

**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, 2011

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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 5, 2011.

Title of Class	Number of Shares Outstanding
Class A Common Stock, \$.01 Par Value	27,214,202
Class B Common Stock, \$.01 Par Value	10,726,072

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, 2011 AND DECEMBER 31, 2010
(In Thousands, Except Shares)

	June 30, 2011	December 31, 2010
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 146,285	\$ 168,976
Accounts receivable, net	70,743	43,513
Inventories, net	451,887	321,933
Prepaid expenses and other	7,350	14,104
Deferred income taxes, net	<u>11,025</u>	<u>10,281</u>
Total current assets	687,290	558,807
Investments	6,628	7,575
Property and equipment, net	475,385	445,919
Goodwill, net	176,329	150,388
Other assets, net	<u>4,668</u>	<u>5,244</u>
Total assets	<u>\$ 1,350,300</u>	<u>\$ 1,167,933</u>
Liabilities and shareholders' equity		
Current liabilities:		
Floor plan notes payable	\$ 352,551	\$ 237,810
Current maturities of long-term debt	57,933	62,279
Current maturities of capital lease obligations	8,935	7,971
Trade accounts payable	48,918	37,933
Accrued expenses	<u>78,042</u>	<u>69,036</u>
Total current liabilities	546,379	415,029
Long-term debt, net of current maturities	206,887	189,850
Capital lease obligations, net of current maturities	32,608	34,231
Other long-term liabilities	1,153	364
Deferred income taxes, net	72,452	63,540
Shareholders' equity:		
Preferred stock, par value \$.01 per share; 1,000,000 shares authorized; 0 shares outstanding in 2011 and 2010	—	—
Common stock, par value \$.01 per share; 60,000,000 class A shares and 20,000,000 class B shares authorized; 27,155,861 class A shares and 10,725,472 class B shares outstanding in 2011; and 26,798,707 class A shares and 10,700,044 class B shares outstanding in 2010	395	391
Additional paid-in capital	202,940	195,747
Treasury stock, at cost: 1,639,843 class B shares	(17,948)	(17,948)
Retained earnings	306,736	286,951
Accumulated other comprehensive loss, net of tax	<u>(1,302)</u>	<u>(222)</u>
Total shareholders' equity	<u>490,821</u>	<u>464,919</u>
Total liabilities and shareholders' equity	<u>\$ 1,350,300</u>	<u>\$ 1,167,933</u>

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

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,	
	2011	2010	2011	2010
Revenues:				
New and used truck sales	\$ 466,585	\$ 191,309	\$ 744,115	\$ 371,913
Parts and service	170,387	118,529	315,947	220,357
Lease and rental	20,563	16,255	39,548	30,287
Finance and insurance	2,744	2,047	4,712	3,532
Other	1,703	1,699	3,764	3,038
Total revenue	661,982	329,839	1,108,086	629,127
Cost of products sold:				
New and used truck sales	436,163	174,817	695,068	341,163
Parts and service	103,453	72,222	192,165	134,851
Lease and rental	16,856	13,621	32,953	25,871
Total cost of products sold	556,472	260,660	920,186	501,885
Gross profit	105,510	69,179	187,900	127,242
Selling, general and administrative	79,655	55,148	145,001	105,285
Depreciation and amortization	4,541	3,676	8,721	7,223
Gain (loss) on sale of assets	475	7	432	(4)
Operating income	21,789	10,362	34,610	14,730
Interest expense, net	1,599	1,397	2,800	2,694
Income from continuing operations before taxes	20,190	8,965	31,810	12,036
Provision for income taxes	7,672	3,549	12,025	4,698
Income from continuing operations	12,518	5,416	19,785	7,338
Income from discontinued operations, net of tax	—	272	—	587
Net income	\$ 12,518	\$ 5,688	\$ 19,785	\$ 7,925
Earnings per common share — Basic:				
Income from continuing operations	\$.33	\$.15	\$.52	\$.20
Net income	\$.33	\$.15	\$.52	\$.21
Earnings per common share — Diluted:				
Income from continuing operations	\$.32	\$.14	\$.51	\$.19
Net income	\$.32	\$.15	\$.51	\$.21
Weighted average shares outstanding:				
Basic	37,831	37,292	37,727	37,232
Diluted	39,015	38,189	38,929	38,014

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)

	Six Months Ended	
	June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 19,785	\$ 7,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,108	21,312
Gain on sale of property and equipment	(419)	(36)
Stock-based compensation expense related to stock options and employee stock purchases	3,874	2,902
Provision for deferred income tax expense	8,824	570
Excess tax benefits from stock-based compensation	(1,145)	(209)
Change in accounts receivable, net	(26,966)	(11,354)
Change in inventories	(93,554)	(43,902)
Change in prepaid expenses and other, net	6,801	743
Change in trade accounts payable	10,985	16,084
Change in accrued expenses	9,696	11,451
Net cash (used in) provided by operating activities	<u>(36,011)</u>	<u>5,486</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(60,805)	(28,558)
Proceeds from the sale of property and equipment	10,474	123
Business acquisitions	(60,038)	(32,450)
Change in other assets	537	(1,996)
Net cash used in investing activities	<u>(109,832)</u>	<u>(62,881)</u>
Cash flows from financing activities:		
Draws on floor plan notes payable, net	114,741	44,504
Proceeds from long-term debt	45,943	26,854
Principal payments on long-term debt	(33,252)	(24,806)
Principal payments on capital lease obligations	(7,562)	(3,518)
Debt issuance costs	(41)	(73)
Excess tax benefits from stock-based compensation	1,145	209
Proceeds from issuance of shares relating to employee stock options and employee stock purchases	2,178	909
Net cash provided by financing activities	<u>123,152</u>	<u>44,079</u>
Net decrease in cash and cash equivalents	(22,691)	(13,316)
Cash and cash equivalents, beginning of period	<u>168,976</u>	<u>149,095</u>
Cash and cash equivalents, end of period	<u>\$ 146,285</u>	<u>\$ 135,779</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	<u>\$ 6,713</u>	<u>\$ 6,528</u>
Income taxes, net of refunds	<u>\$ (3,396)</u>	<u>\$ (3,147)</u>
Noncash investing activities:		
Assets acquired under capital leases	<u>\$ 6,903</u>	<u>\$ 4,432</u>

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, 2010. 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

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. The Company does not amortize goodwill, but tests goodwill for impairment annually in the fourth quarter, or when indications of potential impairment exist. These indicators would include a significant change in operating performance, or a planned sale or disposition of a significant portion of the business, among other factors. The Company tests for goodwill impairment utilizing a fair value approach at the reporting unit level. A reporting unit is an operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. The Company has deemed that its reporting unit is its operating segment, the Truck segment, which is the level at which segment management regularly reviews operating results and makes resource allocation decisions. The Construction Equipment segment is no longer reported as a separate business segment because the Company sold its John Deere construction equipment business in the third quarter of 2010. See Note 11 for further discussion of the sale of the construction equipment business.

The impairment test for goodwill involves comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. The second step includes hypothetically valuing all the tangible and intangible assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit’s goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of the goodwill, the Company would recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount. The Company determines the fair values calculated in an impairment test using the discounted cash flow method, which requires assumptions and estimates regarding future revenue, expenses and cash flow projections. The analysis is based upon available information regarding expected future cash flows of its reporting unit discounted at rates consistent with the cost of capital specific to the reporting unit.

Goodwill is tested for impairment during the fourth quarter of each year, or more frequently when events or changes in circumstances indicate that the asset might be impaired, and no impairment write down was required in the fourth quarter of 2010. However, the Company cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill in the future. Such events may include, but are not limited to, the discontinuance of operations by certain manufacturers the Company represents, strategic decisions made in response to economic and competitive conditions or another significant decrease in general economic conditions in the United States.

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The following table sets forth the change in the carrying amount of goodwill for the Company for the period ended June 30, 2011:

Balance December 31, 2010	\$ 150,388
Acquisition of Asbury Automotive Atlanta, L.L.C.(See Note 9)	24,824
Acquisition of Heintzelman's Truck Center (See Note 9)	1,050
Other	67
Balance June 30, 2011	<u>\$ 176,329</u>

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

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

In 2006, the Company signed an agreement with Titan Technology Partners to implement SAP enterprise software and a new SAP dealership management system. The cost of the SAP software and implementation is estimated at approximately \$41.0 million, of which \$40.0 million was expended at June 30, 2011.

4 — Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator:				
Numerator for basic and diluted earnings per share —				
Income from continuing operations available to common shareholders	\$ 12,518,000	\$ 5,416,000	\$ 19,785,000	\$ 7,338,000
Denominator:				
Denominator for basic earnings per share — weighted average shares outstanding	37,831,211	37,291,659	37,726,829	37,231,524
Effect of dilutive securities:				
Employee and director stock options and restricted share awards	1,183,785	897,669	1,202,492	782,900
Denominator for diluted earnings per share — adjusted weighted average shares outstanding and assumed conversions	<u>39,014,996</u>	<u>38,189,328</u>	<u>38,929,321</u>	<u>38,014,424</u>
Basic earnings from continuing operations per common share	<u>\$.33</u>	<u>\$.15</u>	<u>\$.52</u>	<u>\$.20</u>
Diluted earnings from continuing operations per common share and common share equivalents	<u>\$.32</u>	<u>\$.14</u>	<u>\$.51</u>	<u>\$.19</u>

Options to purchase shares of common stock that were outstanding for the three months and six months ended June 30, 2011 and 2010 that were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2011
Options	498,600	990,330	498,600	990,330
Total anti-dilutive securities	<u>498,600</u>	<u>990,330</u>	<u>498,600</u>	<u>990,330</u>

5 — Stock Options and Restricted Stock Awards

Valuation and Expense Information

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification (“ASC”) 718-10, “Compensation — Stock Compensation,” which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company’s employees and directors including employee stock options, restricted share awards and employee stock purchases related to the Employee Stock Purchase Plan based on estimated fair values. Stock-based compensation expense, calculated using the Black-Scholes option-pricing model and included in selling, general and administrative expense, was \$1.3 million for the three months ended June 30, 2011, and \$1.1 million for the three months ended June 30, 2010. Stock-based compensation expense, included in selling, general and administrative expense, for the six months ended June 30, 2011, was \$3.9 million and for the six months ended June 30, 2010, was \$2.9 million. As of June 30, 2011, there was \$9.0 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements to be recognized over a weighted-average period of 3.5 years.

6 — Financial Instruments and Fair Value

Certain methods and assumptions were used by the Company in estimating the fair value of financial instruments at June 30, 2011. The carrying value of current assets and current liabilities approximates the fair value due to the short maturity of these items.

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

If investments are deemed to be impaired, the Company determines whether the impairment is temporary or other than temporary. If the impairment is deemed to be temporary, the Company records an unrealized loss in other comprehensive income. If the impairment is deemed other than temporary, the Company records the impairment in the Company’s consolidated statement of operations.

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

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

As of June 30, 2011, the Company held auction rate securities with underlying tax-exempt municipal bonds that mature in 2030 that have a fair value of \$6.6 million and a cost basis of \$7.6 million. These bonds have credit wrap insurance and a credit rating of Aa3 by Moody’s.

As of June 30, 2011, the Company has valued these investments at fair value. The Company used observable inputs to determine fair value, including consideration of broker quotes, the overall quality of the underlying municipality, the credit quality of the insurance company, observable transactions, as well as successful subsequent auctions. Accordingly, the Company has considered this fair value to be a Level 2 valuation under ASC 820-10, “Fair Value Measurements and Disclosures.” The Company recorded a pre-tax impairment charge of \$1.0 million on these investments as of June 30, 2011. The Company believes that the impairment is temporary and has recognized the impairment in accumulated other comprehensive loss.

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The table below presents disclosures about the financial instruments measured at fair value on a recurring basis in the Company's financial statements as of June 30, 2011 and December 31, 2010 (in millions):

	At June 30, 2011			
	Cost Basis Amount	Fair Value Estimated Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investment in auction rate securities	\$ 7,575	\$ —	\$ 6,628	\$ —

	At December 31, 2010			
	Cost Basis Amount	Fair Value Estimated Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investment in auction rate securities	\$ 7,575	\$ —	\$ 7,575	\$ —

Interest Rate Swap Agreements

The Company has entered into swap agreements to hedge against the potential impact of increases in interest rates on its floating-rate debt instruments. Swap agreements that hedge exposures to changes in interest rates expose us to credit risk and market risk. Credit risk is the potential failure of the counterparty to perform under the terms of the swap agreement. The Company attempts to minimize this risk by entering into transactions with high-quality counterparties. Market risk is the potential adverse effect on the value of the swap agreement that results from a decline in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

At June 30, 2011, the Company had an aggregate \$45.0 million notional amount of interest rate swap contracts, which have been designated as cash flow hedges, to pay fixed rates of interest and receive a floating interest rate based on LIBOR. The fixed interest rates specified in the interest rate swap contracts become effective on or about January 1, 2012. The Company's interest rate swaps qualify for cash flow hedge accounting treatment. Unrealized gains or losses are recorded in accumulated other comprehensive loss. Realized gains and losses will be recognized in interest expense, if they occur. Amounts to be received or paid under the contracts will be recognized as interest expense over the life of the contracts. The Company did not have any interest rate swap contracts in place as of June 30, 2010. There was no ineffectiveness for these swaps during the quarter ended June 30, 2011.

The fair value of cash flow swaps is calculated as the present value of expected future cash flows, determined on the basis of forward interest rates and present value factors. As such, the carrying amounts for these swaps are designated to be Level 2 fair values and totaled \$1.2 million as of June 30, 2011. The carrying value of these swaps is included in Other Long-Term Liabilities on the accompanying Consolidated Balance Sheet as of June 30, 2011.

As of June 30, 2011, the Company was party to derivative financial instruments as described in the following table (in thousands):

Agreement	Notional Amount	Fixed Interest Rate	Expiration Date	Fair Value
Interest Rate Swap	\$ 2,196	5.075%	July 1, 2015	\$ (44)
Interest Rate Swap	4,536	5.075%	July 1, 2015	(92)
Interest Rate Swap	7,847	5.39%	December 31, 2014	(190)
Interest Rate Swap	1,517	5.39%	December 31, 2014	(37)
Interest Rate Swap	2,700	5.39%	December 31, 2014	(66)
Interest Rate Swap	6,109	5.39%	December 31, 2014	(148)
Interest Rate Swap	5,616	5.38%	June 29, 2015	(175)
Interest Rate Swap	864	5.29%	June 30, 2015	(24)
Interest Rate Swap	1,656	5.29%	June 30, 2015	(46)
Interest Rate Swap	8,352	5.29%	June 30, 2015	(231)
Interest Rate Swap	720	5.29%	June 30, 2015	(20)
Interest Rate Swap	2,894	5.29%	June 30, 2015	(80)

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Fair values of derivative instruments are on the accompanying Consolidated Balance Sheet as of June 30, 2011 (in thousands):

Derivatives Designated as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Swaps	—	—	Other Long-Term Liabilities	\$ 1,153

7 — Segment Information

The Company currently has one reportable business segment, the Truck segment. The Truck segment operates a network of commercial vehicle dealerships that provide an integrated one-stop source for the commercial vehicle needs of its customers, including retail sales of new and used commercial vehicles; aftermarket parts, service and body shop facilities; and a wide array of financial services, including the financing of new and used commercial vehicle purchases, insurance products and truck leasing and rentals. The commercial vehicle dealerships are deemed as a single reporting unit because they have similar economic characteristics. The Company's chief operating decision maker considers the entire Truck segment, not individual dealerships when making decisions about resources to be allocated to the segment and assess its performance.

The Construction Equipment segment is no longer reported as a separate business segment because the Company sold the assets of its John Deere construction equipment business. See Note 11 for further discussion of the sale of the construction equipment business. The assets of the construction equipment business of \$28.6 million have been included in the All Other segment assets in the table below for the period ended June 30, 2010.

The Company evaluates performance based on income before income taxes not including extraordinary items.

The Company accounted 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 or six months ended June 30, 2011 and 2010.

The following table contains summarized information about reportable segment revenue, segment income or loss from continuing operations and segment assets for the periods ended June 30, 2011 and 2010 (in thousands):

	<u>Truck Segment</u>	<u>All Other</u>	<u>Totals</u>
<i>As of and for the three months ended June 30, 2011</i>			
Revenues from external customers	\$ 657,490	\$ 4,492	\$ 661,982
Segment income from continuing operations before taxes	20,521	(331)	20,190
Segment assets	1,324,548	25,752	1,350,300
<i>As of and for the six months ended June 30, 2011</i>			
Revenues from external customers	\$ 1,099,630	\$ 8,456	\$ 1,108,086
Segment income (loss) from continuing operations before taxes	32,606	(796)	31,810
<i>As of and for the three months ended June 30, 2010</i>			
Revenues from external customers	\$ 325,673	\$ 4,166	\$ 329,839
Segment income from continuing operations before taxes	8,857	108	8,965
Segment assets	1,049,053	53,480	1,102,533
<i>As of and for the six months ended June 30, 2010</i>			
Revenues from external customers	\$ 621,431	\$ 7,696	\$ 629,127
Segment income (loss) from continuing operations before taxes	12,347	(311)	12,036

Revenues from segments below the quantitative thresholds are attributable to three operating segments of the Company and are included in the All Other column. Those segments include a retail tire company, an insurance agency and a guest ranch operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

8 — Income Taxes

The Company included accruals for unrecognized income tax benefits totaling \$1.5 million as a component of accrued liabilities as of June 30, 2011, and December 31, 2010. The unrecognized tax benefits of \$1.5 million at June 30, 2011, if recognized, would impact the Company's effective tax rate. An unfavorable settlement would require a charge to income tax expense and a favorable resolution would be recognized as a reduction to income tax expense. As of June 30, 2011, the Company has accrued interest of \$130,000 related to unrecognized tax benefits in the current provision for income taxes. No amounts were accrued for penalties.

The Company does not anticipate a significant change in the amount of unrecognized tax benefits in the next 12 months. As of June 30, 2011, the tax years ended December 31, 2008 through 2010 remained subject to audit by federal tax authorities and the tax years ended December 31, 2006 through 2010, remained subject to audit by state tax authorities.

9 — Acquisitions

The following acquisitions were considered business combinations accounted for under ASC 805 "Business Combinations." Pro forma information is not included in accordance with ASC 805 since no acquisitions were considered material individually or in the aggregate.

On March 14, 2011, the Company acquired certain assets of Asbury Automotive Atlanta L.L.C., a subsidiary of Asbury Automotive Group, Inc., which operates commercial truck and bus dealerships in the metro Atlanta area under the "Nalley Motor Trucks" name. The acquisition includes the International, Hino, Isuzu, UD, IC Bus and Workhorse franchises in metro Atlanta, dealership locations in Atlanta and Doraville and a collision center in Atlanta.

These locations are operating as Rush Truck Centers and offer commercial vehicles manufactured by International, Hino, Isuzu, UD, IC Bus and Workhorse Custom Chassis in addition to parts, service, body shop, financing and insurance capabilities. The transaction was valued at approximately \$55.3 million, with the purchase price paid in cash. The operations of Nalley Motor Trucks are included in the accompanying consolidated financial statements from the date of the acquisition. The preliminary purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

	March 31, 2011	Adjustment	June 30, 2011
Inventory	\$ 21,004		\$ 21,004
Property and equipment	11,841	\$ (1,970)	9,871
Prepaid expenses	41		41
Accrued expenses	(453)		(453)
Goodwill	22,854	1,970	24,824
Total	<u>\$ 55,287</u>		<u>\$ 55,287</u>

As the value of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to identified intangibles and goodwill. The adjustment to the purchase price allocation in the current quarter relates to the finalization of real estate appraisals for property acquired. All of the goodwill acquired in the Nalley Motor Trucks acquisition will be amortized over 15 years for tax purposes.

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On February 21, 2011, the Company acquired certain assets of Heintzelman's Truck Center, which consisted of a Ford commercial vehicle dealership in Orlando, Florida. The Company is operating the facility as a full-service Rush Truck Center offering Ford trucks, parts, service, leasing, financing and insurance. The transaction was valued at approximately \$4.7 million, with the purchase price paid in cash. The operations of Heintzelman's Truck Center are included in the accompanying consolidated financial statements from the date of the acquisition. The preliminary purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Inventory	\$	3,125
Accounts receivable		264
Property and equipment		221
Prepaid expenses		6
Accrued expenses		(2)
Goodwill		<u>1,050</u>
Total	\$	<u>4,664</u>

As the value of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to identified intangibles and goodwill. All of the goodwill acquired in the Heintzelman's Truck Center acquisition will be amortized over 15 years for tax purposes.

On May 24, 2010, the Company acquired certain assets of Lake City Companies, LLC and certain of its subsidiaries and affiliates (collectively, "Lake City International"). The transaction, including the real estate, was valued at approximately \$71.0 million. The final purchase price was allocated based on the fair values of the assets at the date of acquisition as follows (in thousands):

Prepaid expenses	\$	205
Accounts and notes receivable		5,955
Inventories		10,722
Property and equipment, including real estate		48,790
Other assets		309
Accounts payable		(175)
Accrued expenses		(3,622)
Floor plan notes payable		(275)
Notes payable		(178)
Goodwill		<u>9,298</u>
Total	\$	<u>71,029</u>

10 — Comprehensive Income

The following table provides a reconciliation of net income to comprehensive income (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income	\$ 12,518	\$ 5,688	\$ 19,785	\$ 7,925
Other comprehensive loss:				
Change in fair value of cash flow swaps, net of tax	(571)	—	(493)	—
Unrealized loss on available-for-sale securities, net of tax	<u>(587)</u>	<u>—</u>	<u>(587)</u>	<u>—</u>
Comprehensive income	\$ 11,360	\$ 5,688	\$ 18,705	\$ 7,925

11 — Discontinued Operations

On September 9, 2010, the Company sold the assets of its John Deere construction equipment business, including its Rush Equipment Centers in Houston and Beaumont, Texas, to Doggett Heavy Machinery Services, LLC. The results of operations of the construction equipment business have been classified as discontinued operations in the Company's consolidated statements of income, and excluded from business segment information.

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Net sales and earnings before income taxes related to the discontinued business were as follows (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net Sales	\$ —	\$ 9,102	\$ —	\$ 18,210
Earnings before income taxes:				
Results of operations from discontinued operations before income taxes	—	469	—	1,012
Income tax (expense)	—	(197)	—	(425)
Net income from discontinued operations	\$ —	\$ 272	\$ —	\$ 587
Basic earnings per common share from discontinued operations, net of tax	\$ —	\$.01	\$ —	\$.01
Diluted earnings per common share and common share equivalents from discontinued operations, net of tax	\$ —	\$.01	\$ —	\$.01

12 — New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) amended the guidance for the presentation of comprehensive income. The amended guidance eliminates certain options for presenting comprehensive income but does not change which components of comprehensive income are recognized in net income or other comprehensive income. The amended guidance is intended to enhance comparability between entities that report under generally accepted accounting principles and those that report under international financial reporting standards. This guidance will be effective for the Company’s interim period ending March 31, 2012. The Company has determined that this new guidance will not have a material impact on its consolidated financial statements.

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 Securities and Exchange Commission, news releases, conferences, website postings or otherwise) that are not statements of historical fact constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended (the "Exchange Act"), notwithstanding that such statements are not specifically identified. Forward-looking statements include statements about the Company's financial position, business strategy and plans and objectives of management of the Company for future operations. These forward-looking statements reflect the best judgments of the Company about the future events and trends based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Use of the words "may," "should," "continue," "plan," "potential," "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements reflect the current view of the Company with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those in such statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those set forth under Item 1A—Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 as well as future growth rates and margins for certain of our products and services, future supply and demand for our products and services, competitive factors, general economic conditions, cyclicalities, market conditions in the new and used commercial vehicle markets, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, one-time events and other factors described herein and in the Company's quarterly and other reports filed with the Securities and Exchange Commission (collectively, "Cautionary Statements"). Although the Company believes that its expectations are reasonable, it can give no assurance that such expectations will prove to be correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described in any forward-looking statements. 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® is a registered trademark of Peterbilt Motors Company. PACCAR® is a registered trademark of PACCAR, Inc. GMC® is a registered trademark of General Motors Corporation. Hino® is a registered trademark of Hino Motors, Ltd. UD® is a registered trademark of UD Truck North America, Ltd. Isuzu® is a registered trademark of Isuzu Motors Limited. John Deere® is a registered trademark of Deere & Company. Kenworth® is a registered trademark of PACCAR, Inc. doing business as Kenworth Truck Company. Volvo® is a registered trademark of Volvo Trademark Holding AB. Freightliner® is a registered trademark of Freightliner Corporation. Mack® is a registered trademark of Mack Trucks, Inc. Navistar® is a registered trademark of Navistar International Corporation. Caterpillar® is a registered trademark of Caterpillar, Inc. PacLease® is a registered trademark of PACCAR Leasing Corporation. CitiCapital® is a registered trademark of Citicorp. Ford® is a registered trademark of Ford Motor Company. Cummins® is a registered trademark of Cummins Intellectual Property, Inc. Eaton® is a registered trademark of Eaton Corporation. Arvin Meritor® is a registered trademark of Meritor Technology, Inc. JPMorgan Chase® is a registered trademark of JP Morgan Chase & Co. SAP® is a registered trademark of SAP Aktiengesellschaft. International® is a registered trademark of Navistar International Transportation Corp. Blue Bird® is a registered trademark of Blue Bird Investment Corporation. Autocar® is a registered trademark of Shem, LLC. IC Bus® is a registered trademark of IC Bus, LLC. Collins Bus Corporation® is a registered trademark of Collins Bus Corporation. Fuso® is a registered trademark of Mitsubishi Fuso Truck and Bus Corporation. Workhorse® is a registered trademark of Workhorse Custom Chassis, LLC.

General

Rush Enterprises, Inc. was incorporated in Texas in 1965 and consists of one reportable segment, the Truck Segment. The Company conducts business through numerous subsidiaries, all of which it wholly owns, directly or indirectly. Its principal offices are located at 555 IH 35 South, Suite 500, New Braunfels, Texas 78130.

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The Company is a full-service, integrated retailer of commercial vehicles and related services. The Truck Segment operates a regional network of commercial vehicle dealerships under the name "Rush Truck Centers." Rush Truck Centers primarily sell commercial vehicles manufactured by Peterbilt, International, Hino, UD, Ford, Isuzu, Mitsubishi Fuso, IC Bus or Blue Bird. Through its strategically located network of Rush Truck Centers, the Company provides one-stop service for the needs of its commercial vehicle customers, including retail sales of new and used commercial vehicles, 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 United States. Since commencing operations as a Peterbilt heavy-duty truck dealer in 1966, the Company has grown to operate more than 60 Rush Truck Centers in Alabama, Arizona, California, Colorado, Florida, Georgia, Idaho, New Mexico, North Carolina, Oklahoma, Oregon, Tennessee, Texas and Utah.

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 as we extend our geographic focus through strategic acquisitions of new locations and expansions of our existing facilities and product lines.

The Construction Equipment Segment will no longer be reported as a separate business segment because the Company sold its John Deere construction equipment business in September 2010. Operating results of the Construction Equipment Segment have been classified as discontinued operations in the financial statements and related discussion and analysis below.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with 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. Actual results may differ from those estimates. The Company believes the following accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by specific identification of new and used commercial vehicles and construction equipment inventory and by the first-in, first-out method for tires, parts and accessories. As the market value of our inventory typically declines over time, reserves are established based on historical loss experience and market trends. These reserves are charged to cost of sales and reduce the carrying value of our inventory on hand. An allowance is provided when it is anticipated that cost will exceed net realizable value.

Goodwill

Goodwill and other intangible assets that have indefinite lives are not amortized but instead are tested at least annually by reporting unit for impairment, or more frequently when events or changes in circumstances indicate that the asset might be impaired.

Goodwill is reviewed for impairment utilizing a two-step process. The first step requires the Company to compare the fair value of the reporting unit, which is the same as the segment, to the respective carrying value. The Company considers its segment to be a reporting unit for purposes of this analysis. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is greater than the fair value, there is an indication that an impairment may exist and a second step is required. In the second step of the analysis, the implied fair value of the goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

The Company determines the fair value of its reporting unit using the discounted cash flow method. The discounted cash flow method uses various assumptions and estimates regarding revenue growth rates, future gross margins, future selling, general and administrative expenses and an estimated weighted average cost of capital. The analysis is based upon available information regarding expected future cash flows of each reporting unit discounted at rates consistent with the cost of capital specific to the reporting unit. This type of analysis contains uncertainties because it requires the Company to make assumptions and to apply judgment regarding its knowledge of its industry, information provided by industry analysts, and its current business strategy in light of present industry and economic conditions. If any of these assumptions change, or fails to materialize, the resulting decline in its estimated fair value could result in a material impairment charge to the goodwill associated with the reporting unit.

Management is not aware of any impairment charge that may currently be required; however, a change in economic conditions, if one occurs, could result in an impairment charge in future periods.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions it used to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, or certain events occur that might adversely affect the reported value of goodwill in the future, the Company may be exposed to an impairment charge that could be material. Such events may include, but are not limited to, the discontinuance of operations by certain manufacturers the Company represents, strategic decisions made in response to economic and competitive conditions or the impact of the current economic environment.

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 institutions and receives financing fees from the lender equal to either the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution or a commission for the placement of contracts. The Company also receives commissions from the sale of various insurance products to customers.

The Company may be charged back for unearned financing or insurance contract fees in the event of early termination of the contracts by customers. In the case of finance contracts, a customer may prepay, or fail to pay, thereby terminating the underlying contract. Revenues from these fees are recorded at the time of the sale of a unit and a reserve for future amounts which might be charged back is established based on historical chargeback results and the termination provisions of the applicable contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on other insurance products. The Company's finance and insurance revenue recognition accounting methodology contains uncertainties because it requires management to make assumptions and to apply judgment to estimate future charge-backs. The Company's estimate of future charge-backs is based primarily on historical experience. The actual amount of historical charge-backs has not been materially different than the Company's estimates.

Insurance Accruals

The Company is partially self-insured for a portion of the claims related to its property and casualty insurance programs, requiring it to make estimates regarding expected losses to be incurred. The Company engages a third party administrator to assess any open claims and the Company adjusts its accrual accordingly on an annual basis. The Company is also partially self-insured for a portion of the claims related to its worker's compensation and medical insurance programs. The Company uses actuarial information provided from third party administrators to calculate an accrual for claims incurred, but not reported, and for the remaining portion of claims that have been reported.

Changes in the frequency, severity, and development of existing claims could influence the Company's reserve for claims and financial position, results of operations and cash flows. The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions it used to calculate its self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, the Company may be exposed to losses or gains that could be material.

Accounting for Income Taxes

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. Accordingly, the facts and financial circumstances impacting deferred income tax assets are reviewed quarterly and management's judgment is applied to determine the amount of valuation allowance required, if any, in any given period.

The Company's income tax returns are periodically audited by tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions. In evaluating the exposures associated with the Company's various tax filing positions, the Company adjusts its liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available.

The Company's liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with its various filing positions. The Company's effective income tax rate is also affected by changes in tax law, the level of earnings and the results of tax audits. Although the Company believes that the judgments and estimates are reasonable, actual results could differ, and the Company may be exposed to losses or gains that could be material. An unfavorable tax settlement generally would require use of the Company's cash and result in an increase in its effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in the Company's effective income tax rate in the period of resolution. 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.

Stock-Based Compensation Expense

The Company applies the provisions of ASC 718-10, "Compensation — Stock Compensation," 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 restricted stock and employee stock purchases under the Employee Stock Purchase Plan based on estimated fair values.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of share-based payment awards on the date of grant. 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.

Derivative Instruments and Hedging Activities

The Company utilizes derivative financial instruments to manage its interest rate risk. The types of risks hedged are those relating to the variability of cash flows and changes in the fair value of the Company's financial instruments caused by movements in interest rates. The Company assesses hedge effectiveness at the inception and during the term of each hedge. Derivatives are reported at fair value on the accompanying Consolidated Balance Sheets.

The effective portion of the gain or loss on the Company's cash flow hedges are reported as a component of accumulated other comprehensive loss. Hedge effectiveness will be assessed quarterly by comparing the changes in cumulative gain or loss from the interest rate swap with the cumulative changes in the present value of the expected future cash flows of the interest rate swap that are attributable to changes in the LIBOR rate. If the interest rate swaps become ineffective, portions of these interest rate swaps would be reported as a component of interest expense in the accompanying Consolidated Statements of Income.

Results of Operations

The following discussion and analysis includes the Company's historical results of operations for the three months ended June 30, 2011 and 2010.

The following table sets forth certain financial data as a percentage of total revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
New and used truck sales	70.5%	58.0%	67.2%	59.1%
Parts and service	25.7	36.0	28.5	35.0
Lease and rental	3.1	4.9	3.6	4.8
Finance and insurance	0.4	0.6	0.4	0.6
Other	0.3	0.5	0.3	0.5
Total revenues	100.0	100.0	100.0	100.0
Cost of products sold	84.1	79.0	83.0	79.8
Gross profit	15.9	21.0	17.0	20.2
Selling, general and administrative	12.0	16.8	13.1	16.7
Depreciation and amortization	0.7	1.1	0.8	1.1
Gain on sale of assets	0.1	0.0	0.0	0.0
Operating income	3.3	3.1	3.1	2.4
Interest expense, net	0.2	0.4	0.3	0.4
Income from continuing operations before income taxes	3.1	2.7	2.8	2.0
Provision for income taxes	1.2	1.1	1.1	0.8
Income from continuing operations	1.9	1.6	1.7	1.2
Income from discontinued operations	0.0	0.1	0.0	0.1
Net income	1.9%	1.7%	1.7%	1.3%

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	% Change	2011	2010	% Change
Vehicle unit sales:						
New heavy-duty vehicles	2,363	813	190.7%	3,708	1,782	108.1%
New medium-duty vehicles	1,514	795	90.4%	2,331	1,390	67.7%
New light-duty vehicles	314	37	748.6%	426	53	703.8%
Total new vehicle unit sales	4,191	1,645	154.8%	6,465	3,225	100.5%
Used vehicles	1,156	889	30.0%	2,263	1,575	43.7%
Vehicle revenue:						
New heavy-duty vehicles	\$ 300.5	\$ 104.7	187.0%	\$ 473.7	\$ 222.9	112.5%
New medium-duty vehicles	107.3	49.4	117.2%	160.7	86.2	86.4%
New light-duty vehicles	10.2	1.3	684.6%	14.2	1.8	688.9%
Total new vehicle revenue	\$ 418.0	\$ 155.4	169.0%	\$ 648.6	\$ 310.9	108.6%
Used vehicle revenue	\$ 47.4	\$ 35.5	33.5%	\$ 93.8	\$ 60.1	56.1%
Other vehicle revenue:(1)	\$ 1.2	\$ 0.4	200.0%	\$ 1.7	\$ 0.9	88.9%
Absorption rate:	112.9%	104.3%	8.2%	111.1%	100.8%	10.2%

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

Key Performance Indicator

Absorption Rate

Management uses several performance metrics to evaluate the performance of its commercial vehicle dealerships, and considers Rush Truck Centers' "absorption rate" to be of critical importance. Absorption rate is calculated by dividing the gross profit from the parts, service and body shop departments by the overhead expenses of all of a dealership's departments, except for the selling expenses of the new and used commercial vehicle departments and carrying costs of new and used commercial vehicle inventory. When 100% absorption is achieved, then gross profit from the sale of a commercial vehicle, after sales commissions and inventory carrying costs, directly impacts operating profit. In 1999, the Company's truck dealerships' absorption rate was approximately 80%. The Company has made a concerted effort to increase its absorption rate since 1999. The Company's truck dealerships achieved a 112.9% absorption rate for the second quarter of 2011 and a 111.1% absorption rate for the six months ended June 30, 2011.

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Demand for the Company's product and service offerings remained strong in the second quarter of 2011. The Company continues to expect 2012 and 2013 to be growth years for the U.S. Class 8 truck industry. However, renewed economic concern and the possibility of slower than expected recovery within automotive, manufacturing and construction sectors could result in a more cautious Class 8 truck growth cycle, possibly extending the cycle over a longer period of time with more gradual increases in truck sales. The Company continues to make progress integrating its Mountain West and Southeast region dealerships into its Navistar Division, now at 15 full service dealerships with 2 dedicated collision centers. The acquisitions of these dealerships and collision centers, which occurred during 2010 and the first quarter of 2011, produced a positive impact on revenue growth and net income this quarter.

The Company increased deliveries of Class 8 trucks by 190.7% in the second quarter of 2011 compared to the second quarter of 2010. The Company and industry analysts expect a strong recovery in commercial vehicle retail sales in 2011, 2012 and 2013. A.C.T. Research Co., LLC ("A.C.T. Research"), a truck industry data and forecasting service provider, currently predicts U.S. retail sales of Class 8 trucks of approximately 183,000 units in 2011, and 243,500 units in 2012, compared to 110,109 units in 2010. The Company believes that if U.S. Class 8 new truck orders continue at the pace set in recent months, 2011 U.S. Class 8 truck sales should reach approximately 180,000 units.

The Company increased deliveries of new medium-duty vehicles by 90.4% in the second quarter of 2011, compared to the second quarter of last year. A.C.T. Research currently predicts U.S. retail sales of Class 4, 5, 6, and 7 medium-duty commercial vehicles of approximately 146,000 units in 2011, a 24.2% increase from the number of deliveries in 2010, and 163,000 units in 2012.

The Company's overall parts, service and body shop sales increased 43.8% in the second quarter of 2011 compared to the second quarter of 2010. The Company achieved a very strong absorption rate of 112.9% for the quarter.

Revenues

Revenues increased \$332.1 million, or 100.7%, in the second quarter of 2011 compared to the second quarter of 2010. Sales of new and used commercial vehicles increased \$275.3 million, or 143.9%, in the second quarter of 2011 compared to the second quarter of 2010. Demand for commercial vehicles has increased as general economic conditions in the United States have improved and credit is being made available on reasonable terms to a wider range of buyers. Our parts, service and body shop revenues increased 43.8% in the second quarter of 2011 compared to 2010, primarily due to increased maintenance and repair as commercial vehicle utilization continues to increase and acquisitions made by the Company in 2010 and the first quarter of 2011.

The Company sold 2,363 heavy-duty trucks in the second quarter of 2011, a 190.7% increase compared to 813 heavy-duty trucks in the second quarter of 2010. According to A.C.T. Research, the U.S. Class 8 truck market increased 55.0% in the second quarter of 2011 compared to the second quarter of 2010. The Company's share of the U.S. Class 8 truck retail sales market was approximately 4.3% in 2010. The Company expects its market share to range between 4.5% and 5.0% of U.S. Class 8 truck sales in 2011. This market share percentage would result in the sale of approximately 8,200 to 9,100 of Class 8 trucks in 2011 based on A.C.T. Research's current estimate that U.S. retail sales will increase to 183,000 units in 2011. The Company's ability to sell this many trucks may be limited by manufacturer and component suppliers' ability to maintain or increase production over current levels to meet customer demand.

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The Company sold 1,514 medium-duty commercial vehicles, including 398 buses, in the second quarter of 2011. This represented a 90.4% increase compared to 795 medium-duty commercial vehicles, including 105 buses, in the second quarter of 2010. A.C.T. Research estimates that unit sales of Class 4 through 7 commercial vehicles in the U.S. increased approximately 34.0% in the second quarter of 2011 compared to the second quarter of 2010. In 2010, the Company achieved a 2.5% share of the Class 4 through 7 commercial vehicle sales market in the U.S. As a result of acquisitions that occurred during 2010 and the first quarter of 2011, the Company expects its market share to range between 3.3% and 3.8% of U.S. Class 4 through 7 commercial vehicle sales in 2011. This market share percentage would result in the sale of approximately 4,800 to 5,500 of Class 4 through 7 commercial vehicles in 2011 based on A.C.T. Research's current U.S. retail sales estimates of 146,000 units.

The Company sold 1,156 used commercial vehicles in the second quarter of 2011, a 30.0% increase compared to 889 used commercial vehicles in the second quarter of 2010. The Company expects to sell approximately 4,200 to 4,500 used commercial vehicles in 2011. The Company expects used commercial vehicle sales to be largely dependent upon our ability to acquire quality used commercial vehicles and maintain an adequate used commercial vehicle inventory throughout 2011.

Parts and service sales increased \$51.9 million, or 43.8%, in the second quarter of 2011 compared to the second quarter of 2010. As commercial vehicle utilization remains high, the Company expects parts, service and body shop sales to continue to remain strong through 2011.

Truck lease and rental revenues increased \$4.3 million, or 26.5%, in the second quarter of 2011 compared to the second quarter of 2010. The increase in lease and rental revenue is consistent with management's expectations, which are based upon the increased number of units put into service in the lease and rental fleet during 2010 and increased rental fleet utilization. The Company expects lease and rental revenue to increase 17% to 20% during 2011, compared to 2010 based on the increase of units in the lease and rental fleet and the acquisition of Lake City International in May 2010.

Finance and insurance revenues increased \$0.7 million, or 34.0%, in the second quarter of 2011 compared to the second quarter of 2010. The increase in finance and insurance revenue is a direct result of the increase in new and used commercial vehicle sales. The Company expects finance and insurance revenue to fluctuate proportionately with the Company's new and used commercial vehicle sales in 2011. Finance and insurance revenues have limited direct costs and, therefore, contribute a disproportionate share of the Company's operating profits.

Other revenue remained flat at \$1.7 million in the second quarter of 2011 and the second quarter of 2010. Other revenue consists primarily of the gain on sale realized on trucks from the lease and rental fleet, document fees related to commercial vehicle sales, mineral royalties and purchase discounts.

Gross Profit

Gross profit increased \$36.3 million, or 52.5%, in the second quarter of 2011, compared to the second quarter of 2010. Gross profit as a percentage of sales decreased to 15.9% in the second quarter of 2011 from 21.0% in the second quarter of 2010. This decrease in gross profit as a percentage of sales is primarily a result of a change in our product sales mix. Commercial vehicle sales, a lower margin revenue item, increased as a percentage of total revenue to 70.5% in 2011, from 58.0% in 2010. Parts and service revenue, a higher margin revenue item, decreased as a percentage of total revenue to 25.7% in 2011, from 35.9% in 2010.

Gross margins on Class 8 truck sales decreased to 6.7% in the second quarter of 2011, from 8.1% in the second quarter of 2010. The decrease in gross margins is primarily related to the increase in sales to fleet customers compared to the second quarter of 2010. In 2011, the Company expects overall gross margins from Class 8 truck sales of approximately 6.5% to 7.5%.

Gross margins on medium-duty commercial vehicle sales decreased to 4.3% in the second quarter of 2011, from 5.7% in the second quarter of 2010. Gross margins on medium-duty commercial vehicles are difficult to forecast accurately because gross margins vary significantly depending upon the mix of fleet and non-fleet purchasers and types of medium-duty commercial vehicles sold. For 2011, the Company expects overall gross margins from medium-duty commercial vehicle sales of approximately 5.5% to 6.2%, but this will largely depend upon general economic conditions and the mix of purchasers and types of vehicles sold.

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Gross margins on used commercial vehicle sales decreased to 10.2% in the second quarter of 2011, from 14.7% in the second quarter of 2010. The Company expects margins on used commercial vehicles to remain approximately 10.0% during 2011, but this will largely depend upon general economic conditions and the availability of quality used vehicles.

Gross margins from the Company's parts, service and body shop operations increased to 39.3% in the second quarter of 2011, from 39.1% in the second quarter of 2010. Gross profit for the parts, service and body shop departments increased to \$66.9 million in the second quarter of 2011 from \$46.3 million in the second quarter of 2010. The Company expects gross margins on parts, service and body shop operations to range from 39.0% to 41.0% in 2011.

Gross margins from truck lease and rental sales increased to 18.0% in the second quarter of 2011, from 16.2% in the second quarter of 2010. The increase in lease and rental revenue is primarily attributable to increased utilization of vehicles in the Company's rental fleet and increased variable revenue that is based on the miles that leased vehicles are driven. The Company expects gross margins from lease and rental sales of approximately 16.0% to 20.0% during 2011. The Company's policy is to depreciate its lease and rental fleet using a straight line method over the customer's contractual lease term. The lease unit is depreciated to a residual value that approximates fair value at the expiration of the lease term. This policy results in the Company realizing reasonable gross margins while the unit is in service and a corresponding gain or loss on sale when the unit is sold at the end of the lease term.

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

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses increased \$24.5 million, or 44.4%, in the second quarter of 2011, compared to the second quarter of 2010. SG&A expenses as a percentage of total revenue decreased to 12.0% in the second quarter of 2011, from 16.7% in the second quarter of 2010. SG&A expenses as a percentage of total revenue have historically ranged from 10.0% to 15.0%. In general, when new and used commercial vehicle revenue decreases as a percentage of revenue, SG&A expenses as a percentage of total revenue will be at, or exceed, the higher end of this range. Historically low commercial vehicle revenue during 2009 and early 2010, caused SG&A expenses as a percentage of sales to rise above this range. For 2011, the Company expects SG&A expenses as a percentage of total revenue to range from 12.0% to 15.0%. For 2011, the Company expects the selling portion of SG&A expenses to be approximately 25% to 30% of new and used commercial vehicle gross profit. In 2011, the Company expects the general and administrative portion of SG&A expenses to increase by approximately 28.0% to 33.0% primarily due to an expected increase in personnel costs related to increased parts and service business, the full year effect of acquisitions made in 2010 and the first quarter of 2011, and the reinstatement of certain employee benefits. The Company will incur additional costs of approximately \$1.0 million per quarter related to implementation of SAP software when it is placed in service in the third quarter of 2011. These costs include monthly maintenance fees and training expenses.

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$0.9 million, or 23.5%, in the second quarter of 2011 compared to the second quarter of 2010. The Company will incur additional amortization expense of approximately \$0.7 million per quarter related to implementation of SAP software when it is placed in service in the third quarter of 2011.

Interest Expense, Net

Net interest expense increased \$0.2 million, or 14.5%, in the second quarter of 2011 compared to the second quarter of 2010. The Company's floor plan agreement with GE Capital was modified at the end of 2010, which increased interest rates related to floor plan notes payable, however, net interest expense in 2011 will vary based on inventory levels and cash available for prepayment of floor plan financing. The Company expects net interest expense to increase by an additional amount of approximately \$0.3 million per quarter when the SAP software is placed in service in the third quarter of 2011, because the Company will no longer capitalize interest on the costs related to the SAP software implementation.

Income from Continuing Operations before Income Taxes

As a result of the factors described above, income from continuing operations before income taxes increased \$11.2 million, or 125.2%, in the second quarter of 2011 compared to the second quarter of 2010. The Company believes that income from continuing operations before income taxes will increase in 2011 compared to 2010 because of the factors described above.

Income Taxes

Income taxes increased \$4.1 million, or 116.2%, in the second quarter of 2011, compared to the second quarter of 2010. The Company provided for taxes at a 38.0% effective rate in the second quarter of 2011 compared to an effective rate of 42.0% in the second quarter of 2010. The Company expects its effective tax rate to be approximately 36.0% to 39.0% of pretax income in 2011.

Income from Discontinued Operations, Net

Income from discontinued operations, net of income taxes decreased \$0.3 million in the second quarter of 2011 compared to the second quarter of 2010. Income from discontinued operations includes operating results for the Company's construction equipment business, which was sold in September 2010.

Six Months Ended June 30, 2011, Compared to Six Months Ended June 30, 2010

Unless otherwise stated below, the Company's variance explanations and future expectations with regard to the items discussed in this section are set forth in the discussion of the "Three Months Ended June 30, 2011, Compared to Three Months Ended June 30, 2010."

Revenues increased \$479.0 million, or 76.1%, in the first six months of 2011, compared to the first six months of 2010. Sales of new and used trucks increased \$372.2 million, or 100.1%, in the first six months of 2011, compared to the first six months of 2010.

The Company sold 3,708 heavy-duty trucks in the first six months of 2011, a 108.1% increase compared to 1,782 heavy-duty trucks in the first six months of 2010. According to A.C.T. Research, the U.S. Class 8 truck market increased 44.0% in the first six months of 2011, compared to the first six months of 2010.

The Company sold 2,331 medium-duty commercial vehicles, including 507 buses in the first six months of 2011. This represented a 67.7% increase compared to 1,390 medium-duty commercial vehicles, including 203 buses in the first six months of 2010. A.C.T. Research estimates that unit sales of Class 4 through 7 commercial vehicles in the U.S increased approximately 25.0% in the first six months of 2011, compared to the first six months of 2010.

The Company sold 2,263 used commercial vehicles in the first six months of 2011, a 43.7% increase compared to 1,575 used commercial vehicles in the first six months of 2010.

Parts and service sales increased \$95.6 million, or 43.4%, in the first six months of 2011, compared to the first six months of 2010.

Truck lease and rental revenues increased \$9.3 million, or 30.6%, in the first six months of 2011, compared to the first six months of 2010.

Finance and insurance revenues increased \$1.2 million, or 33.4%, in the first six months of 2011, compared to the first six months of 2010.

Other revenue increased \$0.7 million, or 23.9%, in the first six months of 2011, compared to the first six months of 2010. Other revenue consists primarily of the gain on sale realized on trucks from the lease and rental fleet, document fees related to commercial vehicle sales, mineral royalties and purchase discounts.

Gross Profit

Gross profit increased \$60.7 million, or 47.7%, in the first six months of 2011, compared to the first six months of 2010. Gross profit as a percentage of sales decreased to 17.0% in the first six months of 2011 from 20.2% in the first six months of 2010.

Gross margins on Class 8 truck sales decreased to 6.6% in the first six months of 2011, from 7.6% in the first six months of 2010.

Gross margins on medium-duty commercial vehicle sales decreased to 4.4% in the first six months of 2011, from 5.9% in the first six months of 2010.

Gross margins on used commercial vehicle sales decreased to 10.1% in the first six months of 2011, from 14.3% in the first six months of 2010.

Gross margins from the Company's parts, service and body shop operations increased to 39.2% in the first six months of 2011, from 38.8% in the first six months of 2010. Gross profit for the parts, service and body shop departments was \$123.8 million in the first six months of 2011, compared to \$85.5 million in the first six months of 2010.

Gross margins from truck lease and rental sales increased to 16.7% in the first six months of 2011, from approximately 14.6% in the first six months of 2010.

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

SG&A expenses increased \$39.7 million, or 37.7%, in the first six months of 2011, compared to the first six months of 2010. SG&A expenses as a percentage of sales was 13.1% in the first six months of 2011 and 16.7% in the first six months of 2010.

Interest Expense, Net

Net interest expense increased \$0.1 million, or 3.9%, in the first six months of 2011, compared to the first six months of 2010.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes increased \$19.8 million in the first six months of 2011, compared to the first six months of 2010.

Provision for Income Taxes

Income taxes increased \$7.3 million in the first six months of 2011, compared to the first six months of 2010. The Company provided for taxes at a 38.0% rate in the first six months of 2011, compared to a rate of 42.0% in the first six months of 2010.

Income from Discontinued Operations, net

Income from discontinued operations, net of income taxes decreased \$0.6 million in the second quarter of 2011 compared to the second quarter of 2010. Income from discontinued operations includes operating results for the Company's construction equipment business, which was sold in September 2010.

Liquidity and Capital Resources

The Company's short-term cash requirements are primarily for working capital, inventory financing, the improvement and expansion of existing facilities, the development and implementation of SAP enterprise software and dealership management system, and the construction or purchase of new facilities. Historically, these cash requirements have been met through the retention of profits, borrowings under our floor plan arrangements and bank financings. The Company does not expect the absence of cash flows from discontinued operations to materially affect future liquidity and capital resources. As of June 30, 2011, the Company had working capital of approximately \$140.9 million, including \$146.3 million in cash available to fund our operations. The Company believes that these funds are sufficient to meet our operating requirements for at least the next twelve months.

Available cash is generally invested in variable interest rate instruments in accordance with the Company's investment policy which is to invest excess funds in a manner that will provide maximum preservation and safety of principal. The portfolio is maintained to meet anticipated liquidity needs of the Company in order to ensure the availability of cash to meet the Company's obligations and to minimize potential liquidation losses. As of June 30, 2011, the majority of excess cash is maintained in a depository account or invested in a money market fund that invests exclusively in U.S. Treasury bills, notes and other obligations issued or guaranteed by the U.S. Treasury, and repurchase agreements collateralized by such obligations.

The Company has a secured line of credit that provides for a maximum borrowing of \$10.0 million. There were no advances outstanding under this secured line of credit at June 30, 2011, however, \$7.1 million was pledged to secure various letters of credit related to self-insurance products, leaving \$2.9 million available for future borrowings as of June 30, 2011.

The Company's long-term real estate debt agreements and floor plan credit agreement require the Company to satisfy various financial ratios such as the debt to worth ratio, leverage ratio and the fixed charge coverage ratio and certain requirements for tangible net worth and GAAP net worth. At June 30, 2011, the Company was in compliance with all debt covenants related to debt secured by real estate and its floor plan credit agreement. The Company does not anticipate any breach of the covenants in the foreseeable future.

Titan Technology Partners is currently implementing SAP enterprise software and a new SAP dealership management system for the Company. The total cost of the SAP software and implementation is estimated to be approximately \$41.0 million. As of June 30, 2011, the Company had cumulative expenditures of \$40.0 million related to the SAP project. The Company expects to spend approximately \$1.0 million related to the SAP project during the remainder of 2011. The Company plans to place in service the SAP software during the third quarter of 2011.

The Company expects to purchase or lease trucks worth approximately \$75.0 million for its leasing operations in 2011, depending on customer demand, all of which will be financed. The Company also expects to make capital expenditures for recurring items such as computers, shop tools and equipment and vehicles of approximately \$7.0 million to \$9.0 million during the remainder of 2011.

The Company currently anticipates funding its capital expenditures relating to the implementation of the SAP enterprise software and SAP dealership management system, improvement and expansion of existing facilities and recurring expenses, as well as a portion of the construction or purchase of new facilities through its operating cash flow. The Company expects to finance 70% to 80% of the appraised value of any newly constructed or purchased facilities, which will increase the Company's cash and cash equivalents by that amount.

The Company has no other material commitments for capital expenditures as of June 30, 2011, except that the Company will continue to purchase vehicles for its lease and rental division and authorize capital expenditures for improvement and expansion of its existing dealership facilities and construction or purchase of new facilities based on market opportunities.

Cash Flows

Cash and cash equivalents decreased by \$22.7 million during the six months ended June 30, 2011 and decreased by \$13.3 million during the six months ended June 30, 2010. 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 2011, operating activities resulted in net cash used in operations of \$36.0 million. Cash used in operating activities was primarily impacted by the increase in inventories and accounts receivable which was offset by the increase in accounts payable and accrued expenses. During the first six months of 2010, operating activities resulted in cash provided by operations of \$5.5 million.

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Cash flows from operating activities as adjusted for all draws on floor plan notes, except for floor plan related to inventory acquired in business acquisitions, ("Adjusted Cash Flows from Operating Activities") was \$65.5 million for the six months ended June 30, 2011, and \$50.0 million for the six months ended June 30, 2010. Generally, all vehicle dealers finance the purchase of vehicles with floor plan borrowings. Our agreements with our floor plan provider require us to repay amounts borrowed for the purchase of such vehicles immediately after they are sold. As a result, changes in floor plan notes payable are directly linked to changes in vehicle inventory. However, as reflected in our consolidated statements of cash flows, changes in inventory are recorded as cash flows from operating activities if such inventory is procured in the normal course of business, or as cash flows from investing activities if such inventory is procured as part of a business acquisition, while all draws on floor plan notes are recorded as cash flows from financing activities.

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

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

	Six Months Ended June 30,	
	2011	2010
Net cash (used in) provided by operating activities (GAAP)	\$ (36,012)	\$ 5,486
Draws on floor plan notes payable	114,741	44,504
Less: draws on floor plan notes payable related to inventory acquired in business acquisitions	(13,250)	—
Adjusted Cash Flows from Operating Activities (Non-GAAP)	<u>\$ 65,479</u>	<u>\$ 49,990</u>

Cash Flows from Investing Activities

Cash flows used in investing activities consist primarily of cash used for capital expenditures and business acquisitions. During the first six months of 2011, cash used in investing activities was \$109.8 million. Capital expenditures consisted of purchases of property and equipment and improvements to our existing dealership facilities of \$60.8 million. Property and equipment purchases during the first six months of 2011 consisted of \$30.4 million for additional units for rental and leasing operations, which was directly offset by borrowings of long-term debt, \$16.0 million for transportation equipment and \$4.5 million related to the SAP software implementation, including capitalized interest. The Company expects to purchase or lease trucks worth approximately \$75.0 million for its leasing operations in 2011, depending on customer demand, all of which will be financed. Cash used in business acquisitions was \$60.0 million during the first six months of 2011 (See Note 9 - Acquisitions of Notes to Consolidated Financial Statements). During the remainder of 2011, the Company expects to make capital expenditures for recurring items such as computers, shop equipment and vehicles of approximately \$7.0 million to \$9.0 million, in addition to approximately \$1.0 million for the SAP project described above.

During the first six months of 2010, cash used in investing activities was \$62.9 million. Capital expenditures consisted of purchases of property and equipment and improvements to our existing dealership facilities of \$28.6 million. Property and equipment purchases during the first six months of 2010 consisted of \$17.9 million for additional units for rental and leasing operations, which was directly offset by borrowings of long-term debt. Cash used in business acquisitions was \$32.5 million during the first six months of 2010 (See Note 9 - Acquisitions of Notes to Consolidated Financial Statements).

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 provided by financing activities was \$123.2 million during the first six months of 2011. The Company had borrowings of long-term debt of \$45.9 million and repayments of long-term debt of \$33.3 million and repayments of capital lease obligations of \$7.6 million during the first six months of 2011. The Company had net draws on floor plan notes payable of \$114.7 million during the first six months of 2011. The borrowings of long-term debt were primarily related to units for the rental and leasing operations.

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Cash provided by financing activities was \$44.1 million during the first six months of 2010. The Company had borrowings of long-term debt of \$26.9 million and repayments of long-term debt of \$24.8 million during the first six months of 2010. The Company had net draws on floor plan notes payable of \$44.5 million during the first six months of 2010. The borrowings of long-term debt were primarily related to units for the rental and leasing operations.

Substantially all of the Company's commercial vehicle purchases are made on terms requiring payment within 15 days or less from the date the commercial vehicles are invoiced from the factory. We financed substantially all of the purchases of commercial vehicle inventory under our \$450.0 million credit agreement with GE Capital. All principal amounts outstanding bear interest at a rate per annum equal to the sum of the LIBOR rate plus 2.95%, which is payable monthly. The credit agreement allows for prepayment of the inventory loans, up to 65% of the aggregate inventory loans outstanding, with monthly adjustments to the interest due. 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 financed for 12 months or is sold. On June 30, 2011, the Company had approximately \$340.9 million outstanding under its credit agreement with GE Capital.

Navistar Financial Corporation offers a floor plan program that provides an interest free financing period, which varies depending on the commercial vehicle purchased. If the commercial vehicle financed by Navistar is not sold within the interest free finance period, the Company transfers the financed commercial vehicle to the GE Capital credit agreement. On June 30, 2011, the Company had approximately \$11.6 million outstanding under the floor plan program with Navistar Financial Corporation.

Backlog

On June 30, 2011, the Company's backlog of commercial vehicle orders was approximately \$705.7 million compared to a backlog of commercial vehicle orders of approximately \$154.4 million on June 30, 2010. The Company includes only confirmed orders in its backlog. The delivery time for a custom-ordered commercial vehicle varies depending on the truck specifications and demand for the particular model ordered, however, the Company expects to fill all of its backlog orders during 2011. The Company sells the majority of its new commercial vehicles by customer special order, with the remainder sold out of inventory. Orders from a number of the Company's major fleet customers are included in the Company's backlog as of June 30, 2011.

Seasonality

The Company's Truck segment is moderately seasonal. Seasonal effects on new commercial vehicle sales related to the seasonal purchasing patterns of any single customer type are mitigated by the diverse geographic locations of our dealerships and the Company's diverse customer base, including regional and national fleets, local governments, corporations and owner operators. However, commercial vehicle parts and service operations historically have experienced higher sales volumes in the second and third quarters.

Cyclicality

The Company's business is dependent on a number of factors relating to general economic conditions, including fuel prices, interest rate fluctuations, credit availability, economic recessions, environmental and other government regulations and customer business cycles. Unit sales of new commercial vehicles have historically been subject to substantial cyclical variation based on these general economic conditions. According to data published by A.C.T. Research, in recent years total U.S. retail sales of new Class 8 trucks have ranged from a low of approximately 97,000 in 2009 to a high of approximately 291,000 in 2006. Through geographic expansion, concentration on higher margin parts and service operations and diversification of its customer base, the Company believes it has reduced the negative impact on the Company's earnings of adverse general economic conditions or cyclical trends affecting the heavy-duty truck industry.

Off-Balance Sheet Arrangements

Other than operating leases, the Company does not have any obligation under any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the Company is a party that has or is reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Environmental Standards and Other Governmental Regulations

The Company is subject to a wide range of federal, state and local environmental laws and regulations, including those governing discharges into the air and water; the operation and removal of underground and aboveground storage tanks; the use, handling, storage and disposal of hazardous substances, petroleum and other materials; and the investigation and remediation of contamination. As with commercial vehicle or construction equipment dealerships generally, and service, parts and body shop operations in particular, our business involves the generation, use, storage, handling and contracting for recycling or disposal of hazardous materials or wastes and other environmentally sensitive materials. The Company has incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Our operations involving the management of hazardous and nonhazardous materials are subject to the requirements of the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. Pursuant to these laws, federal and state environmental agencies have established approved methods for handling, storage, treatment, transportation and disposal of regulated substances and wastes with which the Company must comply. Our business also involves the operation and use of above ground and underground storage tanks. These storage tanks are subject to periodic testing, containment, upgrading and removal under RCRA and comparable state statutes. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks.

The Company may also have liability in connection with materials that were sent to third-party recycling, treatment, or disposal facilities under the federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, and comparable state statutes. These statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Responsible parties under these statutes may include the owner or operator of the site where contamination occurred and companies that disposed or arranged for the disposal of the hazardous substances released at these sites. These responsible parties also may be liable for damages to natural resources. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances or other pollutants into the environment.

The federal Clean Water Act and comparable state statutes prohibit discharges of pollutants into regulated waters without the necessary permits, require containment of potential discharges of oil or hazardous substances, and require preparation of spill contingency plans. Water quality protection programs govern certain discharges from some of our operations. Similarly, the federal Clean Air Act and comparable state statutes regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. In addition, the U.S. Environmental Protection Agency, or EPA, has developed, and continues to develop, stringent regulations governing emissions of toxic air pollutants from specified sources.

In 2010, the EPA and the U.S. Department of Transportation (DOT) announced the first national standards to reduce greenhouse gas (GHG) emissions and improve fuel efficiency of heavy-duty trucks and buses. This comprehensive national program is projected to reduce GHG emissions by about 250 million metric tons and save 500 million barrels of oil over the lives of the vehicles produced within the program's first five years.

EPA and DOT's National Highway Traffic Safety Administration are proposing new standards for three categories of heavy trucks: combination tractors (the main power unit portion of a tractor-trailer combined vehicle), heavy-duty pickups and vans, and vocational vehicles. The categories were established to address specific challenges for manufacturers in each area. For combination tractors, the agencies are proposing engine and vehicle standards that begin in the 2014 model year and achieve up to a 20 percent reduction in carbon dioxide (CO₂) emissions and fuel consumption by 2018 model year.

For heavy-duty pickup trucks and vans, the agencies are proposing separate gasoline and diesel truck standards, which phase in starting in the 2014 model year and achieve up to a 10 percent reduction for gasoline vehicles and 15 percent reduction for diesel vehicles by 2018 model year (12 and 17 percent respectively if accounting for air conditioning leakage). Lastly, for vocational vehicles, the agencies are proposing engine and vehicle standards starting in the 2014 model year which would achieve up to a 10 percent reduction in fuel consumption and CO₂ emissions by 2018 model year.

It is not possible at this time to accurately predict how the foregoing proposed standards, future legislation or other new regulations that may be adopted to address greenhouse gas emissions will impact our business. Any regulations will likely result in increased compliance costs, additional operating restrictions or changes in demand for our products and services, which could have a material adverse effect on our business, financial condition and results of operation.

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The Company believes that it does not currently have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations, financial condition or cash flows. However, soil and groundwater contamination is known to exist at some of our current properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with acquisitions, it is possible that the Company will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with our dispositions, or prior dispositions made by companies acquire, the Company may retain exposure for environmental costs and liabilities, some of which may be material. Compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and those expenditures could be material.

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 financing agreements, variable rate real estate debt and discount rates related to finance sales. The majority of floor plan debt and variable rate real estate debt is based on LIBOR. As of June 30, 2011, the Company had floor plan borrowings and variable interest rate real estate debt of approximately \$451.8 million. Assuming an increase or decrease in LIBOR of 100 basis points, annual interest expense could correspondingly increase or decrease by approximately \$4.5 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 exposed to some market risk through interest rate swaps on some of the Company's variable interest rate real estate debt. As of June 30, 2011, the Company has interest rate swaps with a total notional amount of \$45.0 million. The swaps were designed to provide a hedge against changes in interest rates on some of the Company's variable interest rate real estate debt. The swaps are collateralized by the underlying real estate. These interest rate swaps qualify for cash flow hedge accounting treatment and are considered effective. For additional information about the effect of the Company's derivative instruments on the accompanying consolidated financial statements, see Note 6 — Financial Instruments and Fair Value of the Notes to Consolidated Financial Statements.

The Company is also exposed to some market risk through interest rates related to the investment of our current cash and cash equivalents which totaled \$146.3 million on June 30, 2011. These funds are generally invested in variable interest rate instruments in accordance with the Company's investment policy. As such instruments mature and the funds are reinvested, we are exposed to changes in market interest rates. This risk is mitigated by management's ongoing evaluation of the best investment rates available for current and noncurrent high quality investments. If market interest rates were to increase or decrease immediately and uniformly by 100 basis points, the Company's annual interest income could correspondingly increase or decrease by approximately \$1.0 million.

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

As of June 30, 2011, the Company holds auction rate securities, with underlying tax-exempt municipal bonds that mature in 2030, that have a fair value of \$6.6 million. Given the current market conditions in the auction rate securities market, if the Company determines that the fair value of these securities temporarily decreases by an additional 10%, the Company's equity could correspondingly decrease by approximately \$0.7 million. If it is determined that the fair value of these securities is other-than-temporarily impaired by 10%, the Company could record a loss on its Consolidated Statements of Operations of approximately \$0.7 million. For further discussion of the risks related to our auction rate securities, see Note 6 — Financial Instruments and Fair Value of the Notes to Consolidated Financial Statements.

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, 2011 to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to Company management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 financial condition or results of operations for the fiscal period in which such resolution occurred.

ITEM 1A. Risk Factors.

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A, Part I of our 2010 Annual Report on Form 10-K (the "2010 Annual Report") describes some of the risks and uncertainties associated with our business that have the potential to materially affect our business, financial condition or results of operations.

There has been no material change in our risk factors disclosed in our 2010 Annual Report.

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 2011.

The Company did not repurchase any shares of its Class A Common Stock or Class B Common Stock during the second quarter of 2011.

ITEM 3. Defaults Upon Senior Securities.

Not Applicable

ITEM 5. Other Information.

Not Applicable

ITEM 6. Exhibits

Exhibit Number	Exhibit Title
3.1	Restated Articles of Incorporation of Rush Enterprises, Inc. (incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q (File No. 000-20797) for the quarter ended June 30, 2008)
3.2	Rush Enterprises, Inc. Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q (File No. 000-20797) filed for the quarter ended June 30, 2009)
10.1+	Rush Enterprises, Inc. Amended and Restated 2006 Non-Employee Director Stock Plan (incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on April 6, 2011)
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.
101***	The following materials from Rush Enterprises, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010; (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010; and (iv) Notes to Consolidated Financial Statements (tagged as blocks of text).

+ Management contract or compensatory plan or arrangement

* Filed herewith

** Furnished herewith

*** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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, 2011

By: /S/ W.M. "RUSTY" RUSH

W.M. "Rusty" Rush

President and Chief Executive Officer

(Principal Executive Officer)

Date: August 9, 2011

By: /S/ STEVEN L. KELLER

Steven L. Keller

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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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 officers 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 officers 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, 2011

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 officers 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 officers 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, 2011

By: /S/ STEVEN L. KELLER
Steven L. Keller
Senior 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, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W.M. "Rusty" Rush, Chief Executive 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/ W.M. "RUSTY" RUSH
Name: W.M. "Rusty" Rush
Title: President and Chief Executive Officer
Date: August 9, 2011

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.

**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, 2011, 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: Senior Vice President and Chief Financial Officer

Date: August 9, 2011

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.