2008

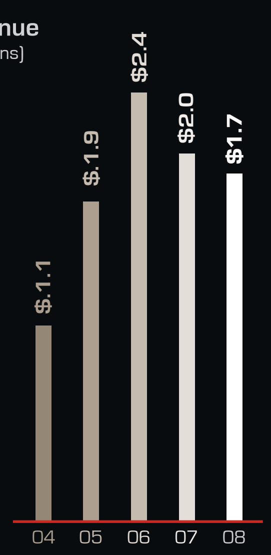
ANNUAL REPORT RUSH ENTERPRISES, INC.

ABOUT RUSH ENTERPRISES, INC.

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

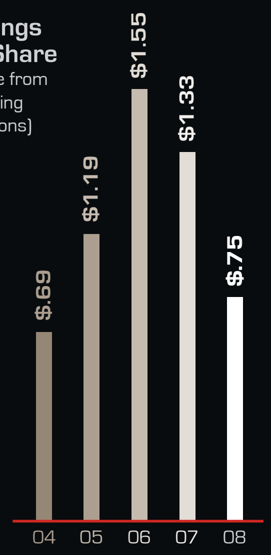
HIGHLIGHTS

Revenue
(in billions)

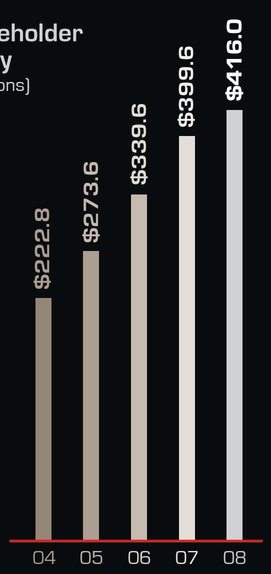


Income from Continuing Operations
(in millions)

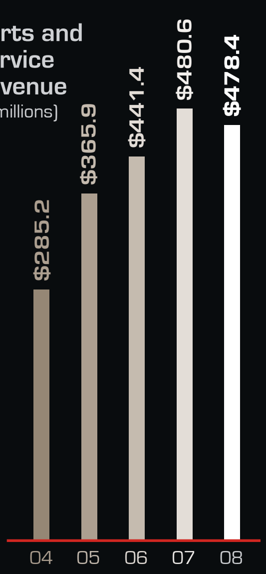
Earnings Per Share
(income from continuing operations)



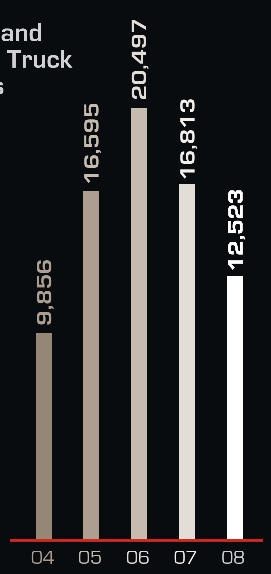
Shareholder Equity
(in millions)



Parts and Service Revenue
(in millions)



New and Used Truck Sales
(units)



Chairman's Letter

Never in my career have so many factors combined to create such a difficult operating environment. These times are certainly unprecedented in my lifetime. During these difficult times, it is easy to become downtrodden and frustrated. This is understandable when it seems that no matter what action we take things only seem to get worse. Even those businesses that are accustomed to operating in cyclical environments have been surprised by the swiftness and severity of this downturn.

However, I want you to know that I think our organization is different. In my letter to shareholders last year, I posed the question "have we built a sustainable business model and organization to move forward?" I answered that question "yes." The performance of our business in 2008 was testament to that, but the credit for our performance should go directly to our employees. In my humble opinion, our employees separate us from the rest of our competition and most other organizations in the world. Without their commitment and tireless effort, we would not have been able to continue to provide exemplary service to our customers during this downturn and simultaneously position ourselves for growth in the future.

Our team had many accomplishments this year but none as great as improving our absorption rate to a record 106%. Despite the economic downturn, we not only made a profit, but 2008 was the fourth most profitable year in the Company's history. It took a Herculean effort on the part of our employees to accomplish this given the current economic environment, and I believe it validates our business philosophy and methodology.

We are prepared for the tougher times that may lie ahead. Market conditions continue to deteriorate as I write this letter. However, I remain committed to our philosophy of "the customer is the boss" and will not waiver from our principles of excellence, fairness, productivity and positive attitude. Our balance sheet remains strong, and we will continue to invest for future growth. We will also continue to invest in our employees and provide a rewarding work environment. After all, we wouldn't be here without their efforts. Our employees' efforts to achieve a common goal have made the company I founded so many years ago more than just a place to work. I am eternally grateful for their efforts now more than ever.

W. Marvin Rush
Chairman

Chief Executive Officer's Letter

Every so often a perfect storm comes along. Unfortunately, they are not predictable and usually leave a devastating wake of destruction in their path. Metaphorically, I believe our industry entered a perfect storm in the second half of 2007. The economic environment has deteriorated so dramatically and for such a long duration that many people have found this to be the most challenging time of their careers. Looking back at the last eighteen months, I have been surprised at many of the events that transpired and the outcome of some. But one thing that has not surprised me is our team's ability to execute efficiently.

At this point in previous letters to you I usually summarize our financial accomplishments and then proceed to discuss the operations of the Company. While we all know 2008 was a tough year, I don't really think our decline in revenue or the absolute dollars the Company earned is the most important thing on your mind this year. The more important issue is whether or not the strategies Rush Enterprises has in place are the right strategies to lead it through these most difficult of times. I sincerely believe that the answer is yes.

We entered 2008 with the belief that a tough year was ahead of us, but no one predicted what was to occur in the financial markets and how that could impact the truck industry. Under the backdrop of declining demand for commercial vehicles, our revenues from parts, service and body shops remained relatively stable. This is the most profitable segment of our business and is the driver of our absorption rate. I have said many times that absorption rate is the most important metric we use to evaluate how efficiently our dealerships are operating. Absorption rate is defined as the gross profits from parts, service and body shop functions divided by the total costs of running a dealership. The only costs not included are the commissions on truck sales and the interest costs of owning the inventory. If a dealership is more than 100% absorbed, every dollar of gross profit from a truck sale, less commissions and carrying costs, goes to the bottom line.

Understanding that maintaining a high absorption rate is critical to the profitability of a dealership, we must monitor absorption rate and try to prevent it from decreasing to achieve reasonable earnings. Declining truck sales affect absorption because many truck buyers purchase additional add-on accessories through our parts departments. Those parts, in turn, are often installed on the truck by technicians in our service departments. Therefore, a decline in truck sales always has a negative impact on parts and service sales. Thus, absorption rate will decrease as truck sales decrease unless we take action to minimize the decrease. The only way to maintain or improve absorption is to grow customer revenues or reduce expenses. Unfortunately, due to industry conditions in 2008, we had no choice but to take action to reduce expenses.

We entered 2008 with the belief that a tough year was ahead of us.

Early in 2008, through our budgeting process and monthly management calls, we refocused our efforts to dramatically reduce expenses. These efforts resulted in our maintaining a 105% absorption rate for the first half of the year despite the reduction in truck sales.

In the second half of the year, business deteriorated further and parts, service and body shop revenues began to suffer. Peaking in the summer of 2008, parts, service and body shop revenues began a steady decline throughout the remainder of the year. During this timeframe, we were once again forced to reduce expenses in an effort to maintain our absorption rate. Fortunately, we were successful, and we finished the year with an absorption rate of 106%. I attribute this accomplishment to the dedication of our experienced management team. There is no question that our profits would have experienced a greater decline if we did not make the expense-cutting decisions that were made throughout 2008.

Simultaneous to industry demand deteriorating, an unprecedented financial crisis unfolded. Credit markets began tightening with the failure of the auction rate securities market early in the year and progressed to previously unimaginable levels in the fall. During this time, we were diligently protecting our credit sources and cash balances. To date, we have maintained our existing credit agreements under favorable terms, entered into new credit agreements with additional providers and preserved our cash investments.

However, the tightening credit markets negatively impacted our ability to sell retail finance contracts, which made it even more difficult to sell trucks. Our finance department did a tremendous job in this market by finding nontraditional financing sources to facilitate the sale of trucks.

Not all news was bad news in 2008. While the acquisition front was inhibited by our desire to preserve cash balances and focus on core operations, we did purchase a Charlotte, North Carolina dealership, which included the Peterbilt, International, Hino and Isuzu franchises, a Bluebird bus franchise in Texas and embarked on several new construction projects that will enhance our ability to provide customers with the unparalleled service they are accustomed to. My photo this year was taken at our new Oklahoma City, Oklahoma dealership, which is expected to be completed during 2009. We are currently expanding other locations and continue to evaluate expansion into new areas throughout our network. Expansions create additional shop space, which translates into additional parts, service and body shop department sales. Investment in our future, even during uncertain times, is critical to the continued success of Rush Enterprises.

We will capitalize on the opportunities this market may present.

In addition, we operate ancillary businesses such as finance and insurance, leasing, upfitting, chrome accessories and construction equipment. Each of these businesses was profitable in 2008, and we believe there are significant growth opportunities in some of these businesses. The profitability of our John Deere construction equipment division declined in 2008 due to deteriorating demand for construction equipment, but we remain optimistic about the long-term prospects in the construction equipment business. We believe our ancillary businesses diversify our earnings base and further our strategy of providing premium equipment and services to the commercial market.

In last year's annual report, I stated that 2008 was shaping up to be one of the most difficult business environments we had ever seen. Unfortunately, I was right. The bad news is that 2009 looks like it is going to be even worse than 2008. However, the good news is that the people within our organization are prepared for the worst. I cannot express how proud I am of the accomplishments of each employee of Rush Enterprises.

We enter 2009 on solid financial footing and are awaiting an economic recovery. Truck sales are expected to decline in the first half of 2009 from the already low levels of 2008. Revenues from parts, service and body shop departments have continued to decline in the early months of 2009. Consequently, I expect the first half of 2009 to be very difficult. The current recession has already lasted a long time, but it too will end. I remain optimistic about the long-term prospects of the economy and believe that there is pent-up demand for commercial equipment.

Historically, bad markets present opportunities for expansion through acquisition, and I believe we must capitalize on those opportunities. Hopefully, we will hit an economic inflection point soon that will allow us to strategically expand our network of locations or the scope of our product offerings. We are the premier distribution and services provider in our industry. Now, more than ever, I believe that our operating strategy will produce solid financial results given any economic environment. Our people are the difference, and I have every confidence in their ability to execute in good times and bad.

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

Plans for future growth continue as W. M. "Rusty" Rush, President and Chief Executive Officer of Rush Enterprises, Inc., inspects the progress on the new state-of-the-art dealership being built in Oklahoma City with Rush Truck Centers Regional Manager Corey Lowe. The new facility will open in 2009.

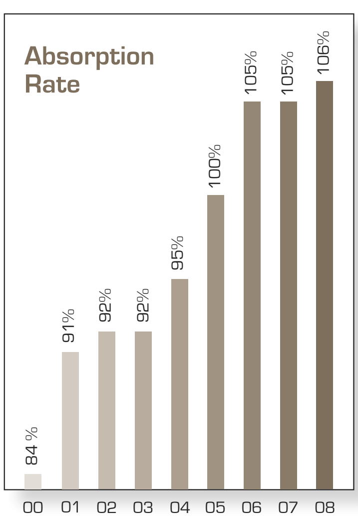

SWIFT

The Rush business model has proven to be viable and profitable, even during tough economic times. Our profitable operation in 2008 was testament to that.

Rush has been in business since 1965, and we have seen our share of economic ups and downs. While the current downturn in the truck business, compounded by unstable general economic conditions, is unprecedented, Rush Enterprises has proven the company can profitably withstand market cyclicality. Over the past several years, we have expanded our geographic reach, diversified the breadth of our product offerings and focused on growth markets and less cyclical areas of the business. This strategy enabled the company to remain profitable in 2008 despite a very tough economic climate.

Rush Enterprises provides products and services to commercial vehicle and equipment users, never losing focus on the practices that have always enabled us to survive tough economic times and emerge stronger than our competition:

- listening to our customers and responding to their needs
- making certain our customers always receive the very best service available
- representing a wide range of industry leading brands to offer quality products to virtually every market need
- expanding our product and service offerings to provide more to each customer



- extending our network's reach and scale
- ensuring that our employees are the best in the business and rewarding excellence
- providing the tools and systems to support our employees
- using discipline in our business practices based on past experience

A key metric we use to evaluate the performance of our Rush Truck Centers is our absorption rate – the gross profits from parts, service and body shop operations, divided by total overhead, exclusive of commissions on truck sales and interest on truck inventory. In 2000 our absorption rate was 84 percent; by 2008 a steady rise brought it to 106 percent. [shown in graph] Once a truck dealership's absorption rate exceeds 100 percent, every dollar of gross profit on truck sales, after commissions and interest cost, goes directly to the bottom line.

In 2008 Rush's absorption rate increased to 106%.

CHALLENGES, CHOICES AND OPPORTUNITIES

Rush leadership entered this challenging economic environment with experience managing through tough markets. We knew we would have to do more with less. Even though industry analysts forecasted the truck market to remain flat through 2008 relative to 2007, we expected conditions to worsen. Consequently, we made tough choices to downsize our workforce and cut other expenses beginning in early 2008. This was a sensible decision, because there was no market recovery and retail sales of new and used heavy- and medium-duty vehicles were down significantly over the previous year. Reducing overhead, operating efficiently and consciously managing expenses proved to be effective as we implemented expense-cutting plans throughout the year.

Management was careful to preserve liquidity to operate the business, and we took advantage of this environment to complete an $18 million stock repurchase to strengthen our financial position for the future.

BUILDING ON STRENGTHS AND LEVERAGING OUR SUCCESS

Rush continues to be the largest heavy- and medium-duty truck dealer in North America. We are the largest distributor of Peterbilt trucks as well as the largest medium-duty dealer network in the country for GMC. A contributor to this success is the full-service solution we provide at our coast-to-coast network of Rush Truck Centers. Because Rush offers one-stop sales and service, customers can buy or lease a new or used Peterbilt or other quality truck brand, such as GMC, Hino, International, Isuzu, UD or Ford with arrangements for financing and insurance, leasing or rental on-site. We even have specialists in vocational markets such as construction, refuse, crane and oilfield services. Throughout the course of vehicle ownership, Rush Truck Centers help customers prevent downtime through regular maintenance, warranty service and body shop repairs. We offer an extensive parts inventory and can even assist with chrome accessories or graphics in several locations to complete a customer's branding needs.

SERVICE IS THE CORNERSTONE OF OUR BUSINESS

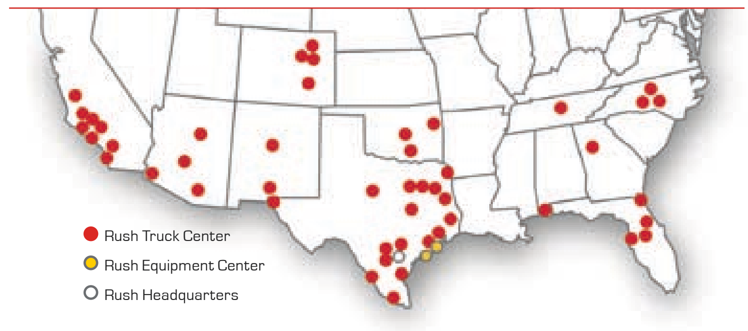
While on the surface it would appear that Rush's business is vehicle and equipment sales – service is the core of our business. We always say "trucks don't sell service; service sells trucks."

Whether our customers need routine maintenance or service repair, after hours service, fully-equipped mobile service or 24/7 emergency assistance, they can schedule maintenance or repairs at any of our 48 truck centers and 25 body shops by phone or online. Our service departments are fully equipped with state-of-the-art diagnostic computers and tools and are staffed by ASE-certified, factory trained technicians with access to an extensive inventory of parts and accessories for any make or model of commercial vehicle.

There are more than 650 service bays available within the Rush Truck Centers network, which is primarily located on major distribution routes across the southern half of the United States. A thorough understanding of the service business means that, even though our service-bay utilization rates are high, customers can get scheduled maintenance or have emergency on-the-road problems fixed expeditiously. Our goal is to keep the customer moving and productive.

If a customer experiences a problem while on the road or needs assistance at a job site, our mobile service trucks can provide assistance 24/7. Our mobile service trucks are staffed by some of our most experienced technicians and are fully equipped with on-board diagnostics, air delivery and welding capabilities – everything required to perform off-site service.

THE RUSH NETWORK (as of December 31, 2008)



Whether a customer receives service at a Rush Truck Center or on the road, the process is simplified by our electronic service record system. Service records are available across the network, and no matter which Rush Truck Center performs the service work, every location will stand behind the work performed. Rush treats its customers well because we know that, ultimately, the customer is the boss.

NETWORK AND PRODUCT EXPANSION

We made strategic changes to our Rush Truck Centers network in the past year, moving our truck center in El Centro, California to a new facility down the road in Yuma, Arizona, consolidating operations in Orlando and Winter Garden, Florida to an expanded truck center in Winter Garden and integrating a parts only store in Chandler, Arizona into the larger dealership facility in Phoenix.

Graphic design and production is available at select Rush Truck Centers locations throughout the country. This capability extends the company's one-stop sales and service philosophy by providing customer assistance with a range of branding and truck lettering needs.


RIG TOUGH
TRUCK PARTS
Tripod
Fender Mount
Convex Mirror

Rush Truck Centers is working with Peterbilt Motors Company to test new hybrid vehicle technology that will help reduce emissions and improve fuel economy for refuse trucks.

Strategic changes were made to the Rush Truck Center network in 2008.

In Charlotte, North Carolina, we acquired a Peterbilt, Hino and Isuzu dealership as well as an International truck dealership group. This marks our entry into the North Carolina market and the first time a Rush Truck Center has offered the International heavy- and medium-duty truck brand. We also expanded our Rush Truck Leasing business in Charlotte through the acquisition of an Idealease leasing franchise.

In 2008, Rush also introduced Rig Tough truck parts, a new proprietary line of quality truck parts and accessories for all makes of heavy-duty trucks. Rig Tough offers over 40 product categories and hundreds of parts. Rig Tough truck parts are currently available throughout the Rush Truck Centers network, and sales have seen a steady rise since being introduced in late 2008.

Rush Bus Centers, a new business group, headquartered in San Antonio, Texas, is now the largest Bluebird school bus dealer group in Texas and also represents the Diamond and Elkhart commercial bus brands. The commercial bus business offers an area of growth that enables us to leverage the capacity of our existing Rush Truck Centers and the skills of our technicians to offer services to new customers. Many components of buses, including engines, are shared with medium-duty trucks, so buses can be serviced at any Rush Truck Center without a major investment in parts inventory. When necessary, bus parts can be shipped overnight from a centralized bus parts facility near San Antonio to a Rush Truck Center.

Rush Equipment Centers, headquartered in Houston, Texas, which sells, services and leases John Deere construction equipment, added a new location in Beaumont, Texas to better serve the greater Houston market.

PLANNING, RESPONSIBILITY AND COMPETITIVENESS

Today's business environment has another dynamic than wasn't the case only a few years ago. Societal sustainability concerns, government regulations and responsible corporate stewardship require that vehicles and maintenance practices be designed to protect our environment and reduce our dependence on foreign oil.

Vehicles that use alternative fuels and hybrid technologies are now being introduced into the market, and many emission reduction benefits can be realized

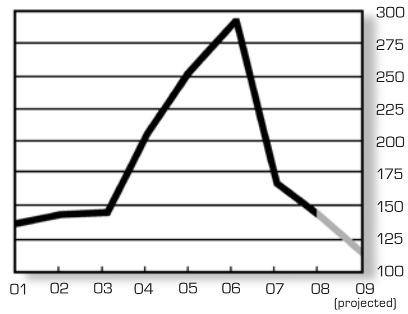
through aftermarket retrofits and engine replacements. The vehicle manufacturers that Rush represents are taking a leadership role in the development of these "green" vehicle technologies – including Peterbilt and International who now offer diesel electric hybrids. Additionally, Peterbilt is also offering natural gas-powered vehicles. Bluebird began offering propane-powered school buses in 2008 utilizing a GMC engine powered by the Clean Fuel USA propane system.

Government incentives such as tax credits, fuel rebates, purchase subsidies and other types of direct support have been put in place to encourage end-users to migrate to "green" technologies. Rush Truck Center sales professionals are providing education and support to customers in identifying the right programs and assistance in completing paperwork to help qualify for incentives.

In addition, Rush is able to take advantage of certain tax credits when municipalities, school districts and other tax-exempt entities purchase vehicles that qualify for such credits but are not able to use the credits. As a result, Rush can pass financial benefits to customers, providing a competitive advantage in this market. Along with state officials, Rush Bus Centers participated in a nine-city tour to visit school districts in Texas providing information on the benefits of using propane. We were also the first and only dealer group to offer a $7,000 per bus cash back rebate to districts who purchased Bluebird propane-powered school buses.

A series of EPA emissions regulations have driven down acceptable levels of diesel emissions since 2002, and the final set of regulations in the series will take effect in 2010. Manufacturers complied with regulations that went into effect in 2007 by adding Diesel Particulate Filters (DPFs) to vehicle exhaust systems. DPFs must be cleaned and maintained to function properly. To assist customers in this process, DPF cleaners have now been installed at many of our Rush Truck Center locations. Our technicians have also been trained to maintain and service the next generation hybrid drive systems and natural gas engines. Rush is working with component manufacturers to provide the latest in aftermarket technology such as auxiliary power units, electric power units and tire pressure monitors to help customers reduce fuel consumption and emissions.

U.S. CLASS 8 RETAIL TRUCK SALES
(units in thousands)



COMMITMENT, EXPERIENCE AND DISCIPLINE

It's a great challenge to manage well during uncertain economic times. The Rush management team has proven its commitment to excellence and productivity. They have instilled and actively nourished a positive attitude among employees at all levels. One strong benefit of experience is the knowledge that discipline – fiscal, managerial and organizational – can help weather a financial storm.

To improve organizational efficiencies and performance, Rush continued implementation of its SAP business enterprise software in 2008. We also continued to invest in the future with new facilities and infrastructure upgrades to help us meet our strategic goals.

Rush management worked diligently in 2008 to ensure that expense reduction measures had the intended effect and did not undermine morale or productivity. Our 2008 Annual Management Conference brought together senior management and our regional managers. We focused on the knowledge to be gained from the downturn, using it to ensure the company and our people will be stronger. Experience is a great teacher if we heed its lessons.

Throughout the year, senior management held regular conference calls, providing information and

A newly acquired Rush Truck Center location in Charlotte, North Carolina marks the first time the company will offer International brand vehicles.

communication to avoid fears and misunderstanding. These efforts emphasized maintaining a positive attitude in tough and uncertain times and ensuring that employees throughout the company knew their individual importance and received appropriate recognition and rewards for jobs well done.

CONFIDENCE, EXCELLENCE AND PRODUCTIVITY

Ultimately, the skills, capabilities and attitudes of everyone from the receptionist to the store manager, the service technician to the parts counter person, the truck sales representative to the accountant, make the difference between a company that sustains itself and one that fails.

Our technicians rose to the challenge of excellence at the Third Annual Technician Skills Rodeo, held in Nashville. More than 500 technicians volunteered, taking 750 skills tests to qualify for the Tech Rodeo. The 60 techs with the highest test scores earned trips to Nashville where they competed in diagnosing and repairing engines, transmissions and medium-duty trucks. Finalists competed in the overall heavy-truck competition. A total of $100,000 worth of cash and prizes (including hourly pay raises) was awarded to winners of the event. The event received wide spread national truck industry media coverage including online updates throughout the competition posted on YouTube.

DAY-TO-DAY EXCELLENCE

The Rush Cultural Award and Recognition Program was initiated in 2008 to acknowledge employees who demonstrate the key guiding principles of Rush Enterprises: productivity, excellence, fairness, positive attitude and "the customer is the boss," which appear on the Rush coin carried by every employee.

Following are two examples that prompted nominations for this award.

The Rush Truck Center in Phoenix needed a part that had to be ordered from Europe. Delivery time was about a month. Phoenix staff located a dealer in Tijuana, Mexico, that had the part and contacted John Demelo at the San Diego Center. John knew the dealer in Tijuana and ordered the part. When it got held up in customs, John drove to Tijuana, picked up the part, and sent it to Phoenix overnight, going out of his way to satisfy a customer.

It was 5pm – quitting time – when Herschel Williams received a call from the City of Houston Public Works Department. A dump truck had its body stuck in the raised position and was not safe to move. Herschel and co-worker Michael Henson gathered their tools and headed out. They diagnosed the problem, lowered the body, then drove the truck to the Rush Truck Center to make repairs. They returned the truck by 8pm, so it could be back in service that night.

Rush continues to succeed as an organization because our employees are dedicated to making us the best in our industry. We honor their extraordinary service, and our employees reflect their own job satisfaction to our customers.

Fully-equipped mobile service trucks allow Rush Truck Centers to provide roadside and job site maintenance and repair service for customers.

Rush Crane Systems provides specialized sales, service, leasing and rental for National and Manitex cranes suited for use in power line construction, oilfield services, outdoor advertising and construction material delivery.


HINO
GMC

Rush Bus Centers is the largest Bluebird school bus dealer in Texas and serves more than 900 school districts in the state through 14 conveniently located service facilities. The company also sells Diamond and Elkhart commercial buses.

THE ROAD AHEAD

We came through the unprecedented economic environment of 2008 in very strong financial shape – a tribute to the people in this company who exhibited extraordinary commitment and performance.

We are prepared to face the challenges ahead of us in 2009.

We fully expect 2009 to be a more difficult year than 2008. But we are ready to face the challenges and, capitalizing on the experience we continue to gain, make the right business decisions to remain a financially strong, profitable company, well positioned to optimize our shareholders' investments.

FOUNDER RECEIVES PRESTIGIOUS AWARDS

W. Marvin Rush, Founder and Chairman of Rush Enterprises, was named the 2008 American Truck Dealers' (ATD) Truck Dealer of the Year, the highest honor presented in the industry to truck dealers. The award was selected by an independent team of judges at Indiana University Kelley School of Business. Nominees are judged on excellence in business practices, industry contributions and community service. Duties that accompany this recognition include meeting with Congressional leaders as spokesman for truck dealers, honorary membership on the American Truck Dealer (ATD) Committee and service as dealer-in-residence at Indiana University, where he addressed business school classes. The competition is co-sponsored by ATD and *Heavy Duty Trucking* magazine. Mr. Rush received industry wide recognition for this honor along with profiles in leading trucking magazines.

Mr. Rush was also a 2008 recipient of the Outstanding Business Leader Award presented by the Northwood University Board of Trustees. Each awardee is selected on the basis of personal achievements and business success.

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

	Year Ended December 31,				
(in thousands, except per share amounts)	2008	2007	2006	2005	2004
SUMMARY OF INCOME STATEMENT DATA					
Revenues					
New and used truck sales	$1,041,189	$1,393,253	$1,780,418	$1,400,736	$738,225
Parts and service	478,439	480,611	441,424	365,908	285,206
Construction equipment sales	62,168	74,986	59,545	41,692	32,305
Lease and rental	54,813	52,103	41,776	33,975	27,193
Finance and insurance	12,291	21,663	19,197	15,356	7,909
Other	6,056	8,163	8,163	7,103	4,141
Total revenues	1,654,956	2,030,779	2,350,523	1,864,770	1,094,979
Cost of products sold	1,358,244	1,678,711	1,997,856	1,582,078	909,837
Gross profit	296,712	352,068	352,667	282,692	185,142
Selling, general and administrative	228,057	240,661	230,056	188,667	141,947
Depreciation and amortization	15,878	14,935	12,889	10,487	9,119
Operating income from continuing operations	52,777	96,472	109,722	83,538	34,076
Interest expense, net	7,830	14,909	15,718	12,895	5,950
Gain on sale of assets	140	239	54	495	624
Income from continuing operations before income taxes	45,087	81,802	94,058	71,138	28,750
Provision for income taxes	16,222	30,310	35,272	26,513	11,574
Income from continuing operations	28,865	51,492	58,786	44,625	17,176
(Loss) from discontinued operations, net	0	0	0	0	(260)
Net income	$ 28,865	$ 51,492	$ 58,786	$ 44,625	$ 16,916
Earnings Per Share:					
Earnings per Common Share – Basic					
Income from continuing operations	$ 0.76	$ 1.35	$ 1.57	$ 1.23	$ 0.73
Net income	$ 0.75	$ 1.35	$ 1.57	$ 1.23	$ 0.72
Earnings per Common Share – Diluted					
Income from continuing operations	$ 0.76	$ 1.33	$ 1.55	$ 1.19	$ 0.69
Net income	$ 0.75	$ 1.33	$ 1.55	$ 1.19	$ .068
Basic weighted average shares	38,089	38,059	37,476	36,303	23,526
Diluted weighted average shares and assumed conversions	38,587	38,746	37,890	37,436	24,911

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

	Year Ended December 31,				
	2008	2007	2006	2005	2004
OPERATING DATA					
Number of locations –	54	54	52	48	39
Unit truck sales –					
New trucks	9,289	12,712	16,492	12,918	7,140
Used trucks	3,234	4,101	4,005	3,677	2,716
Total unit trucks sales	12,523	16,813	20,497	16,595	9,856
Truck lease and rental units	2,570	2,404	2,345	1,798	1,427

	Year Ended December 31,				
(in thousands)	2008	2007	2006	2005	2004
BALANCE SHEET DATA					
Working capital	$ 177,117	$ 197,805	$ 156,297	$ 126,137	$ 138,241
Inventories	362,234	365,947	484,696	338,212	189,792
Total assets	1,056,790	1,031,591	1,128,410	840,234	565,933
Floor plan notes payable	282,702	273,653	446,354	315,985	168,002
Line-of-credit borrowings	–	–	–	2,755	2,434
Long-term debt, including current portion	209,677	198,945	192,124	133,152	96,056
Capital lease obligations, including current portion	14,820	17,543	17,732	16,905	—
Shareholders' equity	416,041	399,577	339,608	273,620	222,807

General

The ongoing weakness in the economy and deteriorating credit markets continue to impact consumer confidence and spending, and ultimately, our financial performance. These factors also make it extremely difficult for the Company to forecast future results of operations.

A.C.T. Research Co., LLC ("A.C.T. Research"), a truck industry data and forecasting service provider, currently predicts U.S. retail sales of Class 8 trucks of approximately 124,600 units in 2009, a 10.9% decline from the number of deliveries in 2008. However, the Company expects that 2009 sales of Class 8 units could be as low as 110,000 to 120,000 units. The Company expects the first quarter of 2009 to be the weakest quarter since the truck market downturn began in 2007. Based on current economic and market conditions, the Company does not expect a significant pre-buy of Class 8 trucks to occur in 2009 as a result of diesel emissions regulations that go into effect in 2010. However, the Company expects demand for new Class 8 trucks to gradually increase due to the age of vehicles in operation and impending 2010 diesel emissions regulations.

Medium-duty truck sales declined 31% in 2008 as compared to 2007. A.C.T. Research currently predicts U.S. retail sales of Class 4, 5, 6, and 7 medium-duty trucks of approximately 167,500 units in 2009, a 5% decline from the number of deliveries in 2008. The Company believes U.S. retail sales of medium-duty trucks in 2009 could be off as much as 15% compared to 2008.

The Company's parts, service and body shop sales decreased 0.5% in 2008 compared to 2007. The Company's truck dealerships overall absorption rate was 105.5%, in 2008 compared to 104.5% in 2007, while same store absorption rate increased to 106.2% for 2008.

In 2008, the Company's construction equipment segment revenue decreased by 13.8%. This decrease was largely attributable to the weakening construction market in the Houston area. Current industry forecasts suggest that construction equipment sales will decline approximately 30% in the Company's area of responsibility during 2009.

The Company is continuing its strategic focus to improve the quality of earnings by building a network that is diverse in product offerings, customer base and geography.

Stock Dividend

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

Critical Accounting Policies and Estimates

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

Inventories

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

Goodwill

As stated in Note 2 of the Notes to the Consolidated Financial Statements, the Financial Accounting Standards Board's (the "FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") requires that goodwill and other intangible assets that have indefinite lives not be amortized but instead be tested at least annually by reporting unit for impairment, or more frequently when events or changes in circumstances indicate that the asset might be impaired, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. For indefinite lived intangible assets, impairment is tested by comparing the carrying value of the asset to the fair value of the reporting unit, which is the same as the segment to which they are assigned.

For its goodwill impairment tests, the Company determines the fair value of its reporting units using the discounted cash flow method. The discounted cash flow method uses various assumptions and estimates regarding future revenue, expenses and cash flow projections. The analysis is based upon available information regarding expected future cash flows of each reporting unit discounted at rates consistent with the cost of capital specific to the reporting unit. If the carrying amount of the reporting unit exceeds the estimated fair value determined using the discounted cash flow method, then goodwill impairment may be present.

Goodwill was tested for impairment during the fourth quarter of 2008 and no impairment write down was required. However, the Company cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill in the future. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions or the impact of the current economic environment.

Revenue Recognition Policies

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

Finance and Insurance Revenue Recognition

Finance income related to the sale of a unit is recognized when the finance contract is sold to a finance company. During 2008, 2007 and 2006, finance contracts were not retained by the Company for any significant length of time because finance contracts are generally sold to finance companies concurrent with the sale of the related unit. The Company arranges financing for customers through various retail funding sources and receives a commission from the lender equal to either the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. The Company also receives commissions from the sale of various insurance products to customers. Revenue is recognized by the Company upon the sale of such finance and insurance contracts to the finance and insurance companies net of a provision for estimated repossession losses and interest charge-backs on finance contracts. The Company is not the obligor under any of these underlying contracts. In the case of finance contracts, a customer may prepay, or fail to pay, thereby terminating the underlying contract. If the customer terminates a retail finance contract or other insurance product prior to scheduled maturity, a portion of the commissions previously paid to the Company may be charged back to the Company depending on the terms of the relevant contracts. The estimate of ultimate charge-back exposure is based on the Company's historical 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 partially 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 third-party administrators to determine the reasonableness of the calculations it performs.

Accounting for Income Taxes

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

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

Effective January 1, 2007, the Company adopted FIN 48. This interpretation clarified the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 prescribes how a company should recognize, measure, present and disclose uncertain tax positions that the company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits that meet the "more likely than not" recognition threshold be recognized or continue to be recognized on its effective date. The Company's income tax expense includes the impact of reserve provisions and changes to reserves that it considers appropriate, as well as related interest. Unfavorable settlement of any particular issue would require use of the Company's cash and a charge to income tax expense. Favorable resolution would be recognized as a reduction to income tax expense at the time of resolution.

For additional information regarding the adoption of FIN 48, see Note 15 of Notes to the Consolidated Financial Statements.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors including employee stock options, restricted share awards and employee stock purchases related to the Employee Stock Purchase Plan based on estimated fair values.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company's Consolidated Financial Statements reflect the impact of SFAS 123(R). Stock-based compensation expense related to stock options and employee stock purchases under SFAS 123(R) for the year ended December 31, 2008, was $3.6 million, for the year ended December 31, 2007, was $3.4 million and for the year ended December 31, 2006, was $2.6 million.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The fair value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statements of Income. Stock-based compensation expense is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. In conjunction with the adoption of SFAS 123(R), compensation expense for all share-based payment awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized in the Consolidated Statements of Income is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

New Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value to be recognized in earnings until settled. SFAS 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) to have a significant impact on its consolidated results of operations and financial position, but will impact accounting for any business combinations that close on or after January 1, 2009.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." EITF 03-6-1 requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents to be treated as participating securities as defined in EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, "Earnings per Share." Upon adoption, all previously reported earnings per share data should be adjusted retrospectively to conform with the requirements of EITF 03-6-1. The Company is required to adopt EITF 03-6-1 starting in 2009. The Company does not expect EITF 03-6-1 to have an effect on its consolidated financial statements.

Key Performance Indicator

Absorption Rate. The management of the Company uses several performance metrics to evaluate the performance of its dealerships. The Company considers its "absorption rate" to be of critical importance. Absorption rate is calculated by dividing the gross profit from the parts, service and body shop departments by the overhead expenses of all of a dealership's departments, except for the selling expenses of the new and used truck departments and carrying costs of new and used truck inventory. When 100% absorption is achieved, then gross profit from the sale of a truck, after sales commissions and inventory carrying costs, directly impacts operating profit. In 1999, the Company's truck dealerships' absorption rate was approximately 80%. The Company has made a concerted effort to increase its absorption rate since then. The Company's truck dealerships achieved a 104.5% absorption rate for the year in 2007 and 105.5% absorption rate for the year in 2008.

Results of Operations

The following discussion and analysis includes the Company's historical results of operations for 2008, 2007 and 2006.

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

	Year Ended December 31,		
	2008	2007	2006
New and used truck sales	62.9 %	68.6 %	75.8%
Parts and service	28.9	23.7	18.8
Construction equipment sales	3.8	3.7	2.5
Lease and rental	3.3	2.5	1.8
Finance and insurance	0.7	1.1	0.8
Other	0.4	0.4	0.3
Total revenues	100.0	100.0	100.0
Cost of products sold	82.0	82.7	85.0
Gross profit	18.0	17.3	15.0
Selling, general and administrative	13.8	11.9	9.8
Depreciation and amortization	1.0	0.7	0.5
Operating income	3.2	4.7	4.7
Interest expense, net	0.5	0.7	0.7
Income before income taxes	2.7	4.0	4.0
Income taxes	1.0	1.5	1.5
Net income	1.7 %	2.5 %	2.5%

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

				% Change	
	2008	2007	2006	2008 vs 2007	2007 vs 2006
Truck unit sales:					
New heavy-duty trucks	5,516	7,230	11,799	-23.7%	-38.7%
New medium-duty trucks	3,773	5,482	4,693	-31.2%	16.8%
Total new trucks	9,289	12,712	16,492	-26.9%	-22.9%
Used trucks	3,234	4,101	4,005	-21.1%	2.4%
Truck revenue:					
New heavy-duty trucks	$ 665.5	$ 871.8	$ 1,317.9	-23.7%	-33.8%
New medium-duty trucks	222.1	289.4	253.0	-23.3%	14.4%
Total new truck revenue	$ 887.6	$ 1,161.2	$ 1,570.9	-23.6%	-26.1%
Used truck revenue	$ 149.9	$ 211.7	$ 191.9	-29.2%	10.3%
Other truck revenue (1)	$ 3.7	$ 20.4	$ 17.6	-81.9%	15.9%
Truck dealership absorption rate:	105.5%	104.5%	105.2%	1.0%	-0.7%

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

Industry

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

Heavy-Duty Truck Market

The Company serves the southern U.S. retail heavy-duty truck market, which is affected by a number of factors relating to general economic conditions, including fuel prices, government regulation, interest rate fluctuations, economic recessions and customer business cycles. In addition, unit sales of new trucks have historically been subject to substantial cyclical variation based on such general economic conditions. According to data published by A.C.T. Research, in recent years total U.S. retail sales of new Class 8 trucks have ranged from a low of approximately 140,000 in 2001 and 2008 to a high of approximately 291,000 in 2006. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds. The Company's share of the U.S. Class 8 truck sales market decreased approximately 15% to 3.9% in 2008, down from 4.6% in 2007. We attribute the majority of this decrease in market share to the fact that most of our major fleet customers did not purchase any vehicles in 2008. We believe that our share of the U.S. Class 8 truck sales market should return to approximately 4.3% to 4.6% when our large fleet customers resume normal purchasing practices.

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

A.C.T. Research currently estimates approximately 124,600 new Class 8 trucks will be sold in the United States in 2009, compared to approximately 140,000 new trucks sold in 2008. However, the Company believes that 2009 sales of Class 8 trucks could be as low as 110,000 to 120,000. A.C.T. Research currently forecasts sales of Class 8 trucks in the U.S. to be approximately 170,000 in 2010. The Company expects the first quarter of 2009 to be the weakest quarter since the truck market downturn began in 2007. Based on current economic and market conditions, the Company does not expect a significant pre-buy of Class 8 trucks to occur in 2009 as a result of diesel emissions regulations that go into effect in 2010. However, the Company believes that demand for new Class 8 trucks will gradually increase throughout 2009 due to the age of vehicles in operation and impending 2010 diesel emissions regulations if general economic conditions begin to improve.

Medium-Duty Truck Market

Many of our Rush Truck Centers sell medium-duty trucks manufactured by Peterbilt, International, GMC, Hino, UD, Ford or Isuzu, and all of our Rush Truck Centers provide parts and service for medium-duty trucks. Medium-duty trucks are principally used in short haul, local markets as delivery vehicles. Medium-duty trucks typically operate locally and generally do not venture out of their service areas overnight.

A.C.T. Research currently forecasts sales of Class 4 through 7 trucks in the U.S. to be approximately 167,500 in 2009 compared to 176,000 in 2008. The Company believes that U.S. retail sales of medium-duty trucks could be off as much as 15% compared to 2008, resulting in sales of only approximately 150,000 medium-duty trucks in 2009. A.C.T. Research currently forecasts sales of Class 4 through 7 trucks in the U.S. to be approximately 176,500 in 2010. See Note 17 to the Company's Consolidated Financial Statements for a discussion of the Company's medium-duty acquisitions in 2008.

Construction Equipment Market

Our Rush Equipment Centers are authorized John Deere construction equipment dealers serving Southeast Texas. According to data compiled by John Deere, approximately 2,404 units of construction equipment were put into use in our area of responsibility in 2008 compared to 2,949 in 2007. In 2008, we expect new construction equipment unit sales to decrease approximately 25% to 30% in our area of responsibility to approximately 1,800 units. John Deere's market share in the Houston area construction equipment market, which includes shipments of John Deere equipment to customers that did not purchase such equipment from a Rush Equipment Center, decreased to 18.2% in the in 2008 from 22.2% in 2007. The Company's market share in the Houston area construction equipment market decreased to 16.9% in 2008 from 18.4% in 2007. This decrease in market share was largely attributable to other manufacturer's dealers purchasing large quantities of equipment to add to their rental fleets. Our Rush Equipment Centers have the right to sell new John Deere construction equipment and parts within its assigned area of responsibility, which means competition within its market comes primarily from dealers of competing manufacturers and rental companies.

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

Market factors affecting the construction equipment industry include the following:

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

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

Revenues

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

The Company sold 5,516 heavy-duty units in 2008, a 23.7% decrease compared to 7,230 heavy-duty trucks in 2007. According to A.C.T. Research, the U.S. Class 8 truck market decreased 11.2% in 2008 compared to 2007. The Company's share of the U.S. Class 8 truck sales market decreased approximately 15% to 3.9% in 2008, down from 4.6% in 2007. The Company expects its share to range between 3.9% and 4.1% of the U.S. Class 8 truck market in 2009, which would result in the sale of approximately 4,400 to 4,800 Class 8 trucks based on our current retail sales estimates of 110,000 to 120,000 units. These estimates are based on our assumption that most of our large fleet customers will not resume normal purchasing practices until 2010.

The Company sold 3,773 medium-duty trucks in 2008, a 31.2% decrease compared to 5,482 medium-duty trucks in 2007. Overall, new medium-duty truck sales revenue decreased approximately $67.3 million, or 23.3%, in 2008 compared to 2007. A.C.T. Research estimates that unit sales of Class 4 through 7 trucks in the U.S. decreased approximately 27% in 2008 compared to the 2007. In 2008, the Company achieved a 2.1% share of the Class 4 through 7 truck sales market in the U.S down from 2.2% in 2007. The Company expects its share to range between 1.9% to 2.0% of the U.S. Class 4 through 7 truck sales market in 2009, which would result in the sale of approximately 3,200 to 3,500 Class 4 through 7 trucks based on A.C.T. Research's current 2009 U.S. retail sales estimates of approximately 167,500 units.

The Company sold 3,234 used trucks in 2008, a 21.1% decrease compared to 4,101 used trucks in 2007. Used truck average revenue per unit decreased by approximately 10.2% in 2008. For 2009, used truck sales volumes and prices will be primarily driven by general economic conditions, fuel prices and the availability of credit, which collectively have had a severe impact on this market during 2008. The Company does not believe that demand for used trucks will increase until general economic conditions begin to improve and credit is made available to a wider range of buyers on reasonable terms. The Company is hopeful this will happen in the second half of 2009. Accordingly, the Company expects to sell approximately 2,800 to 3,200 used trucks in 2009.

Parts and service sales decreased $2.2 million, or 0.5%, in 2008 compared to 2007. Same store parts and service sales decreased $19.9 million, or 4.1%, in 2008 compared to 2007 primarily due to weakening economic conditions. The Company expects parts and service sales to decrease slightly during 2009 relative to 2008.

Sales of new and used construction equipment decreased $12.8 million, or 17.1%, in 2008 compared to 2007. This decrease was largely attributable to the weakening construction market in the Houston area. John Deere's rolling twelve month average market share in the Houston area construction equipment market decreased to 18.2% as of December 31, 2008 from a rolling twelve month average of 22.2% as of December 31, 2007. This decrease in market share was largely attributable to other manufacturer's dealers purchasing large quantities of equipment to add to their rental fleets. In 2009, the Company expects new construction equipment unit sales in our area of responsibility to decrease approximately 25% to 30%, compared to 2008.

Truck lease and rental revenues increased $2.7 million, or 5.2%, in 2008 compared to 2007. This increase in lease and rental revenue is consistent with management's expectations, considering the increased number of units put into service in the rental fleet during 2008, which was primarily due to the acquisition of an Idealease location in North Carolina. The lease and rental fleet increased approximately 6.9% to 2,570 units at December 31, 2008 from 2,404 units at December 31, 2007. The Company expects lease and rental revenue to increase approximately 2% to 5% in 2009 compared to 2008.

Finance and insurance revenues decreased $9.4 million, or 43.3%, in 2008 compared to 2007. The decrease in finance and insurance revenue is a direct result of the decline in truck sales and the tight credit market. The Company expects finance and insurance revenue to fluctuate proportionately with the new Class 8 truck market in 2009. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

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

Gross Profit

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

Gross margins on Class 8 truck sales decreased to 7.7% in 2008 from 8.6% in 2007. A large portion of the decrease in gross margins on Class 8 trucks was due to write-downs on the value of new truck inventory throughout 2008. Gross margins on Class 8 truck sales were also negatively impacted by decreased demand for new trucks as a result of uncertain economic conditions, the weak freight environment, historically high fuel prices throughout most of 2008, and tightening credit markets. In 2009, the Company expects overall gross margins from Class 8 truck sales of approximately 6.0% to 7.0%. The Company continually evaluates its reserve for new truck valuation losses. The Company recorded expense of $5.2 million to increase its new heavy-duty truck valuation allowance in 2008 and $3.3 million in 2007.

Gross margins on medium-duty truck sales decreased to 5.1% in 2008 from 5.5% in 2007. Medium-duty gross margins were negatively impacted by the same factors that adversely impacted gross margins on Class 8 truck sales in 2008. Gross margins on medium-duty trucks are difficult to forecast accurately because gross margins vary significantly depending upon the mix of fleet and non-fleet purchasers and types of medium-duty trucks sold. For 2009, the Company expects overall gross margins from medium-duty truck sales of approximately 5.0% to 5.5%. The Company recorded expense of $1.7 million to increase its new medium-duty truck valuation allowance in 2008 and $2.8 million in 2007.

Gross margins on used truck sales decreased to 3.6% in 2008 from 8.6% in 2007. Write-downs of used truck inventory values throughout 2008 caused gross margins on used truck sales to decrease in 2008 compared to 2007. The write-downs were necessary because of decreased demand for used trucks as a result of worsening general economic conditions, decreased freight demand, and the tight credit market. The Company is hopeful that margins on used trucks will be in the range of approximately 6.5% to 8.5% during 2009, but this will largely depend upon general economic conditions and the availability of credit. The Company continually evaluates its reserve for used truck valuation losses. The Company recorded expense of $8.5 million to increase its used truck valuation allowance in 2008 and $2.9 million in 2007.

Gross margins from the Company's parts, service and body shop operations increased to 41.1% in 2008 from 40.9% in 2007. Gross profit for the parts, service and body shop departments decreased slightly to $196.5 million in 2008 from $196.7 million in 2007. The Company expects gross margins on parts, service and body shop operations of approximately 39.0% to 41.0% during 2009.

Gross margins on new and used construction equipment sales decreased to 9.8% in 2008 from 11.0% in 2007. This decrease in gross margin is primarily attributable to decreased demand for construction equipment in the Houston market and our continued efforts to increase John Deere's market share. The Company expects 2009 gross margins to remain in a range of approximately 9.0% to 11.0% as the Company continues efforts to increase its market share.

Gross margins from truck lease and rental sales decreased to 14.5% in 2008 from approximately 15.4% in 2007. The decrease in the gross margin from lease and rental sales is primarily due to the decreased utilization of crane-mounted trucks in our rental fleet. The Company expects gross margins from lease and rental sales of approximately 15.0% to 18.0% during 2008. The Company's policy is to depreciate its lease and rental fleet using a straight line method over the customer's contractual lease term. The lease unit is depreciated to a residual value that approximates fair value at the expiration of the lease term. This policy results in the Company realizing reasonable gross margins while the unit is in service and a corresponding gain or loss on sale when the unit is sold at the end of the lease term.

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

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses decreased $12.6 million, or 5.2%, in 2008 compared to 2007. SG&A expenses as a percentage of sales increased to 13.8% in 2008 from 11.9% in 2007. SG&A expenses as a percentage of sales have historically ranged from 10.0% to 15.0%. In 2008, the selling portion of SG&A expenses, which consists primarily of commissions on truck and construction equipment sales, decreased 28.7% and the general and administrative portion of SG&A decreased 2.3% compared to 2007. In 2009, the Company expects the selling portion of SG&A expenses to be approximately 25% to 28% of new and used truck gross profit. The selling portion of SG&A varies based on the gross profit derived from truck sales. The Company took action throughout 2008 to reduce overhead expenses to a level more appropriate to serve the current market. For 2009, the Company will continue to adjust the general and administrative portion of SG&A in accordance with market conditions.

Interest Expense, Net

Net interest expense decreased $7.1 million, or 47.5%, in 2008 compared to 2007. In 2008, floor plan interest expense decreased compared to 2007 primarily due to the decrease in floor plan notes payable throughout most of 2008 and lower floor plan interest rates. If floor plan interest rates remain at current levels, the Company expects net interest expense in 2009 to decrease approximately 10.0% compared to 2008.

Income Before Income Taxes

Income before income taxes decreased $36.7 million, or 44.9%, in 2008 compared to 2007, as a result of the factors described above. The Company believes that income before income taxes in 2009 will decrease compared to 2008 based on the factors described above.

Income Taxes

Income taxes decreased $14.1 million, or 46.5%, in 2008 compared to 2007. The Company provided for taxes at a 36.0% effective rate in 2008 and expects the effective tax rate to be approximately 37.0% in 2009. The decrease in the Company's effective tax rate results from the application of tax credits for sales of alternative fuel vehicles to tax-exempt municipalities that claim the tax credits. During 2009, the Company expects to continue to apply for alternative fuel vehicle tax credits for sales of alternative fuel vehicles to tax-exempt municipalities. These transactions will increase the Company's SG&A expense because the Company passes a portion of these credits on to these tax-exempt municipalities in the form of a discretionary rebate. As a result, the Company's effective tax rate may vary significantly depending on the number of alternative fuel vehicles sold to tax-exempt entities.

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

Revenues

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

Unit sales of new Class 8 trucks decreased 38.7% in 2007 compared to 2006. According to A.C.T. Research, the U.S. Class 8 truck market decreased 46.2% in 2007 compared to 2006. In 2007, the Company's share of the U.S. Class 8 truck market increased to 4.6% compared to 4.1% in 2006.

Unit sales of new medium-duty trucks increased 16.8% in 2007 compared to 2006. Acquisitions contributed to this increase in unit sales of medium-duty trucks. Overall, new medium-duty truck sales revenue increased approximately $36.4 million, or 14.4%, in 2007 compared to 2006.

Unit sales of used trucks increased 2.4% in 2007 compared to 2006. Used truck average revenue per unit increased by approximately 7.7%.

Parts and service sales increased $39.2 million, or 8.9%, in 2007 compared to 2006. Same store parts and service sales increased $25.7 million, or 5.8%, in 2007 compared to 2006.

Sales of new and used construction equipment increased $15.4 million, or 25.9%, in 2007 compared to 2006. During 2007, the Company continued its concerted effort to increase its market share in the Houston area. According to data compiled by John Deere, approximately 2,949 units of construction equipment were put into use in our area of responsibility in 2007 compared to 2,585 in 2006.

Truck lease and rental revenues increased $10.3 million, or 24.7%, in 2007 compared to 2006. This increase in lease and rental revenue was consistent with management's expectations, considering the increased number of units put into service in the rental fleet during the last quarter of 2006. The lease and rental fleet increased approximately 2.5% to 2,404 units at December 31, 2007 from 2,345 units at December 31, 2006.

Finance and insurance revenues increased $2.5 million, or 12.8%, in 2007 compared to 2006. This increase was due to the Company arranging financing on a higher percentage of trucks it sold during 2007 than during 2006 and to a $1.4 million nonrecurring reserve release related to the Company's early repayment charge back program. The Company expected finance income from new Class 8 truck sales to decrease during 2007 compared to 2006 because of the expected decline in new Class 8 truck sales. However, this decrease was offset by increases in finance revenue from medium-duty truck sales, the nonrecurring reserve release, and insurance revenue resulting from product expansion and acquisitions.

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

Gross Profit

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

Gross margins on Class 8 truck sales increased to 8.6% in 2007 from 7.2% in 2006. The Company's 2007 gross margins on Class 8 trucks increased because a larger percentage of sales were to non-fleet customers. The Company recorded expense of $3.3 million to increase its new heavy-duty truck valuation allowance in 2007 and $1.3 million in 2006.

Gross margins on medium-duty truck sales decreased to 5.5% in 2007 from 5.7% in 2006. The Company recorded expense of $2.8 million to increase its new medium-duty truck valuation allowance in 2007 and $1.6 million in 2006.

Gross margins on used truck sales decreased to 8.6% in 2007 from 9.1% in 2006. The Company recorded expense of $2.9 million to increase its used truck valuation allowance in 2007 and $0.4 million in 2006.

Gross margins from the Company's parts, service and body shop operations decreased to 40.9% in 2007 from 41.1% in 2006. Gross profit for the parts, service and body shop departments increased to $196.7 million in 2007 from $181.6 million in 2006.

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

Gross margins from truck lease and rental sales decreased to 15.4% in 2007 from approximately 21.9% in 2006. The decrease in the gross margin from lease and rental sales was primarily due to the decline in the utilization of the rental fleet, which is a result of the additions to our rental fleet in 2006.

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

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses increased $10.6 million, or 4.6%, in 2007 compared to 2006. SG&A expenses as a percentage of sales increased to 11.9% in 2007 from 9.8% in 2006. In 2007, the selling portion of SG&A expenses, which consists primarily of commissions on truck sales, decreased 12.6% and the general and administrative portion of SG&A increased 7.3% compared to 2006.

Interest Expense, Net

Net interest expense decreased $0.8 million, or 5.1%, in 2007 compared to 2006. In 2007, floor plan interest expense decreased compared to 2006 primarily due to the decrease in floor plan notes payable. To take advantage of increased truck demand in 2006, the Company maintained higher levels of truck inventory than it has traditionally maintained, which increased the Company's floor plan notes payable in 2006 and the first half of 2007. The decrease in net interest expense in 2007 was compounded by earnings on the Company's investment of available cash.

Income Before Income Taxes

Income before income taxes decreased $12.3 million, or 13.0%, in 2007 compared to 2006, as a result of the factors described above.

Income Taxes

Income taxes decreased $5.0 million, or 14.1%, in 2007 compared to 2006. The Company provided for taxes at a 37.0% effective rate in 2007.

Liquidity and Capital Resources

The Company's short-term cash requirements are primarily for working capital, inventory financing, the improvement and expansion of existing facilities, the implementation of SAP enterprise software and dealership management system, and the construction of new facilities. Historically, these cash requirements have been met through the retention of profits and borrowings under our floor plan arrangements. As of December 31, 2008, the Company had working capital of approximately $177.1 million, including $146.4 million in cash available to fund our operations. The Company believes that these funds are sufficient to meet its short-term and long-term cash requirements.

The Company may request working capital advances in the minimum amount of $100,000 from GE Capital, its primary truck lender. However, such working capital advances may not cause the total indebtedness owed GE Capital to exceed an amount equal to the wholesale advances made against the then current inventory less any payment reductions then due. There were no working capital advances outstanding under this agreement at December 31, 2008.

The Company has a secured line of credit that provides for a maximum borrowing of $8.0 million. There were no advances outstanding under this secured line of credit at December 31, 2008, however, $5.9 million was pledged to secure various letters of credit related to self-insurance products, leaving $2.1 million available for future borrowings as of December 31, 2008.

The Company's long-term real estate debt agreements require the Company to satisfy various financial ratios such as the debt to worth ratio and the fixed charge coverage ratio. The Company's floor plan financing agreement with GE Capital does not contain financial covenants. At December 31, 2008, the Company is in compliance with all debt covenants. The Company does not anticipate any breach of the covenants in the foreseeable future.

Titan Technology Partners is currently implementing SAP enterprise software and a new SAP dealership management system for the Company. The total cost of the SAP software and implementation is estimated to be approximately $30.0 million to $32.0 million. As of December 31, 2008, the Company had expenditures of $20.9 million related to the SAP project. The Company expects to spend approximately $7.0 million to $8.0 million related to the SAP project in 2009.

The Company is currently constructing a new facility for its Rush Truck Center location in Oklahoma City, Oklahoma at an estimated cost of $12.0 million. As of December 31, 2008, the Company had expenditures of $3.1 million related to the construction of the new facility.

On July 22, 2008, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase, from time to time, up to an aggregate of $20,000,000 of its shares of Class A common stock and/or Class B common stock. Repurchases will be made at times and in amounts as the Company deems appropriate and will be made through open market transactions, privately negotiated transactions and other lawful means. The manner, timing and amount of any repurchases will be determined by the Company based on an evaluation of market conditions, stock price and other factors, including those related to the ownership requirements of its dealership agreements with manufacturers it represents. The stock repurchase program has no expiration date and may be suspended or discontinued at any time. While the stock repurchase program does not obligate the Company to acquire any particular amount or class of common stock, the Company anticipates that it will be repurchasing primarily shares of its Class B common stock. As of December 31, 2008, the Company has repurchased 1,639,843 shares of its Class B common stock at a cost of $17.9 million.

The Company has no other material commitments for capital expenditures as of December 31, 2008, except that the Company will continue to purchase vehicles for its lease and rental division and authorize capital expenditures for improvement and expansion of its dealership facilities based on market opportunities. The Company expects to purchase trucks worth approximately $30.0 million for its leasing operations in 2009, depending on customer demand.

Cash Flows

Cash and cash equivalents decreased by $40.6 million during the year ended December 31, 2008 and increased by $25.5 million during the year ended December 31, 2007. The major components of these changes are discussed below.

Cash Flows from Operating Activities

Cash flows from operating activities include net income adjusted for non-cash items and the effects of changes in working capital. During 2008, operating activities resulted in net cash provided by operations of $83.1 million. Cash provided by operating activities was primarily impacted by the decreased levels of new truck inventory, offset by decreases in accounts payable and accrued expenses. The majority of truck inventory is financed through the Company's floor plan financing provider. During 2007, operating activities resulted in net cash provided by operations of $258.7 million.

Cash flows from operating activities as adjusted for all draws and (payments) on floor plan notes ("Adjusted Cash Flows from Operating Activities") was $88.9 million for the year ended December 31, 2008 and $86.0 million for the year ended December 31, 2007. Generally, all vehicle and construction equipment dealers finance the purchase of vehicles and construction equipment with floor plan borrowings, and our agreements with our floor plan providers require us to repay amounts borrowed for the purchase of such vehicles and equipment immediately after they are sold. As a result, changes in floor plan notes payable are directly linked to changes in vehicle and construction equipment inventory. However, as reflected in our consolidated statements of cash flows, changes in inventory are recorded as cash flows from operating activities, and draws and (payments) on floor plan notes are recorded as cash flows from financing activities.

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

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

	Year ended December 31,	
	2008	2007
Net cash provided by operating activities (GAAP)	$ 83,059	$ 258,701
Draws (payments) on floor plan notes payable	5,864	(172,701)
Adjusted Cash Flows from Operating Activities (Non-GAAP)	$ 88,923	$ 86,000

Cash Flows from Investing Activities

Cash flows from investing activities consist primarily of cash used for capital expenditures and business acquisitions. During 2008, the Company used $111.0 million in investing activities. Capital expenditures consisted of purchases of property and equipment, and improvements to our existing dealership facilities of $68.2 million. Of this amount, $31.2 million was used to purchase additional units for the rental and leasing operations during 2008, which was directly offset by borrowings of long-term debt. The Company expects truck purchases of approximately $30.0 million for its leasing operations in 2009 depending on customer demand. During 2009, the Company expects to make capital expenditures for recurring items such as computers, shop equipment and vehicles of approximately $10.0 million, in addition to $7.0 million to $8.0 million for the SAP software implementation described above. Cash used in business acquisitions was $37.4 million during the year ended December 31, 2008. See Note 17 of the Notes to Consolidated Financial Statements for a detailed discussion of these acquisitions.

During 2007, cash used in investing activities was $67.5 million. Capital expenditures consisted of purchases of property and equipment, and improvements to our existing dealership facilities of $65.3 million. Of this amount, $37.6 million was used to purchase additional units for the rental and leasing operations during 2007 which was directly offset by borrowings of long-term debt. Cash used in business acquisitions was $7.9 million during the year ended December 31, 2007. See Note 17 of the Notes to Consolidated Financial Statements for a detailed discussion of these acquisitions.

Cash Flows from Financing Activities

Cash flows used in financing activities include borrowings and repayments of long-term debt and net payments of floor plan notes payable. Cash used in financing activities was $12.6 million during the year ended December 31, 2008.

The Company had borrowings of long-term debt of $46.7 million and repayments of long-term debt of $43.3 million during the year ended December 31, 2008. The Company had net draws of floor plan notes payable of $5.9 million during the year ended December 31, 2008. The borrowings of long-term debt are primarily related to the increase in the lease and rental fleet and real estate refinancing. During the year ended December 31, 2008, the Company repurchased 1,639,843 shares of Class B common stock at a cost of $17.9 million pursuant to a stock repurchase program approved by the Company's Board of Directors. See Note 13 of the Notes to Consolidated Financial Statements for a detailed discussion of the stock repurchase program.

Cash used in financing activities was $165.7 million during the year ended December 31, 2007. The Company had borrowings of long-term debt of $43.2 million and repayments of long-term debt of $37.9 million during the year ended December 31, 2007. The Company had net payments of floor plan notes payable of $172.7 million during the year ended December 31, 2007. The borrowings of long-term debt are primarily related to the increase in the lease and rental fleet and real estate refinancing.

Substantially all of the Company's truck purchases are made on terms requiring payment within 15 days or less from the date the trucks are invoiced from the factory. Effective August 1, 2007, the Company entered into an Amended and Restated Wholesale Security Agreement with GE Capital, which can be terminated by GE Capital with 120 days notice at any time. Interest under the floor plan financing agreement is payable monthly and the rate varies from LIBOR plus 1.15% to LIBOR plus 1.50% depending on the average aggregate month-end balance of debt. The Company finances substantially all of the purchase price of its new truck inventory, and the loan value of its used truck inventory under the floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new trucks. The Company makes monthly interest payments to GE Capital on the amount financed, but is not required to commence loan principal repayments on any vehicle until such vehicle has been floor planned for 12 months or is sold. The floor plan financing agreement allows for prepayments and working capital advances with monthly adjustments to the interest due on outstanding advances. On December 31, 2008, the Company had approximately $266.0 million outstanding under its floor plan financing agreement with GE Capital. In connection with the Amended and Restated Wholesale Agreement with GE Capital, the Company executed a Continuing Guaranty in favor of GE Capital to a maximum principal amount of $600 million, plus unpaid interest and reasonable costs of collection. Except for the procedures and other terms and conditions set forth in the Amended and Restated Wholesale Agreement, the Company is not aware of any limitation on the Company's ability to access capital through this facility.

Substantially all of the Company's new construction equipment purchases are financed by John Deere and JPMorgan Chase ("Chase"). The agreement with John Deere provides an interest-free financing period after which time the amount financed is required to be paid in full. When construction equipment is sold prior to the expiration of the interest-free finance period, the Company is required to repay the principal within approximately ten days of the sale. If the construction equipment financed by John Deere is not sold within the interest-free finance period, it is transferred to the Chase floor plan. The Company makes principal payments for sold inventory to Chase on the 15th day of each month. Construction equipment is financed to a maximum of book value under the floor plan financing agreement with Chase. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on construction equipment as book value is reduced. Principal payments for sold used construction equipment are made no later than the 15th day of each month following the sale. The loans are collateralized by a lien on the construction equipment. The Company's floor plan financing agreement with Chase permits financing of up to $20.0 million in construction equipment and expires in June 2009. On December 31, 2008, the Company had $3.7 million outstanding under its floor plan financing agreement with John Deere and $13.0 million outstanding under its floor plan financing agreement with Chase.

Cyclicality

The Company's business is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, credit availability, economic recessions, environmental and other government regulations and customer business cycles. Unit sales of new trucks have historically been subject to substantial cyclical variation based on these general economic conditions. According to data published by A.C.T. Research, in recent years total U.S. retail sales of new Class 8 trucks have ranged from a low of approximately 140,000 in 2001 and 2008 to a high of approximately 291,000 in 2006. Through geographic expansion, concentration on higher margin parts and service operations and diversification of its customer base, the Company believes it can reduce the negative impact on the Company's earnings of adverse general economic conditions 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 any obligation under any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the Company is a party, that has or is reasonably likely to have a material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Contractual Obligations

The Company has certain contractual obligations that will impact its short and long-term liquidity. At December 31, 2008, such obligations were as follows:

(in thousands)

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	$209,676	$37,665	$103,214	$60,272	$8,525
Capital lease obligations(2)	16,893	4,631	7,020	4,490	752
Operating lease obligations(3)	38,130	8,074	12,463	7,030	10,563
Floor plan debt obligations	282,702	282,702	—	—	—
Interest obligations(4)	39,082	20,187	14,137	4,486	272
Purchase obligations(5)	12,131	9,947	1,248	936	—
Total	$598,614	$363,206	$138,082	$77,214	$20,112

(1) Refer to Note 8 of Notes to Consolidated Financial Statements.

(2) Refer to Note 11 of Notes to Consolidated Financial Statements. Amounts include interest.

(3) Refer to Note 11 of Notes to Consolidated Financial Statements.

(4) In computing interest expense, the Company used its weighted average interest rate outstanding on fixed rate debt to estimate its interest expense on fixed rate debt. The Company used its weighted average variable interest rate on outstanding variable rate debt at December 31, 2008 and added 0.25 percent per year to estimate its interest expense on variable rate debt.

(5) Purchase obligations represent non-cancelable contractual obligations at December 31, 2008. Our non-cancelable contractual obligations are related to the construction projection for our Oklahoma City facility and our SAP implementation.

Quantitative and Qualitative Disclosures about Market Risk

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

The Company is exposed to some market risk through interest rates related to our floor plan financing agreements, variable rate debt and discount rates related to finance sales. Floor plan borrowings are based on LIBOR and are used to meet working capital needs. As of December 31, 2008, the Company had floor plan borrowings of approximately $282.7 million. Assuming an increase in LIBOR of 100 basis points, annual interest expense could increase by approximately $2.8 million. The Company provides all customer financing opportunities to various finance providers. The Company receives all finance charges in excess of a negotiated discount rate from the finance providers in the month following the date of the financing. The negotiated discount rate is variable, thus subject to interest rate fluctuations. This interest rate risk is mitigated by the Company's ability to pass discount rate increases to customers through higher financing rates.

The Company is also exposed to some market risk through interest rates related to the investment of our current cash and cash equivalents which totaled $146.4 million on December 31, 2008. These funds are generally invested in variable interest rate instruments in accordance with the Company's investment policy. As such instruments mature and the funds are reinvested, we are exposed to changes in market interest rates. This risk is mitigated by management's ongoing evaluation of the best investment rates available for current and noncurrent high quality investments. If market interest rates were to increase or decrease immediately and uniformly by 100 basis points, the Company's annual interest income could correspondingly increase or decrease by approximately $1.5 million.

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

As of December 31, 2008, the Company holds $7.6 million of auction rate securities with underlying tax-exempt municipal bonds with stated maturities of 22 years. Given the current market conditions in the auction rate securities market, if the Company determines that the fair value of these securities has temporarily decreased by 10%, the Company's equity could correspondingly decrease by approximately $0.8 million. If it is determined that the fair value of these securities is other-than-temporarily impaired by 10%, the Company could record a loss on its Consolidated Statements of Income of approximately $0.8 million. For further discussion of the risks related to our auction rate securities, see Note 18 – Investments of the Notes to Consolidated Financial Statements and Item 1A - Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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

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

We have audited the accompanying consolidated balance sheets of Rush Enterprises, Inc. and subsidiaries ("the Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Rush Enterprises, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2009 expressed an unqualified opinion thereon.

Ernst & Young LLP
San Antonio, Texas
March 10, 2009

CONSOLIDATED BALANCE SHEETS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands, except shares and per share amounts)	Year Ended December 31, 2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 146,411	$ 187,009
Investments	7,575	—
Accounts receivable, net	55,274	48,781
Inventories, net	362,234	365,947
Prepaid expenses and other	3,369	1,699
Deferred income taxes, net	6,730	7,028
Total current assets	581,593	610,464
Property and equipment, net	332,147	299,013
Goodwill, net	141,904	120,582
Other assets, net	1,146	1,532
Total assets	$ 1,056,790	$ 1,031,591
Liabilities and shareholders' equity		
Current liabilities:		
Floor plan notes payable	$ 282,702	$ 273,653
Current maturities of long-term debt	37,665	33,593
Current maturities of capital lease obligations	3,454	4,444
Trade accounts payable	31,530	40,452
Accrued expenses	49,125	60,517
Total current liabilities	404,476	412,659
Long-term debt, net of current maturities	172,011	165,352
Capital lease obligations, net of current maturities	11,366	13,099
Deferred income taxes, net	52,896	40,904
Shareholders' equity:		
Preferred stock, par value $.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2008 and 2007	—	—
Common stock, par value $.01 per share; 60,000,000 class A shares and 20,000,000 class B shares authorized; 26,327,734 class A shares and 12,324,987 class B shares issued and 26,255,974 class A shares and 10,685,144 class B shares outstanding in 2008; 26,070,595 class A shares and 12,265,437 class B shares issued and outstanding in 2007	386	383
Additional paid-in capital	183,818	178,274
Treasury stock, at cost: 1,639,843 shares	(17,948)	—
Retained earnings	249,785	220,920
Total shareholders' equity	416,041	399,577
Total liabilities and shareholders' equity	$ 1,056,790	$ 1,031,591

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

CONSOLIDATED STATEMENTS OF INCOME

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands, except per share amounts)	Year Ended December 31, 2008	2007	2006
Revenues:			
New and used truck sales	$ 1,041,189	$ 1,393,253	$ 1,780,418
Parts and service	478,439	480,611	441,424
Construction equipment sales	62,168	74,986	59,545
Lease and rental	54,813	52,103	41,776
Finance and insurance	12,291	21,663	19,197
Other	6,056	8,163	8,163
Total revenues	1,654,956	2,030,779	2,350,523
Cost of products sold:			
New and used truck sales	973,404	1,283,993	1,652,913
Parts and service	281,902	283,912	259,801
Construction equipment sales	56,095	66,737	52,527
Lease and rental	46,843	44,069	32,615
Total cost of products sold	1,358,244	1,678,711	1,997,856
Gross profit	296,712	352,068	352,667
Selling, general and administrative	228,057	240,661	230,056
Depreciation and amortization	15,878	14,935	12,889
Operating income	52,777	96,472	109,722
Interest income (expense):			
Interest income	2,636	2,840	2,162
Interest expense	(10,466)	(17,749)	(17,880)
Total interest expense, net	(7,830)	(14,909)	(15,718)
Gain on sale of assets, net	140	239	54
Income before taxes	45,087	81,802	94,058
Provision for income taxes	16,222	30,310	35,272
Net income	$ 28,865	$ 51,492	$ 58,786
Earnings per common share:			
Basic	$ 0.76	$ 1.35	$ 1.57
Diluted	$ 0.75	$ 1.33	$ 1.55

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 Class A	Class B	$.01 Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance, December 31, 2005	25,155	11,844	$ 247	$ 162,603	$	$ 110,770	$ 273,620
Stock options exercised (including tax benefit of $2,349)	392	264	4	4,091			4,095
Stock-based compensation related to stock options and employee stock purchase plan				2,647			2,647
Issuance of common stock under employee stock purchase plan	57			460			460
Net income						58,786	58,786
Balance, December 31, 2006	25,604	12,108	251	169,801		169,556	339,608
Stock options exercised (including tax benefit of $2,239)	408	157	4	4,459			4,463
Stock-based compensation related to stock options and employee stock purchase plan				3,442			3,442
Issuance of common stock under employee stock purchase plan	59			572			572
Stock dividend (50%)			128			(128)	
Net income						51,492	51,492
Balance, December 31, 2007	26,071	12,265	383	178,274		220,920	399,577
Stock options exercised (including tax benefit of $791)	130	15	2	1,295			1,297
Stock-based compensation related to stock options and employee stock purchase plan				3,632			3,632
Issuance of common stock under employee stock purchase plan	55		1	617			618
Common stock repurchases					(17,948)		(17,948)
Net income						28,865	28,865
Balance, December 31, 2008	26,256	12,280	$ 386	$ 183,818	$(17,948)	$ 249,785	$416,041

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

(in thousands)	Year Ended December 31, 2008	2007	2006
Cash flows from operating activities:			
Income from continuing operations	$ 28,865	$ 51,492	$ 58,786
Adjustments to reconcile net income to net cash used in operating activities, net of acquisitions-			
Depreciation and amortization	38,508	35,798	27,074
Gain on sale of property and equipment, net	(276)	(239)	(825)
Stock-based compensation expense related to employee stock options and employee stock purchases	3,632	3,442	2,647
Provision for deferred income tax expense	9,944	7,516	6,877
Excess tax benefits from stock-based compensation	(791)	(2,239)	(2,349)
Change in accounts receivable, net	(4,821)	25,689	(10,133)
Change in inventories	30,057	132,357	(114,380)
Change in prepaid expenses and other, net	(1,670)	429	(280)
Change in trade accounts payable	(8,922)	3,003	14,039
Change in accrued expenses	(11,467)	1,453	11,682
Net cash provided by (used in) operating activities	83,059	258,701	(6,862)
Cash flows from investing activities:			
Purchase of investments	(355,575)	—	—
Proceeds from the sale of investments	348,000	—	—
Acquisition of property and equipment	(68,160)	(65,268)	(112,766)
Proceeds from the sale of property and equipment	1,487	4,916	6,333
Business acquisitions	(37,397)	(7,866)	(36,087)
Other	602	712	664
Net cash used in investing activities	(111,043)	(67,506)	(141,856)
Cash flows from financing activities:			
(Payments) draws on floor plan notes payable, net	5,864	(172,701)	120,003
Payments on lines of credit, net	—	—	(2,755)
Proceeds from long-term debt	46,728	43,211	102,448
Payments on long-term debt	(43,344)	(37,890)	(44,334)
Payments on capital lease obligations	(5,672)	(3,344)	(2,512)
Issuance of shares relating to employee stock options and employee stock purchase plan	1,124	2,796	2,206
Excess tax benefits from stock-based compensation	791	2,239	2,349
Purchase of treasury stock	(17,948)	—	—
Debt issuance costs	(157)	(55)	(198)
Net cash provided by (used in) financing activities	(12,614)	(165,744)	177,207
Net increase (decrease) in cash and cash equivalents	(40,598)	25,451	28,489
Cash and cash equivalents, beginning of year	187,009	161,558	133,069
Cash and cash equivalents, end of year	$ 146,411	$ 187,009	$ 161,558
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 16,605	$ 23,690	$ 20,761
Income taxes, net of refunds	$ 6,387	$ 18,716	$ 31,758
Non cash investing and financing activities:			
Assets acquired under capital leases	$ 2,949	$ 3,511	$ 3,339
Note payable related to acquisition	—	$ 1,500	—

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

NOTE 1. ORGANIZATION AND OPERATIONS:

Rush Enterprises, Inc. (the "Company") was incorporated in 1965 under the laws of the State of Texas. The Company now operates a Truck segment and a Construction Equipment segment. The Truck segment operates a regional network of Rush Truck Centers. Rush Truck Centers sell trucks manufactured by Peterbilt, Volvo, GMC, Hino, UD, Ford or Isuzu. Through its strategically located network of Rush Truck Centers, the Company provides one-stop service for the needs of its customers, including retail sales of new and used trucks, aftermarket parts sales, service and repair facilities, financing, leasing and rental, and Insurance products. The Company's truck centers are located in areas on or near major highways in Alabama, Arizona, California, Colorado, Florida, Georgia, New Mexico, North Carolina, Oklahoma, Tennessee and Texas. The Construction Equipment segment, formed in 1997, operates John Deere equipment centers in Southeast Texas. Construction equipment dealership operations include the retail sale of new and used construction equipment, aftermarket parts and service facilities, equipment rentals and the financing of new and used equipment. See Note 20 of the Notes to Consolidated Financial Statements for segment information.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

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

Estimates in Financial Statements

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

Cash and Cash Equivalents

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

Allowance for Doubtful Receivables and Repossession Losses

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

Inventories

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

Property and Equipment

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

	2008	2007	Estimated Life (Years)
Land	$ 44,523	$ 37,333	—
Buildings and improvements	86,862	76,350	31 - 39
Leasehold improvements	18,330	16,712	2 - 35
Machinery and shop equipment	27,851	26,679	5 - 15
Furniture, fixtures and computers	26,541	26,717	3 - 7
Transportation equipment	30,670	28,046	2 - 15
Lease and rental vehicles	189,107	170,765	2 - 8
Construction in progress	32,860	16,562	
Accumulated depreciation and amortization	(124,597)	(100,151)	
Total	$ 332,147	$ 299,013	

As of December 31, 2008, the Company had $14.3 million (net of accumulated depreciation of $8.0 million) in lease and rental vehicles under various capital leases included in property and equipment. The charge to income resulting from amortization of these assets recorded under capital leases is included in lease and rental cost of products sold.

Goodwill

Goodwill related to acquisitions was approximately $141.9 million as of December 31, 2008 and $120.6 million as of December 31, 2007. Goodwill increased $21.4 million in 2008 and $3.5 million in 2007. Accumulated amortization of goodwill was approximately $3.8 million at December 31, 2008 and December 31, 2007.

Goodwill represents the excess purchase price over the fair value of net assets acquired. The Company applies the provisions of the Financial Accounting Standards Board's (the "FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), in our accounting for goodwill. SFAS 142 requires that goodwill and other intangible assets that have indefinite lives not be amortized but instead be tested at least annually by reporting unit for impairment, or more frequently when events or changes in circumstances indicate that the asset might be impaired. For indefinite lived intangible assets, impairment is tested by comparing the carrying value of the asset to the fair value of the reporting unit, which is the same as the segment to which they are assigned.

For its goodwill impairment tests, the Company determines the fair value of its reporting units using the discounted cash flow method. The discounted cash flow method uses various assumptions and estimates regarding future revenue, expenses and cash flow projections. The analysis is based upon available information regarding expected future cash flows of each reporting unit discounted at rates consistent with the cost of capital specific to the reporting unit. If the carrying amount of the reporting unit exceeds the estimated fair value determined using the discounted cash flow method, then goodwill impairment may be present.

Goodwill was tested for impairment during the fourth quarter of 2008 and no impairment write down was required. However, the Company cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill in the future. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions or the impact of the current economic environment.

Other Assets

Other assets include the long-term portion of notes receivable of $0.2 million at December 31, 2008 and $0.7 million at December 31, 2007. The Company recognizes interest income on notes receivable monthly as earned. Accumulated amortization of other assets was approximately $1.0 million at December 31, 2008 and $0.9 million at December 31, 2007. The Company annually assesses the appropriateness of the asset valuations of other assets and the related amortization period as applicable.

Income Taxes

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

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

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

Revenue Recognition Policies

Income on the sale of a vehicle or a piece of construction equipment (each a "unit") is recognized when the seller and customer execute a purchase contract, delivery has occurred and there are no significant uncertainties related to financing or collectibility. Finance income related to the sale of a unit is recognized over the period of the respective finance contract, based on the effective interest rate method, if the finance contract is retained by the Company. During 2008, 2007 and 2006, no finance contracts were retained for any significant length of time by the Company but were generally sold, with limited recourse, to certain finance companies concurrent with the sale of the related unit. Gain or loss is recognized by the Company upon the sale of such finance contracts to the finance companies, net of a provision for estimated repossession losses and early repayment penalties. Lease and rental income is recognized over the period of the related lease or rental agreement. Parts and services revenue is earned at the time the Company sells the parts to its customers or at the time the Company completes the service work order related to service provided to the customer's unit. Payments received on prepaid maintenance plans are deferred as a component of accrued expenses and recognized as income when the maintenance is performed.

Cost of Sales

For the Company's new and used truck and construction equipment operations and its parts operations, cost of sales consists primarily of the Company's actual purchase price, less manufacturer's incentives, for new and used trucks and construction equipment and parts. The Company is subject to a chargeback of manufacturer incentives for trucks that are not sold to the customer for which they were ordered. The Company records a liability for a potential chargeback of manufacturer incentives in its financial statements. For the Company's service and body shop operations, technician labor cost is the primary component of cost of sales. For the Company's rental and leasing operations, cost of sales consists primarily of depreciation, rent and interest expense on the lease and rental fleet owned and leased by the Company, and the maintenance cost of the lease and rental fleet. There are no costs of sales associated with the Company's finance and insurance revenue or other revenue.

Selling, General and Administrative Expenses

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

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including grants of stock options, restricted stock awards and employee stock purchases under the Company's Employee Stock Purchase Plan based on estimated fair values.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. The Company's Consolidated Financial Statements reflect the impact of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The fair value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statements of Income.

Stock-based compensation expense recognized is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), compensation expense for all share-based payment awards is recognized using the straight-line single-option method. As stock-based compensation expense recognized in the Consolidated Statements of Income is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

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

	2008	2007	2006
Expected stock volatility	35.7 - 36.7%	36.7 - 38.9%	25.5 - 32.2%
Weighted-average stock volatility	36.73%	38.78%	26.86%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	2.41%	4.66%	4.69%
Expected life (years)	5.0	5.0	5.0 - 7.0
Weighted-average fair value of stock options granted	$ 5.62	$ 5.66	$ 4.95

The Company computes its historical stock price volatility in accordance with SFAS 123(R). The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The expected life of stock options represents the weighted-average period the stock options are expected to remain outstanding.

Advertising Costs

Advertising costs are expensed as incurred. Advertising and marketing expense related to operations was $3.6 million for 2008, $4.2 million for 2007 and $3.1 million for 2006. Advertising and marketing expense is included in selling, general and administrative expense.

Accounting for Internal Use Software

The American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1") in March 1998. SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use and identifies characteristics of internal-use software. The Company's accounting policy with respect to accounting for computer software developed or obtained for internal use is consistent with SOP 98-1. The Company has capitalized software costs of approximately $20.9 million at December 31, 2008, and $11.9 million at December 31, 2007.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value to be recognized in earnings until settled. SFAS 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) to have a significant impact on its consolidated results of operations and financial position, but will impact any business combinations that close on or after January 1, 2009.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." EITF 03-6-1 requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents to be treated as participating securities as defined in EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, "Earnings per Share." Upon adoption, all previously reported earnings per share data should be adjusted retrospectively to conform with the requirements of EITF 03-6-1. The Company is required to adopt EITF 03-6-1 starting in 2009. The Company does not expect EITF 03-6-1 to have an effect on its consolidated financial statements.

NOTE 3. SUPPLIER AND CUSTOMER CONCENTRATION:

Major Suppliers and Dealership Agreements

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

Distributor	Expiration Dates
Peterbilt	March 2009 through May 2011
International	May 2013
Volvo	August 2010
GMC	October 2010
Isuzu	Indefinite
Hino	December 2009
UD	September 2009 through Indefinite
Ford	Indefinite
Blue Bird	August 2013
John Deere	Indefinite

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

The Company purchases its new Peterbilt vehicles and most of its parts from PACCAR, the maker of Peterbilt trucks and parts, at prevailing prices charged to all franchised dealers. Sales of new Peterbilt trucks accounted for approximately 83% of the Company's new vehicle sales for the year ended December 31, 2008, and December 31, 2007.

The Company purchases most of its new construction equipment and parts from John Deere at prevailing prices charged to all franchised dealers. Sales of new John Deere equipment accounted for approximately 86.6% of the Company's new equipment sales for the year ended December 31, 2008, and 91.5% of the Company's new equipment sales for the year ended December 31, 2007.

Primary Lenders

The Company purchases its new and used vehicle and construction equipment inventories with the assistance of floor plan financing programs offered by various financial institutions and John Deere. Additional floor plan financing is provided by John Deere pursuant to the Company's equipment dealership agreement. These agreements provide that the occurrence of certain events will be considered events of default. There were no known events of default as of December 31, 2008. 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, 2008.

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with what it considers to be quality financial institutions. As of December 31, 2008, the Company had deposits in excess of federal insurance protection totaling approximately $29.6 million.

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

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

NOTE 4. ACCOUNTS RECEIVABLE:

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

	December 31,	
	2008	2007
Trade accounts receivable from sale of vehicles and construction equipment	$ 25,187	$ 23,284
Other trade receivables	10,390	6,605
Warranty claims	8,091	6,046
Other accounts receivable	12,117	13,173
Less allowance for bad debt and warranty receivable	(511)	(327)
Total	$ 55,274	$ 48,781

NOTE 5. INVENTORIES:

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

	December 31,	
	2008	2007
New vehicles	$ 233,712	$ 223,444
Used vehicles	23,081	28,646
New construction equipment	17,854	18,243
Used construction equipment	321	606
Parts and accessories	87,883	95,019
Other	5,182	5,058
Less allowance	(5,799)	(5,069)
Total	$ 362,234	$ 365,947

NOTE 6. VALUATION ACCOUNTS:

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

	Balance Beginning of Year	Net Charge to Costs and Expenses	Acquisitions	Net Write-Offs	Balance End of Year
2008					
Reserve for warranty receivable and accounts receivable	$ 327	$ 469		$ (285)	$ 511
Reserve for parts inventory	1,603	933	$ 315	(1,238)	1,613
Reserve for equipment inventory	328	911		(516)	723
Reserve for truck inventory	3,138	15,413		(15,088)	3,463
2007					
Reserve for warranty receivable and accounts receivable	526	170		(369)	327
Reserve for parts inventory	2,025	894	232	(1,548)	1,603
Reserve for equipment inventory	408	(31)		(49)	328
Reserve for truck inventory	1,014	8,953		(6,829)	3,138
2006					
Reserve for warranty receivable	273	676		(480)	469
Reserve for parts inventory	1,448	2,183	709	(2,315)	2,025
Reserve for equipment inventory	0	443		(35)	408
Reserve for truck inventory	150	3,223		(2,359)	1,014

Allowance for Doubtful Receivables

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

Inventory

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

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

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

Floor Plan Notes Payable

Floor plan notes are financing agreements to facilitate the Company's purchase of new and used trucks and construction equipment. These notes are collateralized by the inventory purchased and accounts receivable arising from the sale thereof. The Company's floor plan notes have interest rates based on the prime rate or LIBOR, as defined in the agreements. The interest rates applicable to these agreements ranged from approximately 1.75% to 4.75% as of December 31, 2008. 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 3.

The Company finances substantially all of the purchase price of its new truck inventory, and the loan value of its used truck inventory under a floor plan financing agreement with GE Capital, under which GE Capital pays the manufacturer directly with respect to new trucks. On December 31, 2008, the Company had approximately $266.0 million outstanding under its floor plan financing agreement with GE Capital.

The Company's floor plan agreement with Chase is based on the book value of the Company's construction equipment inventory. As of December 31, 2008, the aggregate amount of borrowing capacity with this lender was $20.0 million, with approximately $13.0 million outstanding. Additional amounts are available for construction equipment inventory purchases under the Company's John Deere dealership agreement. At December 31, 2008, approximately $3.7 million was outstanding pursuant to the John Deere dealership agreement.

Assets pledged as collateral as of December 31, 2008 and 2007 were as follows (in thousands):

	December 31,	
	2008	2007
Inventories, new and used trucks and construction equipment at cost based on specific identification, net of allowance	$ 270,630	$ 267,472
Truck and construction equipment sale related accounts receivable	25,185	23,284
Total	$ 295,815	$ 290,756
Floor plan notes payable related to truck and construction equipment	$ 282,702	$ 273,653

Lines of Credit

The Company may request working capital advances in the minimum amount of $100,000 from GE Capital, its primary truck lender. However, such working capital advances may not cause the total indebtedness owed GE Capital to exceed an amount equal to the wholesale advances made against the then current inventory less any payment reductions owed to GE Capital. There were no working capital advances outstanding under this agreement at December 31, 2008. The Company has a secured line of credit that provides for a maximum borrowing of $8.0 million. There were no advances outstanding under this secured line of credit at December 31, 2008, however, $5.9 million was pledged to secure various letters of credit related to self-insurance products, leaving $2.1 million available for future borrowings as of December 31, 2008.

NOTE 8. LONG-TERM DEBT:

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

	December 31,	
	2008	2007
Variable interest rate term note	$ 18,171	$ 3,200
Fixed interest rate term notes	191,505	195,745
Total debt	209,676	198,945
Less- current maturities	(37,665)	(33,593)
Total	$ 172,011	$ 165,352

As of December 31, 2008, debt maturities were as follows (in thousands):

2009	$ 37,665
2010	55,510
2011	47,704
2012	29,494
2013	30,778
Thereafter	8,525
Total	$ 209,676

The interest rates on the Company's variable interest rate notes are based on LIBOR. The interest rates on the notes range from approximately 2.68% to 2.94% on December 31, 2008. Payments on the notes range from $12,578 to $24,667 per month, plus interest. Maturities of these notes range from December 2012 to December 2013.

The Company's fixed interest rate notes are primarily with financial institutions and had interest rates that ranged from approximately 3.66% to 8.50% on December 31, 2008. Payments on the notes range from $168 to $76,196 per month, plus interest. Maturities of these notes range from January 2009 to September 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.

The Company's long-term debt agreements require the Company to satisfy various financial ratios. At December 31, 2008, the Company is in compliance with all debt covenants. We do not anticipate any breach of the covenants in the foreseeable future.

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments at December 31, 2008:

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

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

NOTE 10. DEFINED CONTRIBUTION PLAN:

The Company has a defined contribution plan (the "Rush 401K Plan"), which is available to all Company employees and the employees of certain affiliates. Each employee who has completed 90 days of continuous service is entitled to enter the Rush 401K Plan on the first day of the following month. Participating employees may contribute from 1% to 50% of total gross compensation. However, certain higher paid employees are limited to a maximum contribution of 15% of total gross compensation. For the first 10% of an employee's contribution, the Company, at its discretion, may contribute an amount equal to 25% of the employees' contributions for those employees with less than five years of service and an amount equal to 50% of the employees' contributions for those employees with more than five years of service. The Company incurred expenses related to the Rush 401K Plan of approximately $3.4 million during the year ended December 31, 2008, $3.6 million during the year ended December 31, 2007, and $3.1 million during the year ended December 31, 2006.

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

NOTE 11. LEASING ACTIVITIES:

Vehicle Leases as Lessee

The Company leases vehicles, as lessee, primarily over periods ranging from one to ten years under operating lease and capital lease arrangements. As discussed below, these vehicles are then subleased by the Company to customers under various agreements. Future minimum sublease rentals to be received by the Company under non-cancelable subleases, as described below, are $34.0 million. Generally, the Company is required to incur all operating costs and pay a minimum rental. The Company guarantees the residual value of vehicles under operating lease and capital lease arrangements. At December 31, 2008, the Company guaranteed vehicle residual values of $6.9 million under operating lease arrangements and $6.1 million under capital lease arrangements. Historically, the Company purchases these vehicles at the end of the lease term and recognizes a gain on the sale of the vehicle. The residual values are not reflected in the future minimum lease payments for operating leases. Vehicle lease expenses were approximately $4.4 million for the year ended December 31, 2008, $4.8 million for the year ended December 31, 2007, and $4.8 million for the year ended December 31, 2006.

Future minimum lease payments under capital and non-cancelable vehicle leases as of December 31, 2008, are as follows (in thousands):

	Capital Leases	Operating Leases
2009	$ 4,631	$ 3,944
2010	3,405	3,263
2011	3,615	2,624
2012	3,220	2,205
2013	1,270	1,453
Thereafter	752	908
Total minimum lease payments	$ 16,893	$ 14,397
Less amount representing interest	(2,073)	
Present value of net minimum capital lease payments	14,820	
Less current portion	(3,454)	
Obligations under capital leases less current portion	$ 11,366	

Customer Vehicle Leases as Lessor

A division of the Company leases both owned and leased vehicles to customers primarily over periods of one to ten years under operating lease arrangements. These leases require a minimum rental payment and a contingent rental payment based on mileage. Rental income during the year ended December 31, 2008 consisted of minimum rental payments of approximately $41.9 million and contingent rental payments of $6.9 million. Rental income during the year ended December 31, 2007, consisted of minimum rental payments of approximately $34.2 million and contingent rentals payments of approximately $5.4 million. Rental income during the year ended December 31, 2006, consisted of minimum rental payments of approximately $24.7 million and contingent rental payments of $4.1 million. Minimum lease payments to be received for non-cancelable leases and subleases in effect at December 31, 2008, are as follows (in thousands):

2009	$ 36,368
2010	31,803
2011	25,573
2012	17,966
2013	9,174
Thereafter	3,747
Total	$ 124,631

As of December 31, 2008, the Company had $133.6 million (net of accumulated depreciation of $55.5 million) of lease vehicles included in property and equipment. As of December 31, 2007, the Company had $131.0 million (net of accumulated depreciation of $39.8 million) of lease vehicles included in property and equipment.

Other Leases - Land and Buildings

The Company leases various assets under operating leases with expiration dates ranging from January 2009 through November 2027. Monthly rental payments range from approximately $800 per month to $36,926 per month. Rental expense was $4.8 million for the year ended December 31, 2008, $4.3 million for the year ended December 31, 2007, and $4.2 million for the year ended December 31, 2006. Future minimum lease payments under non-cancelable leases at December 31, 2008, are as follows (in thousands):

2009	$ 4,130
2010	3,628
2011	2,948
2012	1,833
2013	1,539
Thereafter	9,656
Total	$ 23,734

NOTE 12. STOCK OPTIONS AND INCENTIVE PLANS:

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan that allows eligible employees to contribute up to 10% of their base earnings toward the semi-annual purchase of the Company's Class A common stock. The employee's purchase price is 85% of the lesser of the closing price of the Class A common stock on the first business day or the last business day of the semi-annual offering period, as reported by The NASDAQ Global Select MarketSM. Employees may purchase shares having a fair market value of up to $25,000 (measured as of the first day of each semi-annual offering period) for each calendar year. Under the Employee Stock Purchase Plan, 900,000 shares of the Company's Class A common stock have been reserved for issuance. The Company issued 54,532 shares under the Employee Stock Purchase Plan during the year ended December 31, 2008 and 58,713 shares during the year ended December 31, 2007. Of the 2,706 employees eligible to participate, 287 were participants in the plan as of December 31, 2008.

Non-Employee Director Stock Option Plan

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

The Director Plan is designed to attract and retain highly qualified non-employee directors. Historically, each non-employee director received options to purchase 20,000 shares of the Company's Class A common stock upon their respective date of appointment and each year on the date that they are elected or reelected by the shareholders to serve on the Board of Directors. Each option has a ten year term from the grant date and vested immediately. In 2008, in lieu of options, each non-employee director received an outright grant of 7,566 shares of the Company's Class A common stock on the date that they were reelected by the shareholders to serve on the Board of Directors. Under the Director Plan, 1,500,000 shares of the Company's Class A common stock have been reserved for issuance. The Company granted 30,264 shares of Class A common stock under the Director Plan during the year ended December 31, 2008 and 120,000 options to purchase Class A common stock under the Director Plan during the year ended December 31, 2007.

Employee Incentive Plans

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

The aggregate number of shares of common stock subject to stock options or SARs that may be granted to any one participant in any year under the 2007 Incentive Plan is 100,000 shares of Class A common stock or 100,000 shares of Class B common stock. Each option has a ten year term from the grant date and vests in three equal annual installments beginning on the third anniversary of the grant date. The Company has 2,550,000 shares of Class A common stock and 450,000 shares of Class B common stock reserved for issuance upon exercise of any awards granted under the Company's 2007 Incentive Plan. During the year ended December 31, 2008, the Company granted 396,865 options and 73,190 restricted stock awards under the 2007 Incentive Plan. During the year ended December 31, 2007, the Company granted 561,832 options under the Incentive Plan and 37,500 options under the 2007 Incentive Plan.

Valuation and Expense Information under SFAS 123(R)

Stock-based compensation expense related to stock options, restricted stock awards and employee stock purchases under SFAS 123(R) for the year ended December 31, 2008 was $3.6 million, for the year ended December 31, 2007 was $3.4 million and for the year ended December 31, 2006 was $2.6 million.

Cash received from options exercised and shares purchased under all share-based payment arrangements was $1.1 million for the year ended December 31, 2008, $2.8 million for the year ended December 31, 2007, and $2.2 million for the year ended December 31, 2006.

A summary of the Company's stock option activity and related information for the year ended December 31, 2008, follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Balance at January 1, 2008	2,606,569	$ 9.91		
Granted	396,865	15.53		
Exercised	(160,135)	3.16		
Forfeited	(50,329)	12.82		
Balance at December 31, 2008	2,792,970	$ 11.04	6.89	$ 2,387,332
Vested and exercisable at December 31, 2008	999,368	$ 7.72	5.45	$ 2,344,646

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on an average of the closing price as of December 31, 2008, of the Company's Class A common stock and Class B common stock of $8.38. The total intrinsic value of options exercised was $1.7 million during the year ended December 31, 2008, $6.1 million during the year ended December 31, 2007, and $6.3 million during the year ended December 31, 2006.

A summary of the status of the Company's non-vested shares as of December 31, 2008, and changes during the year ended December 31, 2008, follows:

Non-vested Shares	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2008	1,907,978	$ 4.56
Granted	396,865	5.62
Vested	(462,632)	2.97
Forfeited	(48,609)	5.11
Non-vested at December 31, 2008	1,793,602	$ 5.19

The total fair value of options vested was $1.4 million during the year ended December 31, 2008, $2.0 million during the year ended December 31, 2007, and $1.6 million during the year ended December 31, 2006.

Restricted Stock Awards

The Company granted restricted stock awards to its employees under the 2007 Incentive Plan and unrestricted stock awards to its non-employee directors under the Director Plan. The shares granted to employees carry a legend which restricts their transferability for a term of one to three years and are forfeited in the event the recipient's employment or relationship with the Company is terminated prior to the lapse of the restriction. The fair value of the restricted stock awards to the Company's employees is amortized to expense on a straight-line basis over the restricted stock's vesting period.

The following table presents a summary of the Company's restricted stock awards outstanding at December 31, 2008:

Restricted Stock Awards	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2008	—	$ —
Granted	103,454	15.90
Vested	(30,264)	16.52
Forfeited	(1,430)	15.52
Non-vested at December 31, 2008	71,760	$ 15.65

The total fair market value of the shares issued upon the vesting of restricted stock awards during the year ended December 31, 2008 was $0.5 million.

As of December 31, 2008, there was $4.2 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Incentive Plan and the 2007 Incentive Plan. That cost is expected to be recognized over a weighted-average period of 2.8 years.

NOTE 13. STOCK DIVIDEND AND STOCK REPURCHASE PLAN:

Stock Dividend

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

Stock Repurchase Plan

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

As of December 31, 2008, the Company repurchased 1,639,843 shares of Class B common stock at a cost of $17.9 million. The Company is holding the repurchased shares of the common stock as treasury stock and is accounting for the treasury stock pursuant to the cost method. The Company includes treasury stock as a component of stockholders' equity.

NOTE 14. EARNINGS PER SHARE:

Basic earnings per share ("EPS") were computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS differs from basic EPS due to the assumed conversions of potentially dilutive options and warrants that were outstanding during the period. The Company's Class A common stock and Class B common stock have equal claims on earnings of the Company. The following is a reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income. Share and per share data for 2006 has been adjusted and restated to reflect the stock dividend discussed above.

	2008	2007	2006
Numerator-			
Numerator for basic and diluted earnings per share-			
Net income available to common shareholders	$28,865,000	$ 51,492,000	$ 58,786,000
Denominator-			
Denominator for basic earnings per share, weighted average shares	38,088,687	38,059,240	37,475,426
Effect of dilutive securities-			
Stock options	498,263	686,477	413,904
Denominator for diluted earnings per share, adjusted weighted average shares and assumed conversions	38,586,950	38,745,717	37,889,330
Basic earnings per common share	$ 0.76	$ 1.35	$ 1.57
Diluted earnings per common share and common share equivalents	$ 0.75	$ 1.33	$ 1.55

Options to purchase shares of common stock that were outstanding for the years ended December 31, 2008, 2007 and 2006 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:

	2008	2007	2006
Options	545,215	157,500	393,925
Total anti-dilutive securities	545,215	157,500	393,925

NOTE 15. INCOME TAXES:

Provision for Income Taxes

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

	Year ended December 31,		
	2008	2007	2006
Current provision-			
Federal	$ 4,468	$ 20,516	$ 26,189
State	1,805	2,278	2,469
	6,273	22,794	28,658
Deferred provision-			
Federal	9,809	8,027	6,173
State	140	(511)	441
	9,949	7,516	6,614
Provision for income taxes	$ 16,222	$ 30,310	$ 35,272

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

	Year Ended December 31,	
	2008	2007
Current:		
Deferred tax assets:		
Inventory	$ 2,210	$ 2,083
Accounts receivable	139	179
Capital lease obligations	1,360	1,616
Stock options	595	403
Other	2,426	2,747
Current deferred tax asset	$ 6,730	$ 7,028
Non-Current:		
Deferred tax assets:		
Capital lease obligations	$ 4,079	$ 4,849
Stock options	2,379	1,611
Other	474	622
	6,932	7,082
Deferred tax liabilities:		
Difference between book and tax basis	(59,828)	(47,986)
Net non-current tax liability	$ (52,896)	$ (40,904)

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

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

	Year Ended December 31,		
	2008	2007	2006
Income taxes at the federal statutory rate	$ 15,781	$ 28,631	$ 32,920
State income taxes, net of federal benefit	1,236	1,148	1,995
Tax effect of permanent differences	(684)	(143)	17
State tax valuation allowance	—	—	(73)
Other, net	(111)	674	413
Provision for income taxes	$ 16,222	$ 30,310	$ 35,272

The Company included accruals for unrecognized income tax benefits totaling $1.9 million as a component of accrued liabilities as of December 31, 2008 and $2.0 million as of December 31, 2007. The unrecognized tax benefits of $1.9 million at December 31, 2008, if recognized, would impact the Company's effective tax rate. As of December 31, 2008, the Company accrued interest of $185,000 related to unrecognized tax benefits in the current provision for income taxes. No amounts were accrued for penalties.

The Company does not anticipate a significant change in the amount of unrecognized tax benefits in the next 12 months. As of December 31, 2008, the tax years ended December 31, 2005, through 2008 remained subject to examination by tax authorities. The U.S. Internal Revenue Service is currently examining the Company's federal income tax return for the tax year 2005.

A reconciliation of the change in the unrecognized tax benefits from January 1, 2007, to December 31, 2008, is as follows:

Unrecognized tax benefits at January 1, 2007	$ 1,430,204
Gross increases – tax positions in prior years	535,224
Unrecognized tax benefits at December 31, 2007	1,965,428
Gross increases – tax positions in current year	426,590
Reductions due to lapse of statute of limitations	(453,334)
Unrecognized tax benefits at December 31, 2008	$ 1,938,684

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

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

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

In 2006, the Company signed an agreement with Titan Technology Partners to implement SAP enterprise software and a new SAP dealership management system. The cost of the SAP software and implementation is estimated at $30.0 million to $32.0 million, of which $20.9 million was expended at December 31, 2008.

NOTE 17. ACQUISITIONS:

All of the following acquisitions, unless otherwise noted, were considered business combinations accounted for under SFAS 141.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 18. INVESTMENTS:

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

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

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

As of December 31, 2007, the Company did not carry any short-term investments, as its previous practice had been to liquidate its short-term investments, including auction rate securities near the end of each fiscal quarter. However, as of December 31, 2008, the Company holds $7.6 million of auction rate securities with underlying tax-exempt municipal bonds with stated maturities of 22 years. These bonds have credit wrap insurance and have been rated AAA by credit agencies.

The Company believes that the credit quality and fair value of the auction rate securities it holds has not been negatively impacted; therefore, no impairment charges have been recorded as of December 31, 2008. As of December 31, 2008, the Company has valued these investments at fair value, which approximates cost. The Company used observable inputs to determine fair value, including consideration of broker quotes, the overall quality of the underlying municipality, the credit quality of the insurance company, as well as successful subsequent auctions. Accordingly, the Company has considered this fair value to be a Level 2 valuation under SFAS No. 157, "Fair Value Measurement." If the credit quality of these investments deteriorates, or adverse developments occur in the bond insurance market, the Company may be required to record an impairment charge on these investments in the future.

NOTE 19. UNAUDITED QUARTERLY FINANCIAL DATA:

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Revenues	$403,858	$454,718	$ 413,696	$382,684
Gross Profit	78,179	74,413	76,385	67,735
Operating income	17,359	11,474	13,975	9,969
Income before income taxes	15,481	9,706	12,167	7,733
Net income	$ 9,675	$ 6,067	$ 8,000	$ 5,123
Earnings per share:				
Basic	$ 0.25	$ 0.16	$ 0.21	$ 0.14
Diluted	$ 0.25	$ 0.16	$ 0.21	$ 0.14
2007				
Revenues	$ 531,258	$519,404	$ 521,598	$ 458,519
Gross Profit	89,496	91,725	89,741	81,106
Operating income	25,446	25,511	24,192	21,323
Income before income taxes	21,006	21,046	20,839	18,911
Net income	$ 13,024	$ 13,048	$ 13,128	$ 12,292
Earnings per share:				
Basic	$ 0.34	$ 0.34	$ 0.34	$ 0.32
Diluted	$ 0.34	$ 0.34	$ 0.34	$ 0.32

NOTE 20. SEGMENTS:

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

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

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

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. There were no material intersegment sales during the years ended December 31, 2008, 2007 and 2006.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different technology and marketing strategies. Business units were maintained through expansion and acquisitions. The following table contains summarized information about reportable segment profit or loss and segment assets for the years ended December 31, 2008, 2007 and 2006 (in thousands):

(in thousands, except per share amounts)	Truck Segment	Construction Equipment Segment	All Other	Totals
2008				
Revenues from external customers	$ 1,553,298	$ 83,763	$ 17,895	$ 1,654,956
Interest income	2,636	—	—	2,636
Interest expense	9,359	600	507	10,466
Depreciation and amortization	14,483	605	790	15,878
Segment income before income tax	38,549	6,045	493	45,087
Segment assets	1,000,470	29,570	26,750	1,056,790
Goodwill	135,191	4,075	2,638	141,904
Expenditures for segment assets	79,938	323	312	80,573
2007				
Revenues from external customers	$ 1,914,897	$ 97,130	$ 18,752	$ 2,030,779
Interest income	2,840	—	—	2,840
Interest expense	16,324	860	565	17,749
Depreciation and amortization	13,665	558	712	14,935
Segment income before income tax	71,736	8,527	1,539	81,802
Segment assets	973,434	30,494	27,663	1,031,591
Goodwill	113,869	4,075	2,638	120,582
Expenditures for segment assets	70,363	1,022	592	71,977
2006				
Revenues from external customers	$ 2,254,123	$ 77,816	$ 18,584	$ 2,350,523
Interest income	2,162	—	—	2,162
Interest expense	16,697	830	353	17,880
Depreciation and amortization	12,056	367	466	12,889
Segment income before income tax	86,116	5,624	2,318	94,058
Segment assets	1,084,343	22,914	21,153	1,128,410
Goodwill	112,535	4,075	461	117,071
Expenditures for segment assets	109,938	443	5,724	116,105

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

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

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

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

	2008		2007	
	High	Low	High	Low
Class A Common Stock				
First Quarter	$18.78	$ 14.00	$ 13.65	$ 11.07
Second Quarter	17.27	11.90	17.12	12.66
Third Quarter	15.14	10.66	19.95	14.55
Fourth Quarter	12.69	5.29	18.85	13.97
Class B Common Stock				
First Quarter	$ 18.25	$ 13.41	$ 12.93	$ 10.34
Second Quarter	16.16	10.35	16.23	11.93
Third Quarter	14.04	9.56	18.86	14.09
Fourth Quarter	12.70	5.75	18.58	13.81

As of March 4, 2008, there were approximately 44 record holders of the Class A common stock and approximately 50 record holders of the Class B common stock and approximately 3,101 beneficial holders of the Class A common stock and approximately 775 beneficial holders of the Class B common stock.

On September 20, 2007, our Board of Directors declared a 3-for-2 stock split of the Class A common stock and Class B common stock, to be effected in the form of a stock dividend. On October 10, 2007, Rush Enterprises, Inc. distributed one additional share of stock for every two shares of Class A common stock and Class B common stock held by shareholders of record as of October 1, 2007. The high and low sales prices set forth above have been adjusted and restated to reflect the stock dividend as if it occurred on the first day of the earliest period presented.

Other than the stock dividend in connection with the stock split described above, the Company did not pay dividends during the fiscal year ended December 31, 2008 or the fiscal year ended December 31, 2007. The Board of Directors intends to retain any earnings of the Company to support operations and to finance expansion and does not intend to pay cash dividends in the foreseeable future. Any future determination as to the payment of dividends will be at the discretion of the Board of Directors of the Company and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

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

A summary of the repurchase activity for the Company's fourth quarter of 2008 is as follows:

	Period		
	Oct. 1 – Oct. 31 2008	Nov. 1 – Nov. 30 2008	Dec. 1 – Dec. 31 2008
Number of shares purchased (1)	860,628	–	–
Average price paid per share (1)	$ 9.13	–	–
Number of shares purchased as part of publicly announced plans or programs (2)	860,628	–	–
Approx. dollar value of shares that may yet be purchased under the plans or programs (3)	$ 2,093,321	$ 2,093,321	$ 2,093,321

(1) The calculation of the average price paid per share does not give effect to any fees, commissions or other costs associated with the repurchase of such shares.

(2) The shares represent Class B common stock repurchased by the Company.

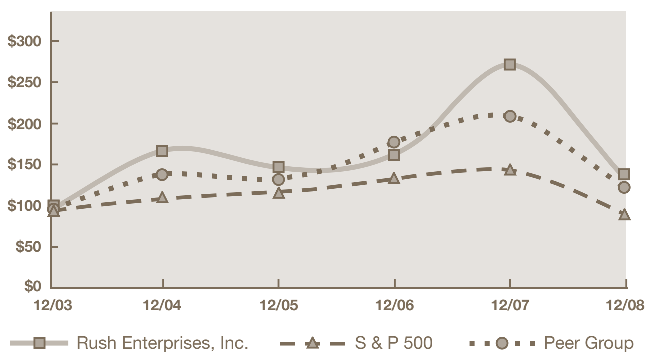
(3) The Company repurchased shares under a program announced on July 23, 2008, which authorized the repurchase of up to $20,000,000 of its shares of Class A common stock and/or Class B common stock. The stock repurchase program has no expiration date and may be suspended or discontinued at any time.

Performance Graph

The chart set forth below shows the value of an investment of $100 on December 31, 2003 in the Company's Common Stock, the Standard & Poor's 500 Stock Index and a peer group of other public companies. The peer group is comprised of the following companies: Lithia Motors, Inc.; Paccar, Inc.; Penske Automotive Group formerly known as United Auto Group, Inc.; and Werner Enterprises, Inc.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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



*$100 invested on 12/31/03 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

	Cumulative Total Return		
	Rush Enterprises, Inc.	S & P 500	Peer Group
12/31/03	$ 100.00	$ 100.00	$ 100.00
12/31/04	$ 168.63	$ 110.88	$ 137.50
12/31/05	$ 147.21	$ 116.33	$ 128.29
12/31/06	$ 164.40	$ 134.70	$ 175.61
12/31/07	$ 271.34	$ 142.10	$ 210.62
12/31/08	$ 126.40	$ 89.53	$ 118.16

Forward-Looking Statements

Certain statements contained in this Annual Report (or otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission, news releases, conferences, website postings or otherwise) that are not statements of historical fact constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended (the "Exchange Act"), notwithstanding that such statements are not specifically identified. Forward-looking statements include statements about the Company's financial position, business strategy and plans and objectives of management of the Company for future operations. These forward-looking statements reflect the best judgments of the Company about the future events and trends based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Use of the words "may," "should," "continue," "plan," "potential," "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements reflect the current view of the Company with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those in such statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those set forth under Item 1A – Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as well as future growth rates and margins for certain of our products and services, future demand for our products and services, risks associated with the current global economic crisis and its impact on capital markets and liquidity, 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, one-time events and other factors described in filings made by the Company with the Securities and Exchange Commission (collectively, "Cautionary Statements"). Although the Company believes that its expectations are reasonable, it can give no assurance that such expectations will prove to be correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described in any forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable Cautionary Statements. All forward-looking statements speak only as the date on which they are made and the Company undertakes no duty to update or revise any forward-looking statements.

Board of Directors

W. Marvin Rush
Chairman

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

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

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

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

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

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

Executive Officers Rush Enterprises, Inc.

W. Marvin Rush
Chairman

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

Martin A. Naegelin, Jr.
Executive Vice President

Steven L. Keller
Vice President
Chief Financial Officer and Treasurer

Daryl J. Gorup
Senior Vice President
Dealership Operations

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

James E. Thor
Senior Vice President
Retail Sales

Scott Anderson
Senior Vice President
Finance and Insurance

Richard D. Hall
Vice President
Insurance

Derrek Weaver
Chief Compliance Officer
Vice President of Legal Affairs and Secretary

Shareholder Information

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

Independent Public Accountants
Ernst & Young LLP
San Antonio, TX

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

Annual Meeting
The annual meeting of shareholders of the Company will be held at 10:00 A.M. CDT on May 19, 2009 at Rush Enterprises, Inc. Executive Offices
555 IH 35 South, Suite 500
New Braunfels, TX 78130

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

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

Website
www.rushenterprises.com

Forward-looking Statements

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

Rush Enterprises, Inc.
555 IH 35 South, Suite 500
New Braunfels, TX 78130
830.626.5200
www.rushenterprises.com