UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998

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	74-1733016
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8810 I.H. 10 East
San Antonio, Texas 78219
(Address of principal executive offices)
(Zip Code)

(210) 661-4511
(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 X No

Indicated below is the number of shares outstanding of the registrant's only class of common stock, as of November 13, 1998.

Title of Class	Number of Shares Outstanding
Common Stock, $.01 Par Value	6,643,730

RUSH ENTERPRISES, INC. AND SUBSIDIARIES

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RUSH ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS	SEPTEMBER 30, 1998 (UNAUDITED)	DECEMBER 31, 1997 (AUDITED)
CURRENT ASSETS:		
Cash and cash equivalents	$ 23,121	$ 19,816
Accounts receivable, net	19,088	20,894
Inventories	92,979	66,757
Prepaid expenses and other	533	381
Total current assets	135,721	107,848
PROPERTY AND EQUIPMENT, net	44,640	34,158
OTHER ASSETS, net	16,181	13,472
Total assets	$ 196,542	$ 155,478
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable	$ 79,764	$ 63,268
Current maturities of long-term debt	5,103	2,439
Advances outstanding under lines of credit	10	20
Trade accounts payable	6,014	5,751
Accrued expenses	16,808	12,556
Note payable to shareholder	10,600	5,450
Total current liabilities	118,299	89,484
DEFERRED INCOME TAX LIABILITY, net	1,682	1,180
LONG-TERM DEBT, net of current maturities	27,554	22,742
SHAREHOLDERS' EQUITY		
Rush Enterprises, Inc., common stock, par value $.01 per share; 25,000,000 shares authorized; 6,643,730 outstanding at September 30, 1998 and December 31, 1997	66	66
Additional paid-in-capital	33,342	33,342
Retained earnings	15,599	8,664
Total shareholders' equity	49,007	42,072
Total liabilities and shareholders' equity	$ 196,542	$ 155,478

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

RUSH ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT EARNINGS PER SHARE - UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
REVENUES:				
New and used truck sales	$ 105,864	$ 75,545	$ 308,243	$ 209,181
Parts and service	28,806	20,934	79,182	56,280
Construction equipment sales	6,828	--	24,741	--
Lease and rental	4,665	3,605	13,640	10,262
Finance and insurance	2,743	1,732	8,140	3,812
Other	4,634	329	11,652	1,294
Total revenues	153,540	102,145	445,598	280,829
COST OF PRODUCTS SOLD	126,366	85,473	370,193	236,521
GROSS PROFIT	27,174	16,672	75,405	44,308
SELLING, GENERAL AND ADMINISTRATIVE	19,663	12,732	56,173	35,229
DEPRECIATION AND AMORTIZATION	1,266	730	3,340	2,071
OPERATING INCOME	6,245	3,210	15,892	7,008
INTEREST EXPENSE	1,467	537	4,335	1,462
INCOME BEFORE INCOME TAXES	4,778	2,673	11,557	5,546
PROVISION FOR INCOME TAXES	1,910	1,015	4,622	2,107
NET INCOME	$ 2,868	$ 1,658	$ 6,935	$ 3,439
EARNINGS PER SHARE				
Basic	$ 0.43	$ 0.25	$ 1.04	$ 0.52
Diluted	$ 0.43	$ 0.25	$ 1.04	$ 0.52
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	6,644	6,644	6,644	6,644
Diluted	6,664	6,656	6,664	6,656

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

RUSH ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS - UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,935	$ 3,439
Adjustments to reconcile net income to cash provided by (used in) continuing operations		
Depreciation and amortization	3,340	2,071
Gain on sale of property, plant and equipment	(35)	(266)
Provision for deferred income tax expense	502	242
Change in receivables	2,531	3,035
Change in inventories	(10,845)	2,672
Change in other current assets	(100)	1,122
Change in accounts payable	95	(1,044)
Change in accrued expenses	3,508	687
Net cash provided by (used in) operating activities	5,931	11,958
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(11,621)	(7,548)
Proceeds from the sale of property and equipment	288	426
Business Acquisitions	(8,625)	(7,915)
Changes in other assets	232	(130)
Net cash used in investing activities	(19,726)	(15,167)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	15,070	6,063
Principal payments on notes payable	(5,040)	(1,562)
Draws (payments) on floor plan financing, net	7,070	(7,578)
Net cash provided by (used in) financing activities	17,100	(3,077)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,305	(6,286)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	19,816	21,507
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 23,121	$ 15,221
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during year for interest	$ 4,394	$ 1,469
Cash paid during year for taxes	$ 3,956	$ 1,523
Non-cash assignment of debt	$ --	$ 1,061

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 ("SEC"). All adjustments have been made to the accompanying interim consolidated financial statements which are, in the opinion of the Company's management, 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, 1997.

2 - ACQUISITION

In September 1998, the Company acquired all of the assets and assumed certain liabilities of Klooster Equipment, Inc., for approximately $12.7 million. The acquisition was accounted for as a purchase. The results of operations have been included in the Company's financial statements since the date of acquisition. No pro forma financial information with regard to this acquisition has been presented as the acquisition does not have a significant impact on the Company's prior or current period financial position or results of operations.

In March 1998 the Company acquired all of the issued and outstanding capital stock of D & D Farm and Ranch Supermarket Inc., for approximately $10.5 million. The acquisition was accounted for as a purchase. The results of operations have been included in the Company's financial statements since the date of acquisition. No pro forma financial information with regard to this acquisition has been presented as the acquisition does not have a significant impact on the Company's prior or current period financial position or results of operations.

3 - COMMITMENTS AND CONTINGENCIES

The Company is contingently liable to certain finance companies for certain promissory notes and finance contracts, related to the sale of trucks, sold to such finance companies. The Company's recourse liability related to sold finance contracts is limited to 15 to 25 percent of the outstanding balance of each note sold to a finance company, with the aggregate recourse liability for 1998 limited to $600,000.

The Company provides an allowance for repossession losses and early repayment penalties.

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 to Company is a party would have a material adverse effect on the Company's financial position or results of operations, however, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company's results of operations for the fiscal period in which such resolution occurred.

The Company has consulting agreements with certain individuals for an aggregate monthly payment of $25,725. The agreements expire at various times between 1999 through 2001.

4 - EARNINGS PER SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30, 1998	1997	NINE MONTHS ENDED SEPTEMBER 30, 1998	1997
Numerator:				
Net income- numerator for basic and diluted earnings per share	$2,868,000	$1,658,000	$6,935,000	$3,349,000
Denominator:				
Denominator for basic earnings per share-weighted average shares	6,643,730	6,643,730	6,643,730	6,643,730
Effect of dilutive securities:				
Employee and Director stock options	19,830	11,972	19,830	11,972
Denominator for diluted earnings per share-adjusted weighted average shares	6,663,560	6,655,702	6,663,560	6,655,702
Basic earnings per share	$ .43	$ .25	$ 1.04	$ .52
Diluted earnings per share	$ .43	$ .25	$ 1.04	$ .52

5 - SEGMENT INFORMATION

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

The Company has two reportable segments: the Heavy Duty Truck segment, and the Construction Equipment segment. The Heavy Duty Truck segment operates a regional network of truck centers that provides an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; after-market parts, service and body shop facilities; and a wide array of financial services, including the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Heavy Duty Truck segment has locations in Texas, California, Colorado, Oklahoma and Louisiana. The Construction Equipment segment, formed during 1997, operates a network of full-service John Deere dealerships that are located in Texas and Michigan. Dealership operations include the retail sale of new and used construction equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used equipment. The Company had only one segment prior to the October 1997 acquisition of such John Deere dealership, thus for the three and nine month periods ended September 30, 1997 results depict only the Heavy Duty Truck segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997. The Company evaluates performance based on income before income taxes not including extraordinary items.

The Company accounts for intersegment sales and transfers at current market prices as if the sales or transfers were to third parties. There were no intersegment sales during the three and six month periods ended September 30, 1998.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Business units were maintained through expansion and acquisitions. The following table contains summarized information about reportable segment profit or loss and segment assets, for the three and six month periods ended September 30, 1998: (in thousands)

	HEAVY-DUTY TRUCK SEGMENT	CONSTRUCTION EQUIPMENT SEGMENT	ALL OTHER	TOTALS
Three months ended September 30, 1998				
Revenues from external customers	$136,180	$ 10,644	$ 6,716	$153,540
Segment income before taxes	4,649	104	25	4,778
Segment assets	125,482	52,016	19,044	196,542
Nine months ended September 30, 1998				
Revenues from external customers	$393,839	$ 34,920	$ 16,839	$445,598
Segment income before taxes	10,901	328	328	11,557
Segment assets	125,482	52,016	19,044	196,542

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

6 - RECENTLY ISSUED PRONOUNCEMENTS

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

In April 1998, the Accounting Standards Executive Committee ("AsSEC") issued Statement of Position 98-5 "Reporting on the Costs of Start-up Activities" (SOP 98-5"). SOP 98-5 requires all start-up activities, as defined, to be expensed as incurred. The SOP is effective for fiscal years beginning after December 15, 1998. Earlier application is encouraged, initial application will be reported as a cumulative effect of a change in accounting principle and restatement of previously issued financial statements is not permitted. The SOP will not have a material impact on the financial statements of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in this Form 10-Q are "forward-looking statements" within the meaning of the Section 27A of the Securities Act of 1933, as amended and Section 21E of the Exchange Act of 1934, as amended. Specifically, all statements other than statements of historical fact included in this Form 10-Q regarding the Company's financial position, business strategy and plans and objectives of management of the Company for future operations are forward-looking statements. These forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in the Company's Registration Statement on Form S-1 (File No. 333-3346) and in the Company's annual, quarterly and other reports filed with the Securities and Exchange Commission (collectively, "cautionary statements"). Although the Company believes that its expectations are reasonable, it can give no assurance that such expectations will prove to be correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, or intended. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements. The Company does not intend to update these forward-looking statements.

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.

GENERAL

Rush Enterprises, Inc. was incorporated in Texas in 1965 and currently consists of two reportable segments: the Heavy Duty Truck segment, and the Construction Equipment segment.

The Heavy Duty Truck segment operates a regional network of truck centers that provide an integrated one-stop source for the trucking needs of its customers, including retail sales of new Peterbilt and used heavy-duty trucks; after-market parts, service and body shop facilities; and a wide array of financial services, including the financing of new and used truck purchases, insurance products and truck leasing and rentals. The Company's truck centers are strategically located in high truck traffic areas on or near major highways in Texas, California, Oklahoma, Colorado and Louisiana. The Company is the largest Peterbilt truck dealer in the United States, representing approximately 14.7% of all new Peterbilt truck sales in 1997, and is the sole authorized vendor for new Peterbilt trucks and replacement parts in its market areas. The Company was named Peterbilt Dealer of the Year for North America for the 1993-1994 year. The criteria used to determine the recipients of this award include, among others, image, customer satisfaction, sales activity and profitability.

The Construction Equipment segment, formed during 1997, operates two full-service John Deere dealerships ("Rush Equipment Centers"), comprised of six locations, that are located in Texas and Michigan. Dealership operations include the retail sale of new and used construction equipment, after-market parts and service facilities, equipment rentals, and the financing of new and used construction equipment. The Company believes the construction equipment industry is highly-fragmented and offers opportunities for consolidation. As a result, the Company's growth strategy is to realize economies of scale, favorable purchasing power, and cost savings by continuing to develop a network of John Deere dealerships through acquisitions and growth inside existing territories. The Company currently operates two construction equipment dealerships in Texas and Michigan. There can be no assurance that the Company will be able to successfully develop a network of construction equipment dealerships or, if such network of construction equipment dealerships is established, that it will realize economies of scale, favorable purchasing power or cost savings.

In March 1997, the Company acquired the assets of Denver Peterbilt, Inc., which consisted of two full service Peterbilt dealerships in Denver and Greeley, Colorado. The purchase price was approximately $7.9 million, funded by cash and borrowings under the Company's floor plan financing arrangement.

In September 1997, the Company opened a Rush Truck Center in Pharr, Texas. This full-service Peterbilt dealership serves the Texas Rio Grande Valley area.

In October 1997, the Company acquired certain assets and assumed certain liabilities from C. Jim Stewart & Stevenson, Inc., which consisted of its full service John Deere construction equipment dealership serving the Houston, Texas metropolitan and surrounding areas. The purchase price was approximately $30.2 million funded by cash, borrowings from various creditors, and a note payable issued to the seller.

In March 1998, the Company acquired all of the outstanding capital stock of D & D Farm and Ranch Supermarket, Inc. ("D & D"), for consideration of approximately $10.5 million. D & D operates a retail farm and ranch superstore in the San Antonio, Texas metropolitan and surrounding area.

In August 1998, the Company opened a combined Rush Truck and Construction Equipment Center in Beaumont, Texas. This full service Peterbilt and John Deere dealership compliments our existing Houston dealerships in serving the Texas Gulf Coast area.

In September 1998, the Company acquired all of the assets and assumed certain liabilities of Klooster Equipment, Inc., which consisted of a full service John Deere Construction equipment dealership with four locations covering 54 counties in Western Michigan. The purchase price was approximately $12.7 million funded by cash and borrowings from various creditors.

RESULTS OF OPERATIONS

The following discussion and analysis includes the Company's historical results of operations for the three and nine months ended September 30, 1998 and 1997.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
New and used truck sales	68.9%	74.0%	69.2%	74.5%
Parts and service	18.8	20.5	17.8	20.0
Construction equipment sales	4.5	--	5.5	--
Lease and rental	3.0	3.5	3.1	3.7
Finance and insurance	1.8	1.7	1.8	1.4
Other	3.0	0.3	2.6	0.4
Total revenues	100.0	100.0	100.0	100.0
Cost of products sold	82.3	83.7	83.1	84.2
Gross profit	17.7	16.3	16.9	15.8
Selling, general and administrative expenses	12.8	12.5	12.6	12.5
Depreciation and amortization	0.8	0.7	0.7	0.7
Operating income	4.1	3.1	3.6	2.6
Interest expense	1.0	0.5	1.0	0.5
Income before income taxes	3.1	2.6	2.6	2.1
Provision for income taxes	1.2	1.0	1.0	0.8
Net income	1.9%	1.6%	1.6%	1.3%

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1997

Revenues

Revenues increased by approximately $51.4 million, or 50.3%, from $102.1 million to $153.5 million from the third quarter of 1997 to the third quarter of 1998. Approximately, $27.0 million in sales is attributable to the addition of the Pharr heavy-duty truck dealership, the John Deere construction equipment dealerships, and D & D Farm and Ranch Supermarket, while the remaining increase of $24.4 million, or 23.9%, is attributable to same store growth. Sales of new and used trucks increased by approximately $30.4 million, or 40.3%, from $75.5 million to $105.9 million from the third quarter of 1997 to the third quarter of 1998. Unit sales of new and used trucks increased by 38.2% and 4.3%, respectively, from the third quarter of 1997 to the third quarter of 1998, while new truck average revenue per unit increased by 5.0% and used truck average revenue per unit increased by 18.6%. Average new truck prices increased due to a change in product mix and customary price increases. Used truck prices increased due to product mix and increased demand for late model product.

Parts and service sales increased by approximately $7.9 million, or 37.8% from $20.9 million to $28.8 million. The increase was due to same store growth of 22.7% and parts and service sales associated with the addition of the Pharr and Beaumont heavy-duty truck dealerships, and the John Deere construction equipment dealerships.

Lease and rental revenues increased by approximately $1.1 million, or 30.6%, from $3.6 million to $4.7 million. The increase was due to $702,000 of lease and rental revenues generated by the John Deere dealerships subsequent to the third quarter of 1997, and same store growth in revenues of $358,000 or 9.9%.

Finance and insurance revenues increased by approximately $1.0 million, or 58.8%, from $1.7 million to $2.7 million from the third quarter of 1997 to the third quarter of 1998. The majority of the increase resulted from the increase in new and used truck deliveries. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Other income increased by approximately $4.3 million, or 1308.5%, from $329,000 to $4.6 million from the third quarter of 1997 to the third quarter of 1998. The increase is due to the acquisition of D & D Farm and Ranch Supermarket, Inc., in March 1998, which recorded sales of approximately $4.1 million during the third quarter of 1998.

Gross Profit

Gross profit increased by approximately $10.5 million, or 62.9%, from $16.7 million to $27.2 million from the third quarter of 1997 to the third quarter of 1998. Gross profit as a percentage of sales increased from 16.3% in the third quarter of 1997 to 17.7% in the third quarter of 1998. The increase in gross profit, as a percentage of sales, was a result of a change in sales mix as well as increased gross margins in each of our profit centers. Additionally, Rush Equipment Centers, the Company's John Deere dealerships, achieved a gross margin of 27.2%, which is considerably higher than gross margins of approximately 15-17% achieved in the truck stores.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately $7.0 million, from $12.7 million to $19.7 million, or 55.1%, from the third quarter of 1997 to the third quarter of 1998. Selling, general and administrative expenses as a percentage of revenue increased from 12.5% in the third quarter of 1997 to 12.8% in the third quarter of 1998. The changes in selling, general and administrative expenses are due mainly to the large increase in sales commissions, due to the increases in revenues and gross profit, in the third quarter of 1998.

Interest Expense

Interest expense increased by approximately $930,000 or 173.2%, from $537,000 to $1.5 million, from the third quarter of 1997 to the third quarter of 1998, primarily as the result of increased levels of indebtedness due to higher floor plan liability levels and the refinancing of certain real property owned by the Company during the fourth quarter of 1997.

Income before Income Taxes

Income before income taxes increased by $2.1 million, or 77.8%, from $2.7 million to $4.8 million from the third quarter of 1997 to the third quarter of 1998, as a result of the factors described above.

Income Taxes

The Company has provided for taxes at a 40% effective rate.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

Revenues

Revenues increased by approximately $164.8 million, or 58.7%, from $280.8 million to $445.6 million from the first nine months of 1997 to the first nine months of 1998. Sales of new and used trucks increased by approximately $99.0 million, or 47.3%, from $209.2 million to $308.2 million from the first nine months of 1997 to the first nine months of 1998. Unit sales of new and used trucks increased by 41.7%

and 18.1%, respectively, from the first nine months of 1997 to the first nine months of 1998, while new and used truck average revenue per unit increased by 7.0% and 15.7%, respectively. Average new truck prices increased due to a change in product mix and customary price increases. Used truck prices increased due to product mix and increased demand for late model products.

Parts and service sales increased by approximately $22.9 million, or 40.7%, from $56.3 million to $79.2 million. The increase was due to incentive pay plans implemented in the parts departments and the expansion of our outside parts sales force. The increase consisted of same store growth of $13.7 million or 24.4% and parts and service sales associated with addition of the Pharr and Beaumont heavy-duty truck dealerships and the John Deere construction equipment dealerships.

Lease and rental revenues increased by approximately $3.3 million, or 32.0% from $10.3 million to $13.6 million. The increase was due to $2.3 million of lease and rental revenues generated by the John Deere dealerships acquired subsequent to the third quarter of 1997, and same store growth in revenues of $1.0 million or 9.7%.

Finance and insurance revenues increased by approximately $4.3 million, or 113.2%, from $3.8 million to $8.1 million from the first nine months of 1997 to the first nine months of 1998. The majority of the increase resulted from the increase in new and used truck deliveries. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of operating profits.

Other income increased by approximately $10.4 million, or 800.0%, from $1.3 million to $11.7 million from the first nine months of 1997 to the first nine months of 1998. The increase was primarily due to the acquisition of D & D Farm and Ranch Supermarket, Inc., in March 1998, which recorded sales of approximately $9.7 million during the first nine months of 1998.

Gross Profit

Gross profit increased by approximately $31.1 million, or 70.2%, from $44.3 million to $75.4 million from the first nine months of 1997 to the first nine months of 1998. Gross profit as a percentage of sales increased from 15.8% to 16.9% from the first nine months of 1997 to the first nine months of 1998. The increase in gross profit, as a percentage of sales, was a result of a change in sales mix as well as increased gross margins in each of our profit centers. Additionally, Rush Equipment Centers, the Company's John Deere dealerships, achieved a gross margin of 22.6%, which is considerably higher than gross margins of approximately 15-17% achieved in the truck stores.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately $21.0 million, from $35.2 million to $56.2 million, or 60.0%, from the first nine months of 1997 to the first nine months of 1998. The increase resulted from approximately $10.1 million of selling, general and administrative expenses related to the acquisition and integration of Denver Peterbilt Inc., the newly opened Pharr heavy-duty truck dealership, the John Deere construction equipment dealerships, and D & D Farm and Ranch Supermarket, Inc. Additionally, commissions increased due to increased gross margins. Selling, general and administrative expenses as a percentage of revenue increased from 12.5% in the first nine months of 1997 to 12.6% in the first nine months of 1998.

Interest Expense

Interest expense increased by approximately $2.8 million from $1.5 million to $4.3 million, or 186.7%, from the first nine months of 1997 to the first nine months of 1998, primarily as the result of increased levels of indebtedness due to higher floor plan liability levels and the refinancing of certain real property owned by the Company during the fourth quarter of 1997.

Income before Income Taxes

Income before income taxes increased by $6.0 million, or 107.1% from $5.6 million to $11.6 million from the first nine months of 1997 to the first nine months of 1998, as a result of the factors described above.

Income Taxes

The Company has provided for taxes at a 40% effective rate.

Inventories

Inventories increased by $26.2 million from $66.8 million to $93.0 million from December 31, 1997 to September 30, 1998. The acquisitions of D & D Farm and Ranch Supermarket, Inc. and Klooster Equipment, Inc. accounted for $15.3 million of the increase. The remaining increase of $10.9 million is due mainly to the seasonal purchasing patterns in the heavy duty truck and construction equipment industries.

Note Payable to Shareholder

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's short-term cash needs are primarily for working capital, including inventory requirements, expansion of existing facilities and acquisitions. These short-term cash needs have historically been financed with retained earnings and borrowings under credit facilities available to the Company.

In June 1996, the Company completed an initial public offering of 2,875,000 shares of common stock and received net proceeds of approximately $32.1 million.

As a result of the initial public offering, working capital levels have generally increased. At September 30, 1998, the Company had working capital of approximately $17.3 million, including $23.1 million in cash and cash equivalents, $19.1 million in accounts receivable, $93.0 million in inventories, and $533,000 in prepaid expenses, less $23.0 million of accounts payable and accrued expenses, $5.1 million of current maturities on long-term debt, $10.6 million in a note payable to a shareholder, and $79.7 million outstanding under floor plan financing. The aggregate maximum borrowing limits under working capital lines of credit with various lending institutions are approximately $8.0 million. The Company's floor plan agreements with its primary lender limit the aggregate amount of borrowings based on the number of new and used trucks and the book value of construction equipment inventory.

For the first nine months of 1998, operating activities provided $5.9 million of cash. Operating increases resulted from net income of $6.9 million, a decrease in accounts receivable of $2.5 million, an increase in accounts payable of $95,000, an increase in accrued expenses of $3.7 million and provisions for depreciation, amortization, and deferred taxes totaling $3.7 million. Operating decreases resulted from a decrease in other current assets of $100,000 and increases in inventories of $10.9 million.

For the first nine months of 1997, operating activities provided $12.0 million of cash. Net income of $3.4 million, decreases in accounts receivable, inventories and other assets of $3.0 million, $2.7 million, and $1.1 respectively, and increases in depreciation and amortization and accrued expenses of $2.1 million and $687,000, respectively, more than offset a decrease in accounts payable of $1.1 million.

During the first nine months of 1998, the Company used $19.7 million for investing activities, primarily due to property and equipment additions and the acquisitions of D & D Farm and Ranch Supermarket, Inc. and Klooster Equipment, Inc.

During the first nine months of 1997, the Company used $15.2 million for investing activities, primarily due to the acquisition of Denver Peterbilt, Inc., property and equipment additions related to the construction of the Pharr Peterbilt facility, and renovations of several existing facilities.

For the first nine months of 1998, net cash provided by financing activities amounted to $17.1 million. Increases in notes payable and floor plan liability of $15.1 million and $7.1 million, respectively, more than offset principal payments on notes payable of $5.1 million.

For the nine months of 1997, net cash used in financing activities amounted to $3.1 million. Payments on floor plan financing and notes payable of $7.6 million and $1.6 million, respectively, more than offset borrowings on notes payable of $6.1 million.

Substantially all of the Company's truck purchases from PACCAR are made on terms requiring payment within 15 days or less from the date of shipment from the factory. The Company finances all, or substantially all, of the purchase price of its new truck inventory, and 75% of the loan value of its used truck inventory, under a floor plan arrangement with GMAC under which GMAC pays PACCAR directly with respect to new trucks. The Company makes monthly interest payments on the amount financed but is not required to commence loan principal repayments to GMAC prior to the sale of new vehicles for a period of 12 months and for used vehicles for a period of three months. At September 30, 1998, the Company had approximately $46.7 million outstanding under its floor plan financing arrangement with GMAC. GMAC permits the Company to earn, for up to 62.5% of the amount borrowed under its floor plan financing arrangement with GMAC, interest at the prime rate less one-half percent on overnight funds deposited by the Company with GMAC.

The Company finances all, or substantially all, of the purchase price of its new construction equipment inventory under its floor plan facilities with John Deere and Associates Commercial Corp. The agreement with John Deere provides for an immediate 3% discount if the equipment is paid for within 30 days from the date of purchase, or interest free financing for five months, after which time the amount financed is required to be paid in full. When the equipment is sold prior to the expiration of the five month period, the Company is required to repay the principal within approximately 15 days of date of the sale. Should the equipment financed by John Deere not be sold within the five month period, such financing is transferred to the Associates Commercial Corp. floor plan arrangement. The Company makes principal payments to Associates Commercial Corp., for sold inventory, and interest payments for all inventory, on the 15th day of each month. Used and rental equipment, to a maximum of book value, is financed under a floor plan arrangement with Associates Commercial Corp. The Company makes monthly interest payments on the amount financed and is required to commence loan principal repayments on rental equipment as book value reduces. Principal payments, for sold inventory, on used equipment are made the 15th day of each month following the sale. The loans are collateralized by a lien on the equipment. The Company's floor plan agreements limit the aggregate amount of borrowings based on the book value of new and used equipment units. As of September 30, 1998, the Company's floor plan arrangement with Associates Commercial Corp. permits the financing with Associates Commercial Corp. of up to $25 million in construction equipment. At September 30, 1998, the Company had $5.0 million and $28.1 million, outstanding under its floor plan financing arrangements with John Deere and Associates Commercial Corp., respectively.

Backlogs

The Company enters firm orders into its backlog at the time the order is received. Currently, customer orders are being filled in approximately six to nine months and customers have historically placed orders expecting delivery within three to nine months. However, certain customers, including fleets and governments, typically place orders up to one year in advance of their desired delivery date. Certain employees of the Company's supplier of new Peterbilt trucks, commenced a work stoppage in May 1998 and were subsequently replaced by new, non-union workers by such supplier. At September 30, 1998, such labor relations issues of such supplier have had no material effect on the Company's business, financial condition, or results of operations. Such supplier has advised the company that it does not anticipate its labor relations to cause a material adverse effect on the Company's business, operations or financial condition. However, no assurances can be made that future developments in this matter, which are beyond the control of the Company, will not occur and which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company in the past has typically allowed customers to cancel orders at any time prior to delivery, and the Company's level of cancellations is affected by general economic conditions, economic recessions and customer business cycles. As a percentage of orders, cancellations historically have ranged from 5% to 12% of annual order volume. The Company's backlogs as of September 30, 1998, and 1997, were approximately $175 million and $125.0 million, respectively. Backlogs increased principally due to increased order volume at September 30, 1998, compared to September 30, 1997.

Seasonality

The Company's heavy-duty truck business is moderately seasonal. Seasonal effects on new truck sales related to the seasonal purchasing patterns of any single customer type are mitigated by the Company's diverse customer base, which includes small and 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. The Company has historically received benefits from volume purchases and meeting vendor sales targets in the form of cash rebates, which are typically recognized when received. Approximately 40% of such rebates are typically received in the fourth quarter, resulting in a seasonal increase in gross profit.

Seasonal effects in the construction equipment business are primarily driven by weather conditions. As approximately 68% of Rush Equipment Center's revenue is produced in Texas, where winters are mild, seasonality currently does not have a material effect on the Company's construction equipment segment. Additionally, any seasonal effects, on construction equipment sales related to the seasonal purchasing patterns of any single customer type are mitigated by the Company's diverse customer base that includes contractors, for both residential and commercial construction, utility companies, federal, state and local government agencies, and various petrochemical, industrial and material supply type businesses that require construction equipment in their daily operations.

Cyclicality

The Company's business, as well as the entire retail heavy-duty truck and construction equipment industries, are dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, economic recessions and customer business cycles. In addition, unit sales of new trucks and construction equipment have historically been subject to substantial cyclical variation based on such general economic conditions. Although the Company believes that its geographic expansion and diversification into truck and construction equipment related services, including financial services, leasing, rentals and service and parts, will reduce the overall impact to the Company resulting from general economic conditions affecting heavy-duty truck sales, the Company's operations may be materially and adversely affected by any continuation or renewal of general downward economic pressures or adverse cyclical trends.

Effects of Inflation

The Company believes that the relatively moderate inflation over the last few years has not had a significant impact on the Company's revenue or profitability. The Company does not expect inflation to have any near-term material effect on the sales of its products, although there can be no assurance that such an effect will not occur in the future.

Year 2000

The efficient operation of the Company's business is dependent on its computer software programs and operating systems (collectively, "Programs and Systems"). These Programs and Systems are used in several key areas of the Company's business, including information management services and financial reporting, as well as in various administrative functions. The Company has been evaluating its Programs and Systems to identify potential year 2000 compliance problems, as well as manual processes, external interfaces with customers, and services supplied by vendors to coordinate year 2000 compliance and conversion. The year 2000 problem refers to the limitations of the programming code in certain existing software programs to recognize date sensitive information for the year 2000 and beyond. Unless modified prior to the year 2000, such systems may not properly recognize such information and could generate erroneous data or cause a system to fail to operate properly.

Based on current information, the Company expects to attain year 2000 compliance and institute appropriate testing of its modifications and replacements in a timely fashion and in advance of the year 2000 date change. It is anticipated that modification or replacement of the Company's Programs and Systems will be performed by Company and/or contract personnel. The Company believes that, with modifications to existing software and conversions to new software, the year 2000 problem will not pose a significant operational problem for the Company. However, because most computer systems are, by their very nature, interdependent, it is possible that non-compliant third party computers may not interface properly with the Company's computer systems. The Company could be adversely affected by the year 2000 problem if it or unrelated parties fail to successfully address this issue. Management of the Company currently anticipates that the expenses and capital expenditures associated with its year 2000 compliance project, including costs associated with modifying the Programs and Systems as well as the cost of purchasing or leasing certain hardware and software, will not have a material effect on its business, financial position or results of operations and are expenses and capital expenditures the Company anticipated incurring in the ordinary course of business regardless of the year 2000 problem. Purchased hardware and software has been and will continue to be capitalized in accordance with normal accounting policy. Personnel and other costs related to this process are being expensed as incurred.

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

In the event the Company determines following the year 2000 date change that its Programs and Systems are not year 2000 compliant, the Company will likely experience considerable delays in processing customer orders and invoices, compiling information required for financial reporting and performing various administrative functions. In the event of such occurrence, the Company's contingency plans call for it to switch vendors to obtain hardware and/or software that is 2000 compliant, and until such hardware and/or software can be obtained, the Company will plan to use non-computer systems for its business, including information management services and financial reporting, as well as its various administrative functions.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit Number	
27.1*	Financial data schedule
*	Filed herewith

b) Reports on Form 8-K

None

SIGNATURES

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

RUSH ENTERPRISES, INC.

Date: November 13, 1998	By: /S/ W. MARVIN RUSH Name: W. Marvin Rush Title: Chairman and Chief Executive Officer (Principal Executive Officer)
Date: November 13, 1998	By: /S/ Martin A. Naegelin, Jr. Name: Martin A. Naegelin, Jr. Title: Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
27.1	Financial Data Schedule

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
FINANCIAL STATEMENTS OF RUSH ENTERPRISES, INC. FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH 10-Q.

1,000

9-MOS
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JAN-01-1998
SEP-30-1998
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