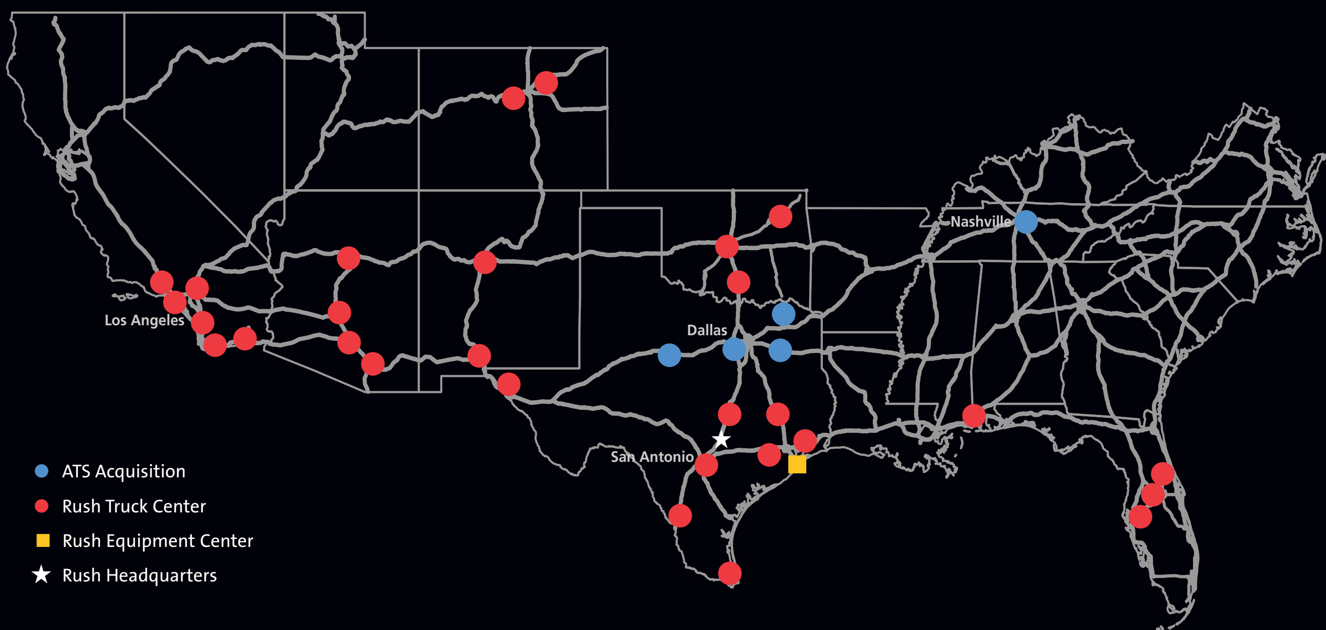
Rush Enterprises, Inc. Annual Report 2004

The Geography of Performance

About Rush Enterprises, Inc.

Rush Enterprises (NASDAQ: RUSH) operates the largest network of Peterbilt heavy-duty truck dealerships in North America and a John Deere construction equipment dealership in Houston, Texas. Its current operations include a network of dealerships located in Alabama, Arizona, California, Colorado, Florida, New Mexico, Oklahoma, Tennessee and Texas. These dealerships provide an integrated, one-stop source for the retail sale of new and used heavy-duty and medium-duty trucks and construction equipment; aftermarket parts, service and body shop facilities; and a wide array of financial services, including the financing of truck and equipment sales, insurance products and leasing and rentals.

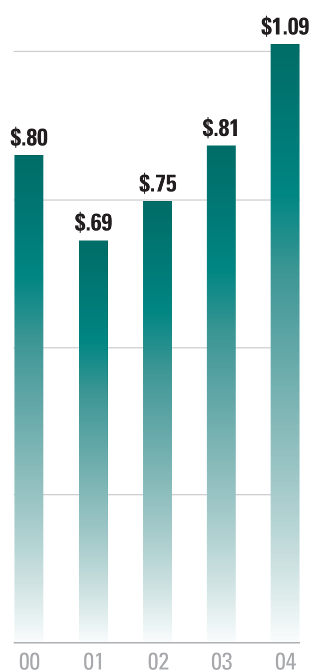
Rush Enterprises Nationwide Locations



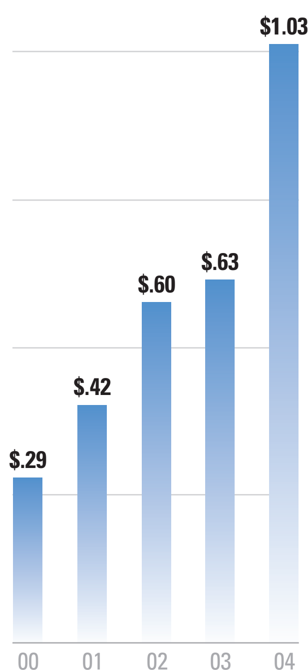
Financial Highlights

Dollars in thousands (except per share data)	**2004**	2003	2002	2001	2000
Total revenues	**$1,094,979**	$815,332	$757,147	$691,513	$805,362
Selling, general and administrative	**141,947**	124,207	111,721	101,832	104,685
Depreciation and amortization	**9,119**	8,929	8,594	9,176	8,181
Operating income from continuing operations	**34,076**	20,114	20,890	18,189	20,017
Interest expense, net	**5,950**	6,348	6,499	9,267	13,654
Income from continuing operations before income taxes	**28,750**	15,750	14,546	9,989	6,848
Provision for income taxes	**11,574**	6,300	5,818	3,996	2,739
Income from continuing operations	**17,176**	9,450	8,728	5,993	4,109
Earnings per common share - diluted	**$1.03**	$0.63	$0.60	$0.42	$0.29
Diluted weighted average shares	**16,607**	15,024	14,461	14,166	14,016
Working capital	**138,241**	14,113	7,995	7,050	4,702
Total assets	**565,933**	366,878	345,110	338,811	391,341
Long-term debt	**96,056**	90,028	94,916	98,170	90,986
Shareholders' equity	**222,807**	88,706	79,695	81,439	78,177

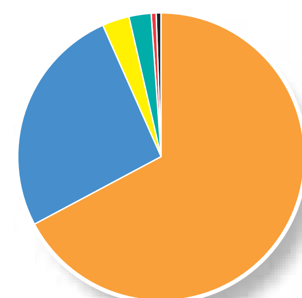
Total Revenue
Dollars in Billions



Diluted Earnings Per Share
Dollars



Percentage of Revenues



- New & Used Truck **67.4%**
- Parts & Service **26.0%**
- Construction Equipment **3.0%**
- Lease & Rental **2.5%**
- Finance & Insurance **0.7%**
- Other **0.4%**

To Our Shareholders:

About 18 months ago we began telling the story of an improving truck cycle. As I write this letter in the first quarter of 2005, I can tell you that the truck business is back. Industry expectations entering 2004 were for United States Class 8 truck sales to be near 186,000 units. It turns out this was a bit light, as sales came in at about 203,000 units. That was a 40% increase over the 145,000 units sold in 2003. As I write this, the estimates compiled by OEM and component suppliers indicate 2005 sales near 255,000 units with further improvement in 2006 to near 285,000 units. Additionally, it appears that customers would take more vehicles if the industry could produce more.

I think it's important to share with you my thoughts about the drivers that are affecting industry sales. First, from 2001 to 2003, only about 145,000 Class 8 trucks were sold annually. This appears to be well below replacement demand and therefore carriers are now seeking to replace aging fleets. Secondly, the emission law change that will take effect in January of 2007 is expected to cause an increase in unit pricing and a degradation of fuel efficiency. And finally, the economy has improved, generating an increase in freight tonnage. Today, truckload utilization remains at an all-time high. So, what does all this mean for Rush? In a nutshell, we look for an improving climate through 2006. However, what happens in 2007? We, among others in the industry, believe that 2007 will not see the falloff in demand that was previously expected. While we do anticipate a falloff, we expect United States sales to be near 200,000 units in 2007. If accurate, this would put sales at a level commensurate with 2004, which, as I'm about to tell you, was a pretty good year. Finally, if we had a crystal ball, we would expect 2008 and 2009 to be great years due to the 2010 emission requirements. The 2010 emission requirements will result in higher prices and a decline in fuel efficiency. These changes are expected to have a greater impact than that experienced in 2002 or 2007.

Focus on Fundamentals

So, how does Rush navigate in this most interesting time? We focus on fundamentals. Last year I mentioned a phrase, "Quality of Earnings." You may remember that this refers to our ability to increase our absorption rate and therefore cover more of our expenses with the gross profit derived from parts, service and body shop operations. If we can increase our absorption rate to 100%, then every truck gross profit dollar, after sales commissions and inventory carrying costs, goes to the bottom line. I'm proud to announce that we made great progress this year by increasing our absorption rate from 92% in 2003 to nearly 95% in 2004. As I said last year, we have a goal of achieving 100% by 2006. Quality of earnings is one of the most important things we can focus on because its underlying principles will get us through the inevitable downturns the truck industry experiences.

At the same time, we must not forget the importance of maximizing profitability when times are good. To this end, I would like to give you an update on Class 8 truck sales and the continuation of our medium-duty sales efforts. During the year we decided to strengthen our dealership sales efforts by creating a position for a Senior Vice President, who is responsible for guiding our dealership sales efforts. We felt this was necessary for a variety of reasons, none more important than to bring structure and consistency to the local sales process, which spans coast-to-coast. Additionally, we wanted to better measure and monitor the results of our local sales personnel. To help us achieve this goal, we recently introduced a unique new software product into our stores. This internally developed software program begins to capture a 360-degree view of customer sales activity as well as monitor the activities and results of our sales personnel. We also felt it was important to improve the training efforts of our local personnel. During the year we conducted regional training seminars for our sales personnel to keep them at leading edge sales performance. Finally, we felt it was important to remain nimble by maintaining the feel of a small business and still have the ability to grow. The bottom line is that we are more efficient than ever before in selling trucks. And remember, if you don't sell the truck, you can't fix it. Market share is crucial to developing a stronghold on absorption.

Our medium-duty sales efforts continue with the expansion of franchises and sales personnel. In 2004 we added 12 medium-duty franchises and 14 new sales people. Our entry into this most important market is taking hold. In 2004 we delivered 1,766 new medium-duty trucks versus the 899 delivered in 2003.

This is just the beginning of strengthening the total depth of product we offer. Our goal this year is to sell 2,500 units and one day to sell as many medium-duty trucks as we do Class 8 trucks. We remain excited about medium-duty sales as well as its ability to strengthen our absorption results and bring increased profitability by leveraging off our existing asset base.

New Market Potential

I would be remiss if I didn't discuss our acquisition efforts and our equity offering. We worked the better part of the year on consummating the acquisition of American Truck Source, Inc. and raising the capital to pay for the transaction. I am tremendously optimistic about Rush owning the major markets of Dallas, Texas, and Nashville, Tennessee, as well as our outlying stores in these new areas of responsibility. These markets are major new opportunities for Rush, and while each was successful, we believe there are still areas in which we can improve the business. We're excited about our expanded customer base and the additional service points this acquisition offers our current customers.

On November 23 we finalized our $110 million equity offering. The offering substantially increased our market capitalization and provided a new group of investors with the opportunity to become shareholders. The public float of our outstanding shares more than doubled, increasing its liquidity. In addition to paving the way for us to acquire American Truck Source, Inc., the offering has provided us with cash for future expansion.

Enhancing Quality of Earnings

In addition to closing the equity offering in November, we also held our annual management conference. This year's agenda included improving the organization and management of our sales efforts and enhancing our quality of earnings. In regards to sales, we spent a good part of the weekend discussing the activities common to successful sales organizations and spent time analyzing our managers' suggested improvements and their implementation. I'm very pleased with the direction we are headed in this area.

In furtherance of our efforts regarding the quality of earnings, we focused on measuring the increase in gross profit dollars versus the increase in operating profit at the departmental level. We met in breakout groups and analyzed the performance of individual stores relative to new standards established to pursue our goals. As is customary, we shared ideas and developed plans by which to improve in this most important area. I believe our managers are the best in the industry and have not failed when asked to improve. Their focus on this area will yield results; I'm sure of it.

Last year was a great year for Rush as we made tremendous progress towards our goals. I'll repeat my closing statement in last year's letter by saying the quality of our earnings is better and we are a stronger, more diversified company. It's important that we make progress each year, through good and bad times. While the market is improving, it's important that our managers continue to operate efficiently and continue to strive for improvement. I'm optimistic about the truck industry's future, but more so about our future. We have the secret ingredient. Our people.

Marvin Rush
Chairman and Chief Executive Officer

April 6, 2005

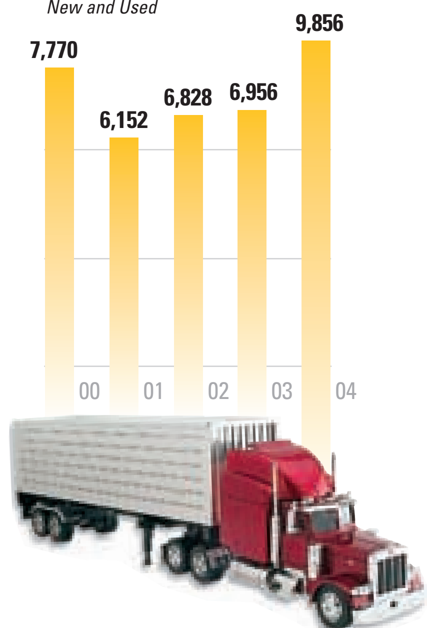
Rush has more than 700 service and body shop bays throughout its Rush Truck Center network, all of which are staffed by trained and experienced specialists.

Operations Review

The Geography of Performance

The success of retail stores is often determined by location. The importance of adding strategic locations to its network is also a critical element of Rush's success. Over the years, Rush has grown its business by opening additional dealerships in the areas it already serves and by acquiring dealerships outside its existing areas of service. This dual strategy of expansion and acquisition continues to be the hallmark of the company's success. On January 3, 2005, Rush made the largest acquisition in its 40-year history when it acquired American Truck Source, Inc. (ATS). Through the acquisition of ATS, Rush added Peterbilt dealerships in Dallas, Fort Worth, Abilene and Tyler, Texas, as well as Nashville, Tennessee, which will expand Rush's network of Rush Truck Centers to 44 locations in the Sunbelt states.

Trucks Sold
New and Used



The acquisition of ATS will enhance Rush's competitive strengths because customers traveling through the Sunbelt states will have access to several more Rush Truck Centers. Providing additional dealership service points in the Sunbelt states is a major consideration in Rush's expansion strategy. Moreover, the acquisition of ATS will allow Rush to sell more trucks, increase its customer base and leverage performance for better margins.

The opportunities for synergies made the acquisition of ATS very appealing to Rush. ATS was the market leader in selling heavy-duty trucks to the independent owner-operator market, a market that has great potential for Rush. In addition to increasing overall sales volume, sales to owner-operators typically carry higher margins. In contrast, ATS had opportunity for growth in their dealings with the large fleet and vocational markets, markets that Rush has successfully penetrated. Along with new Rush Truck Center locations, acquiring ATS also enabled Rush to hire hundreds of professional employees with many years of experience in the industry.

The integration of ATS's people and dealership locations into Rush is well underway. Rush recently purchased a 120,000 square-foot facility near Nashville, Tennessee, and plans to relocate its newly acquired Nashville dealership to this facility during the summer of 2005. The new location will be twice the size of the facility that Rush is currently utilizing in Nashville.

Rush is also planning to relocate several of its existing Rush Truck Centers to better service its customers. Construction is almost complete on Rush's new 41,000 square foot Rush Truck Center located on Interstate Highway 10 in Mobile, Alabama, which was built to replace its existing dealership in Mobile. Rush also intends to build a new Rush Truck Center in Florida to replace an existing facility, and is actively seeking real estate to build an additional Rush Truck Center in its Florida area of service.

Rush is growing by pursuing a strategy that expands its reach while enhancing its overall results. That's what Rush calls *"The Geography of Performance."*

"The acquisition of ATS will allow Rush to sell more trucks, increase its customer base and leverage performance for better margins."

Rules of the Road

The centerpiece of the Rush operating strategy is the one-stop center concept. At each location, customers may be able to do any of the following: purchase new or used trucks and related insurance products; finance, lease or rent trucks; purchase aftermarket parts and accessories; or have service performed. Rush's focus on providing value-added services, notably parts and service, helps to mitigate the effects of an inherently volatile truck sales market. By providing a number of services at locations located throughout the southern United States, Rush inspires loyalty among its customers. This loyalty is evidenced by the fact that more than half of Rush's customers are repeat customers.

Rush employs a branding program for all its truck facilities, designating each as a "Rush Truck Center." Distinctive signage is utilized to promote name recognition and a strong brand identity. Each Rush Truck Center has a centralized real-time truck inventory tracking system that is accessible by every other Rush Truck Center. This truck inventory tracking system allows Rush to maintain the proper truck inventory levels at each Rush Truck Center. By actively monitoring market conditions and sales patterns, Rush is able to continually adjust its truck inventory according to the demands of its customers.

A majority of Rush's new truck sales have traditionally been to fleet customers, which Rush defines as customers who purchase more than five trucks in any single 12-month period. To fleet customers, Rush's one-stop center concept and the size of Rush's dealer network are particularly attractive and provide Rush with a distinct competitive advantage.

In addition to truck sales, Rush offers full-service truck leasing and rental at 14 Rush Truck Centers. Truck leasing and rental operations provide a captive source for parts and service revenue because all of the trucks that Rush leases and rents must be serviced at a Rush Truck Center or a service center approved by Rush. Sales of parts and service carry substantially higher gross profit margins than truck sales and are less cyclical. Rush has more than 700 service and body shop bays, including 20 paint booths, throughout its Rush Truck Center network. Certain Rush Truck Centers service all makes of trucks and are designated warranty centers for Peterbilt trucks and other truck component manufacturers. Rush also offers third-party financing and insurance products at certain Rush Truck Centers.

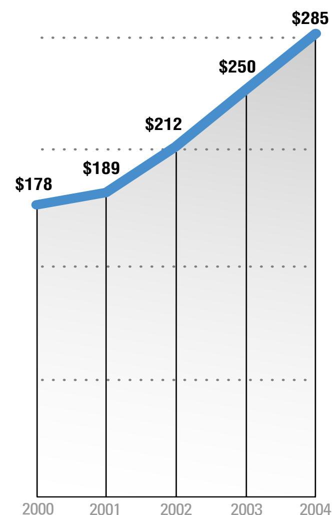
The Rush Equipment Center is an authorized John Deere construction equipment dealer that serves the Houston light-and medium- application construction equipment market. Rush operates the Rush Equipment Center on the same model as the Rush Truck Centers. Rush Equipment Center customers come from diverse industries, including residential and commercial construction businesses, independent rental companies, utilities, government agencies and various industrial businesses.

In 2004, the Rush Equipment Center reported sales of $46.2 million, which included equipment sales and parts and service sales.

One of the yardsticks used by Rush to measure its operating efficiency is the absorption ratio. A Rush Truck Center's absorption ratio is calculated by dividing its gross profit from parts, service and body shop business by the fixed costs of all of a dealership's departments, including new and used truck sales departments. If a Rush Truck Center has an absorption ratio of 100%, that means that every dollar of gross profit on the sale of a

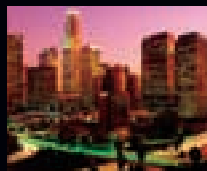
"Rush's one-stop center concept and the size of the dealer network provide Rush with a distinct competitive advantage."

Parts & Service Revenue
Dollars in Millions



Rush employs a branding program for all its truck facilities, designating each a Rush Truck Center. Distinctive signage is used to promote name recognition and a strong brand identity.

Rush inspires loyalty among its customers because of the value-added services it provides. This accounts for the fact that more than half of Rush's customers are repeat customers.



truck, after sales commission and inventory carrying costs, goes to the bottom line. During the heavy-duty truck industry's last down cycle from 1999 to 2002, Rush focused on growing the absorption ratio at every Rush Truck Center. Rush has been able to increase the combined absorption ratio of its Rush Truck Centers from approximately 80% in 1999 to nearly 95% in 2004. Rush calls this the "quality of earnings" process. Rush has established a target of 98% absorption in 2005 and 100% absorption in 2006.

A Strategy for Growth

In 2004, the U.S. market for heavy-duty trucks (Class 8 trucks) grew to approximately 200,000 trucks, a significant increase over the previous three years. The growth was driven by a combination of a growing economy and a pent-up demand for replacement vehicles. Demand for trucks is cyclical, driven by economic trends as well as regulatory changes in environmental guidelines promulgated by the EPA and the Department of Transportation. But for the next two years, at least, industry analysts foresee continued growth. In fact, based on current projections by industry analysts, the market for Class 8 trucks will experience a 19% compounded annual growth rate for the years 2004 through 2006.

Growth in medium-duty trucks (Class 4 through Class 7 trucks) will be a significant contributor to Rush's overall growth strategy in the next several years. Rush is projecting sales of 3,000 medium-duty trucks in 2006, up from about 900 units in 2003. The expansion of medium-duty truck sales allows Rush to increase its revenue utilizing its existing infrastructure. Approximately 85% of medium-duty trucks service an area with a radius of 50 miles or less; this creates an opportunity for Rush to grow its medium-duty parts and service business because a typical medium duty-truck is only used in the metropolitan area in which it is purchased. Additionally, medium-duty trucks are typically used by businesses to deliver goods to local markets during business hours and, therefore, must be serviced at night. Servicing an increasing number of medium-duty trucks at night will allow Rush to better utilize its service bays during the night shift and increase its absorption rate.

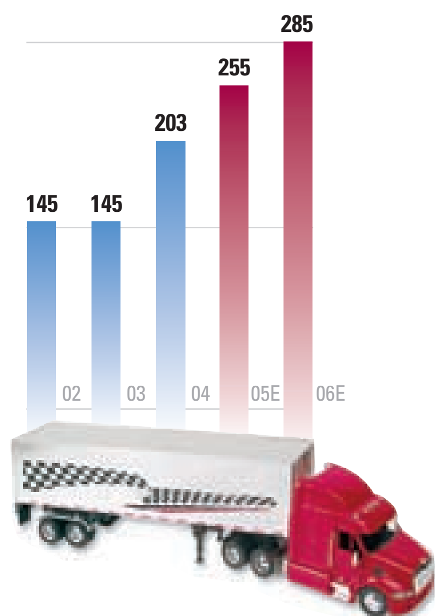
Rush sells Peterbilt Class 6 and 7 trucks at each Rush Truck Center. Rush also has added GMC, UD (Nissan), HINO and Isuzu franchises to certain Rush Truck Centers. Rush has added a new member of senior management to focus on the medium-duty segment and has an experienced sales staff that is dedicated to the medium-duty sales business.

Capturing Market Share

The truck industry is extremely cyclical. Rush will always be affected by down cycles in the truck industry, but Rush attempts to minimize the economic impact of down cycles and maximize the economic potential of the up cycles. At present, the truck industry is riding a wave of increasing sales that are driven by the following factors:

- economic growth is providing carriers with the cash flow to replace aging equipment and to increase the size of their fleets;
- the demand for freight hauling is enabling owner-operators to purchase or lease trucks; and
- new environmental regulations requiring cleaner burning heavy-duty

U.S. Class 8 Truck Sales
Thousands of Units



> *"Growth in medium-duty trucks – Class 4-7s – will be a significant contributor to Rush's overall growth strategy in the next several years."*

engines become effective January 2007. These factors create greater truck demand, particularly as January 2007 approaches, to add trucks that are less expensive to buy or lease and that will be grandfathered under the new environmental regulations.

Future truck sales will be driven by:

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

The truck dealership industry is highly fragmented with many dealers owning just a single dealership. The industry is consolidating because of the demand for a broad network of service facilities, a trend toward outsourcing of maintenance by small and medium-sized fleets and the increasing dominance of larger fleets. Since 1990, the number of dealerships has decreased from 2,400 to 1,600. Within the Peterbilt system, there are 68 dealers operating 215 dealerships nationwide. This consolidation trend will likely continue to accelerate, which will create an opportunity for Rush to expand because of its competitive advantages and its breadth of offering to customers.

Moreover, the increasingly complex nature of trucks and components requires computerized controls and diagnostic systems, which require a significant capital investment in equipment and training of personnel. Ever-evolving environmental standards also require sophisticated operating and testing equipment to ensure compliance.

Rush believes that more of its customers will lease or rent Class 8 trucks as fleets, particularly private fleets, and seek to establish full-service leases or rental contracts, which provide for turnkey service including parts, maintenance, and potentially, fuel, fuel tax reporting and other services. Rush believes that differentiation among truck dealers has become less dependent on pure price competition and is increasingly based on a dealer's ability to offer a wide variety of services to its clients. Rush's one-stop center concept and the size and geographic diversity of its dealer network should provide it with a competitive advantage in providing these services.

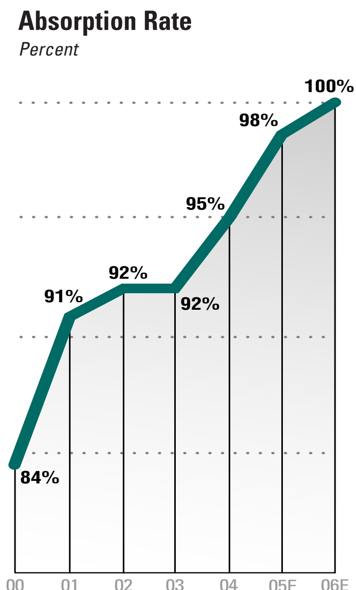
Rush intends to expand its product offerings as long as they complement existing product lines. Any product expansions must meet the following criteria:

- the products are of a premium brand;
- the products provide opportunities for incremental income through related servicing, aftermarket sales or financing; and
- Rush operating controls can be implemented to enhance the financial performance of the business.

The state of the trucking industry today is robust and presents numerous opportunities for Rush to profitably expand. As Rush increases its market share, it will increase its product offerings, making it the strongest contender in the industry.

"As Rush increases its market share, it will increase its product offerings, making it the strongest contender in the industry."

Absorption Rate
Percent



The secret to Rush's success is its people. Their dedication to quality and commitment to the customer are evident at every level — from the service bay to the sales office.

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Selected Consolidated Financial and Operating Data

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

The information below was derived from the audited consolidated financial statements included in this report and reports we have previously filed with the SEC. This information should be read together with those consolidated financial statements and the notes to those consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future. The Selected Consolidated 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 and discontinued operations which occurred during the periods presented. See Note 17 to the Company's Consolidated Financial Statements for a discussion of such acquisitions and Note 3 to the Company's Consolidated Financial Statements for a discussion of such discontinued operations. The Selected Consolidated Financial and Operating Data presented below should be read in conjunction with the Company's other Historical Consolidated Financial Information included elsewhere herein. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(in thousands, except per share amounts)

Year Ended December 31,	2000	2001	2002	2003	**2004**
Summary of Income Statement Data					
Revenues					
New and used truck sales	$571,159	$438,143	$488,456	$501,757	**$738,225**
Parts and service	164,440	188,566	211,478	249,818	**285,206**
Construction equipment sales	34,771	31,666	24,324	28,263	**32,305**
Lease and rental	24,012	25,040	25,277	25,847	**27,193**
Finance and insurance	7,095	5,251	5,448	6,286	**7,909**
Other	3,885	2,847	2,164	3,361	**4,141**
Total revenues	805,362	691,513	757,147	815,332	**1,094,979**
Cost of products sold	672,479	562,316	615,942	662,082	**909,837**
Gross profit	132,883	129,197	141,205	153,250	**185,142**
Selling, general and administrative	104,685	101,832	111,721	124,207	**141,947**
Depreciation and amortization	8,181	9,176	8,594	8,929	**9,119**
Operating income from continuing operations	20,017	18,189	20,890	20,114	**34,076**
Interest expense, net	13,654	9,267	6,499	6,348	**5,950**
Gain on sale of assets	485	1,067	155	1,984	**624**
Income from continuing operations before income taxes	6,848	9,989	14,546	15,750	**28,750**
Provision for income taxes	2,739	3,996	5,818	6,300	**11,574**
Income from continuing operations	4,109	5,993	8,728	9,450	**17,176**
Income (loss) from discontinued operations, net	(784)	(2,731)	(10,472)	(621)	**(260)**
Net income	$ 3,325	$ 3,262	$ (1,744)	$ 8,829	**$ 16,916**
Earnings Per Share:					
Earnings per Common Share – Basic					
Income from continuing operations	$ 0.29	$ 0.43	$ 0.62	$ 0.67	**$ 1.10**
Net income (loss)	$ 0.24	$ 0.23	$ (0.12)	$ 0.63	**$ 1.08**
Earnings per Common Share – Diluted					
Income from continuing operations	$ 0.29	$ 0.42	$ 0.60	$ 0.63	**$ 1.03**
Net income (loss)	$ 0.24	$ 0.23	$ (0.12)	$ 0.59	**$ 1.02**
Basic weighted average shares	14,004	14,004	14,004	14,042	**15,684**
Diluted weighted average shares and assumed conversions	14,016	14,166	14,461	15,024	**16,607**

Year Ended December 31,	2000	2001	2002	2003	**2004**
Operating Data					
Number of locations	47	44	41	38	**39**
Unit truck sales					
New trucks	5,630	4,245	4,717	4,535	**7,140**
Used trucks	2,140	1,907	2,111	2,421	**2,716**
Total unit trucks sales	7,770	6,152	6,828	6,956	**9,856**
Total finance contracts sold *(in thousands)*	$176,345	$149,906	$144,134	$165,137	**$259,898**
Truck lease and rental units	924	1,403	1,363	1,397	**1,427**

(in thousands)

Year Ended December 31,	2000	2001	2002	2003	**2004**
Balance Sheet Data					
Working capital	$ 4,702	$ 7,050	$ 7,995	$ 14,113	**$138,241**
Inventories	139,178	84,155	115,333	137,423	**189,792**
Inventory included in assets held for sale	38,237	30,150	10,218	2,496	–
Fixed assets included in assets held for sale	14,321	13,821	6,744	6,328	–
Total assets	391,341	338,811	345,110	366,878	**565,933**
Floor plan financing	146,272	85,300	89,288	108,235	**168,002**
Line-of-credit borrowings	33,779	22,459	22,395	17,732	**2,434**
Long-term debt, including current portion	90,986	98,170	94,916	90,028	**96,056**
Shareholders' equity	78,177	81,439	79,695	88,706	**222,807**

Management's Discussion and Analysis of Financial Condition and Results of Operations

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Certain statements contained in this, "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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 , "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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 reflect the best judgments of the Company about the future events and trends based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "may," "should," "continue," "plan," "potential," "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. 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, future growth rates and margins for certain of our products and services, future demand for our products and services, competitive factors, general economic conditions, cyclicality, economic conditions in the new and used truck and equipment markets, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in the Company's Registration Statement on Form S-3 (File No. 333-119131) 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 in any forward-looking statements herein. 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.

Acquisition of American Truck Source, Inc.

Effective January 1, 2005, we acquired certain assets of ATS, including its Peterbilt truck dealerships in Texas and Tennessee for a total purchase price of $131.2 million. The acquisition provides us with rights to sell Peterbilt trucks and parts from new locations in Dallas, Fort Worth, Abilene and Tyler, Texas and Nashville, Tennessee. The transaction was financed with cash of $76.9 million, expansion of our existing floor plan agreement for truck inventory of $34.6 million and the issuance of debt of approximately $19.7 million to finance the purchase of real estate and certain vehicles used in ATS's leasing operations. Of the $76.9 million paid in cash, $21.9 million was for the purchase of a note receivable from the selling shareholders of ATS. This $21.9 million was immediately repaid by the selling shareholders at closing, resulting in net cash used for the acquisition of $55.0 million.

General

We are a full-service, integrated retailer of premium transportation and construction equipment and related services. We are the leading supplier of Peterbilt trucks in the United States; according to data compiled by R.L. Polk, we sold approximately 22.3% of all the new Class 8 Peterbilt trucks sold in the United States in 2004. Some of our Rush Truck Centers sell medium-duty trucks manufactured by Peterbilt, GMC, Hino, UD (Nissan) or Isuzu. In 1997, we acquired our first John Deere construction equipment dealership in Houston, Texas and we are the only authorized supplier of John Deere construction equipment in the Houston market. Through our strategically located network of Rush Truck Centers and our Rush Equipment Center, we provide one-stop service for the needs of our customers, including retail sales of new and used transportation and construction equipment, aftermarket parts sales, service and repair facilities and financing, leasing and rental, and insurance services.

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

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

Rush Truck Centers Since commencing operations as a Peterbilt heavy-duty truck dealer over 39 years ago, we have grown to operate Rush Truck Centers, which primarily sell new Class 8 heavy-duty Peterbilt trucks, at 44 locations in Alabama, Arizona, California, Colorado, Florida, New Mexico, Oklahoma, Tennessee and Texas. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds. Our Rush Truck Centers are strategically located to take advantage of ever increasing cross-border traffic between the United States and Mexico resulting from implementation of NAFTA.

Rush Equipment Center Our Rush Equipment Center in Houston, Texas, provides a full line of construction equipment for light-to-medium sized applications, including John Deere backhoe loaders, hydraulic excavators, crawler-dozers and four-wheel drive loaders.

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

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

Critical Accounting Policies

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

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

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

liabilities, including, among other things, an assessment of market condition, projected cash flows, interest rates and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. SFAS 142 requires, in lieu of amortization, an annual impairment review of goodwill. The Company did not record an impairment charge related to the goodwill for its continuing operations as a result of its December 31, 2004 impairment review. The Company did, however, record an impairment of goodwill related to its discontinued operations at December 31, 2002 (see Note 3 of Notes to Consolidated Financial Statements). Furthermore, SFAS 142 exposes the Company to the possibility that changes in market conditions could result in significant impairment charges in the future, thus resulting in a potential increase in earnings volatility.

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

Finance and Insurance Revenue Recognition Finance income related to the sale of a unit is recognized over the period of the respective finance contract if the finance contract is retained by the Company, based on the effective interest rate method. During 2002, 2003 and 2004, no finance contracts were retained for any significant length of time by the Company because finance contracts are generally sold to finance companies concurrent with the sale of the related unit. The majority of finance contracts are sold without recourse. The Company's liability related to finance contracts sold with recourse is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. However, in 2003 the Company instituted a full recourse finance program that accepts 100% liability, with some restrictions, for the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this full recourse finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed; therefore, less than one percent of the finance contracts sold by the Company are currently sold under the full recourse finance program and the Company does not expect to finance a significant percentage of its truck sales under this full recourse finance program in the future. The Company provides for an allowance for repossession losses and early repayment penalties.

The Company arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution. The Company also receives commissions from the sale of various insurance products to customers and extended service contracts. Revenue is recognized by the Company upon the sale of such finance and insurance contracts to the finance and insurance companies, net of a provision for estimated repossession losses and interest charge backs. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay, or fail to pay, thereby terminating the contract. If the customer terminates a retail finance contract or other insurance product prior to scheduled maturity, a portion of the commissions previously paid to the Company may be charged back to the Company depending on the terms of the relevant contracts. The estimate of ultimate charge back exposure is based on the Company's historical charge back expense arising from similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on other insurance products. The actual amount of historical charge backs has not been significantly different than the Company's estimates.

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

Results of Operations

The following discussion and analysis includes the Company's historical results of operations for 2002, 2003 and 2004. The following table sets forth for the years indicated certain financial data as a percentage of total revenues:

Year Ended December 31,	2002	2003	**2004**
New and used truck sales	64.5%	61.5%	**67.4%**
Parts and service	28.0	30.6	**26.0**
Construction equipment sales	3.2	3.5	**3.0**
Lease and rental	3.3	3.2	**2.5**
Finance and insurance	0.7	0.8	**0.7**
Other	0.3	0.4	**0.4**
Total revenues	100.0	100.0	**100.0**
Cost of products sold	81.3	81.2	**83.1**
Gross profit	18.7	18.8	**16.9**
Selling, general and administrative	14.8	15.2	**13.0**
Depreciation and amortization	1.1	1.1	**0.8**
Operating income from continuing operations	2.8	2.5	**3.1**
Interest expense, net	0.9	0.8	**0.6**
Gain on sale of assets	–	0.2	**0.1**
Income before income taxes from continuing operations	1.9	1.9	**2.6**
Income taxes	0.8	0.8	**1.1**
Income from continuing operations	1.1	1.1	**1.5**
(Loss) from discontinued operations, net of taxes	(1.3)	(0.1)	**0.0**
Net income (loss)	(0.2)%	1.0%	**1.5%**

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues

Revenues increased $279.6 million, or 34.3%, from $815.3 million in 2003 to $1.1 billion in 2004. Sales of new and used trucks increased $236.4 million, or 47.1%, from $501.8 million in 2003 to $738.2 million in 2004.

Unit sales of new Class 8 trucks increased 47.8%, from 3,636 units in 2003 to 5,374 units in 2004. The increase in Class 8 units sales is being driven by the industry's need to replace aging equipment after three consecutive years of U.S. truck sales lagging behind the normal replacement cycle. The Company's average sales price per Class 8 truck remained relatively flat from 2003 to 2004 at $101,200. Based on estimates from A.C.T. Research, the Company believes that the deliveries of Class 8 trucks in the United States will increase in 2005 to approximately 250,000 units. In 2004, the Company retained a 2.7% share of the U.S. Class 8 truck sales market. On a same store basis, the Company expects to maintain this share in 2005, which would result in same store sales of approximately 6,500 Class 8 trucks based on the number of 2005 U.S. deliveries estimated by A.C.T. Research. In addition to same store sales, the Company expects the recent acquisition of ATS to increase our unit sales of Class 8 trucks in 2005. In 2004, ATS maintained a 1.1% share of the U.S. Class 8 truck sales market. The Company expects ATS to maintain this share in 2005, which would result in the sale of approximately 2,500 Class 8 trucks. These additional sales would bring the Company's expected heavy-duty truck sales to 9,000 units in 2005. Industry expectations are for Class 8 truck deliveries to continue to increase through 2006 and then soften in 2007 primarily due to future emission laws, which are expected to increase the cost and reduce the efficiency of engines built on or after January 1, 2007.

Unit sales of new medium-duty trucks increased 96.4%, from 899 units in 2003 to 1,766 units in 2004. In 2004, the Company continued its concerted effort to improve its medium-duty truck sales by adding experienced medium-duty sales personnel, and introducing new Class 4 through 6 medium-duty franchises at some of our Rush Truck Centers to complement the existing Peterbilt medium-duty line, which consists primarily of Class 7 trucks. Class 4 through 6 unit truck sales accounted for 55% of the Company's medium-duty unit sales in 2004 compared to 44% in 2003. The average sales price for Class 4 through 6 models during 2004 was $40,500 compared to $68,200 for the Class 7 Peterbilt medium-duty model. The increase in the percentage of Class 4 through 6 trucks sold by the Company in 2004 resulted in a 2.6% decrease in our average medium-duty truck sales price in 2004 compared to 2003. Overall, new medium-duty truck sales revenue increased $44.6 million in 2004 compared to 2003. In 2005, the Company expects to continue to add medium-duty franchises to certain dealerships and to increase its same store medium-duty sales and market share compared to 2004. The Company expects the recent acquisition of ATS to increase unit sales of medium-duty trucks by approximately 10.0% during 2005.

Unit sales of used trucks increased 12.2%, from 2,421 units in 2003 to 2,716 units in 2004. Used truck average revenue per unit increased by 7.0%. Historically, used truck demand is consistent with new truck demand. The Company expects used truck demand to remain high; however, our ability to sell used trucks is ultimately dependent upon our ability to acquire used trucks for resale. The Company expects the recent acquisition of ATS to increase unit sales of used trucks by approximately 28.0% during 2005.

Parts and service sales increased $35.4 million, or 14.2%, from $249.8 million in 2003 to $285.2 million in 2004. Same store parts and service sales increased $37.9 million, or 15.5%, in 2004 compared to 2003. The increase in parts and service sales was due to a combination of new business development, price increases for parts and labor, extension of our business hours and expansion of capacity made possible by the addition of service bays and technicians to certain locations. The Company expects same store parts and service revenue to increase by approximately 12.0% in 2005. The Company expects the recent acquisition of ATS to increase parts and service sales by an additional 15.0% in 2005, which would result in an overall increase in parts and service sales of 27.0% in 2005 compared to 2004.

Sales of new and used construction equipment increased $4.0 million, or 14.1%, from $28.3 million in 2003 to $32.3 million in 2004. This increase was primarily due to a change in product mix and price increases. According to John Deere, the Company's market share in the Houston area construction equipment market was 16.7% in 2004 compared to 19.1% in 2003. In 2004, we focused on increasing our margins, which had an adverse effect on our market share. According to data compiled by John Deere, approximately 2,200 units of construction equipment were put into use in our area of responsibility in 2004 compared to 1,678 in 2003. The construction equipment industry expects to sell approximately 2,350 units of new construction equipment in the Houston area during 2005. The Company believes it can increase its market share slightly in 2005 compared to 2004.

Lease and rental revenues increased 5.4%, from $25.8 million in 2003 to $27.2 million in 2004. The increase in truck lease and rental revenue was due to the increase in our customer base during 2004. The Company expects lease and rental revenue to increase approximately 18.0% during 2005 compared to 2004 due to an increased number of units in the lease and rental fleet and the recent acquisition of ATS.

Finance and insurance revenues increased 25.4%, from $6.3 million in 2003 to $7.9 million in 2004. This increase is directly related to the increase in new and used truck revenue. The Company expects same store finance and insurance revenues to increase in 2005. The Company expects increased same store truck sales and the addition of the ATS locations to increase finance and insurance revenues by approximately $3.0 million in 2005. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Other income increased $0.8 million, or 20.6%, from $3.4 million in 2003 to $4.2 million in 2004. Other income revenue is primarily related to the gain on sale realized on trucks from the lease and rental fleet, commissions earned from John Deere for direct manufacturer sales into our area of responsibility, fees related to truck sales and purchase discounts. The increase in other income during 2004 was primarily related to gains realized from the sales of trucks that were previously used in the Company's leasing operations.

Gross Profit Gross profit increased $31.8 million, or 20.7%, from $153.3 million in 2003 to $185.1 million in 2004. Gross profit as a percentage of sales decreased from 18.8% in 2003 to 16.9% in 2004. This decrease is primarily a result of a change in our product mix. Truck sales, a lower margin revenue item, increased as a percentage of total revenue from 61.5% in 2003 to 67.4% in 2004. Parts and service revenue, a higher margin revenue item, decreased as a percentage of total revenue from 30.6% in 2003 to 26.0% in 2004.

Gross margins on Class 8 truck sales decreased from 7.4% in 2003 to 7.0% in 2004. Manufacturers' incentives for Class 8 trucks accounted for 35.8% of the gross margin in 2003 and 27.0% in 2004. Given the increasing demand for Class 8 trucks coupled with the expected increase in purchases from owner operators, which historically have rendered higher gross margins than fleet sales, the Company expects gross margins from Class 8 truck sales in 2005 to exceed those achieved in 2004. Each year the Company evaluates its reserve for new truck valuation losses. The Company recorded a $0.3 million loss provision to increase the Company's reserve for new truck inventory valuation in 2003 and did not record a loss provision in 2004.

Gross margins on medium-duty truck sales increased from 5.8% in 2003 to 6.2% in 2004. Manufacturers' incentives for medium-duty trucks accounted for 3.9% of the gross margin in 2003 and 3.8% in 2004. Sales of Class 4 through 6 models will continue to grow significantly as a percentage of total medium-duty sales which may result in a slight decrease in medium-duty gross margins in 2005.

Gross margins on used truck sales increased from 6.2% in 2003 to 9.8% in 2004. During 2003, the Company experienced lower than normal margins on used trucks sales because the Company was required to wholesale a large number of trade-in units from new fleet customers. The Company did not purchase as many used trucks from first time new truck fleet customers in 2004, which resulted in increased gross margins on used truck sales compared to 2003. Each year the Company evaluates its reserve for used truck valuation losses. The Company recorded a $0.4 million loss provision to the Company's reserve for used truck valuation losses in 2004 compared to a $1.0 million loss provision recognized during 2003. In 2005, the Company expects to maintain the margins achieved in 2004.

Gross margins from the Company's parts, service and body shop operations decreased from 39.4% in 2003 to 37.9% in 2004. The decrease in gross margins was primarily due to parts sales becoming a larger percentage of the Company's overall parts and service revenues. Historically, gross margins on parts sales are approximately 60% lower than gross margins on service sales. Additionally, the Company has increased preventative maintenance services that are provided at lower margins than traditional repair work, and has selectively provided discounted labor rates to garner additional sales at certain locations. Gross profit dollars for the parts, service and body shop departments increased from $98.5 million in 2003 to $108.0 million in 2004. The Company expects the increase in same store gross profit to approximate the expected increase in parts, service and body shop sales of 12.0% in 2005 compared to 2004.

Gross margins on new and used construction equipment sales increased from 9.9% in 2003 to 13.0% in 2004. The increase was attributable to price increases and a change in the types of products sold during 2004. The Company expects 2005 gross margins on new and used construction equipment sales to be consistent with those achieved in 2004 and overall gross profit growth on new and used construction equipment sales to be directly correlated to sales growth.

Gross profit generated from lease and rental sales increased from 25.9% in 2003 to 27.4% in 2004. The Company's policy is to depreciate its lease and rental fleet as quickly as is acceptable. This policy results in the Company realizing small gross margins while the unit is in service and a corresponding larger gain on sale when the unit is sold at the end of the lease term. The Company expects 2005 gross margins to be consistent with those achieved in 2004 and overall gross profit growth to be directly correlated to increases in lease and rental sales.

The increase in finance and insurance revenues and other income, as described above, has limited direct costs and, therefore, contributes a disproportionate share of gross profit. The Company expects gross profit from finance and insurance sales and other income to increase in 2005 based on projected increases in truck sales.

Selling, General and Administrative Expenses Selling General and Administrative ("SG&A") expenses increased $17.7 million, or 14.3%,

from $124.2 million in 2003 to $141.9 million in 2004. Same store SG&A expenses increased $18.8 million, or 15.1%, from 2003 to 2004. This increase was primarily due to increased salary expense and increased commissions corresponding to the increase in gross profit. SG&A expenses as a percentage of sales decreased from 15.2% in 2003 to 13.0% in 2004. SG&A expenses as a percentage of sales have historically ranged from 11.0% to 16.0%. Including the recently acquired ATS locations, the Company expects SG&A expenses as a percentage of sales to remain at the lower end of this range while the demand for trucks remains high. The Company estimates that the implementation of SFAS 123(R) will increase our SG&A expenses by approximately $1.0 million in 2005. The Company's management continually monitors SG&A expenses.

Interest Expense, Net Net interest expense decreased $0.3 million, or 4.7%, from $6.3 million in 2003 to $6.0 million in 2004. Net interest expense decreased primarily as the result of the increase in interest income earned on the net proceeds of our public offering of Class A Common Stock, which closed in November 2004. During 2004, the Company's average cash balance was $46.3 million compared to $13.1 million in 2003. Based on the Company's current debt levels, cash balance and expected interest rates, the Company expects net interest expense to increase to approximately $8.5 million in 2005.

Gain on Sale of Assets Gain on sale of assets decreased $1.4 million, from $2.0 million in 2003 to $0.6 million in 2004. The gain in 2004 was primarily related to the replacement of fixed assets used in the operation of the business. The gain recognized in 2003 was primarily related to the sale of the assets of Rush Truck Centers of Louisiana, Inc. The Company expects gains on sale of assets in 2005 to consist primarily of the replacement of fixed assets used in the operation of the business.

Income From Continuing Operations Before Income Taxes Income from continuing operations before income taxes increased by $13.0 million, or 82.3%, from $15.8 million in 2003 to $28.8 million in 2004, as a result of the factors described above. Industry experts predict an increase in Class 8 truck sales of approximately 23% for 2005. Based on this predicted increase and our acquisition of ATS, the Company believes that income from continuing operations in 2005 will significantly exceed that of 2004.

Income Taxes From Continuing Operations Income taxes from continuing operations increased $5.5 million, or 87.3%, from $6.3 million in 2003 to $11.8 million in 2004. The Company has provided for taxes at a 40% effective rate and expects the effective tax rate to be approximately 38% in 2005.

Loss From Discontinued Operations, Net of Income Taxes Loss from discontinued operations, net of income taxes, decreased from a loss of $0.6 million in 2003 to a loss of $0.3 million in 2004. The loss recorded during 2003 represents the net operating results of D&D and includes costs of $983,000 related to the liquidation of the Hockley, Texas store. The loss recorded during 2004 includes net operating profit of D&D of $0.3 million, a net charge of $0.2 million related to the valuation of the Hockley, Texas real estate and a $0.4 million income tax adjustment. The Company sold all assets related to its discontinued operations during 2004 and does not expect to have any discontinued operations in 2005.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues

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

Unit sales of new Class 8 trucks decreased 9.6%, from 4,022 units in 2002 to 3,636 units in 2003. The decline in new Class 8 truck sales was primarily due to the pre-buy experienced during the last half of 2002 caused by emission law changes that became effective October 1, 2002 and the buying cycle of one of the Company's major fleet customers, who made a significantly larger purchase in 2002 than in 2003. The Company's average sales price per Class 8 truck increased 7.5% in 2003 compared to 2002. This increase was directly related to the increased engine costs that resulted from the new emission laws.

Unit sales of new medium-duty trucks increased 29.4%, from 695 units in 2002 to 899 units in 2003. In 2003, the Company made a concerted effort to improve its medium-duty truck sales by adding experienced medium-duty sales personnel, and introducing new medium-duty franchises to complement our existing Peterbilt medium-duty line. As a result of these actions, 44% of the

Company's medium-duty unit sales in 2003 were GMC, Hino and UD (Nissan) models, compared to only 21% in 2002. The average sales price for these models was $38,700 compared to $66,500 for the Peterbilt medium-duty model, resulting in a decrease of the average sales price for all medium-duty trucks by 8.3% in 2003 compared to 2002. Overall, new medium-duty truck sales revenue increased $7.6 million in 2003 compared to 2002.

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

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

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

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

Finance and insurance revenues increased 16.7%, from $5.4 million in 2002 to $6.3 million in 2003. Approximately 88.9% of this increase was related to the addition of the new dealerships in Florida and Alabama. The remaining increase was related to additional customers qualifying for financing due to a change in the credit practices of the Company's finance providers.

Other income increased $1.2 million, or 54.5%, from $2.2 million in 2002 to $3.4 million in 2003. The primary reason for the increase during 2003 was related to gains resulting from the sales of trucks that had been leased by the Company.

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

Gross margins on Class 8 truck sales were flat at 7.4% in 2002 and 2003. Manufacturers' incentives for Class 8 trucks accounted for 27.9% of the gross margin in 2002 and 35.8% in 2003. The Company recorded a $0.3 million loss provision to increase the Company's reserve for new truck inventory valuation in 2003 compared to $0 in 2002.

Gross margins on medium-duty truck sales decreased from 6.6% in 2002 to 5.8% in 2003, primarily due to the previously discussed change in product mix. Manufacturers' incentives for medium-duty trucks did not contribute to gross margins in 2002 and accounted for 3.9% of the gross margin in 2003. Gross margins on GMC, Hino and UD (Nissan) models were approximately 3.4% in 2003 compared to a gross margin of 5.4% of the Peterbilt medium-duty model.

Gross margins on used truck sales decreased from 9.9% in 2002 to 6.2% in 2003, primarily due to the mix of wholesale versus retail used truck sales. The Company experienced higher than normal used truck wholesale transactions related to the trade-in units from first time new truck fleet customers in 2003. The Company recorded a $1.0 million loss provision, primarily related to trade-in units from first time new truck fleet customers, to the Company's reserve for used truck valuation losses in 2003 compared to a $0.5 million loss provision recognized during 2002.

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

shop operations decreased from 40.9% in 2002 to 39.4% in 2003. There were various reasons for this decrease, including nonproprietary parts sales becoming a larger percentage of the Company's overall parts sales and competitive pricing pressures from providers of nonproprietary parts. Gross profit dollars for the parts, service and body shop departments increased from $86.4 million in 2002 to $98.4 million in 2003.

Gross margins on new and used construction equipment sales remained relatively flat at approximately 10.0% in 2002 and 2003.

Gross profit generated from lease and rental sales decreased slightly from 27.0% in 2002 to 25.9% in 2003.

As previously discussed, the increase in finance and insurance revenues and other income has limited direct costs and, therefore, contributes a disproportionate share of gross profit.

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

Interest Expense, Net Net interest expense decreased $0.2 million, or 3.1%, from $6.5 million in 2002 to $6.3 million in 2003. Interest expense decreased primarily as the result of declining interest rates.

Gain on Sale of Assets Gain on sale of assets increased $1.8 million, from $0.2 million in 2002 to $2.0 million in 2003. The gain in 2002 was primarily related to the replacement of fixed assets used in the operation of the business. The gain recognized in 2003 was primarily related to the sale of the assets of Rush Truck Centers of Louisiana, Inc.

Income From Continuing Operations Before Income Taxes Income from continuing operations before income taxes increased by $1.2 million, or 8.3%, from $14.5 million in 2002 to $15.7 million in 2003, as a result of the factors described above.

Income Taxes From Continuing Operations Income taxes from continuing operations increased $0.5 million, or 8.6%, from $5.8 million in 2002 to $6.3 million in 2003.

Loss From Discontinued Operations, Net of Income Taxes Loss from discontinued operations net of income taxes decreased from $10.5 million in 2002 to $0.6 million in 2003. The loss recorded during 2002 includes net operating losses of the Michigan construction equipment dealerships of $0.9 million and net operating losses of D&D of $1.3 million, as well as disposal costs of $2.5 million for the Michigan construction equipment dealerships and $5.8 million for D&D. The loss recorded during 2003 includes net operating results of D&D of approximately $0.6 million.

Liquidity and Capital Resources

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

At December 31, 2004, the Company had working capital of approximately $138.2 million, including $158.2 million in cash, $30.3 million in accounts receivable, $189.8 million in inventories, $1.4 million in prepaid expenses and other, and $1.5 million in deferred income taxes, offset by $168.0 million outstanding under floor plan notes payable, $16.1 million in current maturities of long-term debt, $2.4 million in advances outstanding under lines of credit, $17.0 million of trade accounts payable and $39.5 million in accrued expenses. The aggregate maximum borrowing limits under working capital lines of credit with the Company's primary truck lender are approximately $13.5 million. Advances outstanding under this line of credit at December 31, 2004 were $10,000, leaving $13.49 million available for future borrowings. The Company has three separate secured lines of credit that provide for an aggregate maximum borrowing of $15.9 million. Advances outstanding under these secured lines of credit in aggregate were $2.4 million, with an additional $4.2 million pledged to secure various letters of credit related to self-insurance products, leaving $9.3 million available for future borrowings as of December 31, 2004.

The Company is constructing a new dealership to replace our existing Mobile, Alabama Rush Truck Center. The total estimated cost of this dealership is $2.6 million. As of December 31, 2004, approximately $1.7 million has been paid to purchase the land and to construct the dealership. Construction is expected to be complete in the first quarter of 2005. The Company has also committed $1.5 million to renovate a building purchased for the relocation of the recently acquired Nashville, Tennessee Rush Truck Center. The Company has no other material commitments for capital expenditures as of December 31, 2004. However, the Company will continue to purchase vehicles that are necessary to operate its lease and rental division. Furthermore, management will continue to authorize capital expenditures for new buildings and expansion of facilities based on market opportunities.

The Company's floor plan agreement with its primary truck lender limits the Company's borrowing capacity based on the number of new and used trucks that may be financed. As of December 31, 2004, the aggregate amount of unit capacity for new trucks was 1,542 and the aggregate amount of unit capacity for used trucks was 540; the availability for new trucks was 257 and the availability for used trucks was 132. The amount available under the Company's floor plan agreement with Citicapital, one of its construction equipment lenders, is based on the book value of the Company's construction equipment inventory.

During 2004, operating activities resulted in net cash used in operations of $5.6 million. Cash provided by operations was primarily due to income from continuing operations of $17.2 million coupled with provisions for depreciation and amortization of $15.9 million, an increase in provisions for deferred income tax of $4.1 million, an increase of $3.4 million in the tax benefit realized from exercise of employee stock options and an increase of accounts payable and accrued expenses of $11.2 million, which was offset by increases in inventories of $49.7 million, an increase in accounts receivable of $5.8 million and a gain on sale of property plant and equipment of $1.8 million.

During 2004, the Company used $34.8 million in investing activities. This consisted of purchases of property and equipment of $44.6 million, business acquisitions of $3.5 million and an increase in other assets of $0.9 million, which were offset by proceeds from the sale of property and equipment of $14.1 million. Property and equipment purchases are partially related to the purchase of 201 additional units for the leasing operations for $18.5 million during 2004. Approximately $7.1 million of property and equipment expenditures was for the replacement of capital equipment and $7.1 million was for the replacement of the corporate aircraft. Additionally, the Company acquired building, land and leasehold improvements of $11.9 million. The Company expects to purchase more trucks for its leasing operations in 2005 based on expected increases in customer demand. The Company expects to make capital expenditures for recurring items such as computers, shop equipment and vehicles of approximately $7.0 million in 2005.

Net cash provided by financing activities in 2004 amounted to $164.3 million. Net cash provided by financing activities primarily consisted of proceeds from the issuance of shares in the November 2004 public offering and exercises of employee stock options totaling $113.8 million, an increase in notes payable of $40.5 million and net draws of floor plan notes payable of $59.8 million, offset by principal payments on notes payable of $34.4 million and net payments on lines of credit of $15.3 million. The proceeds from notes payable are primarily related to the increase in the lease and rental fleet and real estate financing. $76.9 million of the proceeds from the stock offering were used in January 2005 to purchase certain assets of ATS.

During 2003, operating activities resulted in net cash provided by operations of $16.3 million. Cash provided by operations was primarily due to income from continuing operations of $9.5 million coupled with provisions for depreciation and amortization of $15.5 million, an increase in provision for deferred income tax of $3.7 million and an increase of accounts payable and accrued expenses of $1.2 million, which was partially offset by increases in inventories of $13.2 million. The increase in inventories resulted from the addition of the new stores in Florida and Alabama.

During 2003, the Company used $16.8 million in investing activities. This consisted of purchases of property and equipment of $18.8 million and business acquisitions of $5.5 million, which were offset by proceeds from the sale of property and equipment of $7.5 million. Property and equipment purchases are partially related to the purchase of 77 additional trucks for $8.9 million for the leasing division during 2003. Additionally, the Company

acquired building, land and leasehold improvements of $4.2 million. Approximately $5.7 million of property and equipment expenditures was for routine replacement of capital equipment.

Net cash provided by financing activities in 2003 amounted to $10.1 million. Net cash provided by financing activities was primarily due to proceeds from notes payable of $19.2 million and net draws of floor plan notes payable of $19.6 million, offset by principal payments on notes payable of $24.1 million and net payments on lines of credit of $4.7 million. The proceeds from notes payable are primarily related to the increase in the lease and rental fleet and real estate financing.

Our customers' new and used truck financing is typically arranged through Citicapital or PACCAR Financial. The Company financed approximately $239.7 million of new and used truck sales in 2004. The Company's contracts with Citicapital and PACCAR Financial provide for payment to the Company of all finance charges in excess of a negotiated discount rate in the month following the date of financing, with such payments subject to offsets resulting from the early payoff or defaults under installment contracts previously initiated on behalf of and sold to Citicapital and PACCAR Financial by the Company. A majority of finance contracts are sold without recourse to the Company. The Company's recourse liability, related to finance contracts sold with recourse to the Company, is generally limited to 5% to 20% of the outstanding amount of each note initiated on behalf of the finance company. However, in 2003 the Company instituted a full recourse finance program that accepts 100% liability, with some restrictions, for the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this full recourse finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed; therefore, less than one percent of the finance contracts sold by the Company are currently sold under the full recourse finance program and the Company does not expect to finance a significant percentage of its truck sales under this full recourse finance program in the future. The Company provides an allowance for repossession losses and early repayment penalties.

In addition, through The CIT Group, Citicapital, John Deere Credit and others, the Company arranged customer financing for approximately $20.2 million of our new and used construction equipment sales in 2004. Generally, construction equipment financings are memorialized through the use of installment or lease contracts, which are secured by the construction equipment financed, and generally require a down payment up to 10% of the value of the financed piece of construction equipment, with the remaining balance being financed over a three-to-five-year period. The Company experiences no repossession loss on construction equipment financings because such financings are sold to third parties without recourse.

Substantially all of the Company's Peterbilt truck purchases from PACCAR are made on terms requiring payment within 15 days or less from the date the trucks are shipped from the factory. The Company finances substantially all of the purchase price of its new truck inventory, and 75% of the loan value of its used truck inventory, under a floor plan arrangement with GMAC under which GMAC pays PACCAR directly with respect to new trucks. The Company makes monthly interest payments to GMAC on the amount financed, but is not required to commence loan principal repayments prior to the sale of new vehicles for a period of 12 months and for used vehicles for a period of three months. On December 31, 2004, the Company had approximately $159.8 million outstanding under its floor plan financing arrangement with GMAC. GMAC permits the Company to earn interest on overnight funds deposited by the Company with GMAC at the prime rate less 0.90%. The Company is permitted to earn interest on overnight funds of up to 10% of the amount borrowed under its floor plan financing arrangement with GMAC.

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

rental equipment is financed to a maximum book value under a floor plan arrangement with Citicapital. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on rental equipment as book value reduces. Principal payments for sold used equipment are made on the 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, 2004, the Company's floor plan arrangement with Citicapital permits the financing of up to $10.5 million in construction equipment. On December 31, 2004, the Company had $1.6 million outstanding under its floor plan financing arrangements with John Deere and $6.6 million outstanding under its floor plan financing arrangement with Citicapital.

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, government regulation and customer business cycles. Unit sales of new trucks have historically been subject to substantial cyclical variation based on these general economic conditions. According to R.L. Polk, industry-wide domestic retail sales of Class 8 trucks resulted in approximately 200,000 new Class 8 truck registrations in 2004. A.C.T. Research forecasts U.S. heavy-duty new truck sales to increase to approximately 250,000 units during 2005. Through geographic expansion, concentration on higher margin parts and service operations and diversification of its customer base, the Company believes it can reduce the negative impact on the Company of adverse general economic conditions or cyclical trends affecting the heavy-duty truck industry.

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

Off-Balance Sheet Arrangements The Company does not have off-balance sheet arrangements as of December 31, 2004.

Contractual Obligations The Company has certain contractual obligations that will impact its short-and long-term liquidity. At December 31, 2004, such obligations were as follows:

	Payments Due by Period				
Contractual Obligations *(in thousands)*	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations[1]	$ 96,056	$16,083	$24,027	$19,641	$36,305
Operating Lease Obligations[2]	33,844	7,943	12,001	7,549	6,351
Interest expense on fixed rate debt[3]	17,773	4,815	7,264	4,780	914
Interest expense on variable rate debt[3]	4,206	890	1,572	1,414	330
Total	$151,879	$29,731	$44,864	$33,384	$43,900

[1] Refer to Note 9 of Notes to Consolidated Financial Statements.

[2] Refer to Note 12 of Notes to Consolidated Financial Statements.

[3] In computing interest expense, the Company used its weighted average interest rate outstanding on fixed rate debt to estimate its interest expense on fixed rate debt. The Company used its weighted average variable rate outstanding on variable rate debt and added 0.25 percent per year to estimate its interest expense on variable rate debt.

Quantitative and Qualitative Disclosures about Market Risk

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

The Company is exposed to some market risk through interest rates, related to our floor plan borrowing arrangements, variable rate debt and discount rates related to finance sales. Floor plan borrowings are based on the prime rate of interest and are used to meet working capital needs. As of December 31, 2004, the Company had floor plan borrowings of approximately $168.0 million. Assuming an increase in the prime rate of interest of 100 basis points, interest expense could increase by approximately $1.7 million. The interest rate variability on all other debt would not have a material adverse effect on the Company's financial statements. The Company provides all customer financing opportunities to various finance

providers. The Company receives all finance charges in excess of a negotiated discount rate from the finance providers in the month following the date of the financing. The negotiated discount rate is variable, thus subject to interest rate fluctuations. This interest rate risk is mitigated by the Company's ability to pass discount rate increases to customers through higher financing rates.

The Company is also exposed to some market risk through interest rates related to the investment of our current cash and cash equivalents of $158.2 million at December 31, 2004. The Company used $55.0 million of these funds for the ATS acquisition on January 3, 2005, leaving $103.2 million available for investment. These funds are generally invested in highly liquid money market accounts, government-sponsored enterprises and corporate bonds that do not expose the Company to a loss of principal. As such instruments mature and the funds are reinvested, we are exposed to changes in market interest rates. This risk is mitigated as a result of management's ongoing evaluation of the best investment rates available for current and noncurrent high quality investments. If market interest rates were to increase or decrease immediately and uniformly by 50 basis points, based on the Company's excess cash on January 3, 2005 of $103.2 million, the Company's interest income could correspondingly increase or decrease by approximately $0.5 million. We have not used derivative financial instruments in our investment portfolio.

Report of Independent Accountants

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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

We have audited the accompanying consolidated balance sheets of Rush Enterprises, Inc. (a Texas corporation) and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rush Enterprises, Inc. and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Rush Enterprises, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2005 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

San Antonio, Texas
March 4, 2005

Consolidated Balance Sheets

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands, except shares and per share amounts)	December 31, 2003	**2004**
Assets		
Current assets:		
Cash and cash equivalents	$ 34,389	**$158,175**
Accounts receivable	24,492	**30,296**
Inventories	137,423	**189,792**
Prepaid expenses and other	1,122	**1,418**
Assets held for sale	8,824	**–**
Deferred income taxes	2,863	**1,544**
Total current assets	209,113	**381,225**
Property and equipment, net	114,477	**138,953**
Other assets, net	43,288	**45,755**
Total assets	$366,878	**$565,933**
Liabilities and Shareholders' Equity		
Current liabilities:		
Floor plan notes payable	$108,235	**$168,002**
Current maturities of long-term debt	23,767	**16,083**
Advances outstanding under lines of credit	17,732	**2,434**
Trade accounts payable	16,170	**16,970**
Accrued expenses	29,096	**39,495**
Total current liabilities	195,000	**242,984**
Long-term debt, net of current maturities	66,261	**79,973**
Deferred income taxes, net	16,911	**20,169**
Shareholders' equity:		
Preferred stock, par value $.01 per share; 1,000 shares authorized; 0 shares outstanding in 2003 and 2004	–	**–**
Common stock, par value $.01 per share; 50,000,000 shares authorized; 14,042,304 shares outstanding in 2003 and 23,896,976 outstanding in 2004	140	**239**
Additional paid-in capital	39,337	**156,423**
Retained earnings	49,229	**66,145**
Total shareholders' equity	88,706	**222,807**
Total liabilities and shareholders' equity	$366,878	**$565,933**

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

Consolidated Statements of Operations

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands, except per share amounts)	Years Ended December 31, 2002	2003	**2004**
Revenues:			
New and used truck sales	$488,456	$501,757	**$738,225**
Parts and service	211,478	249,818	**285,206**
Construction equipment sales	24,324	28,263	**32,305**
Lease and rental	25,277	25,847	**27,193**
Finance and insurance	5,448	6,286	**7,909**
Other	2,164	3,361	**4,141**
Total revenues	757,147	815,332	**1,094,979**
Cost of products sold:			
New and used truck sales	450,918	466,396	**684,724**
Parts and service	125,084	151,373	**177,250**
Construction equipment sales	21,482	25,158	**28,114**
Lease and rental	18,458	19,155	**19,749**
Total cost of products sold	615,942	662,082	**909,837**
Gross profit	141,205	153,250	**185,142**
Selling, general and administrative	111,721	124,207	**141,947**
Depreciation and amortization	8,594	8,929	**9,119**
Operating Income	20,890	20,114	**34,076**
Interest income (expense):			
Interest income	239	290	**782**
Interest expense	(6,738)	(6,638)	**(6,732)**
Total interest expense, net	(6,499)	(6,348)	**(5,950)**
Gain on sale of assets	155	1,984	**624**
Income from continuing operations before income taxes	14,546	15,750	**28,750**
Provision for income taxes	5,818	6,300	**11,574**
Income from continuing operations	8,728	9,450	**17,176**
(Loss) from discontinued operations, net	(10,472)	(621)	**(260)**
Net income (loss)	$ (1,744)	$ 8,829	**$ 16,916**
Earnings per share (Note 14):			
Earnings (Loss) per common share - basic			
Income from continuing operations	$ 0.62	$ 0.67	**$ 1.10**
Net income (loss)	$ (0.12)	$ 0.63	**$ 1.08**
Earnings (Loss) per common share - diluted			
Income from continuing operations	$ 0.60	$ 0.63	**$ 1.03**
Net income (loss)	$ (0.12)	$ 0.59	**$ 1.02**

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

Consolidated Statements of Shareholders' Equity

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands)	Common Stock			
	Shares Issued and Outstanding	$.01 Par Value	Additional Paid-In Capital	Retained Earnings
Balance, December 31, 2001	14,004	$140	$ 39,155	$42,144
Net (Loss)	–	–	–	(1,744)
Balance, December 31, 2002	14,004	140	39,155	40,400
Exercise of employee stock options	38		182	
Net Income	–	–	–	8,829
Balance, December 31, 2003	14,042	140	39,337	49,229
Exercise of employee stock options (including tax benefit of $3,364)	1,105	11	7,976	
Issuance of Class A common stock	8,750	88	109,110	
Net income	–	–	–	16,916
Balance, December 31, 2004	**23,897**	**$239**	**$156,423**	**$66,145**

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

Consolidated Statements of Cash Flows

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands)	Years Ended December 31, 2002	2003	**2004**
Cash Flows from Operating Activities:			
Income from continuing operations	$ 8,728	$ 9,450	**$ 17,176**
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquisitions -			
(Loss) from discontinued operations	(10,472)	(621)	**(260)**
Depreciation and amortization	15,846	15,542	**15,923**
Gain on sale of property and equipment	(557)	(1,444)	**(1,801)**
Provision for deferred income tax expense	(659)	3,703	**4,149**
Tax benefit realized from exercise of stock options	–	–	**3,364**
Net charges related to discontinued operations	11,972	–	**400**
Change in accounts receivable, net	1,468	1,043	**(5,804)**
Change in inventories	(12,741)	(13,154)	**(49,692)**
Change in prepaid expenses and other, net	(520)	642	**(296)**
Change in trade accounts payable	(202)	1,088	**800**
Change in accrued expenses	3,105	82	**10,399**
Net cash provided by operating activities	15,968	16,331	**(5,642)**
Cash Flows from Investing Activities:			
Acquisition of property and equipment	(16,526)	(18,772)	**(44,566)**
Proceeds from the sale of property and equipment	3,946	7,521	**14,129**
Business acquisitions	–	(5,547)	**(3,500)**
Change in other assets	929	(33)	**(897)**
Net cash used in investing activities	(11,651)	(16,831)	**(34,834)**
Cash Flows from Financing Activities:			
Proceeds from long-term debt	21,777	19,230	**40,463**
Payments on long-term debt	(25,031)	(24,118)	**(34,435)**
Draws on floor plan notes payable, net	3,988	19,590	**59,767**
Draws (payments) on lines of credit, net	(64)	(4,663)	**(15,298)**
Issuance of shares relating to employee stock options	–	182	**4,623**
Issuance of 8,750,000 shares relating to the public offering, net of the related expenses	–	–	**109,198**
Debt issuance costs	(76)	(95)	**(56)**
Net cash provided by financing activities	594	10,126	**164,262**
Net increase in cash and cash equivalents	4,911	9,626	**123,786**
Cash and cash equivalents, beginning of year	19,852	24,763	**34,389**
Cash and cash equivalents, end of year	$24,763	$34,389	**$158,175**
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for interest	$ 8,176	$ 7,086	**$ 7,807**
Income taxes	$ 824	$ 1,487	**$ 4,788**

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

NOTE 1. ORGANIZATION AND OPERATIONS

Rush Enterprises, Inc. (the "Company") was incorporated in 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 38 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 Alabama, Arizona, California, Colorado, Florida, New Mexico, Oklahoma, and Texas. The Construction Equipment segment, formed during 1997, operates a John Deere equipment center in Houston, Texas. A portion of this segment, that operated five John Deere Equipment Centers in Michigan, was discontinued during 2002 (see Note 3). Dealership operations include the retail sale of new and used equipment, aftermarket parts and service facilities, equipment rentals and the financing of new and used equipment (see Note 19).

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

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

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

Effective at the close of business on July 9, 2002 (the "Record Date"), pursuant to action taken by the shareholders at the Annual Meeting of the Company held July 9, 2002, and described in the Proxy Statement dated May 15, 2002, the Board of Directors of the Company reclassified the outstanding common stock, $0.01 par value per share (the "Old Common Stock"), as Class B Common Stock, $0.01 par value per share (the "Class B Common Stock"), and declared a stock dividend of one share of a new Class A Common Stock, $.01 par value per share (the "Class A Common Stock"), for each share of Class B Common Stock held by shareholders of record on the Record Date. Each share of Class A Common Stock ranks substantially equal to each share of Class B Common Stock with respect to receipt of any dividends or distributions declared on shares of common stock and the right to receive proceeds on liquidation or dissolution of the Company after payment of the Company's indebtedness and liquidation preference payments to holders of preferred shares. However, holders of Class A Common Stock have 1/20th of one vote per share on all matters requiring a shareholder vote, while holders of Class B Common Stock have one vote per share on all matters requiring a shareholder vote. The Company's stock trades on The NASDAQ National Market® under the symbols RUSHA and RUSHB. Prior to the reclassification and stock dividend, the Company had 7,002,044 shares of Old Common Stock outstanding. Additionally, all stock option information in Note 13 has been adjusted to reflect the above transaction for all periods presented. The adjustment caused each option outstanding prior to July 9, 2002 to become an option to purchase Class A Common Stock and an option to purchase Class B Common Stock, each with an exercise price of 50% of the exercise price of the option originally granted.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Estimates in Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Inventories

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

Property and Equipment

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

(in thousands)	2003	**2004**	Estimated Life (Years)
Land	$ 15,698	**$ 19,696**	–
Buildings and improvements	42,239	**47,679**	31 - 39
Leasehold improvements	9,053	**9,375**	7 - 15
Machinery and shop equipment	16,721	**17,059**	5 - 7
Furniture and fixtures	19,133	**17,393**	5 - 7
Transportation equipment	16,598	**21,501**	2 - 5
Leasing vehicles	51,033	**59,810**	4 - 8
Construction in progress	2,288	**5,792**	
Accumulated depreciation and amortization	(58,286)	**(59,352)**	
Total	$114,477	**$138,953**	

Allowance for Doubtful Receivables and Repossession Losses

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

Other Assets

Other assets consist primarily of goodwill related to acquisitions of approximately $42.5 million as of December 31, 2003 and $43.6 million as of December 31, 2004. During 2003 and 2004, the Company acquired goodwill related to acquisitions of $4.3 million and $1.1 million, respectively. Other assets also include a long-term deferred tax asset of $0.4 million and notes receivable of $1.0 million at December 31, 2004. The Company recognizes interest income on notes receivable monthly as earned. Accumulated amortization of other assets at December 31, 2003 was approximately $4.6 million. At December 31, 2004, accumulated amortization of other assets was approximately $4.7 million. The Company annually assesses the appropriateness of the asset valuations of other assets and the related amortization period as applicable.

Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS 142 became effective January 1, 2002. The Company has completed its impairment review for goodwill related to continuing operations at December 31, 2004 and recorded no impairment charges in its financial statements. However, the Company is exposed to the possibility that changes in market conditions could result in significant impairment charges in the future, thus resulting in a potential increase in earnings volatility.

Income Taxes

Income taxes are accounted for under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in a company's financial statements or tax returns. Under this method, deferred

tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse.

Revenue Recognition Policies

Income on the sale of vehicles and construction equipment (collectively, "unit") is recognized when the seller and customer execute a purchase contract, delivery has occurred and there are no significant uncertainties related to financing or collectibility. Finance income related to the sale of a unit is recognized over the period of the respective finance contract, based on the effective interest rate method, if the finance contract is retained by the Company. During 2002, 2003 and 2004, no finance contracts were retained for any significant length of time by the Company but were generally sold, with limited recourse, to certain finance companies concurrent with the sale of the related unit. Gain or loss is recognized by the Company upon the sale of such finance contracts to the finance companies, net of a provision for estimated repossession losses and early repayment penalties. Lease and rental income is recognized over the period of the related lease or rental agreement. Parts and services revenue is earned at the time the Company sells the parts to its customers or at the time the Company completes the service work order related to service provided to the customer's unit. Payments received on prepaid maintenance plans are deferred as a component of accrued expenses and recognized as income when the maintenance is performed.

Cost of Sales

For the Company's new and used truck and construction equipment operations and its parts operations, cost of sales consists primarily of the Company's actual purchase price, less manufacturer's incentives, for new and used trucks and construction equipment and parts. For the Company's service and body shop operations, technician labor cost is the primary component of cost of sales. For the Company's rental and leasing operations, cost of sales consists primarily of depreciation and interest expense on the portion of the lease and rental fleet owned by the Company, rent and interest expense on the portion of the lease and rental fleet leased by the Company, and the maintenance cost of the lease and rental fleet. There are no costs of sales associated with the Company's finance and insurance revenue or other revenue.

Selling, General and Administrative Expenses

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

Stock Options

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

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

(in thousands, except per share amounts)	2002	2003	**2004**
Income from continuing operations			
As reported	$ 8,728	$9,450	**$17,176**
Stock based employee costs, net of tax effects	1,045	845	**979**
Pro forma	$ 7,683	$8,605	**$16,197**
Basic earnings per share –			
As reported	$ 0.62	$ 0.67	**$ 1.10**
Pro forma	$ 0.55	$ 0.61	**$ 1.03**
Diluted earnings per share –			
As reported	$ 0.60	$ 0.63	**$ 1.03**
Pro forma	$ 0.53	$ 0.57	**$ 0.98**
Net income			
As reported	$(1,744)	$8,829	**$16,916**
Stock based employee costs, net of tax effects	1,045	845	**979**
Pro forma	$(2,789)	$7,984	**$15,937**
Basic earnings per share –			
As reported	$ (0.12)	$ 0.63	**$ 1.08**
Pro forma	$ (0.20)	$ 0.57	**$ 1.02**
Diluted earnings per share –			
As reported	$ (0.12)	$ 0.59	**$ 1.02**
Pro forma	$ (0.19)	$ 0.53	**$ 0.96**

The fair value of these options was estimated using a Black-Scholes option pricing model with a risk-free interest rate of 6.0% for 2002, a range of 3.65% to 4.2% for 2003, and a range of 3.14% to 3.84% for 2004, volatility factor range of 1.792 to 1.877 for 2002, a range of .433 to .471 for 2003, and a range of .299 to .499 for 2004, a dividend yield of 0%, and an expected option life of seven years for 2002, 2003 and 2004.

Advertising Costs

The Company charges advertising costs to expense as incurred. Advertising and marketing expense related to operations was $1.3 million for fiscal year 2002, $1.4 million for fiscal year 2003, and $1.5 million for fiscal year 2004. Advertising and marketing expense is included in selling, general and administrative expense.

Statement of Cash Flows

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

Recent Accounting Pronouncements

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

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

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

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which is a revision of SFAS 123. SFAS 123(R) supersedes APB 25 and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock

options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123(R) must be adopted no later than July 1, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS 123(R) on July 1, 2005.

As currently permitted by SFAS 123, the Company accounts for share-based payments to employees using APB 25's intrinsic value method and generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method will have a significant impact on our result of operations, but it is not expected to have a significant impact on our overall financial position. The impact of adopting of SFAS 123(R) on our future results of operations cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to our consolidated financial statements. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption of SFAS 123(R). While the Company cannot accurately estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were $0 in 2003 and $3.4 million in 2004.

NOTE 3. DISCONTINUED OPERATIONS

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

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

As a result of these decisions, the Company recognized nonrecurring and unusual charges, net of income tax benefits, of $8.3 million ($0.58 per diluted share) in the fourth quarter of 2002. The $8.3 million in charges recorded in the fourth quarter of 2002 included charges, net of income tax benefits, of approximately $2.5 million related to the Michigan John Deere construction equipment stores sold during December 2002. The remaining $5.8 million in charges relate to the closing, liquidation and pending sale of Retail segment stores described above. These charges are included in discontinued operations in the Company's consolidated statements of income in accordance with SFAS 144. In addition, the results of operations of these businesses have been classified as discontinued operations in the Company's consolidated statements of income for all periods presented. Similarly, certain assets of these businesses have been separately identified in the consolidated balance sheet as being held for sale. The Company sold these assets in the fourth quarter of 2004. In accordance with SFAS 144, depreciation and amortization expense were not recorded with respect to the assets of these businesses. Net sales and earnings (loss) before income taxes related to the discontinued businesses were as follows:

(in thousands)	2002	2003	**2004**
Michigan Construction Equipment Stores			
Net Sales	$ 37,407	$251	**$ –**
Earnings (loss) before income taxes:			
Results of operations from discontinued operations	(1,425)	–	–
Charges related to discontinued operations	(4,128)	–	–
(Loss) before income taxes	(5,553)	–	–
Income tax benefit (expense)	2,222	–	–
Net (loss) from discontinued operations	$(3,331)	$ –	**$ –**
Retail Segment Stores (D&D)			
Net Sales	$39,571	$17,298	**$11,746**
Earnings (loss) before income taxes:			
Results of operations from discontinued operations	(2,119)	(1,035)	**209**
Charges related to discontinued operations	(9,007)	–	**(58)**
Income (Loss) before income taxes	(11,126)	(1,035)	**151**
Income tax benefit (expense)	3,985	414	**(411)**
Net (loss) from discontinued operations	$ (7,141)	$ (621)	**$ (260)**

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

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

The 2004 D&D charges related to discontinued operations include a $0.4 million charge for the disposal of the real estate in Hockley, Texas and a $0.3 million gain on the sale of the Seguin real estate, inventory and other assets. The $0.4 million income tax expense is primarily related to tax expense recorded to establish a reserve for the estimated unusable portion of D&D's stated net operating loss carry forward.

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

	December 31,	
(in thousands)	2003	**2004**
Inventories	$2,496	**$ –**
Property and equipment, net	6,328	–
Assets held for sale	$8,824	**$ –**

NOTE 4. SUPPLIER AND CUSTOMER CONCENTRATION

Major Suppliers and Dealership Agreements

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

Distributor	Expiration Dates
Peterbilt	December 2005 to January 2008
John Deere	Indefinite

These agreements, as well as agreements with various other Distributors, impose a number of restrictions and obligations on the Company, including restrictions on a change in control of the Company and the maintenance of certain required levels of working capital. Violation of these restrictions could result in the loss of the Company's right to purchase the Distributor's products and use the Distributor's trademarks. As of December 31, 2004, the Company's management believes it was in compliance with all the restrictions and obligations of its dealership agreements.

The Company purchases its new Peterbilt vehicles and most of its parts from PACCAR, the maker of Peterbilt trucks and parts, at

prevailing prices charged to all franchised dealers. Sales of new Peterbilt trucks accounted for 98%, 95% and 93% of the Company's new vehicle sales for the years ended December 31, 2002, 2003 and 2004, 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 91%, 93% and 84% of the Company's new equipment sales for the years ended December 31, 2002, 2003 and 2004, respectively.

Primary Lenders

The Company purchases its new and used truck and construction equipment inventories with the assistance of floor plan financing programs offered by various financial institutions and John Deere. The financial institution the Company uses for truck inventory purchases also provides the Company with a line of credit that allows the Company to borrow up to $13.5 million and with notes on certain real estate properties. The floor plan agreement with the financial institution the Company uses for truck inventory purchases provides that such agreement may be terminated at the option of the lender with notice of 120 days.

The floor plan agreement with one of the financial institutions used for construction equipment purchases expires in December 2005. Additional floor plan financing is provided by John Deere pursuant to the Company's equipment dealership agreement. These agreements provide that the occurrence of certain events will be considered events of default. There were no known events of default as of December 31, 2004. In the event that the Company's financing becomes insufficient, or its relationship with the current primary lenders terminates, the Company would need to obtain similar financing from other sources. Management believes it can obtain additional floor plan financing or alternative financing if necessary.

The Company's debt agreements include certain restrictive covenants. The Company was in compliance with these and all debt covenants as of December 31, 2004.

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, 2004, the Company had deposits in excess of federal insurance totaling approximately $154.6 million.

Concentrations of credit risk with respect to trade receivables are reduced because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. A majority of the Company's business, however, is concentrated in the United States heavy-duty trucking and construction equipment markets and related aftermarkets. The Company controls credit risk through credit approvals and by selling certain trade receivables without recourse. After the Company enters into a finance contract, the Company generally sells the contracts to a third party. These finance contracts are sold both with and without recourse. A majority of the Company's finance contracts are sold without recourse. The Company provides an allowance for doubtful receivables and a reserve for repossession losses related to finance contracts sold. Historically, the Company's allowance and reserve has covered future losses.

NOTE 5. ACCOUNTS RECEIVABLE

The Company's accounts receivable, net, consisted of the following:

	December 31,	
(in thousands)	2003	**2004**
Trade accounts receivable from sale of vehicles and construction equipment	$12,122	**$16,002**
Other trade receivables	3,982	**6,161**
Warranty claims	3,457	**3,017**
Other accounts receivable	5,381	**5,466**
Less allowance for doubtful receivables	(450)	**(350)**
Total	$24,492	**$30,296**

For the years ended December 31, 2002, 2003 and 2004, the Company had no significant related-party sales.

NOTE 6. INVENTORIES

The Company's inventories consisted of the following:

	December 31,	
(in thousands)	2003	**2004**
New vehicles	$ 79,871	**$120,733**
Used vehicles	11,600	**17,995**
Construction equipment - new	4,505	**7,800**
Construction equipment - used	657	**1,010**
Construction equipment - rental	913	**–**
Parts and accessories	39,476	**41,897**
Other	1,424	**1,833**
Less allowance	(1,023)	**(1,476)**
Total	$137,423	**$189,792**

The Company recognized $1.3 million of pretax new and used vehicle inventory valuation losses during 2003 and $0.4 million of pretax used vehicle inventory valuation losses during 2004.

NOTE 7. VALUATION ACCOUNTS

Valuation and allowance accounts include the following:

	December 31,		
(in thousands)	2002	2003	**2004**
Balance at the Beginning of Year	$1,911	$1,426	**$1,473**
Net Charged to Costs and Expenses	404	1,450	**1,403**
Net Write-Offs	(889)	(1,403)	**(1,050)**
Balance at the End of Year	$1,426	$1,473	**$1,826**

Allowance for Doubtful Receivables

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

Inventory

The Company provides a reserve for obsolete and slow moving parts. The reserve is reviewed and, if necessary, adjustments are made on a quarterly basis. The Company relies on historical information to support its reserve. Once the inventory is written down, the Company does not adjust the reserve balance until the inventory is sold. The Company recognized $121,000 of pretax parts valuation losses for obsolete and slow moving parts during 2003 and $131,000 during 2004.

The valuation for new and used truck inventory is based on specific identification. A detail of new and used truck inventory is reviewed and, if necessary, adjustments to the value of specific units are made on a quarterly basis. The Company recognized $1.3 million of pretax new and used vehicle inventory valuation losses during 2003 and $0.4 million of pretax used vehicle inventory valuation losses during 2004.

NOTE 8. FLOOR PLAN NOTES PAYABLE AND LINES OF CREDIT

Floor Plan Notes Payable

Floor plan notes are financing agreements to facilitate the Company's purchase of new and used trucks and construction equipment. These notes are collateralized by the inventory purchased and accounts receivable arising from the sale thereof. The Company's floor plan notes have interest rates based on the prime rate or LIBOR, as defined in the agreements. The interest rates applicable to these agreements ranged from approximately 4.6% to 5.29% as of December 31, 2004. Amounts borrowed under these agreements are due when the related truck or construction equipment inventory (collateral) is sold and the sales proceeds are collected by the Company, or in the case of construction equipment rentals, when the carrying value of the equipment is reduced. These agreements may be modified, suspended or terminated by the lender as described in Note 4.

The Company'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, 2004, the aggregate amount of unit capacity for new trucks was 1,542 and the aggregate amount of unit capacity for used trucks was 540; the availability for new trucks was 257 and the availability for used trucks was 132.

The Company's floor plan agreement with one of its construction equipment lenders is based on the book value of the Company's construction equipment inventory. As of December 31, 2004, the aggregate amount of borrowing capacity with this lender was $10.5 million, with approximately $6.6 million outstanding. Additional amounts are available under the Company's John Deere dealership agreement. At December 31, 2004, approximately $1.6 million was outstanding pursuant to the John Deere dealership agreement.

Amounts of collateral as of December 31, 2003 and 2004 were as follows:

(in thousands)	December 31, 2003	December 31, 2004
Inventories, new and used trucks and construction equipment at cost based on specific identification	$ 97,546	**$147,538**
Truck and construction equipment sale related accounts receivable	12,122	**16,002**
Cash held for floor plan payment related to receipts from truck sales	–	**10,262**
Total	$109,668	**$173,802**
Floor plan notes payable	$108,235	**$168,002**

Lines of Credit

The Company has a separate line of credit agreement with a financial institution that provides for an aggregate maximum borrowing of $13.5 million, with advances generally limited to 75% of the Company's new parts inventory. Advances bear interest at prime less 0.5%, which was 4.75% on December 31, 2004. Advances under the line-of-credit agreement are secured by new parts inventory. The line of credit agreement contains financial covenants. The Company was in compliance with these covenants on December 31, 2004. Either party may terminate the agreement with 30 days written notice. As of December 31, 2003, advances outstanding under this line-of-credit agreement amounted to $13.5 million. As of December 31, 2004, advances outstanding under this line-of-credit amounted to $10,000 with $13.49 million available for future borrowings. This line is discretionary and may be modified, suspended or terminated at the election of the lender. The Company has three additional separate secured lines of credit that provide for an aggregate maximum borrowing of $15.9 million. Advances outstanding under these secured lines of credit in aggregate were $2.4 million, with an additional $4.2 million pledged to secure various letters of credit related to self-insurance products, leaving $9.3 million available for future borrowings as of December 31, 2004.

NOTE 9. LONG-TERM DEBT

Long-term debt was comprised of the following:

(in thousands)	December 31, 2003	December 31, 2004
Variable interest rate term notes	$ 9,740	**$15,859**
Fixed interest rate term notes	80,288	**80,197**
Total debt	90,028	**96,056**
Less- Current maturities	(23,767)	**(16,083)**
Total	$66,261	**$79,973**

As of December 31, 2004, debt maturities were as follows *(in thousands)*:

2004	$16,083
2005	12,856
2006	11,171
2007	9,885
2008	9,756
Thereafter	36,305
Total	$96,056

The interest rates on the Company's variable interest rate notes are based on LIBOR and the prime rate on December 31, 2004. Interest rates on the notes ranged from approximately 4.14% to 5.25% on December 31, 2004. Payments on the notes range from $2,667 to $67,000 per month, plus interest. Maturities of these notes range from March 2006 to April 2014.

The Company's fixed interest rate notes are primarily with financial institutions and had interest rates ranging from approximately 3.83% to 10.79% on December 31, 2004. Payments on the notes range from $167 to $25,333 per month, plus interest. Maturities of these notes range from January 2005 to January 2016.

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

NOTE 10. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

NOTE 11. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution plan (the "Rush Plan"), which is available to all Company employees and the employees of certain affiliates. Each employee who has completed 90 days of continuous service is entitled to enter the Rush Plan on the first day of the following month. Participating employees may contribute from 1% to 50% of total gross compensation. However, certain higher paid employees are limited to a maximum contribution of 15% of total gross compensation. For the first 10% of an employee's contribution, the Company, at its discretion, may contribute an amount equal to 25% of the employees' contributions for those employees with less than five years of service and an amount equal to 50% of the employees' contributions for those employees with more than five years of service. During the year ended December 31, 2002, the Company incurred expenses of approximately $1.5 million related to the Rush Plan. During the year ended December 31, 2003, the Company incurred expenses of approximately $1.6 million related to the Rush Plan. During the year ended December 31, 2004, the Company incurred expenses of approximately $1.8 million related to the Rush Plan.

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

NOTE 12. LEASES

Vehicle Leases

The Company leases vehicles primarily over periods ranging from one to ten years under operating lease arrangements. These vehicles are subleased by the Company to customers under various agreements. 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, 2002, 2003 and 2004, were approximately $5.0 million, $5.3 million and $6.0 million, respectively.

Minimum rental commitments for noncancelable vehicle leases in effect on December 31, 2004, are as follows *(in thousands):*

2005	$ 5,249
2006	4,586
2007	3,936
2008	3,139
2009	2,352
Thereafter	2,835
Total	$22,097

Customer Vehicle Leases

A division of the Company leases both owned and leased vehicles to customers primarily over periods of one to ten years under operating lease arrangements. The leases require a minimum rental payment and a contingent rental payment based on mileage. Rental income during the years ended December 31, 2002, 2003 and 2004 consisted of minimum rental payments of approximately $12.5 million, $13.7 million and $15.4 million, respectively, and contingent rentals payments of approximately $3.0 million, $3.0 million and $2.9 million, respectively. Minimum lease payments to be received for noncancelable leases and subleases in effect at December 31, 2004, are as follows *(in thousands):*

2005	$15,312
2006	12,839
2007	10,717
2008	8,514
2009	5,670
Thereafter	5,342
Total	$58,394

As of December 31, 2003 and 2004, the Company had $32.1 million (net of accumulated depreciation of $18.9 million) and $39.4 million (net of accumulated depreciation of $20.4 million), respectively, of leasing vehicles included in property and equipment.

Other Leases - Land and Buildings

The Company leases various assets under operating leases, which expire at various times through 2023. Rental expense for the years ended December 31, 2002, 2003 and 2004, was $1.8 million, $2.2 million and $2.6 million, respectively. Future minimum lease payments under noncancelable leases at December 31, 2004, are as follows *(in thousands):*

2005	$ 2,694
2006	2,195
2007	1,284
2008	1,212
2009	846
Thereafter	3,516
Total	$11,747

NOTE 13. STOCK OPTIONS AND STOCK PLANS

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

The aggregate number of shares of common stock subject to stock options or SARs that may be granted to any one participant in any year under the Incentive Plan is 100,000 shares of Class A Common Stock and 100,000 shares of Class B Common Stock. The Company has 2,600,000 shares of Class A Common Stock and 1,400,000 shares of Class B Common Stock reserved for issuance upon exercise of any awards granted under the Company's Incentive Plan.

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

Effective at the close of business on July 9, 2002, the Board of Directors of the Company reclassified the Old Common Stock as Class B Common Stock and declared a stock dividend of one share of a new Class A Common Stock for each share of Class B Common Stock.

In March 2002, the Company granted options under the Incentive Plan to purchase an aggregate of 250,000 shares of Old Common Stock to employees. Each option vests in three equal annual installments beginning on the third anniversary of the grant date. The exercise price of the options was equal to closing price, as reported by The Nasdaq National Market®, of the Company's Old Common Stock on the grant date. On July 9, 2002, each option to purchase Old Common Stock became an option to purchase Class A Common Stock and an option to purchase Class B Common Stock. Each of the new options became exercisable at one-half of the original option's exercise price, but the vesting period was not affected.

In March 2003, the Company granted options under the Incentive Plan to purchase an aggregate of 380,000 shares of Class A Common Stock and 93,000 shares of Class B Common Stock. In March 2004 and June 2004, the Company granted options under the Incentive Plan to purchase an aggregate of 187,850 shares of Class A Common Stock and 43,500 shares of Class B Common Stock. Each option vests in three equal annual installments beginning on the third anniversary of the grant date.

During 2000, the Company granted options outside of any plan to purchase an aggregate of 169,258 shares of common stock to employees. A total of 69,258 of these options were forfeited in 2001 and 2002. The exercise price of the options was equal to closing price, as reported by The Nasdaq National Market®, of the Company's Old Common Stock on the grant date. On July 9, 2002, each of the remaining options to purchase Old Common Stock became an option to purchase Class A Common Stock and an option to purchase Class B Common Stock. Each of the new options became exercisable at one-half of the original option's exercise price, but the vesting period was not affected.

In July 2004, 70,000 options to purchase Class A Common Stock and 70,000 options to purchase Class B Common Stock were exercised. The remaining 30,000 options to purchase Class A Common Stock and 30,000 options to purchase Class B Common Stock were outstanding and exercisable at December 31, 2004.

During 1997, the Board of Directors and shareholders adopted the Rush Enterprises, Inc. 1997 Non-Employee Director Stock Option Plan (the "Director Plan"), reserving 300,000 shares of Old Common Stock for issuance upon exercise of any awards granted

under the Plan. The Director Plan is designed to attract and retain highly qualified non-employee directors. Under the terms of the Director Plan, each non-employee director received options to purchase 10,000 shares of the Old Common Stock on the date the Director Plan was adopted or upon their respective date of appointment and an additional option to purchase 10,000 shares of the Old Common Stock each year they are elected by the shareholders to serve on the Board of Directors, all of which vest immediately and expire ten years from the grant date. The exercise price of the options was equal to closing price, as reported by The Nasdaq National Market®, of the Company's Old Common Stock on the grant date. During the year ended December 31, 2002, 30,000 of such options were granted. On July 9, 2002, each option to purchase Old Common Stock became an option to purchase Class A Common Stock and an option to purchase Class B Common Stock. Each of the new options became exercisable at one-half of the original option's exercise price. During the year ended December 31, 2003, 60,000 options of Class A Common Stock were granted under the terms of the Director Plan. During the year ended December 31, 2004, 80,000 options of Class A Common Stock were granted under the terms of the Director Plan.

During 2004, the Company implemented an Employee Stock Purchase Plan ("ESPP") that allows eligible employees to contribute up to 10% of their base earnings toward the semi-annual purchase of the Company's Class A Common Stock. The employee's purchase price is 85% of the lesser of the closing price of the Class A Common Stock on the first business day or the last business day of the semi-annual offering period, as reported by The Nasdaq National Market®. Employees may purchase shares having a fair market value of up to $25,000 (measured as of the first day of each semi-annual offering period) for each calendar year. No compensation expense is recorded in connection with the plan. The total number of shares issuable under the plan is 600,000. No shares were issued under the plan during fiscal 2004. Employee contributions during 2004 of $144,048 were used to purchase 12,792 shares of Class A Common Stock in January 2005. Of the 1,924 employees eligible to participate, 92 were participants in the plan as of December 31, 2004.

During 2001, the Company granted options outside any plan to purchase an aggregate of 60,000 shares of Old Common Stock to non-employee directors, which vested immediately and expire ten years from the grant date. The exercise price of the options was equal to closing price, as reported by The Nasdaq National Market®, of the Company's Old Common Stock on the grant date. On July 9, 2002, each option to purchase Old Common Stock became an option to purchase Class A Common Stock and an option to purchase Class B Common Stock. Each of the new options became exercisable at one-half of the original option's exercise price, but the vesting period was not affected.

A summary of the Company's stock option activity and related information for the years ended December 31, 2002, 2003 and 2004 follows:

	2002		2003		**2004**	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,028,034	$3.85	2,452,730	$3.82	**2,927,282**	**$3.80**
Granted	560,000	3.71	533,000	3.80	**311,350**	**11.92**
Exercised	–	–	(46,248)	5.14	**(1,104,672)**	**4.18**
Forfeited	(135,304)	3.74	(12,200)	3.47	**(37,178)**	**3.78**
Outstanding, end of year	2,452,730	$3.82	2,927,282	$3.80	**2,096,782**	**$4.80**
Exercisable, end of year	889,508	$4.56	1,158,718	$4.62	**610,385**	**$5.25**
Weighted average fair value of options granted during the year		$3.68		$1.95		**$6.05**

The following table summarizes the information about the Company's options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.07 - $ 2.25	360,276	6.2	$ 2.08	121,351	$ 2.11
$3.10 - $ 4.32	1,163,352	7.2	$ 3.57	145,480	$ 3.61
$4.85 - $ 6.00	243,554	5.6	$ 5.42	243,554	$ 5.42
$8.13	20,000	4.4	$ 8.13	20,000	$ 8.13
$11.15 - $12.96	309,600	9.3	$11.92	80,000	$11.77
	2,096,782			610,385	

NOTE 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.

	2002	2003	**2004**
Numerator-			
Numerator for basic and diluted earnings per share -			
Net income (loss) available to common shareholders	$ (1,744,000)	$8,829,000	**$16,916,000**
Denominator-			
Denominator for basic earnings per share, weighted average shares	14,004,088	14,042,304	**15,683,763**
Effect of dilutive securities -			
Stock options	456,520	981,933	**923,406**
Warrants	–	–	**–**
Dilutive potential common shares	456,520	981,933	**923,406**
Denominator for diluted earnings per share, adjusted weighted average shares and assumed conversions	14,460,608	15,024,237	**16,607,169**
Basic earnings (loss) per common share	$ (0.12)	$ 0 .63	**$ 1.08**
Diluted earnings (loss) per common share and common share equivalents	$ (0.12)	$ 0.59	**$ 1.02**

Options to purchase shares of common stock that were outstanding for the years ended December 31, 2002, 2003 and 2004 that were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market prices of the common shares are as follows:

	2002	2003	2004
Options	855,280	188,305	**10,000**
Total antidilutive securities	855,280	188,305	**10,000**

NOTE 15. INCOME TAXES:

Provision for Income Taxes

The tax provisions for the years ended December 31, 2002, 2003 and 2004 are summarized as follows:

(in thousands)	2002	2003	2004
Current provision -			
Federal	$(127)	$2,029	**$ 6,805**
State	397	341	**864**
	270	2,370	**7,669**
Deferred provision -			
Federal	(354)	3,189	**3,911**
State	(305)	327	**405**
	(659)	3,516	**4,316**
Provision for income taxes	$(389)	$5,886	**$11,985**

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, 2003 and 2004:

(in thousands)	2003	2004
Differences in depreciation and amortization	$16,911	**$20,154**
Deferred tax asset related to state net operating loss carry forwards	–	**(428)**
Accruals and reserves not deducted for tax purposes until paid	(2,642)	**(1,544)**
Other, net	(221)	**15**
Total	$14,048	**$18,197**

The Company's deferred tax asset is related to various state net operating loss carry forwards that expire from 2006 through 2009.

A reconciliation of taxes based on the federal statutory rates and the provisions for income taxes for the years ended December 31, 2002, 2003 and 2004, are summarized as follows:

(in thousands)	2002	2003	2004
Income taxes at the federal statutory rate	$(747)	$5,150	**$10,116**
State income taxes, net of federal benefit	(181)	587	**891**
Nondeductible impairment of goodwill	211	–	–
Nonrealizable state deferred tax asset related to discontinued operations	254	–	–
Tax effect of permanent differences	–	–	**454**
State tax valuation allowance	–	–	**491**
Other, net	74	149	**33**
Provision for income taxes	$(389)	$5,886	**$11,985**

Following is a summary of the Company's income tax provision for the years ended December 31, 2002, 2003 and 2004:

(in thousands)	2002	2003	2004
Income tax expense on continuing operations	$5,818	$6,300	**$11,574**
Income tax expense (benefit) from discontinued operations	(6,207)	(414)	**411**
Provision for income taxes	$ (389)	$5,886	**$11,985**

As of December 31, 2004, the Company had provided for tax contingencies of approximately $792,000.

NOTE 16. COMMITMENTS AND CONTINGENCIES

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

note initiated on the behalf of the finance company. However, in 2003 the Company instituted a full recourse finance program that accepts 100% liability, with some restrictions, for the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this full recourse finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed; therefore, less than one percent of the finance contracts sold by the Company are currently sold under the full recourse finance program and the Company does not expect to finance a significant percentage of its truck sales under this full recourse finance program in the future. The Company provides for an allowance for repossession losses and early repayment penalties.

Finance contracts initiated and sold during the years ended December 31, 2002, 2003 and 2004, were $144.1 million, $165.1 million and $259.9 million, respectively.

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

NOTE 17. ACQUISITIONS

See Note 20 for a discussion of the Company's acquisition of certain assets of American Truck Source, Inc. ("ATS").

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

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

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

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

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

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

Inventories	$ 448
Property and equipment	126
Goodwill	860
Total	$1,434

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

The following unaudited pro forma summary presents information as if the Orange County and Peterbilt of Mobile, Inc. acquisitions had taken place at the beginning of 2002. The pro forma information is provided for information purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the Company. The following summary is for the years ended December 31, 2002 and 2003 (unaudited):

(in thousands, except per share amounts):	2002	2003
Revenues	$823,080	$823,779
Income from continuing operations after pro forma provision for income taxes	$ 8,448	$ 9,461
Basic income from continuing operations per share	$ 0.60	$ 0.67
Diluted income from continuing operations per share	$ 0.58	$ 0.63

NOTE 18. UNAUDITED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts.)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2003				
Revenues	$159,616	$193,259	$222,795	$239,662
Gross Profit	34,174	38,419	41,422	39,235
Operating income from continuing operations	2,895	5,313	6,853	5,053
Income from continuing operations before income taxes	1,455	3,891	5,316	5,088
Income from continuing operations	873	2,334	3,190	3,053
Gain (loss) from discontinued operations, net	(547)	(100)	(36)	62
Net income	$ 326	$ 2,234	$ 3,154	$ 3,115
Earning per share: Basic				
Income from continuing operations	$ 0.06	$ 0.16	$ 0.23	$ 0.22
Net income	$ 0.02	$ 0.16	$ 0.23	$ 0.22
Earning per share: Diluted				
Income from continuing operations	$ 0.06	$ 0.16	$ 0.21	$ 0.20
Net income	$ 0.03	$ 0.15	$ 0.21	$ 0.20
2004				
Revenues	**$229,884**	**$267,179**	**$296,904**	**$301,012**
Gross Profit	**41,319**	**45,502**	**49,788**	**48,533**
Operating income from continuing operations	**4,529**	**8,229**	**10,957**	**10,361**
Income from continuing operations before income taxes	**3,504**	**6,807**	**9,548**	**8,891**
Income from continuing operations	**2,102**	**4,084**	**5,729**	**5,261**
Gain (loss) from discontinued operations, net	**53**	**44**	**(240)**	**(117)**
Net income	**$ 2,155**	**$ 4,128**	**$ 5,489**	**$ 5,144**
Earning per share: Basic				
Income from continuing operations	**$ 0.15**	**$ 0.28**	**$ 0.38**	**$ 0.28**
Net income	**$ 0.15**	**$ 0.28**	**$ 0.36**	**$ 0.27**
Earning per share: Diluted				
Income from continuing operations	**$ 0.14**	**$ 0.26**	**$ 0.36**	**$ 0.27**
Net income	**$ 0.14**	**$ 0.26**	**$ 0.35**	**$ 0.26**

NOTE 19. SEGMENTS

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

As previously mentioned, in November 2002 the Company announced its decision to sell its John Deere construction equipment stores in Michigan and discontinue its D&D operations. In connection with this decision, financial information related to the Company's construction equipment operations in Michigan is not included in the Construction Equipment segment below, and the Retail Segment is no longer presented as a separate operating segment.

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

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

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. There were no material intersegment sales during the years ended December 31, 2002, 2003 and 2004.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different technology and marketing strategies. Business units were maintained through expansion and acquisitions. Assets held for sale and goodwill related to discontinued operations are included in the Heavy-Duty Truck segment for the years ended December 31, 2002 and 2003. The following table contains summarized information about reportable segment profit or loss and segment assets for the years ended December 31, 2002, 2003 and 2004:

(in thousands)	Heavy-Duty Truck Segment	Construction Equipment Segment	All Other	Totals
2002				
Revenues from external customers	$ 713,113	$36,777	$7,257	$ 757,147
Interest income	239	–	–	239
Interest expense	6,011	565	162	6,738
Depreciation and amortization	7,857	398	339	8,594
Segment income from continuing operations before income tax	12,881	1,327	338	14,546
Segment assets	316,923	18,193	9,994	345,110
Goodwill	33,672	4,075	116	37,863
Expenditures for segment assets	15,262	105	827	16,194
2003				
Revenues from external customers	$ 765,565	$41,422	$8,345	$ 815,332
Interest income	290	–	–	290
Interest expense	6,121	382	135	6,638
Depreciation and amortization	8,347	226	356	8,929
Segment income from continuing operations before income tax	14,291	1,228	231	15,750
Segment assets	341,037	15,873	9,968	366,878
Goodwill	38,431	4,075	114	42,620
Expenditures for segment assets	19,511	619	1,045	21,175
2004				
Revenues from external customers	**$1,039,758**	**$46,154**	**$9,067**	**$1,094,979**
Interest income	**782**	**–**	**–**	**782**
Interest expense	**6,164**	**407**	**161**	**6,732**
Depreciation and amortization	**8,507**	**311**	**301**	**9,119**
Segment income from continuing operations before income tax	**26,606**	**2,094**	**50**	**28,750**
Segment assets	**534,932**	**18,863**	**12,138**	**565,933**
Goodwill	**39,406**	**4,075**	**111**	**43,592**
Expenditures for segment assets	**52,784**	**153**	**1,003**	**53,940**

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

NOTE 20. SUBSEQUENT EVENTS

Effective January 1, 2005, the Company acquired certain assets of ATS, including its Peterbilt truck dealerships in Texas and Tennessee for a total purchase price of $131.2 million. The acquisition provides Rush with rights to sell Peterbilt trucks and parts from new locations in Dallas, Fort Worth, Abilene and Tyler, Texas, and Nashville, Tennessee. The transaction was financed with Company cash of $76.9 million, expansion of the Company's existing floor plan agreement for truck inventory of $34.6 million and the issuance of debt of approximately $19.7 million to finance real estate and leasing vehicles. Of the $76.9 million paid in cash, $21.9 million was for the purchase of a note receivable from the selling shareholders of ATS. This $21.9 million was immediately repaid by the selling shareholders at closing, resulting in net cash used in the acquisition of $55.0 million. The acquisition expands the Company's presence in the southern United States and results in the Company operating Rush Truck Centers at 44 locations in nine states.

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

Other assets	$ 56
Inventories	46,626
Notes & leases receivable	22,925
Property and equipment, net	18,310
Accrued expenses	(2,705)
Goodwill	46,009
Total	$131,221

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

Stock Trading, Price Ranges and Dividends

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Effective at the close of business on July 9, 2002 (the "Record Date"), pursuant to action taken by the shareholders at the Annual Meeting of the Company held July 9, 2002, and described in the Proxy Statement dated May 15, 2002, the Board of Directors of the Company reclassified the outstanding common stock, $0.01 par value per share (the "Old Common Stock"), as Class B Common Stock, $0.01 par value per share (the "Class B Common Stock"), and declared a stock dividend of one share of a new Class A Common Stock, $.01 par value per share (the "Class A Common Stock"), for each share of Class B Common Stock held by shareholders of record on the Record Date. Each share of Class A Common Stock ranks substantially equal to each share of Class B Common Stock with respect to receipt of any dividends or distributions declared on shares of common stock and the right to receive proceeds on liquidation or dissolution of the Company after payment of the Company's indebtedness and liquidation preference payments to holders of preferred shares. However, holders of Class A Common Stock will have 1/20th of one vote per share on all matters requiring a shareholder vote, while holders of Class B Common Stock have one vote per share on all matters requiring a shareholder vote.

The Company's Old Common Stock was traded on The NASDAQ National Market® ("NASDAQ") under the symbol "RUSH" from June 7, 1996, the date of the Company's initial public offering, until July 9, 2002, the date of the stock reclassification and dividend described in Note 1. Subsequent to July 9, 2002, the Company's common stock trades on NASDAQ under the symbols "RUSHA" and "RUSHB."

Pursuant to a Registration Statement on Form S-3, declared effective by the SEC on November 18, 2004, the Company closed a public offering of 11,500,000 shares of Class A Common Stock at the offering price of $13.25 per share on November 24, 2004. Included in the offering were 2,750,000 shares sold by selling shareholders and 8,750,000 shares sold by the Company. Of the 8,750,000 shares sold by the Company, 1,500,000 shares were purchased pursuant to the underwriters' option to purchase additional shares to cover over-allotments of shares. The total value of the offering, excluding the value of the shares sold by the selling shareholders, was $115.9 million. A portion of the net proceeds from the offering were used to finance the Company's acquisition of ATS.

The following table sets forth the high and low trade prices for the Class A Common Stock and Class B Common Stock for the fiscal periods indicated, and as reported by NASDAQ. 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.

Fiscal 2004:	High	Low
Class A Common Stock		
First Quarter	**$ 12.30**	**$ 9.04**
Second Quarter	**$ 13.79**	**$ 10.77**
Third Quarter	**$ 14.08**	**$ 10.00**
Fourth Quarter	**$ 16.50**	**$ 10.27**
Class B Common Stock		
First Quarter	**$ 12.40**	**$ 9.06**
Second Quarter	**$ 14.05**	**$ 10.61**
Third Quarter	**$ 14.00**	**$ 11.05**
Fourth Quarter	**$ 17.72**	**$ 11.27**

Fiscal 2003:	High	Low
Class A Common Stock		
First Quarter	$ 3.87	$ 3.00
Second Quarter	$ 5.15	$ 3.21
Third Quarter	$ 6.90	$ 4.55
Fourth Quarter	$ 10.35	$ 6.27
Class B Common Stock		
First Quarter	$ 4.00	$ 3.30
Second Quarter	$ 5.70	$ 3.72
Third Quarter	$ 6.89	$ 4.806
Fourth Quarter	$ 10.74	$ 6.64

As of March 2, 2005, there were approximately 58 record holders of the Class A Common Stock and approximately 57 record holders of the Class B Common Stock and approximately 2,965 beneficial holders of the Class A Common Stock and approximately 1,304 beneficial holders of the Class B Common Stock.

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

Corporate and Shareholder Information

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

Board of Directors

W. Marvin Rush
Chairman and Chief Executive Officer
Rush Enterprises, Inc.

W.M. "Rusty" Rush
President and Chief Operating Officer
Rush Enterprises, Inc.

Thomas A. Akin*
Partner
Akin, Doherty, Klein and Feuge, P.C.

Ronald J. Krause*
Former President and
Chief Operating Officer
Associates Corporation of North America

Harold D. Marshall*
Former President and
Chief Operating Officer
Associates First Capital Corporation

John D. Rock*
Former Vice President
of General Motors and General
Manager — Oldsmobile Division

* *Member of Audit Committee, Compensation Committee and Nominating and Governance Committee*

Executive Officers Rush Enterprises, Inc.

W. Marvin Rush
Chairman and Chief Executive Officer

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

Martin A. Naegelin, Jr.
Senior Vice President and
Chief Financial Officer
Secretary, Treasurer

Daryl J. Gorup
Senior Vice President
Dealership Operations

Richard D. Hall
Vice President, Insurance

Brent G. Hughes
Senior Vice President
Financial Services

J.M. "Spike" Lowe, Jr.
Senior Vice President
Corporate Development

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

James E. Thor
Senior Vice President
Retail Sales

Derrek Weaver
Chief Compliance Officer and
Vice President of Legal Affairs

Shareholder Information

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

Independent Public Accountants
Ernst & Young LLP
San Antonio, Texas

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

Annual Meeting
The annual meeting of shareholders of the Company will be held at 10:00 A.M. CDT on May 25, 2005 at The Plaza Club, Frost National Bank Building, 21st Floor 100 W. Houston Street San Antonio, Texas 78205.

Availability of 10-K Report
Adam Friedman
Adam Friedman Associates LLC
11 East 44th Street, Fifth Floor
New York, NY 10017
(212) 981-2529 ext. 18

Website
www.rushenterprises. com

"Safe Harbor" Statement

All statements in this Annual Report that are not historical in nature, including various statements in the Letter to Our Shareholders regarding future goals, are forward-looking statements. These statements involve management assumptions and risks and uncertainties, including but not limited to: the Company's ability to improve financial results, return on sales and return on equity, and to successfully identify, finance and complete strategic acquisitions; successfully integrate acquired businesses; general economic conditions; general conditions in our business segments; the impact of competitive product and pricing, competitive factors, customer relations, relationships with vendors, the interest rate environment, governmental regulations and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, one-time events and other risks detailed from time to time in the Company's SEC filings. Consequently, if such management assumptions prove to be incorrect or such risks or uncertainties materialize, the Company's actual results could differ materially from the results forecast in the forward-looking statements. The Company does not intend to update these forward-looking statements.

Rush Enterprises, Inc.
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(830) 626-5200

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