

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20797

**RUSH ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

Texas  
(State or other jurisdiction of  
incorporation or organization)

74-1733016  
(I.R.S. Employer Identification No.)

555 I.H. 35 South, Suite 500  
New Braunfels, Texas 78130  
(Address of principal executive offices)  
(Zip Code)

(830) 626-5200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicated below is the number of shares outstanding of each of the issuer's classes of common stock, as of August 3, 2007.

<u>Title of Class</u>	<u>Number of Shares Outstanding</u>
Class A Common Stock, \$.01 Par Value	17,312,715
Class B Common Stock, \$.01 Par Value	8,137,278

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**

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## **PART I. FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2007 AND DECEMBER 31, 2006**  
**(In Thousands, Except Shares)**

	<u>June 30,</u> <u>2007</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2006</u>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 165,695	\$ 161,558
Accounts receivable, net	63,116	74,441
Inventories	478,627	484,696
Prepaid expenses and other	2,247	2,128
Deferred income taxes, net	7,790	7,496
Total current assets	<u>717,475</u>	<u>730,319</u>
Property and equipment, net	293,908	278,690
Goodwill, net	119,931	117,071
Other assets, net	2,056	2,330
<b>Total assets</b>	<b><u>\$ 1,133,370</u></b>	<b><u>\$ 1,128,410</u></b>
<b><u>Liabilities and shareholders' equity</u></b>		
Current liabilities:		
Floor plan notes payable	\$ 418,922	\$ 446,354
Current maturities of long-term debt	26,208	25,999
Current maturities of capital lease obligations	3,183	2,933
Trade accounts payable	30,939	37,449
Accrued expenses	59,546	61,287
Total current liabilities	<u>538,798</u>	<u>574,022</u>
Long-term debt, net of current maturities	173,348	166,125
Capital lease obligations, net of current maturities	14,099	14,799
Deferred income taxes, net	36,420	33,856
Shareholders' equity:		
Preferred stock, par value \$.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2007 and 2006	—	—

Common stock, par value \$.01 per share; 40,000,000 class A shares and 10,000,000 class B shares authorized; 17,261,688 class A shares and 8,129,615 class B shares outstanding in 2007; 17,069,494 class A shares and 8,072,226 class B shares outstanding in 2006

	254	251
Additional paid-in capital	174,823	169,801
Retained earnings	195,628	169,556
Total shareholders' equity	<u>370,705</u>	<u>339,608</u>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,133,370</b>	<b>\$ 1,128,410</b>

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

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**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>Revenues:</b>				
New and used truck sales	\$ 356,504	\$ 423,717	\$ 734,140	\$ 787,064
Parts and service	120,502	112,449	237,798	217,316
Construction equipment sales	20,690	15,706	37,424	30,140
Lease and rental	13,257	10,239	25,322	19,619
Finance and insurance	6,273	5,005	11,777	9,070
Other	2,178	2,122	4,201	3,914
Total revenue	<u>519,404</u>	<u>569,238</u>	<u>1,050,662</u>	<u>1,067,123</u>
<b>Cost of products sold:</b>				
New and used truck sales	328,708	393,298	676,600	727,470
Parts and service	69,621	66,068	138,044	128,347
Construction equipment sales	18,386	14,008	33,382	26,706
Lease and rental	10,964	7,898	21,415	15,034
Total cost of products sold	<u>427,679</u>	<u>481,272</u>	<u>869,441</u>	<u>897,557</u>
<b>Gross profit</b>	91,725	87,966	181,221	169,566
Selling, general and administrative	62,539	57,572	122,987	114,228
Depreciation and amortization	3,675	3,106	7,277	6,014
<b>Operating income</b>	25,511	27,288	50,957	49,324
Interest expense, net	4,533	3,518	9,061	7,064
Gain on sale of assets	68	17	156	50
<b>Income before taxes</b>	21,046	23,787	42,052	42,310
Provision for income taxes	7,998	8,920	15,980	15,866
<b>Net income</b>	<u>\$ 13,048</u>	<u>\$ 14,867</u>	<u>\$ 26,072</u>	<u>\$ 26,444</u>
<b>Earnings per common share:</b>				
Basic	\$ .51	\$ .59	\$ 1.03	\$ 1.06
Diluted	\$ .51	\$ .59	\$ 1.02	\$ 1.05
<b>Weighted average shares outstanding:</b>				
Basic	25,353	24,998	25,265	24,853
Diluted	<u>25,561</u>	<u>25,215</u>	<u>25,471</u>	<u>25,174</u>

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

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**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands)  
(Unaudited)

	Six Months Ended	
	June 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 26,072	\$ 26,444
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	17,578	12,549
(Gain) on sale of property and equipment	(156)	(381)
Stock-based compensation expense related to stock options and employee stock purchases	2,390	1,895
Provision for deferred income tax expense	2,270	(82)
Excess tax benefits from stock-based compensation	(1,271)	—
Change in accounts receivable, net	11,353	5,118
Change in inventories	14,078	(65,940)
Change in prepaid expenses and other, net	(119)	(170)
Change in trade accounts payable	(6,510)	5,248
Change in accrued expenses	(481)	6,485
Net cash provided by (used in) operating activities	<u>65,204</u>	<u>(8,834)</u>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(36,105)	(39,684)
Proceeds from the sale of property and equipment	2,410	3,026
Business acquisitions	(6,977)	(22,477)
Change in other assets	208	61
Net cash (used in) investing activities	<u>(40,464)</u>	<u>(59,074)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	23,052	36,398
Principal payments on long-term debt	(17,120)	(22,037)
Principal payments on capital lease obligations	(1,723)	(2,137)
Draws on lines of credit, net	—	399
Draws (payments) on floor plan notes payable, net	(27,432)	58,957
Debt issuance costs	(15)	(12)
Excess tax benefits from stock-based compensation	1,271	2,144
Issuance of shares relating to employee stock options and employee stock purchases	1,364	1,629
Net cash (used in) provided by financing activities	<u>(20,603)</u>	<u>75,341</u>
<b>Net increase in cash and cash equivalents</b>	<b>4,137</b>	<b>7,433</b>
Cash and cash equivalents, beginning of period	161,558	133,069
Cash and cash equivalents, end of period	<u>\$ 165,695</u>	<u>\$ 140,502</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for-		
Interest	\$ 13,303	\$ 9,749
Income taxes	\$ 10,369	\$ 12,366

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

**RUSH ENTERPRISES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1 – Principles of Consolidation and Basis of Presentation**

The interim consolidated financial statements included herein have been prepared by Rush Enterprises, Inc. and its subsidiaries (collectively referred to as the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). All adjustments have been made to the accompanying interim consolidated financial statements, which, in the opinion of the Company’s management, are necessary for a fair presentation of the Company’s operating results. All adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or

omitted pursuant to such rules and regulations. It is recommended that these interim consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Results of operations for interim periods are not necessarily indicative of results that may be expected for any other interim periods or the full fiscal year.

## 2 – Goodwill and Other Intangible Assets

The Company is required to perform an annual impairment review of goodwill. The Company performs its annual review during the fourth quarter of each year and, therefore, did not record an impairment charge related to goodwill during the second quarter of 2007. Management is not aware of any impairment charge that may be required; however, a change in economic conditions, if one occurs, could result in an impairment charge in the future.

## 3 – 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. However, the Company has a finance program that accepts 100% liability, with some restrictions, for the outstanding amount of each note initiated on behalf of the finance company. In order for a contract to be accepted into this finance program, a customer must meet strict credit requirements or maintain a significant equity position in the truck being financed; consequently, less than 1% of the Company's portfolio balance related to finance contracts sold by the Company are under this 100% liability finance program and the Company does not expect to finance a significant percentage of its truck sales under this 100% liability finance program in the future. 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.

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.

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.

## 4 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Numerator:</b>				
Numerator for basic and diluted earnings per share, net income available to common shareholders	\$ 13,048,000	\$ 14,867,000	\$ 26,072,000	\$ 26,444,000
<b>Denominator:</b>				
Denominator for basic earnings per share, adjusted weighted average shares outstanding	25,352,595	24,998,226	25,265,415	24,853,185
Effect of dilutive securities:				
Employee and director stock options	207,999	216,438	205,737	321,160
Denominator for diluted earnings per share, adjusted weighted average shares outstanding and assumed conversions	<u>25,560,594</u>	<u>25,214,664</u>	<u>25,471,152</u>	<u>25,174,345</u>
Basic earnings per common share	<u>\$ .51</u>	<u>\$ .59</u>	<u>\$ 1.03</u>	<u>\$ 1.06</u>
Diluted earnings per common share and common share equivalents	<u>\$ .51</u>	<u>\$ .59</u>	<u>\$ 1.02</u>	<u>\$ 1.05</u>

## 5 – Stock Options

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

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors including employee stock options 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. Upon adoption of SFAS 123(R), the Company continues to use the Black-Scholes option-pricing model which was previously used for the Company's pro forma information required under SFAS 123. Stock-based compensation expense, included in selling, general and administrative expense, related to employee stock options and employee stock purchases under SFAS 123(R) for the three months ended June 30, 2007 was \$1.3 million and for the three months ended June 30, 2006 was \$0.9 million. Stock-based compensation expense, included in selling, general and administrative expense, related to employee stock options and employee stock purchases under SFAS 123(R) for the six months ended June 30, 2007 was \$2.4 million and for the six months ended June 30, 2006 was \$1.9 million. As of June 30, 2007, there was \$4.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Rush Enterprises, Inc. Long-Term Incentive Plan to be recognized over a weighted-average period of 3.5 years.

## 6 – Acquisitions

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-duty 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	<u>678</u>
<b>Total</b>	<b><u>\$6,312</u></b>

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.

## 7 – Segment Information

The Company currently has two reportable business segments: the Truck Segment and the Construction Equipment Segment. The Truck Segment operates a network of Rush Truck Centers that provides an integrated one-stop source for the trucking needs of its customers, including retail sales of new and used medium-duty and heavy-duty trucks; aftermarket parts, service and body shop facilities; and a wide array of financial services, including the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Construction Equipment Segment operates a full-service John Deere construction equipment dealership that serves the Houston, Texas metropolitan area. Construction Equipment Segment operations include the retail sale of new and used construction equipment, aftermarket parts and service facilities, 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 in the annual report. 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 quarters ended June 30, 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 periods ended June 30, 2007 and 2006 (in thousands):

	<u>Truck Segment</u>	<u>Construction Equipment Segment</u>	<u>All Other</u>	<u>Totals</u>
<i>Three months ended June 30, 2007</i>				
Revenues from external customers	\$ 488,188	\$ 26,308	\$ 4,908	\$ 519,404
Segment income before taxes	18,651	2,303	92	21,046
Segment assets	1,080,838	27,433	25,099	1,133,370
<i>Six months ended June 30, 2007</i>				
Revenues from external customers	\$ 993,447	\$ 47,777	\$ 9,438	\$ 1,050,662
Segment income before taxes	37,977	3,826	249	42,052
Segment assets	1,080,838	27,433	25,099	1,133,370
<i>Three months ended June 30, 2006</i>				

Revenues from external customers	\$ 544,080	\$ 20,248	\$ 4,910	\$ 569,238
Segment income before taxes	21,777	1,638	372	23,787
Segment assets	915,059	25,645	18,013	958,717

Six months ended June 30, 2006

Revenues from external customers	\$ 1,018,601	\$ 39,187	\$ 9,335	\$ 1,067,123
Segment income before taxes	38,855	3,226	229	42,310
Segment assets	915,059	25,645	18,013	958,717

Revenues from segments below the quantitative thresholds requiring them to be reported separately are attributable to three operating segments of the Company. These segments include a tire company, an insurance agency, and a hunting lease operation. None of these segments has ever met any of the quantitative thresholds that would require them to be reported separately.

## 8 – Income Taxes

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” 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. As required, the Company has adopted the provisions of FIN 48 effective January 1, 2007.

As of January 1, 2007 and June 30, 2007, the Company included accruals for unrecognized income tax benefits totaling \$1.4 million as a component of accrued liabilities. The unrecognized tax benefits of \$1.4 million, if recognized, would impact the Company’s effective tax rate. The interest expense liability related to unrecognized tax benefits on January 1, 2007 was not material. 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 the adoption date of FIN 48, the tax years ended December 31, 2002 through 2006 remained subject to examination by tax authorities.

## 9 – Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurement” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect that the adoption of SFAS No. 157 will have a significant impact on its consolidated results of operations and financial position.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

*Certain statements contained in this Form 10-Q (or otherwise made by the Company or on the Company’s behalf from time to time in other reports, filings with the SEC, 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, 2006 as well as future growth rates and margins for certain of our products and services, future demand for our products and services, competitive factors, general economic conditions, cyclicity, economic conditions in the new and used truck and equipment markets, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in the Company’s other reports filed with the SEC (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.*

The following comments should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

## **Note Regarding Trademarks Used in This Form 10-Q**

*Peterbilt*<sup>®</sup> is a registered trademark of Peterbilt Motors Company. *PACCAR*<sup>®</sup> is a registered trademark of PACCAR, Inc. *GMC*<sup>®</sup> is a registered trademark of General Motors Corporation. *Hino*<sup>®</sup> is a registered trademark of Hino Motors, Ltd. *UD*<sup>®</sup> is a registered trademark of Nissan Diesel Motor Co., Ltd. *Isuzu*<sup>®</sup> is a registered trademark of Isuzu Motors Limited. *John Deere*<sup>®</sup> is a registered trademark of Deere & Company. *Kenworth*<sup>®</sup> is a registered trademark of PACCAR, Inc. doing business as Kenworth Truck Company. *Volvo*<sup>®</sup> is a registered trademark of Volvo Trademark Holding AB. *Freightliner*<sup>®</sup> is a registered trademark of Freightliner Corporation. *Mack*<sup>®</sup> is a registered trademark of Mack Trucks, Inc. *Navistar*<sup>®</sup> is a registered trademark of Navistar International Corporation. *Caterpillar*<sup>®</sup> is a registered trademark of Caterpillar, Inc. *Cummins*<sup>®</sup> is a registered trademark of Cummins Engine Company, Inc. *PacLease*<sup>®</sup> is a registered trademark of PACCAR Leasing Corporation. *CitiCapital*<sup>®</sup> is a registered trademark of Citicorp. *Ford*<sup>®</sup> is a registered trademark of Ford Motor Company.

## **General**

Rush Enterprises, Inc. was incorporated in Texas in 1965 and currently consists of two reportable segments: the Truck Segment and the Construction Equipment Segment. The Company currently conducts business through numerous subsidiaries, all of which are wholly owned, directly or indirectly, by it. Its principal offices are located at 555 IH 35 South, New Braunfels, Texas 78130.

The Company is a full-service, integrated retailer of premium transportation and construction equipment and related services. The Company's Rush Truck Centers sell trucks manufactured by Peterbilt Motors Company (a division of PACCAR, Inc.), GMC, Hino, UD, Ford or Isuzu. The Company also operates a John Deere construction equipment dealership at its Rush Equipment Center in Houston, Texas. Through its strategically located network of Rush Truck Centers

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and its Rush Equipment Center, the Company provides one-stop service for the needs of its customers, including retail sales of new and used trucks and construction equipment, aftermarket parts sales, service and repair facilities, and financing, leasing and rental, and insurance products.

The Company's Rush Truck Centers are principally located in high traffic areas throughout the southern United States. Since commencing operations as a Peterbilt heavy-duty truck dealer in 1966, the Company has grown to operate more than 45 Rush Truck Centers in Alabama, Arizona, California, Colorado, Florida, Georgia, New Mexico, Oklahoma, Tennessee and Texas.

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-duty 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. See Note 6—Acquisitions of the Notes to the Consolidated Financial Statements for a detailed discussion of the allocation of the purchase price of certain assets of Allen-Jensen, Inc.

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.

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

## **Critical Accounting Policies**

The Company's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with United States 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 affect its more significant estimates and assumptions 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.

### *Goodwill*

The Company applies the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), in accounting for goodwill. SFAS 142 requires that goodwill and other intangible assets that have indefinite useful lives may not be amortized, but instead must be tested at least annually for impairment, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. SFAS 142 also provides specific guidance for testing goodwill and other non-amortized intangible assets for impairment. SFAS 142 requires management to make certain estimates and assumptions in order to allocate goodwill to reporting units and to determine the fair value of a reporting unit's net assets and liabilities, including, among other things, an assessment of market condition, projected cash flows, interest rates and



growth rates, which could significantly impact the reported value of goodwill and other intangible assets. SFAS 142 requires, in lieu of amortization, an annual impairment review of goodwill. The Company performs its annual review during the fourth quarter of each year and, therefore, did not record an impairment charge related to goodwill during the second quarter of 2007. Management is not aware of any impairment charge that may be required; however, a change in economic conditions, if one occurs, could result in an impairment charge in the future.

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### *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 collectibility. 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. The Company arranges financing for customers through various retail funding sources and receives a commission from the lender equal to either the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. The Company also receives commissions from the sale of various insurance products and extended service contracts to customers. Revenue is recognized by the Company upon the sale of such finance and insurance contracts to the finance and insurance companies net of a provision for estimated repossession losses and interest charge backs. 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.

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### *Stock-Based Compensation Expense*

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

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. 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 value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Income. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Upon adoption of SFAS 123(R), the Company continues to use the Black-Scholes option-pricing model which was previously used for the Company's pro forma information required under SFAS 123.

## Results of Operations

The following discussion and analysis includes the Company's historical results of operations for the three months and six months ended June 30, 2007 and 2006.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
New and used truck sales	68.6%	74.4%	69.9%	73.8%
Parts and service	23.2	19.8	22.6	20.4
Construction equipment sales	4.0	2.8	3.6	2.8
Lease and rental	2.6	1.8	2.4	1.8
Finance and insurance	1.2	0.9	1.1	0.8
Other	0.4	0.3	0.4	0.4
Total revenues	100.0	100.0	100.0	100.0
Cost of products sold	82.3	84.5	82.8	84.1
Gross profit	17.7	15.5	17.2	15.9
Selling, general and administrative	12.0	10.1	11.7	10.7
Depreciation and amortization	0.7	0.6	0.7	0.6
Operating income	5.0	4.8	4.8	4.6
Interest expense, net	0.9	0.6	0.9	0.6
Gain on sale of assets	0.0	0.0	0.0	0.0
Income before income taxes	4.1	4.2	3.9	4.0
Provision for income taxes	1.5	1.6	1.5	1.5
Net Income	2.6%	2.6%	2.4%	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 periods indicated (revenue in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	% Change	2007	2006	% Change
<b>Truck unit sales:</b>						
New heavy-duty trucks	1,869	2,695	(30.6)%	3,899	4,994	(21.9)%
New medium-duty trucks	1,324	1,185	11.7 %	2,763	2,076	33.1 %
Total new truck unit sales	3,193	3,880	(17.7)%	6,662	7,070	(5.8)%
Used truck unit sales	984	954	3.1 %	2,061	2,012	2.4 %
<b>Truck revenue:</b>						
New heavy-duty trucks	\$ 225.9	\$ 307.9	(26.6)%	\$ 466.1	\$ 569.7	(18.2)%
New medium-duty trucks	73.4	66.0	11.2 %	149.8	115.0	30.3 %
Total new truck revenue	\$ 299.3	\$ 373.9	(20.0)%	\$ 615.9	\$ 684.7	(10.0)%
Used truck revenue	\$ 51.7	\$ 45.6	13.4 %	\$ 105.4	\$ 93.8	12.4 %
<b>Absorption rate:</b>	109.0%	109.5%	(0.5)%	105.4%	105.3%	0.1 %

## Key Performance Indicator

**Absorption Rate.** The management of the Company uses several performance metrics to evaluate the performance of its truck 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 truck 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 absorption rate was approximately 80%. The Company

has made a concerted effort to increase its absorption rate since then. Management believes that maintaining an absorption rate in excess of 100% is critical to the Company's ability to generate consistent earnings in a cyclical business.

### **Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006**

As expected, the Company continued to experience the softening of the Class 8 truck market in the second quarter. While the Company previously expected United States retail sales of Class 8 units to be weaker in the second and third quarters of 2007, the Company now expects industry Class 8 deliveries to remain soft for the second half of the year. The Company anticipates that Class 8 order intake will increase beginning in early 2008. Additionally, the Company believes industry conditions including normal customer trade cycles and new diesel emission regulations scheduled to take effect in 2010 will result in a pre-buy of Class 8 trucks beginning in 2008 similar to the pre-buy experienced in 2005 and 2006. The magnitude of the 2008 and 2009 pre-buy will be largely dictated by the economy in the U.S., among other factors.

The Company prepared for the expected decrease in Class 8 truck sales in 2007 by ensuring the Company had a large inventory of Class 8 trucks with engines built before the new diesel engine emissions guidelines took effect to sustain it during the first half of 2007. There is more demand for Class 8 trucks with engines built before the new diesel engine emissions guideline took effect than for Class 8 trucks with engines built subsequently to January 1, 2007. Since the last industry downturn in 2002, the Company has focused on expanding its medium-duty and vocational truck offerings, increasing parts and service sales and increasing operational efficiencies throughout the organization.

While industry deliveries of U.S. Class 8 units are down 37% for the first six months of the year, according to A.C.T. Research Co., LLC ("A.C.T. Research"), a heavy-duty truck industry data and forecasting services provider, the Company's Class 8 deliveries are only down 22%. The Company's medium-duty truck deliveries increased 11.7% from the second quarter of last year to the second quarter of 2007. The Company's second quarter absorption rate held steady at approximately 109%, compared to the second quarter of 2006, despite fewer Class 8 truck deliveries. The Company's same store absorption rate increased to 106.2% in the first half of 2007 versus 105.3% in the first half of 2006.

#### *Revenues*

Revenues decreased \$49.8 million, or 8.7%, in the second quarter of 2007 compared to the second quarter of 2006. Sales of new and used trucks decreased \$67.2 million, or 15.9%, in the second quarter of 2007 compared to the second quarter of 2006. This decrease in new and used truck revenue is primarily due to decreased sales of new Class 8 trucks due to the diesel engine emissions guidelines which caused a pre-buy of Class 8 trucks in 2006 and has decreased demand for new Class 8 trucks with engines built subsequent to January 1, 2007.

The Company's unit sales of new Class 8 trucks decreased 30.6% in the second quarter of 2007 compared to the second quarter of 2006. According to A.C.T. Research, U.S. Class 8 truck sales decreased 50% in the second quarter of 2007 compared to the second quarter of 2006. In 2006, the Company retained a 4.1% share of the Class 8 truck sales market in the U.S. The Company expects its share to range between 4.0% and 5.0% of the U.S. Class 8 truck sales market in 2007, which would result in the sale of approximately 7,000 to 7,500 Class 8 trucks based on A.C.T. Research's current 2007 retail sales estimates of 163,000 units.

The Company's unit sales of new medium-duty trucks increased 11.7% in the second quarter of 2007 compared to the second quarter of 2006. The Company continues to improve its medium-duty truck sales by adding experienced medium-duty sales personnel, introducing new medium-duty franchises at some of the Company's Rush Truck Centers and through acquisitions. Overall, new medium-duty truck sales revenue increased approximately \$7.4 million, or 11.2%, in the second quarter of 2007 compared to the second quarter of 2006. A.C.T. Research currently expects a 13% decline in United States retail sales of Class 4, 5, 6, and 7 medium-duty trucks. The Company expects same store medium-duty sales to remain flat in 2007 compared to 2006. In 2006, the Company achieved a 1.7% share of the Class 4 through 7 truck sales market in the U.S.

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The Company expects its share to be approximately 2.5% of the U.S. Class 4 through 7 truck sales market in 2007, which would result in the sale of approximately 6,000 Class 4 through 7 trucks based on A.C.T. Research's current 2007 retail sales estimates of 241,000 units.

Unit sales of used trucks increased 3.1% in the second quarter of 2007 compared to the second quarter of 2006. Used truck average revenue per unit increased by approximately 10.0%. In 2007, the Company expects used truck sales to be largely dependent upon our ability to acquire quality used trucks and maintain an adequate used truck inventory. The Company expects to sell approximately 4,000 used trucks in 2007 compared to 4,005 in 2006.

Parts and service sales increased \$8.1 million, or 7.2%, in the second quarter of 2007 compared to the second quarter of 2006. The parts and service sales increase was consistent with management's expectations, which take into account general economic conditions, successful business development, acquisitions and price increases for parts and labor. The Company expects parts and service sales to increase approximately 10% during the remainder of 2007 compared to 2006.

Sales of new and used construction equipment increased \$5.0 million, or 31.7%, in the second quarter of 2007 compared to the second quarter of 2006. The Company is continuing to make a concerted effort to increase its market share in the Houston area. John Deere's market share in the Houston area construction equipment market decreased to 22.2% in the six month period ended June 30, 2007 from 23.6% in the six month period ended June 30, 2006. The decrease in John Deere's market share is primarily due to the decrease in direct manufacturer sales in the Houston area in the second quarter of 2007 compared to the second quarter of 2006. The Company believes it can increase John Deere's market share in the Houston area to approximately 23.0% in 2007.

Truck lease and rental revenues increased \$3.0 million, or 29.5%, in the second quarter of 2007 compared to the second quarter of 2006. This increase in lease and rental revenue is primarily related to the increased number of units in the lease and rental fleet in the second quarter of 2007 compared to the second quarter of 2006. The Company expects lease and rental revenue to increase 13% to 18% during the remainder of 2007 compared to 2006 because of additions made to the Company's lease and rental fleet in the second half of 2006.

Finance and insurance revenues increased \$1.3 million, or 25.3%, in the second quarter of 2007 compared to the second quarter of 2006. This increase is due to the Company arranging financing on a higher percentage of trucks sold and to a nonrecurring reserve release related to the Company's new early repayment charge back program. The Company expects to be charged fewer early repayment penalties under this new program. The Company expects

finance income from new Class 8 truck sales to decrease during the remainder of 2007 compared to the second half of 2006 because of the expected decline in new Class 8 truck sales. The decrease in finance income in the remainder of 2007 will be mitigated by increases in medium-duty truck sales and insurance revenue due to product expansion and recent acquisitions. The Company expects overall finance revenue to remain flat in 2007 compared to 2006. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

Other income increased \$0.1 million, or 2.6%, in the second quarter of 2007 compared to the second quarter of 2006. Other income consists primarily of document fees on truck sales, the gain on sale realized on trucks from the lease and rental fleet, and commissions earned from John Deere for direct manufacturer sales into our area of responsibility.

#### *Gross Profit*

Gross profit increased \$3.8 million, or 4.3%, in the second quarter of 2007 compared to the second quarter of 2006. Gross profit as a percentage of sales increased to 17.7% in the second quarter of 2007 from 15.5% in the second quarter of 2006. This increase is primarily a result of a change in our product sales mix. Truck sales, a lower margin revenue item, decreased as a percentage of total revenue to 68.6% in the second quarter of 2007 from 74.4% in the second quarter of 2006. Parts and service revenue, a higher margin revenue item, increased as a percentage of total revenue to 23.2% in the second quarter of 2007 from 19.8% in the second quarter of 2006.

Gross margins on Class 8 truck sales increased to 8.3% in the second quarter of 2007 from 6.8% in the second quarter of 2006. The Company's 2007 gross margins on Class 8 trucks increased due to the change in the mix of sales to non-fleet customers. For the remainder of 2007, the Company expects overall gross margins from Class 8 truck sales of approximately 6.5% to 7.5% depending upon the premium customers are willing to pay for our remaining trucks with engines built subsequent to December 31, 2007, the mix of sales to fleet versus non-fleet customers, and the level of manufacturer incentives.

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Gross margins on medium-duty truck sales decreased to 6.2% in the second quarter of 2007 from 7.2% in the second quarter of 2006. For the remainder of 2007, the Company expects overall gross margins from medium-duty truck sales of approximately 5.5% to 7.0%. The Company's 2007 gross margins on medium-duty trucks could vary significantly depending upon the mix of fleet and non-fleet purchasers and types of medium-duty trucks sold.

Gross margins on used truck sales decreased to 8.4% in the second quarter of 2007 from 9.8% in the second quarter of 2006. The decrease in gross margins on used trucks during the second quarter of 2007 is primarily due to the mix of used trucks sold. The Company believes it will be able to continue to achieve margins of approximately 8.0% to 9.0% during the remainder of 2007.

Gross margins from the Company's parts, service and body shop operations increased to 42.2% in the second quarter of 2007 from 41.3% in the second quarter of 2006. This increase in gross margins is mainly attributable to the increased parts purchase discounts in the second quarter of 2007 compared to the second quarter of 2006. Gross profit for the parts, service and body shop departments increased to \$50.9 million in the second quarter of 2007 from \$46.4 million in the second quarter of 2006. The Company expects to maintain gross margins on parts, service and body shop operations of approximately 40.0% to 42.0% during the remainder of 2007.

Gross margins on new and used construction equipment sales increased to 11.1% in the second quarter of 2007 from 10.8% in the second quarter of 2006. Gross margins on new and used construction equipment can fluctuate depending on the mix of products sold. The Company expects 2007 gross margins to remain in a range of 10.0% to 12.0% as the Company attempts to increase its market share.

Gross margins from truck lease and rental sales decreased to 17.3% in the second quarter of 2007 from approximately 22.9% in the second quarter of 2006. The decrease in the gross margin from lease and rental sales is primarily due to the decline in the utilization of the rental fleet, which is a result of the additions to our rental fleet in 2006. We expect gross margins to gradually increase as our utilization rate increases throughout the remainder of 2007. 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, has limited direct costs and, therefore, contributes a disproportionate share of gross profit.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative ("SG&A") expenses increased \$5.0 million, or 8.6%, in the second quarter of 2007 compared to the second quarter of 2006. SG&A expenses as a percentage of sales were 12.0% in the second quarter of 2007 compared to 10.1% in the second quarter of 2006. SG&A expenses as a percentage of revenue have historically ranged from 10.0% to 16.0%. In the second quarter of 2007, the selling portion of SG&A expenses decreased 10.8% and the general and administrative portion of SG&A increased 11.6% compared to the second quarter of 2006. The general and administrative portion of SG&A will increase approximately 5% to 10% in 2007 due to the effect of inflation and acquisitions made in 2006 and early 2007.

#### *Interest Expense, Net*

Net interest expense increased \$1.0 million, or 28.9%, in the second quarter of 2007 compared to the second quarter of 2006. This increase is primarily due to the increase in floor plan notes payable. To take advantage of increased demand for trucks with diesel engines manufactured prior to January 1, 2007, the Company maintained higher levels of truck inventory in the second quarter of 2007 than it has traditionally maintained, which increased the Company's floor plan notes payable. The Company expects net interest expense in 2007 to increase approximately 10.0% compared to 2006.

#### *Income before Income Taxes*

Income before income taxes decreased \$2.7 million, or 11.5%, in the second quarter of 2007 compared to the second quarter of 2006. The Company expects income for the remainder of 2007 to decrease compared to 2006 because of the expected significant decrease in Class 8 truck sales during the remainder of 2007 relative to 2006.

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### *Provision for Income Taxes*

Income taxes decreased \$1.0 million, or 10.3%, in the second quarter of 2007 compared to the second quarter of 2006. The Company provided for taxes at an effective rate of 37.5% in the second quarter of 2006 and 38.0% in the second quarter of 2007.

### **Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006**

Unless otherwise stated below, the Company's variance explanations and future expectations with regards to the items discussed in this section are set forth in the discussion of the "Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006."

### *Revenues*

Revenues decreased \$16.5 million, or 1.5%, in the first six months of 2007 compared to the first six months of 2006. Sales of new and used trucks decreased \$52.9 million, or 6.7%, in the first six months of 2007 compared to the first six months of 2006. This decrease in new and used truck revenue is primarily due to decreased sales of Class 8 trucks as discussed above.

Unit sales of new Class 8 trucks decreased 21.9% in the first six months of 2007 compared to the first six months of 2006. The Class 8 truck sales market in the U.S. decreased 37% in the first six months of 2007 compared to the first six months of 2006 according to estimates of A.C.T. Research.

Unit sales of new medium-duty trucks increased 33.1% in the first six months of 2007 compared to the first six months of 2006. Overall, new medium-duty truck sales revenue increased approximately \$34.8 million, or 30.3%, in the first six months of 2007 compared to the first six months of 2006.

Unit sales of used trucks increased 2.4% in the first six months of 2007 compared to the first six months of 2006. Used truck average revenue per unit increased by approximately 9.7%.

Parts and service sales increased \$20.5 million, or 9.4%, in the first six months of 2007 compared to the first six months of 2006.

Sales of new and used construction equipment increased \$7.3 million, or 24.2%, in the first six months of 2007 compared to the first six months of 2006.

Truck lease and rental revenues increased \$5.7 million, or 29.1%, in the first six months of 2007 compared to the first six months of 2006.

Finance and insurance revenues increased \$2.7 million, or 29.8%, in the first six months of 2007 compared to the first six months of 2006. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

Other income increased \$0.3 million, or 7.3%, in the first six months of 2007 compared to the first six months of 2006.

### *Gross Profit*

Gross profit increased \$11.7 million, or 6.9%, in the first six months of 2007 compared to the first six months of 2006. Gross profit as a percentage of sales increased to 17.2% in the first six months of 2007 from 15.9% in the first six months of 2006. This increase is primarily a result of a change in our product sales mix. Truck sales, a lower margin revenue item, decreased as a percentage of total revenue to 69.9% in the first six months of 2007 from 73.8% in the first six months of 2006. Parts and service revenue, a higher margin revenue item, increased as a percentage of total revenue to 22.6% in the first six months of 2007 from 20.4% in the first six months of 2006.

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Gross margins on Class 8 truck sales increased to 8.4% in the first six months of 2007 from 7.5% in the first six months of 2006.

Gross margins on medium-duty truck sales decreased to 5.7% in the first six months of 2007 from 6.8% in the first six months of 2006.

Gross margins on used truck sales decreased slightly to 8.9% in the first six months of 2007 from 9.0% in the first six months of 2006.

Gross margins from the Company's parts, service and body shop operations increased to 41.9% in the first six months of 2007 from 40.9% in the first six months of 2006. Gross profit for the parts, service and body shop departments increased to \$99.7 million in the first six months of 2007 from \$89.0 million in the first six months of 2006.

Gross margins on new and used construction equipment sales decreased to 10.8% in the first six months of 2007 from 11.4% in the first six months of 2006. This decrease in gross margins is attributable to the Company's efforts to increase its market share in the Houston area, which has required the Company to sell construction equipment at lower margins.

Gross margins from truck lease and rental sales decreased to 15.4% in the first six months of 2007 from approximately 23.4% in the first six months of 2006. The Company expects gross margins from lease and rental sales of approximately 15.0% to 18.0% in 2007.

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

### *Selling, General and Administrative Expenses*

Selling, general and administrative (“SG&A”) expenses increased \$8.8 million, or 7.7%, in the first six months of 2007 compared to the first six months of 2006. SG&A expenses as a percentage of sales were 11.7% in the first six months of 2007 compared to 10.7% in the first six months of 2006.

#### *Interest Expense, Net*

Net interest expense increased \$2.0 million, or 28.3%, in the first six months of 2007 compared to the first six months of 2006. This increase is primarily due to the increase in floor plan notes payable.

#### *Income before Income Taxes*

Income before income taxes decreased \$0.3 million, or 0.6%, in the first six months of 2007 compared to the first six months of 2006. The Company believes that income before income taxes will decrease in 2007 compared to 2006 because of the expected significant decrease in heavy-duty truck sales during the remainder of 2007 relative to 2006.

#### *Provision for Income Taxes*

Income taxes remained flat in the first six months of 2007 compared to the first six months of 2006. The Company provided for taxes at an effective rate of 37.5% in the first six months of 2006 and 38.0% in the first six months of 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, 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 June 30, 2007, the Company had working capital of approximately \$178.7 million, including \$165.7 million in cash available to fund our operations.

The Company may request working capital advances in the minimum amount of \$100,000 from GE Capital, its primary truck lender. However, such working capital advances may not cause the total indebtedness owed GE Capital to

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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 June 30, 2007.

The Company has a secured line of credit that provides for a maximum borrowing of \$8.0 million. There were no advances outstanding under this secured line of credit at June 30, 2007, however, \$6.3 million was pledged to secure various letters of credit related to self-insurance products, leaving \$1.7 million available for future borrowings as of June 30, 2007.

The Company signed agreements with SAP America, Inc and Titan Technology Partners, Limited to purchase and implement SAP enterprise software and a new SAP dealership management system. The cost of the SAP software and implementation is estimated between \$10.0 million and \$12.0 million. The Company has no other material commitments for capital expenditures as of June 30, 2007. However, the Company will continue to purchase vehicles that are necessary to operate its lease and rental division. Furthermore, management will continue to authorize capital expenditures for improvement and expansion of dealership facilities based on market opportunities.

### **Cash Flows**

Cash and cash equivalents increased by \$4.1 million during the six months ended June 30, 2007 and increased by \$7.4 million during the six months ended June 30, 2006. The major components of these changes are discussed below.

#### *Cash Flows from Operating Activities*

Cash flows from operating activities include net income adjusted for non-cash items and the effects of changes in working capital. During the first six months of 2007, operating activities resulted in net cash provided by operations of \$65.2 million. Cash provided by operating activities was primarily impacted by the decrease in accounts receivable and the decrease in inventory. During the first six months of 2006, operating activities resulted in net cash used in operations of \$8.8 million.

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

	<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Net cash provided by (used in) operating activities as reported	\$ 65,204	\$ (8,834)
(Payments) draws on floor plan notes payable as reported	(27,432)	58,957
Net cash provided by operating activities including all floor plan notes payable	<u>\$ 37,772</u>	<u>\$ 50,123</u>

#### *Cash Flows from Investing Activities*

Cash flows from investing activities consist primarily of cash used for capital expenditures and business acquisitions. During the first six months of 2007, the Company used \$40.5 million in investing activities. Capital expenditures consisted of purchases of property and equipment, and improvements to our existing dealership facilities of \$36.1 million. Property and equipment purchases during the first six months of 2007 consisted of \$21.4 million for additional units for the rental and leasing operations, which was directly offset by borrowings of long-term debt. The Company expects to purchase trucks worth approximately \$40.0 million for its leasing operations in 2007 depending on customer demand. During 2007, the Company expects to make capital expenditures for recurring items such as computers, shop equipment and vehicles of approximately \$12.0 million in addition to \$6.1 million for the SAP software implementation described above. Cash used in business acquisitions was \$7.0 million during the first six months of 2007. See Note 6 - Acquisitions of the Notes to Consolidated Financial Statements for a detailed discussion of these acquisitions.

During the first six months of 2006, cash used in investing activities was \$59.1 million. Capital expenditures consisted of purchases of property and equipment, and improvements to our existing dealership facilities of \$39.7 million. Property and equipment purchases during the first six months of 2006 consisted of \$18.4 million of additional units for the rental and leasing operations, which was directly offset by borrowings of long-term debt. Cash used in business acquisitions was \$22.5 million during the first six months of 2006.

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### *Cash Flows from Financing Activities*

Cash flows from financing activities include borrowings and repayments of long-term debt and net proceeds of floor plan notes payable. Cash used in financing activities was \$20.6 million during the first six months of 2007. The Company had borrowings of long-term debt of \$23.1 million and repayments of long-term debt of \$17.1 million during the first six months of 2007. The Company had net payments of floor plan notes payable of \$27.4 million during the first six months of 2007. The borrowings of long-term debt were primarily related to the increase in the lease and rental fleet.

Cash used in financing activities was \$75.3 million during the first six months of 2006. The Company had borrowings of long-term debt of \$36.4 million and repayments of long-term debt of \$22.0 million during the first six months of 2006. The Company had net draws of floor plan notes payable of \$59.0 million during the first six months of 2006. The borrowings of long-term debt were primarily related to the increase in the lease and rental fleet and refinancing of the corporate aircraft.

Substantially all of the Company's truck purchases are made on terms requiring payment within 15 days or less from the date the trucks are invoiced from the factory. On September 20, 2005, the Company entered into a three-year floor plan financing agreement with GE Capital. Interest under the floor plan financing agreement is payable monthly at a rate equal to LIBOR plus 1.68%. 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 agreement allows for prepayments and working capital advances with monthly adjustments to the interest due on outstanding advances. On June 30, 2007, the Company had approximately \$402.4 million outstanding under its floor plan financing agreement with GE Capital.

Substantially all of the Company's new construction equipment purchases are financed by John Deere and CitiCapital. The Company finances substantially all of the purchase price of its new construction equipment inventory under its floor plan facilities. The Company's floor plan 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 CitiCapital floor plan arrangement. The Company makes principal payments for sold inventory to CitiCapital on the 15<sup>th</sup> day of each month. Used and rental construction equipment is financed to a maximum of book value under a floor plan arrangement with CitiCapital. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on rental construction equipment as book value reduces. Principal payments for sold used construction equipment are made no later than the 15<sup>th</sup> day of each month following the sale. The loans are collateralized by a lien on the construction equipment. The Company's floor plan agreements limit the aggregate amount of borrowings based on the book value of new and used construction equipment units. As of June 30, 2007, the Company's floor plan arrangement with CitiCapital permits the financing of up to \$13.5 million in construction equipment. On June 30, 2007, the Company had \$5.2 million outstanding under its floor plan financing arrangements with John Deere and \$11.3 million outstanding under its floor plan financing arrangement with CitiCapital.

### *Backlog*

On June 30, 2007, the Company's backlog of truck orders was approximately \$216.3 million as compared to a backlog of truck orders of approximately \$676.8 million on June 30, 2006. The Company includes only confirmed orders in its backlog. The Company sells the majority of its new trucks by customer special order, with the remainder sold out of inventory. The delivery time for a custom-ordered truck varies depending on the truck specifications and demand for the particular model ordered; however, due to the decreased demand for trucks with engines built after January 1, 2007, delivery times for heavy-duty trucks have decreased significantly from delivery times during peak demand in 2006. As a result, purchasers of heavy-duty trucks do not need to place orders several months in advance and our backlog has significantly decreased.

### *Seasonality*

The Company's truck business is moderately seasonal. Seasonal effects on new truck sales related to the seasonal purchasing patterns of any single customer type are mitigated by the Company's diverse customer base, including small and

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large fleets, governments, corporations and owner operators. However, truck parts and service operations historically have experienced higher volumes of sales in the second and third quarters.

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

#### *Cyclicality*

The Company's business is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, economic recessions, environmental and other government regulations and customer business cycles. Unit sales of new trucks have historically been subject to substantial cyclical variation based on these general economic conditions. According to data published by A.C.T. Research, in recent years total domestic retail sales of new Class 8 trucks have ranged from a low of approximately 140,000 in 2001 to a high of approximately 291,000 in 2006. Class 8 trucks are defined by the American Automobile Association as trucks with a minimum gross vehicle weight rating above 33,000 pounds. Domestic Class 8 unit sales are expected to decrease dramatically to approximately 163,000 units during 2007 according to A.C.T. Research. Through geographic expansion, concentration on higher margin parts and service operations and diversification of its customer base, the Company attempts to reduce the negative impact on the Company's earnings of adverse general economic conditions or cyclical trends affecting the heavy-duty truck industry.

#### *Environmental Standards and Other Governmental Regulations*

Our operations are subject to numerous federal, state and local laws and regulations, including laws and regulations designed to protect the environment by regulating the discharge of materials into the environment. EPA emission guidelines have a major impact on our operations. The EPA mandated that diesel engine manufacturers meet new, stricter emissions guidelines regarding nitrous oxides for all engines built subsequent to January 1, 2007. The 2007 emission guidelines caused the heavy-duty truck industry to experience a significant increase in demand for trucks during 2005, 2006 and the first quarter of 2007. The Company expects this recent period of increased demand to be followed by a decrease in demand for heavy-duty trucks in the third and fourth quarters of 2007. The severity of the decrease in demand for heavy-duty trucks will depend largely upon general economic conditions but the cost, reliability and efficiency of the new diesel engines will also impact demand.

The EPA has also mandated even stricter emissions guidelines regarding nitrous oxides for all diesel engines built subsequent to January 1, 2010. If new diesel engine emission standards are implemented in 2010, we expect deliveries of heavy-duty and medium-duty trucks to significantly decrease in 2010 relative to 2009. The EPA has also proposed regulations requiring emissions controls systems on 2010 and later heavy-duty and medium-duty trucks to be monitored for malfunctions via an onboard diagnostic system similar to those required in passenger vehicles since the mid-1990s, which could also impact demand for trucks.

#### *Effects of Inflation*

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

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### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk.**

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

The Company is exposed to some market risk through interest rates related to our floor plan borrowing arrangements, variable rate debt and discount rates related to finance sales. Floor plan borrowings are based on the LIBOR and prime rates of interest and are used to meet working capital needs. As of June 30, 2007, the Company had floor plan borrowings of approximately \$418.9 million. Assuming an increase in the LIBOR or prime rates of interest of 100 basis points, annual interest expense could increase by approximately \$4.2 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 of \$165.7 million at June 30, 2007. These funds are generally invested in highly liquid money market accounts, government-sponsored enterprises, corporate bonds and offset of floor plan debt that do not expose the Company to a loss of principal. As such instruments mature and the funds are reinvested, we are exposed to changes in market interest rates. This risk is mitigated 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 \$1.7 million. We have not used derivative financial instruments in our investment portfolio.

### **ITEM 4. Controls and Procedures.**

The Company, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2007 to provide reasonable assurance that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



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## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings.

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

### ITEM 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company did not make any unregistered sales of equity securities during the second quarter of 2007, nor did it repurchase any shares of its Class A Common Stock or Class B Common Stock during the second quarter of 2007.

### ITEM 3. Defaults Upon Senior Securities.

Not Applicable

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### Item 4. Submission of Matters to a Vote of Security Holders.

The following matters were voted upon at the Annual Meeting of Shareholders held on May 22, 2007, and received the votes set forth below:

1. All of the following persons nominated were reelected to serve as directors and received the number of votes set forth opposite their respective names:

<u>Name</u>	<u>Number of Votes FOR</u>	<u>Number of Votes WITHHELD</u>
W. Marvin Rush	8,007,540	81,845
W.M. "Rusty" Rush	8,008,485	86,959
Ronald J. Krause	8,008,107	93,269
John D. Rock	8,030,443	75,433
Harold D. Marshall	8,034,295	71,580
Thomas A. Akin	8,035,152	70,723

2. A proposal to approve the adoption of the Rush Enterprises, Inc. 2007 Long-Term Incentive Plan received 5,260,242 votes FOR and 2,117,142 votes AGAINST, with 2,328 abstentions and 726,164 broker non-votes.
3. A proposal to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the 2007 fiscal year received 8,098,379 votes FOR and 6,537 votes AGAINST, with 959 abstentions.

All three proposals submitted at the Annual Meeting of Shareholders held on May 22, 2007 received more than the number of favorable votes required for approval, and were therefore duly and validly approved by the Company's shareholders.

### ITEM 5. Other Information.

Not Applicable

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### ITEM 6. Exhibits.

<u>Exhibit Number</u>	<u>Exhibit Title</u>
3.1	Rush Enterprises, Inc. Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 24, 2007).

- 10.1 Wholesale Security Agreement, dated September 20, 2005, by and among General Electric Capital Corporation and Rush Truck Centers of Alabama, Inc., Rush Truck Centers of Arizona, Inc., Rush Truck Centers of California, Inc., Rush Truck Centers of Colorado, Inc., Rush Truck Centers of Florida, Inc., Rush Truck Centers of New Mexico, Inc., Rush Truck Centers of Oklahoma, Inc., Rush Truck Centers of Tennessee, Inc., and Rush Truck Centers of Texas, L.P. (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 000-20797) filed September 23, 2005).
- 10.2 Addendum to Wholesale Security Agreement, dated September 20, 2005, by and among General Electric Capital Corporation and Rush Truck Centers of Alabama, Inc., Rush Truck Centers of Arizona, Inc., Rush Truck Centers of California, Inc., Rush Truck Centers of Colorado, Inc., Rush Truck Centers of Florida, Inc., Rush Truck Centers of New Mexico, Inc., Rush Truck Centers of Oklahoma, Inc., Rush Truck Centers of Tennessee, Inc., and Rush Truck Centers of Texas, L.P. (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 000-20797) filed September 23, 2005).
- 10.3 Agreement Amending the Wholesale Security Agreement and Conditionally the Sale of Collateral on a Delayed Payment Privilege Basis, dated September 20, 2005, by and among General Electric Capital Corporation and Rush Truck Centers of Alabama, Inc., Rush Truck Centers of Arizona, Inc., Rush Truck Centers of California, Inc., Rush Truck Centers of Colorado, Inc., Rush Truck Centers of Florida, Inc., Rush Truck Centers of New Mexico, Inc., Rush Truck Centers of Oklahoma, Inc., Rush Truck Centers of Tennessee, Inc., and Rush Truck Centers of Texas, L.P. (incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K (File No. 000-20797) filed September 23, 2005).
- 10.4 Second Amendment to Addendum to Wholesale Security Agreement, dated January 22, 2007, by and between General Electric Capital Corporation and Rush Medium Duty Truck Centers of Colorado, Inc., Rush Truck Centers of Alabama, Inc., Rush Truck Centers of Arizona, Inc., Rush Truck Centers of California, Inc., Rush Truck Centers of Colorado, Inc., Rush Truck Centers of Florida, Inc., Rush Truck Centers of Georgia, Inc., Rush Truck Centers of New Mexico, Inc., Rush Truck Centers of Oklahoma, Inc., Rush Truck Centers of Tennessee, Inc., and Rush Truck Centers of Texas, L.P. (incorporated herein by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K (File No. 000-20797) filed January 23, 2007).
- 10.5 Amendment to Wholesale Security Agreement, dated May 15, 2007, by and among General Electric Capital Corporation and Rush Truck Centers of Alabama, Inc., Rush Truck Centers of Arizona, Inc., Rush Truck Centers of California, Inc., Rush Medium Duty Truck Centers of Colorado, Inc., Rush Truck Centers of Colorado, Inc., Rush Truck Centers of Florida, Inc., Rush Truck Centers of Georgia, Inc., Rush Truck Centers of New Mexico, Inc., Rush Truck Centers of Oklahoma, Inc., Rush Truck Centers of Tennessee, Inc., Rush Truck Centers of Texas, L.P., Rush GMC Truck Center of El Paso, Inc., Rush GMC Truck Center of Phoenix, Inc., Rush GMC Truck Center of San Diego, Inc., and Rush GMC Truck Center of Tucson, Inc. (incorporated herein by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 18, 2007).
- 10.6 Fourth Amendment to Addendum to Wholesale Security Agreement, dated May 21, 2007, by and among General Electric Capital Corporation and Rush Truck Centers of Alabama, Inc., Rush Truck Centers of Arizona, Inc., Rush Truck Centers of California, Inc., Rush Medium Duty Truck Centers of Colorado, Inc., Rush Truck Centers of Colorado, Inc., Rush Truck Centers of Florida, Inc., Rush Truck Centers of Georgia, Inc., Rush Truck Centers of New Mexico, Inc., Rush Truck Centers of Oklahoma, Inc., Rush Truck Centers of Tennessee, Inc., Rush Truck Centers of Texas, L.P., Rush GMC Truck Center of El Paso, Inc., Rush GMC Truck Center of Phoenix, Inc., Rush GMC Truck Center of San Diego, Inc., and Rush GMC Truck Center of Tucson, Inc. (incorporated herein by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K (File No. 000-20797) filed May 24, 2007).
- 10.7 Rush Enterprises, Inc. 2007 Long-Term Incentive Plan (incorporated herein by reference to Appendix A to the Company's Proxy Statement filed April 17, 2007).

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- 10.8 Form of Stock Option Agreement (incorporated herein by reference to Exhibit 4.4 of the Company's Form S-8 (File No. 333-144821) filed July 24, 2007).
- 31.1\* Certification of CEO pursuant to Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of CFO pursuant to Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification of CEO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\*\* Certification of CFO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RUSH ENTERPRISES, INC.

Date: August 9, 2007

By: /S/ W.M. "RUSTY" RUSH  
W.M. "Rusty" Rush  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 9, 2007

By: /S/ STEVEN L. KELLER  
Steven L. Keller  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Exhibit Title</u>
31.1*	Certification of CEO pursuant to Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of CFO pursuant to Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of CEO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of CFO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* filed herewith

\*\* furnished herewith

## CERTIFICATION

I, W.M. "Rusty" Rush, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rush Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

By: /S/ W.M. "RUSTY" RUSH  
W.M. "Rusty" Rush  
President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Steven L. Keller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rush Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

By: /S/ STEVEN L. KELLER  
Steven L. Keller  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report of Rush Enterprises, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven L. Keller, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /S/ STEVEN L. KELLER  
Name: Steven L. Keller  
Title: Vice President and Chief Financial Officer  
Date: August 9, 2007

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.