under, installment contracts previously sold to Associates and PACCAR Financial by the Company. The Company's agreements with Associates and PACCAR Financial limit the aggregate liability of the Company for repossession losses resulting from defaults under the installment contracts sold to Associates and PACCAR Financial to $400,000 and $200,000 per year, respectively.

Substantially all of the Company's truck purchases from PACCAR are made on terms requiring payment within 15 days or less from the date of shipment of the trucks from the factory. The Company finances all, or substantially all, of the purchase price of its new truck inventory, and 75% of the loan value of its used truck inventory, under a floor plan arrangement with GMAC under which GMAC pays PACCAR directly with respect to new trucks. The Company makes monthly interest payments on the amount financed but is not required to commence loan principal repayments prior to sale on new vehicles to GMAC for a period of 12 months and for used vehicles for a period of three months. At December 31, 1998, the Company had approximately $45.9 million outstanding under its floor plan financing arrangement with GMAC. GMAC permits the Company to earn, for up to 62.5% of the amount borrowed under its floor plan financing arrangement with GMAC, interest at the prime rate, less one-half of a percent, on overnight funds deposited by the Company with GMAC.

Substantially all of the Company's new equipment purchases are financed by John Deere and Associates Commercial Corp. The Company finances all , or substantially all, of the purchase price of its new equipment inventory, under its floor plan facilities. The agreement with John Deere provides interest free financing for five months after which time the amount financed is required to be paid in full, or an immediate 3% discount with payment due in 30 days. When the equipment is sold prior to the expiration of the five month period, the Company is required to repay the principal within approximately 15 days of the sale. Should the equipment financed by John Deere not be sold within the five month period, it is transferred to the Associates Commercial Corp. floor plan arrangement. The Company makes principal payments to Associates Commercial Corp., for sold inventory, on the 15th day of each month . Used and rental equipment, to a maximum of book value, is financed under a floor plan arrangement with Associates Commercial Corp. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on rental equipment as book value reduces. Principal payments, for sold inventory, on used equipment are made the 15th day of each month following the sale. The loans are collateralized by a lien on the equipment. The Company's floor plan agreements limit the aggregate amount of borrowings based on the book value of new and used equipment units. As of December 31, 1998, the Company's floor plan arrangement with Associates Commercial Corp. permits the financing of up to $25 million in construction equipment. At December 31, 1998, the Company had $21.7 million and $21.6 million, outstanding under its floor plan financing arrangements with John Deere and Associates Commercial Corp., respectively.

Seasonality

The Company's heavy-duty truck business is moderately seasonal. Seasonal effects on new truck sales related to the seasonal purchasing patterns of any single customer type are mitigated by the Company's diverse customer base, including small and large fleets, governments, corporations and owner operators. However, truck, parts and service operations historically have experienced higher volumes of sales in the third and fourth quarters. The Company has historically received benefits from volume purchases and meeting vendor sales targets in the form of cash rebates, which are typically recognized when received. Approximately 40% of such rebates are typically received in the fourth quarter, resulting in a seasonal increase in gross profit.

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

Cyclicality

The Company's business, as well as the entire retail heavy-duty truck industry, is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, economic recessions 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. Industry-wide domestic retail sales of heavy-duty trucks exceeded 200,000 units for only the second time, according to R.L. Polk, the industry recorded approximately 213,000 new truck registrations in 1998. The industry forecasts an increase of approximately 3% in heavy-duty new truck sales in 1999. Although the Company believes that its geographic expansion and diversification into truck-related services, including financial services, leasing, rentals and service and parts, will reduce the overall impact to the Company resulting from general economic conditions affecting heavy-duty truck sales, the Company's operations may be materially and adversely affected by any continuation or renewal of general downward economic pressures or adverse cyclical trends.

Year 2000

The Year 2000 disclosure below constitutes a "Year 2000 Readiness Disclosure" as defined in The Year 2000 Information and Readiness Disclosure Act (the "Act"), which was signed into law on October 19, 1998. The Act provides added protection from liability for certain public and private statements concerning a company's Year 2000 readiness.

The year 2000 problem refers to the limitations of the programming code in certain existing software programs to recognize date sensitive information for the year 2000 and beyond. Unless modified prior to the year 2000, such systems may not properly recognize such information and could generate erroneous data or cause a system to fail to operate properly. The efficient operation of the Company's business is dependent on the proper functioning of its computer software programs, network and operating systems (collectively, "Programs and Systems"). These Programs and Systems are used in several key areas of the Company's business, including inventory management, information management services and financial reporting, as well as in various administrative functions.

The Company engaged an outside consultant to assist it in performing an inventory of its Programs and Systems to identify potential year 2000 compliance problems, as well as manual processes, external interfaces with suppliers, customers and vendors, and services supplied by vendors to coordinate year 2000 compliance and conversion. This inventory was completed

during the first quarter of 1999 and evaluated the Programs and Systems, the Company's other devices which have imbedded computer processors or microchips and telecommunication, HVAC and security systems. Based on the Company's Programs and Systems inventory and information supplied by the Company's vendors and suppliers, the Company expects to attain year 2000 compliance in a timely fashion and in advance of the year 2000 date change.

The primary operating systems of the Company are Karmak and PFW. The Company believes, based upon representations made by the vendor of PFW, that PFW is currently year 2000 compliant. The vendor of Karmak has informed the Company that it expects to be year 2000 compliant by March 31, 1999. The Company does not utilize any customized hardware, programs or applications and is relying on its vendors to ensure that its Programs and Systems are year 2000 compliant.

The Company believes that the year 2000 problem will not pose a significant operational problem for the Company. However, because most computer systems are, by their very nature, interdependent, it is possible that non-compliant third party computers may not interface properly with the Company's computer systems. The Company could be adversely affected by the year 2000 problem if it or unrelated parties fail to successfully address this issue.

Management of the Company currently anticipates that the expenses and capital expenditures associated with its year 2000 compliance project, including costs associated with modifying the Programs and Systems as well as the cost of purchasing or leasing, if required, replacement hardware and software, will not have a material effect on its business, financial position or results of operations and are expenses and capital expenditures the Company anticipated incurring in the ordinary course of business regardless of the year 2000 problem. Purchased hardware and software has been and will continue to be capitalized in accordance with normal accounting policy. Personnel and other costs related to this process are being expensed as incurred.

The costs of year 2000 compliance and the expected completion dates are the best estimates of Company management and are believed to be reasonably accurate. In the event the Company's plan to address the year 2000 problem is not successfully or timely implemented, the Company may need to devote more resources to the process and additional costs may be incurred, which could have a material adverse effect on the Company's financial condition and results of operations. Problems encountered by the Company's vendors, customers and other third parties also may have a material adverse effect on the Company's financial condition and results of operations.

In the event the Company determines following the year 2000 date change that its Programs and Systems are not year 2000 compliant, the Company will likely experience considerable delays in processing customer orders and invoices, compiling information required for financial reporting and performing various administrative functions. In the event of such occurrence to either the Company's network or its primary operating systems, Karmak and PFW, the Company's contingency plans call for it to obtain, either from its current or other vendors, as soon as is feasible, hardware and/or software that is 2000 compliant. Until such hardware and/or software can be obtained, the Company will plan to use non-computer systems and manual processes for its

business, including information management services and financial reporting, as well as its various administrative functions. Non-critical hardware or software will be replaced, consistent with the Company's current policy, on an as-needed basis.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk o 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 its floor plan borrowing arrangements and discount rates related to finance sales. Floor plan borrowings are based on the Prime Rate of interest and are used to meet working capital needs. As of December 31, 1998, the Company had floor plan borrowings of approximately $89,212,000. Assuming an increase in the Prime Rate of interest of 50 basis points, future cash flows would be effected by $446,000. The interest rate variability on all other debt would not have a material adverse effect on the Company's financial statements. The Company's 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 within 30 days. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Public Accountants.	53
Consolidated Balance Sheets as of December 31, 1997 and 1998.	54
Consolidated Statements of Income for the years ended December 31, 1996, 1997 and 1998.	55
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1996, 1997 and 1998.	57
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1997 and 1998.	58
Notes to Consolidated Financial Statements.	59

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Rush Enterprises, Inc.:

We have audited the accompanying consolidated balance sheets of Rush Enterprises, Inc. (a Texas corporation), and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 financial position of Rush Enterprises, Inc., and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

San Antonio, Texas
February 19, 1999

RUSH ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1998

(In Thousands, Except Shares and Per Share Amounts)

	1997	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 19,816	$ 22,516
Accounts receivable, net	20,894	19,478
Inventories	66,757	107,140
Prepaid expenses and other	381	607
Total current assets	107,848	149,741
PROPERTY AND EQUIPMENT, net	34,158	54,448
OTHER ASSETS, net	13,472	16,511
Total assets	$155,478	$220,700
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable	$ 63,268	$ 89,212
Current maturities of long-term debt	2,439	7,095
Advances outstanding under lines of credit	20	10
Trade accounts payable	5,751	6,926
Accrued expenses	12,556	20,086
Note payable to shareholder	5,450	10,700
Total current liabilities	89,484	134,029
LONG-TERM DEBT, net of current maturities	22,742	32,164
DEFERRED INCOME TAXES, net	1,180	1,638
COMMITMENTS AND CONTINGENCIES (Note 16)		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 1997 and 1998	--	--
Common stock, par value $.01 per share; 25,000,000 shares authorized; 6,643,730 shares outstanding in 1997 and 1998 (Note 3)	66	66
Additional paid-in capital	33,342	33,342
Retained earnings	8,664	19,461
Total shareholders' equity	42,072	52,869
Total liabilities and shareholders' equity	$155,478	$220,700

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

RUSH ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(In Thousands, Except Per Share Amounts)

	1996	1997	1998
REVENUES:			
New and used truck sales	$ 258,613	$ 290,495	$ 422,754
Parts and service	64,505	78,665	108,024
Construction equipment sales	--	7,518	35,402
Lease and rental	13,426	14,761	18,594
Finance and insurance	5,855	6,026	11,432
Other	1,262	1,904	16,579
Total revenues	343,661	399,369	612,785
COST OF PRODUCTS SOLD	289,143	334,583	508,242
GROSS PROFIT	54,518	64,786	104,543
SELLING, GENERAL AND ADMINISTRATIVE	40,552	50,618	75,849
DEPRECIATION AND AMORTIZATION	2,416	2,977	4,813
OPERATING INCOME	11,550	11,191	23,881
INTEREST INCOME (EXPENSE):			
Interest income	1,118	1,155	982
Interest expense	(4,171)	(3,668)	(6,866)
Total interest expense, net	(3,053)	(2,513)	(5,884)
INCOME BEFORE INCOME TAXES	8,497	8,678	17,997
PROVISION FOR INCOME TAXES	2,295	3,298	7,200
NET INCOME	$ 6,202	$ 5,380	$ 10,797

RUSH ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (continued)

FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(In Thousands, Except Per Share Amounts)

	1996	1997	1998
BASIC AND DILUTED EARNINGS PER SHARE (Note 14):			
Net income per common share	$ 1.11	$ .81	$ 1.62
UNAUDITED PRO FORMA DATA (Note 4):			
Income before income taxes	$ 8,497		
Pro forma adjustments to reflect federal and state income taxes	3,229		
Pro forma income after provision for income taxes	$ 5,268		
Pro forma basic and diluted income per share	$ .94		
Weighted average shares outstanding used in the pro forma basic and diluted income per share calculation	5,590		

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

RUSH ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(In Thousands)

	Common Stock			
	Shares Issued and Outstanding	$.01 Par Value	Additional Paid-In Capital	Retained Earnings
BALANCE, December 31, 1995	3,750	$ 38	$ 735	$ 6,912
NET INCOME, January 1, 1996, through June 11, 1996	--	--	--	2,918
DIVIDENDS DECLARED	--	--	--	(8,559)
REORGANIZATION FROM S CORPORATION TO C CORPORATION	--	--	1,271	(1,271)
OPTIONS EXERCISED	19	--	205	--
ISSUANCE OF COMMON STOCK, net of issuance costs	2,875	28	31,131	--
NET INCOME, June 12, 1996, through December 31, 1996	--	--	--	3,284
BALANCE, December 31, 1996	6,644	66	33,342	3,284
NET INCOME	--	--	--	5,380
BALANCE, December 31, 1997	6,644	66	33,342	8,664
NET INCOME	--	--	--	10,797
BALANCE, December 31, 1998	6,644	$ 66	$ 33,342	$ 19,461

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

RUSH ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(In Thousands)

	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 6,202	$ 5,380	$ 10,797
Adjustments to reconcile net income to net cash provided by operating activities- net of acquisitions			
Depreciation and amortization	2,416	2,977	4,813
Gain on sale of property and equipment	-	(305)	(195)
Provision for deferred income tax expense	1,027	153	458
Change in accounts receivable, net	(6,653)	2,170	2,141
Change in inventories	(171)	(6,658)	(25,006)
Change in prepaid expenses and other, net	(1,237)	1,122	(174)
Change in trade accounts payable	(2,434)	594	1,007
Change in accrued expenses	959	3,872	6,786
Net cash provided by operating activities	109	9,305	627
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(8,491)	(10,194)	(22,907)
Proceeds from the sale of property and equipment	682	581	638
Business acquisitions	-	(36,068)	(8,625)
Change in other assets	(326)	(457)	(283)
Net cash used in investing activities	(8,135)	(46,138)	(31,177)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the sale of common stock, net of issuance costs	31,364	-	-
Proceeds from long-term debt	3,150	21,053	22,624
Principal payments on long-term debt	(4,900)	(6,951)	(5,892)
Draws (payments) on floor plan notes payable, net	7,934	21,040	16,518
Draws on lines of credit, net	10	-	-
Dividends paid	(10,174)	-	-
Net cash provided by financing activities	27,384	35,142	33,250
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,358	(1,691)	2,700
CASH AND CASH EQUIVALENTS, beginning of year	2,149	21,507	19,816
CASH AND CASH EQUIVALENTS, end of year	$ 21,507	$ 19,816	$ 22,516
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for-			
Interest	$ 4,254	$ 3,378	$ 6,574
Income taxes	$ 1,332	$ 1,572	$ 4,478

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

RUSH ENTERPRISES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS:

Rush Enterprises, Inc. (the Company), was incorporated in June 1996 under the laws of the State of Texas. The Company, founded in 1965, now operates a Heavy Duty Truck segment and a Construction Equipment segment. The Heavy Duty Truck segment operates a regional network of 18 truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; parts, service and body shop facilities; and financial services, including assisting in the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Company's truck centers are located in areas on or near major highways in Texas, California, Colorado, Oklahoma and Louisiana. The Construction Equipment segment, formed during 1997, operates a network of six John Deere equipment centers in Texas and Michigan. Dealership operations include the retail sale of new and used equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used equipment (see note 19).

In March 1997, the Company purchased substantially all the assets of Denver Peterbilt, Inc. which consisted of two full-service dealerships in Denver and Greeley, Colorado. Denver Peterbilt, Inc.'s primary line of business is the sale of new Peterbilt and used heavy-duty trucks, parts, leasing and service (see note 17).

In October 1997, the Company developed a new construction equipment division, Rush Equipment Centers, and purchased substantially all the assets of the Houston, Texas John Deere Construction Equipment Dealership from C. Jim Stewart & Stevenson, Inc. Rush Equipment Centers' primary line of business is the sale and rental of new John Deere and used construction equipment, parts and service (see note 17).

In March 1998, the Company developed a new retail division, Rush Retail Centers, and acquired all of the issued and outstanding capital stock of D & D Farm and Ranch Supermarket Inc. Rush Retail Centers' primary line of business is the retail sale of farm and ranch supplies including, fencing, horse and cattle trailers, veterinarian supplies and western wear (see note 17).

In September 1998, the Company acquired all of the assets and assumed certain liabilities of Klooster Equipment, Inc. and began operations of Rush Equipment Centers Michigan. Klooster Equipment Inc.'s primary line of business is the sale and rental of new John Deere and used construction equipment, parts and service.

As part of the corporate reorganization on June 12, 1996 (see note 3), Associated Acceptance, Inc. (AA), came under the control of the Company and, thus, 100 percent of the financial position and results of operations of AA has been included in the Company's consolidated financial statements as of December 31, 1997 and 1998.

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

2. SIGNIFICANT ACCOUNTING POLICIES:

Estimates in Financial Statements

The preparation of financial statements in conformity with 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 utilizing the first-in, first-out methods for tires, parts and accessories.

Property and Equipment

Property and equipment are being 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. Both the straight-line and double declining-balance methods of depreciation are used. The cost, accumulated depreciation and amortization and estimated useful lives are summarized as follows (in thousands):

	December 31,		Estimated
	1997	1998	Life (Years)
Land	$ 6,731	$ 9,972	--
Buildings and improvements	13,647	18,285	31 - 39
Leasehold improvements	3,467	4,303	7 - 10
Machinery and shop equipment	4,531	6,478	5 - 7
Furniture and fixtures	5,159	8,043	5 - 7
Transportation equipment	4,563	8,806	2 - 5
Leased vehicles	3,594	9,188	3 - 7
Accumulated depreciation and amortization	(7,534)	(10,627)	
	$ 34,158	$ 54,448	

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 which might affect the collectibility of accounts receivable and the ability of customers to meet their obligations on finance contracts sold by the Company.

Other Assets

Other assets primarily consist of goodwill related to acquisitions, of approximately $12.7 million and $15.1 million, as of December 31, 1997 and 1998, respectively , and long-term deposits. The goodwill is being amortized on a straight-line basis over an estimated useful life of 30 years. Accumulated amortization of other assets, at December 31, 1997 and 1998, was approximately $0.5 million and $1.1 million, respectively. Periodically, the Company assesses the appropriateness of the asset valuations of goodwill and the related amortization period.

Income Taxes

Effective with the corporate reorganization on June 12, 1996 (see note 3), the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in a company's financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse.

Revenue Recognition Policies

Income on the sale of vehicles and construction equipment (collectively, "unit")is recognized when the seller and customer execute a purchase contract and there are no significant uncertainties related to financing or delivery. Finance income related to the sale of a unit is recognized over the period of the respective finance contract on the effective interest rate method if the finance contract is retained by the Company. During 1996, 1997 and 1998, 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. Retail revenue is earned at the time the Company sells the merchandise to its customer.

Statement of Cash Flows

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

Noncash activities during the periods indicated were as follows (in thousands):

	Year Ended December 31,		
	1996	1997	1998
Liabilities incurred in connection with property and equipment acquisitions	$ 2,901	$ --	$ --
Liabilities incurred in connection with acquisitions of dealerships and leasing operations	--	2,063	1,750
Assignment of debt in connection with the disposal of property and equipment	--	1,061	--

NEW ACCOUNTING PRONOUNCEMENTS

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Post retirement Benefits" (SFAS 132). SFAS 132 standardizes the disclosure requirements for pensions and other post retirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets, and eliminates certain disclosures that are no longer useful. This statement is effective for fiscal years beginning after December 15, 1997. The Company does not provide post retirement or post employment benefits to its employees.

In April 1998, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position 98-5 "Reporting on the Costs of Start-up Activities" (SOP 98-5). SOP 98-5 requires all start-up activities, as defined, to be expensed as incurred. SOP 98-5 is effective for fiscal years beginning after December 15, 1998. Earlier

application is encouraged, initial application will be reported as a cumulative effect of a change in accounting principle and restatement of previously issued financial statements is not permitted. SOP 98-5 will not have a material impact on the financial statements of the Company.

3. INITIAL PUBLIC OFFERING AND CORPORATE REORGANIZATION:

The Company filed a Registration Statement with the Securities and Exchange Commission for an underwritten offering of 2,875,000 shares of common stock, including underwriters' overallotment option, which became effective on June 12, 1996 (the Offering). The Company used the net proceeds of the Offering to retire certain debt obligations, fund potential acquisition opportunities which may arise in the future and for general corporate purposes.

As part of the Offering on June 12, 1996, the Company terminated its S corporation federal tax election and was subject to federal and certain state income taxes from that date forward. On June 12, 1996, the Company paid the S corporation shareholder approximately $8.6 million representing the undistributed accumulated earnings of the S corporation prior to June 12, 1996.

Following the offering, there were 6,625,000 common shares outstanding, including 3,750,000 owned by the shareholder of the predecessor S corporation.

The weighted average number of shares of common stock outstanding as of December 31, 1997 and 1998, was 6,643,730.

Dividends declared, paid or payable for the years ended December 31, 1995 and 1996, were related to the Company's sole shareholder prior to the reorganization and Offering.

As part of the reorganization, 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 MGA is responsible for funding the operations of AA, directing the use of AA's assets and incurring liabilities on AA's behalf in exchange for the MGA receiving any and all net income of AA. W. Marvin Rush, the sole shareholder of AA, is prohibited from the sale or transfer of the capital stock of AA under the MGA agreement, except as designated by the Company. Therefore, the financial position and operations of AA have been included as part of the Company's consolidated financial position and results of operations.

4. PRO FORMA INFORMATION (UNAUDITED):

Pro Forma Income and Pro Forma Income Per Share (Unaudited)

Pro forma income and pro forma income per share have been determined assuming that the Company had been taxed as a C corporation for federal and certain state income tax purposes since January 1, 1996.

5. SUPPLIER AND CUSTOMER CONCENTRATION:

Major Suppliers and Dealership Agreements

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

Distributor	Expiration Dates
PACCAR	March 2000 to October 2000
GMC	October 2000
Volvo	March 2000
John Deere	Indefinite

These agreements 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 such restrictions could result in the loss of the Company's right to purchase the Distributor's products and use the Distributor's trademarks. As of December 31, 1998, the Company's management believes it was in compliance with all the restrictions of its dealership agreements.

The Company purchases most of its new vehicles and parts from PACCAR, the maker of Peterbilt trucks and parts, at prevailing prices charged to all franchised dealers. Sales of new Peterbilt trucks accounted for 98 percent and 97 percent of the Company's new vehicle sales for the years ended December 31, 1997 and 1998, respectively.

The Company purchases most of its new construction equipment and parts from John Deere, at prevailing prices charged to all franchised dealers. Sales of new John Deere equipment accounted for 88 percent of the Company's new equipment sales for the year ended December 31, 1998.

Primary Lenders

The Company purchases its new and used truck and construction equipment inventories with the assistance of floor plan financing programs offered by various financial institutions and John Deere. The financial institution used for truck inventory purchases also provides the Company with a line of credit which allows borrowings of up to $8,000,000 and other variable interest rate notes. The loan agreement with the financial institution, used for truck inventory purchases, provides that such agreement may be terminated at the option of the lender with notice of 120 days.

The loan agreement with the financial institution used primarily for construction equipment purchases expires in September 1999. Additionally, financing is provided by John Deere pursuant to the Company's equipment dealership agreement. Furthermore, the agreements also provide that the occurrence of certain events will be considered events of default. In the event that the Company's financing becomes insufficient, or its relationship terminates with the current primary lenders, 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. (see note 8.)

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable.

The Company places its cash and cash equivalents with what it considers to be quality financial institutions. At December 31, 1998, the Company had deposits in excess of federal insurance totaling approximately $7,011,000.

Concentrations of credit risk with respect to trade receivables are reduced because a large number of geographically diverse customers make up the Company's customer base, thus, spreading the trade credit risk. A majority of the Company's business, however, is concentrated in the United States heavy-duty trucking and construction equipment markets and related aftermarkets. The Company controls credit risk through credit approvals and by selling certain trade receivables without recourse. Related to the Company's finance contracts, after the finance contract is entered into, the Company generally sells the contracts to a third party. The finance contracts are sold both with and without recourse, but the annual amount of recourse losses which can be put to the Company is contractually limited. (See note 16.) Historically, bad debt expense associated with the Company's accounts receivable and finance contracts has not been material.

6. ACCOUNTS RECEIVABLE:

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

	December 31, 1997	December 31, 1998
Trade accounts receivable from sale of vehicles and construction equipment	$ 16,042	$ 13,719
Other trade receivables	2,605	3,066
Warranty claims	1,486	1,647
Other accounts receivable	1,361	1,646
Less- Allowance for doubtful receivables and repossession losses	(600)	(600)
Total	$ 20,894	$ 19,478

For the years ended December 31, 1996, 1997 and 1998, the Company had sales to one of its related parties of approximately $939,000, $0, and $0, respectively.

7. INVENTORIES:

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

	December 31, 1997	December 31, 1998
New vehicles	$ 15,722	$ 24,550
Used vehicles	8,884	12,231
Construction equipment - new	11,457	30,780
Construction equipment - used	659	4,000
Construction equipment - rental	12,970	10,000
Parts and accessories	17,065	20,982
Other	--	4,597
Total	$ 66,757	$ 107,140

8. FLOOR PLAN NOTES PAYABLE AND LINES OF CREDIT:

Floor Plan Notes Payable

Floor plan notes are financing agreements to facilitate the Company's purchase of new and used trucks and construction equipment. These notes are collateralized by the inventory purchased and accounts receivable arising from the sale thereof. The Company's floor plan notes have interest rates at prime less a percentage rate as determined by the finance provider, as defined in the agreements. The interest rates applicable to these agreements were 7.25 to 7.5 percent as of December 31, 1998. The amounts borrowed under these agreements are due when the related truck or construction equipment inventory (collateral) is sold and the sales proceeds are collected by the Company, or in the case of construction equipment rentals, when the carrying value of the equipment is reduced. These lines may be modified, suspended, or terminated by the lender as described in note 5.

The Company's floor plan agreement with its primary truck lender limits the borrowing capacity based on the number of new and used trucks that may be financed. As of December 31, 1998, the aggregate amounts of unit capacity for new and used trucks are 1,133 and 432, respectively, and the availability for new and used trucks is 679 and 105, respectively.

The Company's floor plan agreement with its primary construction equipment lender is based on the book value of the Company's construction equipment inventory. As of December 31, 1998, the aggregate amount of borrowing capacity with the Company's primary lender, was $25 million, with approximately $21.6 million outstanding. Additional amounts are available under the Company's John Deere dealership agreement. At December 31, 1998, approximately $21.7 million was outstanding pursuant to the John Deere dealership agreement.

Amounts of collateral as of December 31, 1998, are as follows (in thousands):

Inventories, new and used vehicles and construction equipment at cost based on specific identification	$ 81,561
Truck and construction equipment sale related accounts receivable	13,719
Total	$ 95,280
Floor plan notes payable	$ 89,212

Lines of Credit

The Company has a separate line-of-credit agreement with a financial institution which provides for an aggregate maximum borrowing of $8,000,000, with advances generally limited to 75 percent of new parts inventory. Advances bear interest at prime. Advances under the line-of-credit agreement are secured by new parts inventory. The line-of-credit agreement contains financial covenants. The Company was in compliance with these covenants at December 31, 1998. Either party may terminate the agreement with 30 days written notice. As of December 31, 1997 and 1998, advances outstanding under the various line-of-credit agreements amounted to $20,000 and $10,000, respectively. As of December 31, 1998, $7,990,000 was available for future borrowings. This line is discretionary and may be modified, suspended or terminated at the election of the lender.

Note payable to shareholder is a short-term note that is payable on demand and bears interest equal to one percent per annum less than the rate of interest received by the Company under its agreement to deposit overnight funds in interest bearing accounts with one of the Company's floor plan lenders.

9. LONG-TERM DEBT:

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

	December 31, 1997	December 31, 1998
Variable interest rate term notes	$ 1,679	$ 1,572
Fixed interest rate term notes	23,502	37,687
Total debt	25,181	39,259
Less- Current maturities	(2,439)	(7,095)
	$ 22,742	$ 32,164

As of December 31, 1998, debt maturities are as follows (in thousands):

1999	$ 7,095
2000	6,117
2001	4,676
2002	8,042
2003	4,747
Thereafter	8,582
	$ 39,259

The Company's variable interest rate notes are with one of the Company's primary lenders and have an interest rate of prime, which was 7.75 percent at December 31, 1998. Monthly payments of these notes range from $2,708 to $7,917, plus interest. These notes mature in February 2011.

The Company's fixed interest rate notes are primarily with financial institutions and have interest rates ranging from 6.15 percent to 8.5 percent at December 31, 1998. Payments on the notes range from $430 per month to $51,333 per quarter, plus interest. Maturities of these notes range from January 1999 to January 2014.

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

10. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

In December 1991, Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," (SFAS 107) was issued. SFAS 107 requires disclosures of the fair value of financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument held by the Company:

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

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

11. DEFINED CONTRIBUTION PENSION PLANS:

The Company has a defined contribution pension plan (the Rush Plan) which is available to all Company employees and the employees of certain affiliates. As of December 31 of every year, each employee who has completed one year of continuous service is entitled to enter the Rush Plan. Participating employees may contribute from 2 percent to 10 percent of total gross compensation. The Company, at its discretion, contributed an amount equal to 25 percent of the employees' contributions for those employees with less than five years of service and contributed an amount equal to 50 percent of the employees' contributions for those employees with more than 5 years of service. During the years ended December 31, 1996, 1997 and 1998, the Company incurred expenses of approximately $166,000, $215,000 and $648,000, respectively, related to the Rush Plan.

Through March 1998, South Coast Peterbilt also had a defined contribution pension plan (the South Coast Plan) which was available to all employees of South Coast Peterbilt. Effective April 1, 1998 the South Coast Plan was terminated at which time all eligible South Coast employees were permitted to enter the Rush Plan. During the years ended December 31, 1996, 1997 and 1998, South Coast incurred expenses of approximately $185,000, $151,000 and $46,000, respectively, related to the South Coast Plan.

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

12. LEASES:

Vehicle Leases

The Company leases vehicles primarily over periods ranging from one to six years under operating lease arrangements. This equipment is subleased to customers under various agreements in its own leasing operation. Generally, the Company is required to incur all operating costs and pay a minimum rental and an excess mileage charge based on maximum mileage over the term of the lease. Vehicle lease expenses for the years ended December 31, 1996, 1997 and 1998, were approximately $4,354,000, $4,915,000 and $5,648,000, respectively.

Minimum rental commitments for noncancelable vehicle leases in effect at December 31, 1998, are as follows (in thousands):

1999	$ 5,040
2000	4,081
2001	3,090
2002	2,699
2003	2,108
Thereafter	2,493
Total	$ 19,511

Customer Vehicle Leases

A Company division leases both owned and leased vehicles to customers primarily over periods of one to six years under operating lease arrangements. The leases require a minimum rental and a contingent rental based on mileage. Rental income during the years ended December 31, 1996, 1997 and 1998, consisted of minimum payments of approximately $7,443,000, $7,978,000 and $7,867,000, respectively, and contingent rentals of approximately $2,018,000, $1,940,000 and $1,862,000 respectively. Minimum lease payments to be received for noncancelable leases and subleases in effect at December 31, 1998, are as follows (in thousands):

1999	$ 7,474
2000	6,121
2001	4,674
2002	3,810
2003	2,937
Thereafter	2,800
Total	$ 27,816

Other Leases - Land and Buildings

The Company leases various facilities under operating leases which expire at various times through 2006. Rental expense for the years ended December 31, 1996, 1997 and 1998 was $937,000, $1,194,000 and $1,423,000, respectively. Future minimum lease payments under noncancelable leases at December 31, 1998, are as follows (in thousands):

1999	$ 1,195
2000	1,075
2001	826
2002	761
2003	696
Thereafter	2,495
Total	$ 7,048

13. STOCK OPTIONS AND STOCK PURCHASE WARRANTS:

In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), was issued. SFAS 123 defines a fair value based method of accounting for employee stock options or similar equity instruments and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period of the award, which is usually the vesting period. However, SFAS 123 also allows entities to continue to measure compensation costs for employee stock compensation plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Because the Company has elected to continue to follow APB 25, SFAS 123 requires disclosure of pro forma net income and earnings per share as if the new fair value accounting method was adopted. The Company has presented the pro forma information required by SFAS 123.

In April 1996, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. Long-Term Incentive Plan (the Incentive Plan). The Incentive Plan provides for the grant of stock options (which may be nonqualified stock options or incentive stock options for tax purposes), stock appreciation rights issued independent of or in tandem with such options (SARs), restricted stock awards and performance awards.

The aggregate number of shares of common stock subject to stock options or SARs that may be granted to any one participant in any one year under the Incentive Plan is 100,000 shares. The Company has 650,000 shares of common stock reserved for issuance upon exercise of any awards granted under the Company's Incentive Plan.

In connection with the Offering, the Company agreed to issue to the Representatives of the Underwriters and their designees, for their own accounts, warrants to purchase an aggregate of 250,000 shares of common stock. The warrants are exercisable during the four-year period commencing June 12, 1997, at an exercise price equal to $14.40 per share.

In April 1996, the Company granted options under the Incentive Plan to purchase an aggregate of 19,403 shares to 18 employees, all of which are fully vested.

On April 8, 1996, the Board of Directors of the Company declared a dividend of one common share purchase right (a Right) for each share of common stock outstanding. Each Right entitles the registered holder to purchase from the Company one share of common stock at a price of $35.00 per share (the Purchase Price). The Rights are not exercisable until the distribution date, as defined. The Rights will expire on April 7, 2006 (the Final Expiration Date), unless the Final Expiration Date is extended or unless the Rights are earlier redeemed or exchanged by the Company.

In March 1998 and 1997, the Company granted options under the Incentive Plan to purchase an aggregate of 168,140 and 103,013 shares, respectively, of common stock to employees. Each option granted shall become exercisable in three annual installments beginning on the third anniversary of the date of grant. The options are exercisable at a price equal to the fair value of the Company's common stock at the date of grant.

During 1997, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. 1997 Non-Employee Director Stock Option Plan (the Director Plan). The Director Plan is designed to attract and retain highly qualified non-employee directors, reserving 100,000 shares of common stock for issuance upon exercise of any awards granted under the Plan. Under the terms of this plan, each non-employee director received options to purchase 10,000 shares as of the date of adoption or on their respective date of election, all of which are fully vested and are exercisable immediately, and expire ten years from the date of grant. During each of the years ended December 31, 1998 and 1997, 30,000 options were granted and exercisable at a price equal to the fair values of the Company's common stock at the dates of grant. None of these options have been exercised as of December 31, 1998.

A summary of the Company's stock option activity, and related information for the years ended December 31, 1996, 1997 and 1998 follows:

	1996		1997		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding - beginning of year	--	$ --	--	$ --	133,013	$ 8.52
Granted	19,403	10.80	133,013	8.52	198,140	11.15
Exercised	18,730	10.80	--	--	--	--
Forfeited	673	10.80	--	--	--	--
Outstanding - end of year	--	--	133,013	--	331,153	--
Exercisable at end of year	--	$ --	30,000	$ 8.13	60,000	$ 10.06
Weighted average fair value of options granted during the year		$ --		$ 3.67		$ 5.84

The following table summarizes the information about the Company's options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$7.13 - 12.00	331,153	8.83	$10.09	60,000	$10.06

If the Company had adopted the fair value accounting method under SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	1996	1997	1998
Net income:			
As Reported	$ 6,202	$ 5,380	$ 10,797
Pro forma	5,268	5,265	$ 10,575
Basic earnings per share:			
As Reported	$	1.11$	.81$1.62
Pro forma	$	.94$	.79$1.59
Diluted earnings per share:			
As Reported	$	1.11$	.81$1.62
Pro forma	$	.94$	.79$1.59

The fair value of these options was estimated using a Black-Scholes option pricing model with a risk-free interest rate of 5.5%, a volatility factor of .422, a dividend yield of 0%, and an expected option life of seven years. There were no options granted under the Incentive Plan or the Director Plan during 1996.

In October 1997, the Company issued warrants to purchase an aggregate of 171,875 shares of common stock to C. Jim Stewart & Stevenson in connection with the purchase of the assets of the John Deere construction equipment store. The warrants are exercisable during the five-year period commencing October 6, 1998, at an exercise price equal to $12.00 per share. None of these warrants have been exercised as of December 31, 1998.

In March 1998, the Company issued options to purchase an aggregate of 109,973 shares of common stock to the seller in connection with the purchase of the stock of D & D Farm and Ranch Supermarket, Inc. The options are exercisable in four annual installments beginning on the second anniversary of the date of grant, at exercise prices equal to $9.38, $14.38 and $19.38 per share. None of these options have been exercised as of December 31, 1998.

14. EARNINGS PER SHARE

Earnings per share for all periods have been restated to reflect the adoption of Statement of Financial Accounting Standards No. 128, "Earnings Per Share," (SFAS 128) which established standards for computing and presenting earnings per share ("EPS") for entities with publicly held common stock or potential common stock. This statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures. Basic EPS were computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS differs from basic EPS due to the assumed conversions of potentially dilutive options and warrants that were outstanding during the period. The following is a reconciliation of the numerators and the denominators of the basic and diluted per-share computations for net income.

	1997	1998
Numerator:		
Numerator for basic and dilutive earnings per share- Net income available to common shareholders	$ 5,380,000	$10,797,000
Denominator:		
Denominator for basic earnings per share- weighted-average shares	6,643,730	6,643,730
Effect of dilutive securities:		
Employee stock options	1,503	25,324
Warrants	--	925
Dilutive potential common shares	1,503	26,249
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	6,645,233	6,669,979
Basic earnings per share	$ .81	$ 1.62
Diluted earnings per share	$ .81	$ 1.62

There were no potentially dilutive securities outstanding as of December 31, 1996. Warrants and options to purchase shares of common stock that were outstanding for the years ended December 31, 1996, 1997 and 1998, that were not included in the computation of diluted earnings per share because the exercise prices were greater that the average market prices of the common shares, are as follows:

	1996	1997	1998
Warrants	250,000	421,875	421,875
Options	--	123,313	283,113
Total antidilutive securities	250,000	545,188	704,988

15. INCOME TAXES:

Prior to the Offering of the Company's common stock, the Company maintained the status of S corporation for federal and state income tax purposes. As an S corporation, the Company was generally not responsible for income taxes.

Upon the closing of the Offering, the Company's S corporation election terminated and the Company was reorganized as described in Note 3. Accordingly, the Company became subject to federal and state income taxes from that date forward.

Upon the Company's termination of its S corporation status, the Company provided deferred income taxes for cumulative temporary differences between the tax basis and financial reporting basis of its assets and liabilities at the date of termination.

Provision for Income Taxes

The unaudited pro forma provision for income taxes represents the estimated income taxes on income from continuing operations that would have been reported under SFAS 109 had the Company been a taxable entity for both state and federal income tax purposes as of the beginning of the year ended December 31, 1996. The pro forma income tax provision for the year ended December 31, 1996, and actual tax provision for the years ended December 31, 1996, 1997 and 1998, are summarized as follows (in thousands):

	Pro Forma	Actual		
	1996	1996	1997	1998
	(Unaudited)			
Current provision-				
Federal	$ 1,002	$ 1,002	$ 2,738	$ 5,652
State	266	266	407	1,090
	1,268	1,268	3,145	6,742
Deferred provision-				
Federal	1,035	1,035	132	424
State	(8)	(8)	21	34
	1,027	1,027	153	458
Provision for income taxes	$ 2,295	$ 2,295	$ 3,298	$ 7,200

The following summarizes the tax effect of significant cumulative temporary differences that are included in the net deferred income tax liability as of December 31, 1997 and 1998 (in thousands):

	1997	1998
Differences in depreciation and amortization	$ 1,648	$ 2,661
Accruals and reserves not deducted for tax purposes until paid	(421)	(990)
Other, net	(47)	(33)
	$ 1,180	$ 1,638

A reconciliation of taxes based on the federal statutory rates and the unaudited pro forma provisions for income taxes for the year ended December 31, 1996 and the actual provisions for income taxes for the years ended December 31, 1996, 1997 and 1998, are summarized as follows (in thousands):

	Pro Forma	Actual		
	1996	1996	1997	1998
	(Unaudited)			
Income taxes at the federal statutory rate	$ 2,889	$ 1,897	$ 2,951	$ 6,288
State income taxes, net of federal benefit	216	230	286	719
Other, net	124	168	61	193
Provision for income taxes	$ 3,229	$ 2,295	$ 3,298	$ 7,200

16. COMMITMENTS AND CONTINGENCIES:

The Company is contingently liable to finance companies for the notes sold to such finance companies related to the sale of trucks and construction equipment. The Company's recourse liability related to sold finance contracts is limited to 15 to 25 percent of the outstanding amount of each note sold to the finance company with the aggregate recourse liability for 1998 being limited to $600,000. The Company provides an allowance for repossession losses and early repayment penalties.

Finance contracts sold during the years ended December 31, 1996, 1997 and 1998, were $76,390,000, $91,445,000 and $183,639,000, respectively.

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

The Company has consulting agreements with individuals for an aggregate monthly payment of $25,725. The agreements expire in 1999 through 2001.

17. ACQUISITIONS:

In March 1997, the Company purchased the assets of Denver Peterbilt, Inc., which consisted of two full-service Peterbilt dealerships in Denver and Greeley, Colorado. The purchase price was approximately $7.9 million, funded by (i) $6.5 million of cash and (ii) $1.4 million of borrowings under the Company's floor plan financing arrangement with GMAC to purchase new and used truck and parts inventory. The Company also entered into an agreement whereby the principal of Denver Peterbilt, Inc. may receive additional amounts based on future sales of new Peterbilt trucks at the Colorado locations, through March 1999. The acquisition was accounted for as a purchase.

In October 1997, the Company purchased certain assets and assumed certain liabilities of C. Jim Stewart & Stevenson, Inc., which consisted of one full-service John Deere construction equipment dealership in Houston, Texas. The purchase price was approximately $30.2 million , funded by (i) $4 million of cash, (ii) $21.1 million of borrowings under the Company's floor plan financing arrangements, (iii) $3,080,000 in real estate borrowings from a financial institution, and (iv) a $2,062,500 promissory note payable to the seller. The Company also issued warrants to purchase an aggregate of 171,875 shares of common stock to C. Jim Stewart & Stevenson. The warrants are exercisable during the four-year period commencing October 6, 1998, at an exercise price equal to $12.00 per share. As the fair value of the warrants was immaterial, it was not included in the purchase price. The acquisition was accounted for as a purchase.

In March 1998, the Company caused its wholly owned subsidiary, Rush Retail Centers of Texas, Inc., to acquire the stock of D & D Farm and Ranch Supermarket, Inc. for approximately $10.5 million, with the purchase price being a combination of cash and notes payable. The Company also issued options to purchase an aggregate of 109,973 shares of common stock to the seller. The options are exercisable during the four-year period commencing March 2, 2000, at exercise prices ranging from $9.38 to $19.38 per share. As the fair value of the options was immaterial, it was not included in the purchase price.

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

Cash	$ 3,548
Inventories	4,430
Accounts Receivable & Other Assets	747
Property and equipment	1,729
Accounts Payable and Accrued Expenses	(761)
Goodwill	807
Total	$ 10,500

In September 1998, the Company purchased substantially all of the assets of Klooster Equipment, Inc. which consisted of three full-service John Deere construction equipment dealerships and one retail only location covering 54 counties in Western Michigan. The purchase price was approximately $13.1 million funded by (i) $2.5 million of cash, (ii) $9.8 million of borrowings under the Company's floor plan financing arrangements with Associates Commercial Corp. and John Deere Inc., and (iii) $836,000 of borrowings from John Deere Credit Corp.

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

Inventories	$ 10,947
Property and equipment	229
Goodwill	2,000
Total	$ 13,176

The following unaudited pro forma summary presents information as if the Denver Peterbilt, Inc. acquisition, and the C. Jim Stewart & Stevenson acquisition had occurred at the beginning of fiscal year 1996 and as if the D & D Farm and Ranch Supermarket, Inc. and the Klooster Equipment, Inc. acquisitions had taken place at the beginning of fiscal year 1997. The pro forma information is provided for information purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the Company. In preparing the pro forma data, adjustments have been made to reflect the impact of income tax expense for 1996 and the weighted average common shares outstanding used in the computation of income per share has been increased to reflect the number of shares at the Offering price necessary to fund repayment of the line of credit drawn to pay the $6 million distribution of undistributed S corporation earnings. The following summary is for the years ended December 31, 1996, 1997 and 1998 (unaudited) (in thousands, except per share amounts):

	1996	1997	1998
Revenues	$ 400,407	$ 473,805	$ 630,544
Income after pro forma provision for income taxes	$ 3,949	$ 6,150	$ 11,244
Basic and diluted income per share	$ .71	$ .93	$ 1.69

18. UNAUDITED QUARTERLY FINANCIAL DATA:

(In thousands, except per share amounts.)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Operating revenues	$ 82,912	$ 95,772	$ 102,145	$ 118,540
Operating income	1,757	2,040	3,210	4,184
Income before income taxes	1,267	1,607	2,673	3,131
Net income	785	997	1,658	1,940
Basic and diluted earnings per share	$ .12	$ .15	$ .25	$ .29
1998				
Operating revenues	$ 126,075	$ 165,983	$ 153,540	$ 167,187
Operating income	3,526	6,121	6,245	7,989
Income before income taxes	2,228	4,551	4,778	6,440
Net income	1,337	2,730	2,868	3,862
Basic and diluted earnings per share	$ .20	$ .41	$ .43	$ .58

19. SEGMENTS

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). This statement requires that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise and in condensed financial statements of interim periods issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. The effective date for SFAS No. 131 is for fiscal years beginning after December 15, 1997.

The Company has two reportable segments: the Heavy Duty Truck segment and the Construction Equipment segment. The Heavy Duty Truck segment operates a regional network of truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks, after-market 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, formed during 1997, operates a full-service John Deere dealership that serves the Houston, Texas Metropolitan and surrounding areas. Dealership operations include the retail sale of new and used equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used equipment. The Company had only one segment prior to the 1997 John Deere acquisition, and all of the 1996 results depict only the Heavy Duty Truck segment.

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, 1997 and 1998.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business 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, 1997 and 1998 (in thousands):

	HEAVY-DUTY TRUCK SEGMENT	CONSTRUCTION EQUIPMENT SEGMENT	ALL OTHER	TOTALS
1997				
Revenues from external customers	$ 381,959	$ 10,166	$ 7,244	$ 399,369
Interest income	1,155	--	--	1,155
Interest expense	3,043	408	217	3,668
Depreciation and amortization	2,555	77	345	2,977
Segment profit before income tax	8,136	116	426	8,678
Other significant non-cash items:				
Segment assets	107,688	39,320	8,470	155,478
Expenditures for segment assets	8,622	242	1,330	10,194
				1998
Revenues from external customers	$ 538,209	$ 51,273	$ 23,303	$ 612,785
Interest income	982	--	--	982
Interest expense	4,163	1,912	791	6,866
Depreciation and amortization	3,665	623	525	4,813
Segment profit before income tax	17,219	562	216	17,997
Other significant non-cash items:				
Segment assets	$ 133,100	$ 65,419	$ 22,181	$ 220,700
Expenditures for segment assets	$ 16,084	$ 1,586	$ 5,237	$ 22,907

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by item 10 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders, under the captions "Election of Directors" and "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information called for by item 11 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders, under the caption "Compensation of Executive Officers."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by item 12 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders, under the caption "Principal Shareholders and Stock Ownership of Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by item 13 of Form 10-K is incorporated herein by reference to such information included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders, under the caption "Certain Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

Index to Financial Statements

(a) The following documents are filed as part of this Annual Report or are incorporated by reference as indicated:

1. The following financial statements are included under Item 8:

Report of Independent Public Accountants

Consolidated Balance Sheets as of December 31, 1997 and 1998

Consolidated Statements of Income for the years ended December 31, 1996, 1997 and 1998

Consolidated Statements of Shareholders' Equity for the years ended December 31, 1996, 1997 and 1998

Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1997 and 1998

Notes to Consolidated Financial Statements.

2. The following financial statement schedules are included under Item 14:

3. Exhibits.

EXHIBIT NO.	IDENTIFICATION OF EXHIBIT
2.1	Asset Purchase Agreement effective October 6, 1997, among Rush Equipment Centers of Texas, Inc., Rush Enterprises, Inc., C. Jim Stewart and Stevenson, Inc., and Stewart and Stevenson Realty Corp. (incorporated by reference herein to Exhibit 2.1 to the Company's Current Report on Form 8-K filed October 21, 1997).
3.1.	Amended and Restated Articles of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.1 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).
3.2.	Bylaws of the Registrant, as amended (incorporated herein by reference to Exhibit 3.2 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

4.1. Specimen of certificate representing Common Stock, $.01 par value, of the Registrant (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

4.2. Form of Representatives' Warrant Agreement, including form of Representatives' Warrant (incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

4.3. Rights Agreement dated April 8, 1996 between Rush Enterprises, Inc. and American Stock Transfer & Trust Company, Trustee (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.1. Form of Dealer Sales and Service Agreement (heavy-duty truck) dated October 5, 1995, between Peterbilt Motors Company and Rush Enterprises, Inc. dba San Antonio Peterbilt-GMC Truck, Inc. (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.2. Form of Dealer Sales and Service Agreement (medium-duty truck) dated October 5, 1995 between Peterbilt Motors Company and Rush Enterprises, Inc. dba San Antonio Peterbilt -- GMC Trucks, Inc. (incorporated herein by reference to Exhibit 10.7 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.3. GMC Truck Division Dealer Sales and Service Agreement dated July 9, 1992 between General Motors Corporation, GMC Truck Division and Rush Enterprises, Inc. dba Rush Pontiac -- GMC Truck Center (incorporated herein by reference to Exhibit 10.13 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.4. GMC Truck Division Dealer Sales and Service Agreement dated January 17, 1996 between General Motors Corporation, GMC Truck Division and Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. (incorporated herein by reference to Exhibit 10.14 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.5. Dealer Sales and Service Agreement dated January 26, 1996 between Volvo GM Heavy Truck Corporation and Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 10.15 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.6. Franchise Agreement dated July 28, 1994 between PACCAR Leasing Corporation and Rush Enterprises, Inc. dba Translease Corp. (incorporated herein by reference to Exhibit 10.16 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.7. Franchise Agreement Addendum dated December 1, 1995 between PACCAR Leasing Corporation and Rush Enterprises, Inc. dba Translease Corp. (incorporated herein by reference to Exhibit 10.17 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.8. Agreement for Acquisition of Secured Retail Installment Paper dated March 14, 1996 between PACCAR Financial Corp. and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.18 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.9. Letter Agreement dated January 5, 1996 between Rush Enterprises, Inc. for South Coast Peterbilt and PACCAR Financial Corp. (incorporated herein by reference to

Exhibit 10.19 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.10. Alternative Reserve Program Letter Agreement dated February 1, 1994 between Associates Commercial Corporation and Rush Enterprises, Inc. dba San Antonio Truck Sales & Service, Inc., Houston Peterbilt, Inc., Lufkin Peterbilt Inc. and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.20 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.11. Alternative Reserve Program Letter Agreement dated January 1, 1996 between Associates Commercial Corporation and Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 10.21 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.12. Dealer Agreement for General Motors Retail Truck Financing Plan for GMC and Chevrolet Dealers effective August 1, 1984 between Rush Enterprises, Inc. dba San Antonio Truck Sales & Service, Inc. and Associates Commercial Corporation (incorporated herein by reference to Exhibit 10.22 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.13. Dealer Agreement dated November 13, 1986 between Associates Commercial Corporation and Rush Enterprises, Inc. dba San Antonio Truck Sales & Service, Inc. (incorporated herein by reference to Exhibit 10.23 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.14. Associates / Rush Enterprises, Inc. Dealer Agreement Addendum dated December 8, 1986 to Dealer Agreement dated November 13, 1986 between Associates Commercial Corporation and Rush Enterprises, Inc. dba San Antonio Truck Sales & Service, Inc. (incorporated herein by reference to Exhibit 10.24 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.15. Form of Dealer Agreement dated January 13, 1988 between Associates Commercial Corporation and Rush Enterprises, Inc. dba Houston Peterbilt, Inc. (incorporated herein by reference to Exhibit 10.25 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.16. Form of Peterbilt Distributor Limited Liability Truck Financing Agreement dated July 21, 1983 between Associates Commercial Corporation and Rush Enterprises, Inc. dba San Antonio Truck Sales & Service, Inc. (incorporated herein by reference to Exhibit 10.28 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.17. Dealer Financing Agreement dated July 30, 1993 between Interstate Billing Service, Inc. and Rush Enterprises, Inc. dba Translease Corp. (incorporated herein by reference to Exhibit 10.32 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.18. Credit Balance Agreement dated April 3, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba Rush Pontiac-GMC Truck Center, San Antonio Peterbilt, ARK-LA-TEX Peterbilt, Houston Peterbilt, Lufkin Peterbilt, Laredo Peterbilt, Hummer of South Texas and South Coast Peterbilt (incorporated herein by

reference to Exhibit 10.33 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.19. Letter dated March 11, 1996 from General Motors Acceptance Corporation to Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 10.34 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.20. Loan Agreement dated June 19, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba San Antonio Peterbilt-GMC Truck, Inc. (incorporated herein by reference to Exhibit 10.35 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.21. Promissory Note dated June 19, 1995, in the original principal amount of $5,000,000, payable by Rush Enterprises, Inc. dba San Antonio Peterbilt-GMC Truck, Inc. to General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.36 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.22. Wholesale Security Agreement dated June 19, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba San Antonio Peterbilt-GMC Truck, Inc. (incorporated herein by reference to Exhibit 10.37 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.23. Agreement Amending the Wholesale Security Agreement dated June 19, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba San Antonio Peterbilt-GMC Truck, Inc. (incorporated herein by reference to Exhibit 10.38 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.24. Assignment of DPP Vehicle Proceeds dated June 19, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba San Antonio Peterbilt-GMC Truck, Inc. (incorporated herein by reference to Exhibit 10.39 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.25. Guaranty Agreement dated June 19, 1995 by W. Marvin Rush on behalf of Rush Enterprises, Inc. dba San Antonio Peterbilt-GMC Truck, Inc. and accepted by General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.40 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.26. Revolving Line of Credit Loan and Security Agreement dated December 1, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba Tulsa Trucks, Inc. in the maximum principal amount of $1,100,000.00 (incorporated herein by reference to Exhibit 10.41 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.27. Promissory Note dated December 1, 1995, in the original principal amount of $1,100,000.00, payable by Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. to General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.42 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.28. Wholesale Security Agreement dated November 30, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. (incorporated herein by reference to Exhibit 10.43 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.29. Agreement Amending the Wholesale Security Agreement and Conditionally Authorizing the Sale of New Floor Plan Vehicles on a Delayed Payment Privilege Basis dated November 30, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. (incorporated herein by reference to Exhibit 10.44 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.30. Guaranty dated November 30, 1995 by W. Marvin Rush on behalf of Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. and accepted by General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.45 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.31. Revolving Line of Credit Loan and Security Agreement dated December 1, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba Tulsa Trucks, Inc. in the maximum principal amount of $900,000.00 (incorporated herein by reference to Exhibit 10.46 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.32. Promissory Note dated December 1, 1995, in the original principal amount of $900,000.00, payable by Rush Enterprises, Inc. dba Tulsa Trucks, Inc. to General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.47 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.33. Wholesale Security Agreement dated November 30, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba Tulsa Trucks, Inc. (incorporated herein by reference to Exhibit 10.48 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.34. Agreement Amending the Wholesale Security Agreement and Conditionally Authorizing the Sale of New Floor Plan Vehicles on a Delayed Payment Privilege Basis dated November 30, 1995 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba Tulsa Trucks, Inc. (incorporated herein by reference to Exhibit 10.49 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.35. Guaranty dated November 30, 1995 by W. Marvin Rush on behalf of Rush Enterprises, Inc. dba Tulsa Trucks, Inc. and accepted by General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.50 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.36. Guaranty Agreement dated December 1, 1995 by W. Marvin Rush in favor of General Motors Acceptance Corporation in the amount of $2,000,000.00 on behalf of Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. and Tulsa Trucks, Inc. (incorporated herein by reference to Exhibit 10.51 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.37. Revolving Line of Credit Loan and Security Agreement dated December 18, 1995 between Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. and General Motors Acceptance Corporation in the maximum principal amount of $800,000.00 (incorporated herein by reference to Exhibit 10.52 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.38. Promissory Note dated December 18, 1995, in the original principal amount of $800,000.00, payable by Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. to General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.53 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.39. Revolving Line of Credit Loan and Security Agreement dated December 18, 1995 between Rush Enterprises, Inc. dba Tulsa Trucks, Inc. and General Motors Acceptance Corporation in the maximum principal amount of $700,000.00 (incorporated herein by reference to Exhibit 10.54 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.40. Promissory Note dated December 18, 1995, in the original principal amount of $700,000.00, payable by Rush Enterprises, Inc. dba Tulsa Trucks, Inc. to General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.55 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.41. Guaranty Agreement dated December 18, 1995 by W. Marvin Rush in favor of General Motors Acceptance Corporation in the amount of $1,500,000.00 on behalf of Rush Enterprises, Inc. dba Oklahoma Trucks, Inc. and Tulsa Trucks, Inc. (incorporated herein by reference to Exhibit 10.56 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.42. Revolving Promissory Note dated March 18, 1993, in the maximum principal amount of $450,000.00, payable by Rush Enterprises, Inc. to The Frost National Bank of San Antonio (incorporated herein by reference to Exhibit 10.57 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.43. Dealership Purchase Contract dated November 10, 1995 between Kerr Consolidated, Inc. and Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 10.58 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.44. Real Estate Purchase Agreement dated November 10, 1995 between Kerr Consolidated, Inc. and Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 10.59 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.45. Promissory Note dated December 1, 1995, in the original principal amount of $2,800,000.00 payable by Rush Enterprises, Inc. to Kerr Consolidated, Inc. (incorporated herein by reference to Exhibit 10.60 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.46. Real Estate Mortgage dated December 1, 1995, in the original principal sum of $2,800,000.00 payable by Rush Enterprises, Inc. to Kerr Consolidated, Inc. (incorporated herein by reference to Exhibit 10.61 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.47. Real Estate Lease Agreement effective December 1, 1995 between Kerr Consolidated, Inc. and Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 10.62 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.48. Secured Purchase Money Promissory Note dated February 1, 1994, in the original principal amount of $984,000.00, payable by Rush Enterprises, Inc. to Engs Motor Truck Company, Inc. (incorporated herein by reference to Exhibit 10.64 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.49. Continuing Unlimited Guaranty dated February 24, 1994 by W. M. Rush and Thomas McKellar in favor of Engs Motor Truck Company, Edward W. Engs and Stewart R. Engs on behalf of South Coast Peterbilt (incorporated herein by reference to Exhibit 10.65 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.50. Lease Modification Agreement dated February 1, 1994 between Richard R. Shade and Barbara S. Lateer, Trustees of the Ruth R. Shade Trust, et al, Engs Motor Truck Company and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.66 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.51. Lease Modification Agreement dated February 1, 1994 between Angelus Block Company, Inc., Engs Motor Truck Company and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.67 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.52. Lease Modification Agreement dated February 1, 1994 between Angelus Block Company, Inc., Engs Motor Truck Company and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.68 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.53. Lease dated February 1, 1994 between Edward W. Engs and Stuart R. Engs, and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.69 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.54. Lease dated February 1, 1994 between Engs Motor Truck Company and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.70 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.55. Contract Termination and Release dated September 29, 1995 by and among South Coast Peterbilt, Rush Enterprises, Inc., Tom McKellar, Inc. and Tom McKellar (incorporated herein by reference to Exhibit 10.71 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.56. Termination Agreement dated September 29, 1995 by and among Rush Enterprises, Inc., Tom McKellar, Inc. and South Coast Peterbilt (incorporated herein by reference to Exhibit 10.72 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.57. Lease Agreement effective November 1, 1992, between Pete Gallegos and Rush Enterprises, Inc. dba Laredo Peterbilt, Inc., as amended August 31, 1994 (incorporated

herein by reference to Exhibit 10.73 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.58. Commercial Lease dated July 31, 1992, between R. L. Lehman and Rush Enterprises, Inc. dba Lufkin Peterbilt, Inc., as amended through June 1, 1995 (incorporated herein by reference to Exhibit 10.74 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.59. Lease Agreement dated September 17, 1993 between McBray Realty, Inc. and Rush Enterprises, Inc. dba Ark-La-Tex Peterbilt (incorporated herein by reference to Exhibit 10.75 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.60. Right of First Refusal dated April 1, 1996 between Peterbilt Motors Company and W. Marvin Rush (incorporated herein by reference to Exhibit 10.76 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.61. Right of First Refusal dated April 1, 1996 between Peterbilt Motors Company and Barbara Rush (incorporated herein by reference to Exhibit 10.77 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.62. Right of First Refusal dated April 1, 1996 between Peterbilt Motors Company and W. M. "Rusty" Rush (incorporated herein by reference to Exhibit 10.78 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.63. Right of First Refusal dated April 1, 1996 between Peterbilt Motors Company and Robin Rush (incorporated herein by reference to Exhibit 10.79 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.64. Form of Indemnity Agreement between Rush Enterprises, Inc. and the members of its Board of Directors (incorporated herein by reference to Exhibit 10.80 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.65. Form of Employment Agreement between W. Marvin Rush, W.M. "Rusty" Rush and Robin M. Rush (incorporated herein by reference to Exhibit 10.81 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.66. Form of Employment Agreement between Rush Enterprises, Inc., D. Jeffery Michell, David C. Orf, B.J. Tanner, Brent Hughes, J.M. "Spike" Lowe, Donald Teague, Ralph West and John Hiltabiddle (incorporated herein by reference to Exhibit 10.82 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.67. Tax Indemnification Agreement between Rush Enterprises, Inc., Associated Acceptance, Inc. and W. Marvin Rush (incorporated herein by reference to Exhibit 10.83 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.68. Rush Enterprises, Inc. Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.84 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.69. Form of Rush Enterprises, Inc. Long-Term Incentive Plan Stock Option Agreement (incorporated herein by reference to Exhibit 10.85 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.70. Revolving Line of Credit Loan and Security Agreement dated February 24, 1994, between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba South Coast Peterbilt in the maximum principal amount of $3,000,000.00 (incorporated herein

by reference to Exhibit 10.86 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.71. Demand Promissory Note dated February 24, 1994, in the original principal amount of $3,000,000.00, payable by Rush Enterprises, Inc. dba South Coast Peterbilt to General Motors Acceptance Corporation (incorporated herein by reference to Exhibit 10.87 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.72. General Security Agreement dated February 2, 1994 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba South Coast Peterbilt (incorporated herein by reference to Exhibit 10.88 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.73. Guaranty dated February 2, 1994 between General Motors Acceptance Corporation and Rush Enterprises, Inc. dba South Coast Peterbilt (incorporated herein by reference to Exhibit 10.89 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.74. Real Estate Lien Note dated July 1, 1993, in the principal amount of $1,238,000.00, payable by Rush Enterprises, Inc. to Associates Commercial Corporation (incorporated herein by reference to Exhibit 10.90 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.75. Promissory Note dated December 7, 1995, in the original principal amount of $1,900,000.00, payable by Rush Enterprises, Inc. to General Electric Capital Corporation (incorporated herein by reference to Exhibit 10.91 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.76. Aircraft Chattel Mortgage dated December 4, 1995, as amended, between Rush Enterprises, Inc. as Mortgagor and General Electric Capital Corporation as Mortgagee (incorporated herein by reference to Exhibit 10.92 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.77. Individual Guaranty dated December 4, 1995, between General Electric Capital Corporation and Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 10.93 of the Company's Registration Statement No. 333-03346 on Form S-1 filed April 10, 1996).

10.78. Dealership Purchase Contract dated December 9, 1996 by and among Rush Truck Centers of Colorado, Inc., Rush Enterprises, Inc., Denver Peterbilt, Inc., and Greg Lessing. (incorporated herein by reference to Exhibit 10.78 of the Company's Annual Report on Form 10 K filed March 31, 1998).

*11.1 Computation of pro forma earnings per share.

21.1 Subsidiaries of the Company.

Name	State of Incorporation	Names Under Which Subsidiary Does Business
Rush Truck Centers of Texas, Inc.	Delaware	Creative Concepts Advertising Agency
		Hou-Tex Industrial and Truck Supply
		Houston Peterbilt, Inc.
		Laredo Peterbilt, Inc.
		Lufkin Peterbilt, Inc.
		Rush Truck Center
		San Antonio Peterbilt, Inc.
		San Antonio Peterbilt-GMC Truck, Inc.
		Translease
		World Wide Tires
		Rush Truck Center, Pharr
		Rush Peterbilt Truck Center, Beaumont
		Rust Truck Center, Beaumont
		Rush Peterbilt Truck Center, San Antonio
		Rush Truck Center, San Antonio
		Rush Peterbilt Truck Center, Houston
		Rush Truck Center, Houston
		Rush Peterbilt Truck Center, Laredo
		Rust Truck Center, Laredo
		Rush Peterbilt Truck Center, Lufkin
		Rush Truck Center, Lufkin
		Rush Peterbilt Truck Center, Pharr
		Rush Used Truck Center, Austin
Rush Truck Centers of Oklahoma, Inc.	Delaware	Oklahoma Trucks, Inc. Translease
		Tulsa Trucks, Inc.
		Rush Peterbilt Truck Center, Oklahoma City
		Rush Truck Center, Oklahoma City
		Rush Peterbilt Truck Center, Tulsa
		Rush Truck Center, Tulsa
		Rush Volvo Truck Center, Oklahoma City
		Rush Volvo Truck Center, Tulsa
Rush Truck Centers of California, Inc., Which Will do Business in California as Complete Rush Truck Centers	Delaware	South Coast Peterbilt Translease World Wide Tires
		Rush Peterbilt Truck Center, Pico Rivera
		Rush Truck Center, Pico Rivera
		Rush Peterbilt Truck Center, Fontana

		Rust Truck Center, Fontana
		Rush Peterbilt Truck Center, Sun Valley
		Rush Truck Center, Sun Valley
Rush Truck Centers of Louisiana, Inc.	Delaware	Ark-La-Tex Peterbilt, Inc. Translease
		Rush Peterbilt Truck Center, Bossier City
		Rush Truck Center, Bossier City
Los Cuernos, Inc.	Delaware	Los Cuernos Ranch
Rush Administrative Services, Inc.	Delaware	None
AiRush, Inc.	Delaware	None
Rush Truck Leasing, Inc.	Delaware	Rush Crane Systems
Rush Truck Centers of Colorado, Inc.	Delaware	Rush Truck Centers, Inc.
		Rush Peterbilt Truck Center, Denver
		Rust Truck Center, Denver
		Rush Peterbilt Truck Center, Greeley
		Rush Truck Center, Greeley
Rush Equipment Centers of Texas, Inc.	Delaware	Rush Equipment Center, Houston
		Rush Equipment Center, Beaumont
		Rush Equipment Rental Center, San Antonio
Rush Retail Centers, Inc.	Delaware	D & D Farm & Ranch Supermarket, Inc.
Rush Equipment Centers of Michigan, Inc.	Delaware	Rush Equipment Center, Ellsworth
		Rush Equipment Center, Traverse City
		Rush Equipment Center, Grand Rapids
		Work `N Play Shop
		Rush Equipment Center, Lansing

*23.1 Consent of Arthur Andersen LLP

*27.1 Financial Data Schedule.

* filed herewith

(b) Reports on Form 8-K:

None

SIGNATURES

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

RUSH ENTERPRISES, INC.

By: /s/ W. MARVIN RUSH   Date: March 26, 1999
W. Marvin Rush
Chairman and Chief Executive Officer

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

Signature	Capacity	Date
/s/ W. MARVIN RUSH W. Marvin Rush	Chairman and Chief Executive Officer, Director (Principal Executive Officer)	March 26, 1999
/s/ W. M. "RUSTY" RUSH W. M. "Rusty" Rush	President, Director	March 26, 1999
/s/ ROBIN M. RUSH Robin M. Rush	Executive Vice President, Secretary, Treasurer and Director	March 26, 1999
/s/ RONALD J. KRAUSE Ronald J. Krause	Director	March 26, 1999
/s/JOHN D. ROCK John D. Rock	Director	March 26, 1999
/s/HAROLD D. MARSHALL Harold D. Marshall	Director	March 26, 1999
/s/MARTIN A NAEGELIN, JR. Martin A. Naegelin, Jr.	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 1999

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
11.1	Computation of Net Income and Pro Forma Earnings per share.
23.1	Consent from Independent Public Accountants
27.1	Financial Data Schedule

RUSH ENTERPRISES, INC. AND SUBSIDIARIES
COMPUTATION OF NET INCOME AND PRO FORMA EARNINGS PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS - UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	1998	1997	1998	1997
BASIC EARNINGS PER SHARE CALCULATION				
Net Income	$ 3,862	$ 1,940	$ 10,797	$ 5,380
Weighted average number of common shares outstanding	6,644	6,644	6,644	6,644
Earnings per share - Basic	$ 0.58	$ 0.29	$ 1.62	$ 0.81
DILUTED EARNINGS PER SHARE CALCULATION				
Net Income	$ 3,862	$ 1,940	$ 10,797	$ 5,380
Weighted average number of common shares outstanding	6,644	6,644	6,644	6,644
Weighted average number of common share equivalents applicable to stock options	29	1	26	1
Common shares and common share equivalents	6,673	6,645	6,670	6,645
Earnings per share - Diluted	$ 0.58	$ 0.29	$ 1.62	$ 0.81

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (SEC File No. 333-07043 and 333-070451).

ARTHUR ANDERSEN LLP

San Antonio, Texas
March 26, 1999

5

THIS SCHEDULE CONTAINS SUMMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
FINANCIAL STATEMENTS OF RUSH ENTERPRISES,INC FOR THE YEAR ENDED DECEMBER 31,
1998 AND IS QUALIFIED IN ITE ENTIRETY BY REFERENCE TO SUCH 10-K.

1,000

12-MOS
DEC-31-1998
JAN-01-1998
DEC-31-1998
22,516
0
19,478
0
107,140
149,741
65,074
(10,626)
220,700
134,029
32,164
0
0
66
52,803
220,700
0
612,785
508,242
589,975
0
0
5,884
17,997
7,200
10,797
0
0
0
10,797
1.62
1.62