Titan Machinery Inc.
Form 10-Q
September 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2011

Commission File No. 001-33866

TITAN MACHINERY INC.

(Exact name of registrant as specified in its charter)

Delaware	**No. 45-0357838**
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	Identification No.)

644 East Beaton Drive

West Fargo, ND 58078-2648

(Address of Principal Executive Offices)

Registrant s telephone number **(701) 356-0130**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x NO o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

The number of shares outstanding of the registrant s common stock as of August 31, 2011 was: Common Stock, $0.00001 par value, 20,753,333 shares.

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TITAN MACHINERY INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TITAN MACHINERY INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	July 31, 2011 (Unaudited)	January 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 102,194	$ 76,112
Receivables, net	53,496	44,945
Inventories	622,471	429,844
Prepaid expenses and other current assets	2,291	1,003
Deferred income taxes	3,110	3,247
Total current assets	783,562	555,151
INTANGIBLES AND OTHER ASSETS		
Noncurrent parts inventories	2,850	2,405
Goodwill	21,931	18,391
Intangible assets, net of accumulated amortization	8,153	4,734
Other	2,614	2,793
	35,548	28,323
PROPERTY AND EQUIPMENT, net of accumulated depreciation	98,545	65,372
	$ 917,655	$ 648,846
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 24,712	$ 15,957
Floorplan notes payable	494,886	320,801
Current maturities of long-term debt and short-term advances	3,761	4,207
Customer deposits	30,506	28,180
Accrued expenses	14,699	16,816
Income taxes payable	374	2,093
Total current liabilities	568,938	388,054
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	31,933	33,409
Deferred income taxes	9,663	9,012

Other long-term liabilities		3,010		3,814
		44,606		46,235
STOCKHOLDERS EQUITY				
Common stock, par value $.00001 per share, authorized - 25,000 shares; issued and outstanding - 20,754 at July 31, 2011 and 17,917 at January 31, 2011				
Additional paid-in-capital		216,461		140,466
Retained earnings		87,650		74,091
		304,111		214,557
	$	917,655	$	648,846

See Notes to Consolidated Financial Statements

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TITAN MACHINERY INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010	Six Months Ended July 31, 2011	Six Months Ended July 31, 2010
REVENUE				
Equipment	$ 225,283	$ 153,131	$ 474,512	$ 303,491
Parts	49,292	33,947	91,202	69,010
Service	25,395	17,502	46,359	34,053
Rental and other	10,879	5,086	16,941	8,569
TOTAL REVENUE	310,849	209,666	629,014	415,123
COST OF REVENUE				
Equipment	204,430	138,342	427,731	275,143
Parts	34,426	24,184	64,146	49,370
Service	8,963	6,970	16,871	12,941
Rental and other	7,179	4,122	11,612	7,178
TOTAL COST OF REVENUE	254,998	173,618	520,360	344,632
GROSS PROFIT	55,851	36,048	108,654	70,491
OPERATING EXPENSES	44,060	29,212	83,496	59,008
INCOME FROM OPERATIONS	11,791	6,836	25,158	11,483
OTHER INCOME (EXPENSE)				
Interest and other income	267	34	552	207
Floorplan interest expense	(1,334)	(1,911)	(2,496)	(3,712)
Interest expense other	(341)	(358)	(616)	(735)
INCOME BEFORE INCOME TAXES	10,383	4,601	22,598	7,243
PROVISION FOR INCOME TAXES	(4,092)	(1,887)	(9,039)	(2,970)
NET INCOME	$ 6,291	$ 2,714	$ 13,559	$ 4,273
EARNINGS PER SHARE - NOTE 1				
EARNINGS PER SHARE - BASIC	$ 0.31	$ 0.15	$ 0.71	$ 0.24
EARNINGS PER SHARE - DILUTED	$ 0.30	$ 0.15	$ 0.69	$ 0.24
WEIGHTED AVERAGE SHARES - BASIC	20,237	17,635	19,009	17,626
WEIGHTED AVERAGE SHARES - DILUTED	20,799	18,080	19,567	18,060

See Notes to Consolidated Financial Statements

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TITAN MACHINERY INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)

(in thousands)

	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total
BALANCE, JANUARY 31, 2011	17,917	$	$ 140,466	$ 74,091	$ 214,557
Common stock issued in follow-on offering	2,760		74,898		74,898
Common stock issued on grant of restricted stock and exercise of stock options and warrants and tax benefits of equity awards	77		457		457
Stock-based compensation expense			640		640
Net income				13,559	13,559
BALANCE, JULY 31, 2011	20,754	$	$ 216,461	$ 87,650	$ 304,111

See Notes to Consolidated Financial Statements

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TITAN MACHINERY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended July 31, 2011	2010
OPERATING ACTIVITIES		
Net income	$ 13,559	$ 4,273
Adjustments to reconcile net income to net cash used for operating activities		
Depreciation and amortization	6,053	4,204
Deferred income taxes	148	(353)
Stock-based compensation expense	640	564
Other	168	(87)
Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities		
Receivables, prepaid expenses and other assets	(5,325)	(6,848)
Inventories	(99,638)	(28,261)
Floorplan notes payable	3,718	(818)
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	5,979	(4,918)
Income taxes	(2,167)	2,084
NET CASH USED FOR OPERATING ACTIVITIES	(76,865)	(30,160)
INVESTING ACTIVITIES		
Property and equipment purchases	(8,524)	(6,250)
Net proceeds from sale of equipment	642	434
Purchase of equipment dealerships, net of cash purchased	(27,121)	(2,423)
Other, net	6	(293)
NET CASH USED FOR INVESTING ACTIVITIES	(34,997)	(8,532)
FINANCING ACTIVITIES		
Proceeds from follow-on offering of common stock, net of underwriting discount of $4,166 and other direct costs of $286	74,898	
Net change in non-manufacturer floorplan notes payable	74,217	23,444
Short-term advances related to customer contracts in transit, net	(390)	(358)
Proceeds from long-term debt borrowings		4,671
Principal payments on long-term debt	(11,238)	(3,878)
Other	457	89
NET CASH PROVIDED BY FINANCING ACTIVITIES	137,944	23,968
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,082	(14,724)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	76,112	76,185
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 102,194	$ 61,461

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) Page 2

(in thousands)

	Six Months Ended July 31, 2011	Six Months Ended July 31, 2010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period		
Income taxes, net of refunds	$ 10,883	$ 1,247
Interest	$ 2,850	$ 4,460
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment financed with long-term debt	$ 2,434	$ 3,647
Net transfer of equipment to fixed assets from inventories	$ 20,335	$ 1,744
Net transfer of financing to long-term debt from floorplan notes payable	$ 1,696	$ 2,423

See Notes to Consolidated Financial Statements

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TITAN MACHINERY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 - BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the Company) are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by our Agriculture and Construction customers. Therefore, operating results for the six-month period ended July 31, 2011 are not necessarily indicative of the results that may be expected for the year ending January 31, 2012. The information contained in the balance sheet as of January 31, 2011 was derived from the audited financial statements for the Company for the year then ended. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended January 31, 2011 as filed with the SEC.

Nature of Business

Titan Machinery Inc. is engaged in the retail sale, service and rental of agricultural and construction equipment through stores in North Dakota, South Dakota, Minnesota, Iowa, Nebraska, Montana, Wyoming and Wisconsin.

Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Transportation Solutions, LLC. All significant accounts, transactions and profits between the consolidated companies have been eliminated in consolidation.

Fair Value of Financial Instruments

The carrying amount of cash, receivables, payables, short-term debt and other current liabilities approximates fair value because of the short maturity and/or frequent repricing of those instruments. Based upon current borrowing rates with similar maturities, the carrying value of the long-term debt approximates the fair value as of July 31, 2011 and January 31, 2011.

Exit and Disposal Costs

The Company accounts for exit or disposal activities, including store closures, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 420, Exit or Disposal Cost Obligations. Such costs mainly include lease termination costs and employee termination costs. We record a liability for the net present value of any remaining lease obligations, net of estimated sublease income, at the date we cease using the property. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. We record a liability for employee termination costs at the date the termination benefits were communicated to the employees.

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Upon acquiring ABC Rental & Equipment Sales in the first quarter of fiscal 2012, the Company decided that it would combine its existing location in Belgrade, Montana into its newly-acquired store in nearby Bozeman, Montana. This merger was completed in July 2011, with all of the Belgrade operations and employees moving to the Bozeman store location. Thus, the Belgrade store was closed as of July 31, 2011. The exit costs relate to lease termination. Estimated lease termination costs totaling $0.4 million for the Belgrade store and adjustments for a previously closed store are included in operating expenses on the consolidated statements of operations for the three and six months ended July 31, 2011.

A reconciliation of the beginning and ending liability balance follows:

		(in thousands)
Balance at January 31, 2011	$	207
Exit costs incurred and charged to expense		386
Exit costs paid		(66)
Balance at July 31, 2011	$	527

Recent Accounting Guidance

In May 2011, the FASB amended authoritative guidance on fair value measurements, codified in ASC 820, *Fair Value Measurements and Disclosures*. The amended guidance results in common fair value measurements and disclosure requirements for financial statements reported under U.S. GAAP or International Financial Reporting Standards (IFRS). These amendments clarify the FASB s intent about the application of existing fair value measurement requirements and change particular principles or requirements for measuring fair value and disclosing information about fair value measurements. The guidance is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. The Company is in the process of determining the impact that this guidance will have on the Company s consolidated financial statements.

In June 2011, the FASB amended authoritative guidance on the presentation of comprehensive income, codified in ASC 220, *Comprehensive Income*. The amended guidance requires the presentation of the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is effective for the interim and annual periods beginning after December 15, 2011, and is applied retrospectively. The Company is in the process of determining the impact that this guidance will have on the Company s consolidated financial statements.

Earnings Per Share

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	

Basic weighted-average shares outstanding	20,237	17,635	19,009	17,626
Plus: Incremental shares from assumed conversions				
Restricted Stock	182	187	175	177
Warrants	30	56	30	58
Stock Options	350	202	353	199
Diluted weighted-average shares outstanding	20,799	18,080	19,567	18,060

There were zero and 139,000 stock options outstanding as of July 31, 2011 and 2010, respectively, that were not included in the computation of diluted earnings per share because they were anti-dilutive.

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NOTE 2 - INVENTORIES

		July 31, 2011		January 31, 2011
		(in thousands)		
New equipment	$	396,887	$	209,871
Used equipment		153,379		162,254
Parts and attachments		65,405		52,694
Work in process		6,800		5,025
	$	622,471	$	429,844

In addition to the above amounts, the Company has estimated that a portion of its parts inventory will not be sold in the next year. Accordingly, these balances have been classified as noncurrent assets.

NOTE 3 - LINES OF CREDIT / FLOORPLAN NOTES PAYABLE

Operating Line of Credit

As of July 31, 2011, the Company had a $50.0 million working capital line of credit under a Senior Secured Credit Facility (the Credit Agreement) with a group of banks led by Wells Fargo Bank, National Association. The Company had $26.4 million outstanding on its operating lines of credit as of July 31, 2011 and January 31, 2011. Amounts outstanding are recorded as long-term debt, within long-term liabilities on the consolidated balance sheets, as the Company does not have the intention or obligation to repay amounts borrowed within one year.

Floorplan Lines of Credit

As of July 31, 2011, the Company had discretionary floorplan lines of credit for equipment purchases totaling approximately $550.0 million with various lending institutions, including $175.0 million under the aforementioned Credit Agreement, a $300.0 million Wholesale Floorplan Credit Facility with CNH Capital America LLC (CNH Capital) and a $75.0 million Wholesale Financing Plan with Rental Agreement with Agricredit Acceptance LLC. Floorplan notes payable relating to these credit facilities totaled approximately $454.3 million of the total floorplan notes payable balance of $494.9 million outstanding as of July 31, 2011 and $300.6 million of the total floorplan notes payable balance of $320.8 million outstanding as of January 31, 2011. As of July 31, 2011, the Company had approximately $90.0 million in available borrowings remaining under these lines of credit. These floorplan notes carried various interest rates primarily ranging from 2.19% to 7.25% as of July 31, 2011, subject to interest-free periods offered by CNH Capital. As of July 31, 2011, the Company was in compliance with all floorplan financial covenants.

NOTE 4 - BUSINESS COMBINATIONS

The Company continued to implement its strategy of consolidating dealerships in desired market areas. Below is a summary of the acquisitions completed for the six months ended July 31, 2011. In certain of the business combination transactions the Company recognized goodwill and separately identifiable intangible assets. Factors contributing to the recognition of goodwill and intangible assets include an evaluation of the historical financial performance, proximity to other existing and future planned Company locations, customer relationships and distribution territory. Pro forma results are not presented as the acquisitions are not considered material, individually or in aggregate, to the Company. The results of operations have been included in the Company s consolidated results of operations since the date of each respective business combination.

On February 28, 2011, the Company acquired certain assets of Tri-State Implement, Inc. The acquired entity consisted of one agricultural equipment store located in Sioux Falls, South Dakota which is contiguous to the Company s existing construction equipment location in Sioux Falls. The acquisition-date fair value of the total consideration transferred for the dealership was $1.0 million.

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On March 31, 2011, the Company acquired 100% of the outstanding stock of Schoffman s Inc., which included the real estate of this entity, and subsequently merged the acquired entity into the Company. The acquisition consisted of one agricultural equipment store in Redwood Falls, Minnesota and is contiguous to the Company s existing location in Marshall, Minnesota. The acquisition-date fair value of the total consideration transferred for the dealership was $5.8 million.

On April 1, 2011, the Company acquired certain assets of ABC Rental & Equipment Sales. The acquired entity consisted of four construction equipment rental stores located in Williston, North Dakota, and Bozeman, Missoula, and Big Sky, Montana. This acquisition expands the Company s opportunity to capitalize on increased rental activity of the surrounding oil, coal and natural gas exploration and extraction areas in North Dakota and Montana. The acquisition-date fair value of the total consideration transferred for the dealerships was $5.4 million.

On May 13, 2011, the Company acquired certain assets of Carlson Tractor & Equipment, Inc. The acquired entity consisted of two construction equipment stores in Rogers and Rosemount, Minnesota and expands the Company s construction presence in Minnesota. The acquisition-date fair value of the total consideration transferred for the dealerships was $2.9 million.

On May 31, 2011, the Company acquired certain assets of St. Joseph Equipment Inc. The acquired entity consisted of four construction equipment locations in Shakopee, Hermantown and Elk River, Minnesota, and La Crosse, Wisconsin. The acquisition establishes the Company s first construction equipment store in Wisconsin and allows the Company to have the exclusive Case Construction contract for the entire state of Minnesota and 11 counties in western Wisconsin. The acquisition-date fair value of the total consideration transferred for the dealerships was $17.0 million.

During the six months ended July 31, 2011, adjustments were recorded for additional consideration of $1.9 million earned and paid under agreements disclosed in the Company s Form 10-K for the fiscal year ended January 31, 2010 as filed with the SEC. This additional consideration resulted in a net increase in goodwill for the Agriculture segment of $1.9 million.

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The allocations of the purchase prices in the above business combinations are presented in the following table.

		July 31, 2011 (in thousands)
Cash	$	96
Receivables		3,775
Inventories		29,525
Prepaid expenses		799
Deferred income taxes		11
Property and equipment		8,291
Intangible assets		3,638
Goodwill		3,540
	$	49,675
Accounts payable	$	224
Floorplan notes payable		13,602
Customer deposits		223
Accrued expenses		37
Income taxes payable		448
Long-term debt		442
Deferred income taxes		651
	$	15,627
Cash consideration		27,217
Non-cash consideration: liabilities incurred		6,831
Total consideration	$	34,048
Goodwill related to the Agriculture operating segment	$	2,789
Goodwill related to the Construction operating segment	$	751
Goodwill expected to be deductible for tax purposes	$	2,690

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NOTE 5 - SEGMENT INFORMATION AND OPERATING RESULTS

Revenue, income before income tax and total assets at the segment level are reported before eliminations. The Company retains various unallocated income/(expense) items and assets at the general corporate level, which the Company refers to as Shared Resources in the table below. Shared Resources assets primarily consist of cash and property and equipment. Intersegment revenue is immaterial.

Certain financial information for each of the Company s business segments is set forth below.

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Revenue				
Agriculture	$ 266,353	$ 181,522	$ 553,331	$ 362,904
Construction	59,821	36,209	103,960	68,313
Segment revenue	326,174	217,731	657,291	431,217
Eliminations	(15,325)	(8,065)	(28,277)	(16,094)
Total	$ 310,849	$ 209,666	$ 629,014	$ 415,123
Income (Loss) Before Income Taxes				
Agriculture	$ 10,937	$ 6,246	$ 23,896	$ 11,038
Construction	576	(852)	1,228	(2,767)
Segment income (loss) before income taxes	11,513	5,394	25,124	8,271
Shared Resources	(887)	(643)	(2,014)	(634)
Eliminations	(243)	(150)	(512)	(394)
Income before income taxes	$ 10,383	$ 4,601	$ 22,598	$ 7,243

	July 31, 2011	January 31, 2011
	(in thousands)	
Total Assets		
Agriculture	$ 619,322	$ 514,049
Construction	178,537	98,535
Segment assets	797,859	612,584
Shared Resources (1)	121,386	37,340
Eliminations	(1,590)	(1,078)
Total	$ 917,655	$ 648,846

(1) The balance as of July 31, 2011 includes the cash proceeds from the follow-on offering completed in May 2011.

NOTE 6 - SUBSEQUENT EVENTS

On September 2, 2011, the Company acquired certain assets of Virgl Implement Inc. and Victor s Inc., expanding the Company s agriculture presence in Nebraska. The acquired entities consisted of two agricultural equipment stores in Wahoo and Fremont, Nebraska. Due to the recent acquisition of these entities, the initial business combination accounting will be performed in the three months ending October 31, 2011. The acquisition-date fair value of the total consideration transferred for the dealerships was approximately $13.2 million.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes included in Item 1 of Part 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2011.

Critical Accounting Policies

There have been no material changes in our Critical Accounting Policies, as disclosed in our Annual Report on Form 10-K for the year ended January 31, 2011.

Overview

We own and operate a network of full service agricultural and construction equipment stores in the United States. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America LLC, collectively referred to in this Form 10-K as CNH, we are the world s largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. We have two primary business segments, Agriculture and Construction, within each of which we sell and rent new and used equipment, sell parts, and service the equipment in the areas surrounding our stores.

Our net income was $6.3 million, or $0.30 per diluted share, for the three months ended July 31, 2011, compared to $2.7 million, or $0.15 per diluted share, for the three months ended July 31, 2010. Significant factors impacting the quarterly comparisons were:

- Increase in revenue due to acquisitions and same-store sales growth in both our Agriculture and Construction segments primarily resulting from the continuation of a strong agriculture equipment market and improved construction equipment market in the region in which we do business;

- Increase in gross profit primarily due to increased revenue, and improvement in gross profit margin on service and rental and other;

- Decrease in floorplan interest expense due to our new Credit Agreement entered into on October 31, 2010.

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Results of Operations

Comparative financial data for each of our four sources of revenue are expressed below. The results for these periods include the operating results of the acquisitions made during these periods. The period-to-period comparisons included below are not necessarily indicative of future results. Segment information is provided later in this discussion and analysis of our results of operations.

Equipment										
Revenue	$	225,283	$	153,131	47.1%	$	474,512	$	303,491	56.4%
Cost of revenue		204,430		138,342	47.8%		427,731		275,143	55.5%
Gross profit	$	20,853	$	14,789	41.0%	$	46,781	$	28,348	65.0%
Gross profit margin		9.3%		9.7%	(0.4)%		9.9%		9.3%	0.6%
Parts										
Revenue	$	49,292	$	33,947	45.2%	$	91,202	$	69,010	32.2%
Cost of revenue		34,426		24,184	42.4%		64,146		49,370	29.9%
Gross profit	$	14,866	$	9,763	52.3%	$	27,056	$	19,640	37.8%
Gross profit margin		30.2%		28.8%	1.4%		29.7%		28.5%	1.2%
Service										
Revenue	$	25,395	$	17,502	45.1%	$	46,359	$	34,053	36.1%
Cost of revenue		8,963		6,970	28.6%		16,871		12,941	30.4%
Gross profit	$	16,432	$	10,532	56.0%	$	29,488	$	21,112	39.7%
Gross profit margin		64.7%		60.2%	4.5%		63.6%		62.0%	1.6%
Rental and other										
Revenue	$	10,879	$	5,086	113.9%	$	16,941	$	8,569	97.7%
Cost of revenue		7,179		4,122	74.2%		11,612		7,178	61.8%
Gross profit	$	3,700	$	964	283.8%	$	5,329	$	1,391	283.1%
Gross profit margin		34.0%		19.0%	15.0%		31.5%		16.2%	15.3%

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The following table sets forth our statements of operations data expressed as a percentage of total revenue for the periods indicated:

	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010	Six Months Ended July 31, 2011	Six Months Ended July 31, 2010
Revenue				
Equipment	72.5%	73.0%	75.4%	73.1%
Parts	15.9%	16.2%	14.5%	16.6%
Service	8.1%	8.4%	7.4%	8.2%
Rental and other	3.5%	2.4%	2.7%	2.1%
Total revenue	100.0%	100.0%	100.0%	100.0%
Total cost of revenue	82.0%	82.8%	82.7%	83.0%
Gross profit	18.0%	17.2%	17.3%	17.0%
Operating expenses	14.2%	13.9%	13.3%	14.2%
Income from operations	3.8%	3.3%	4.0%	2.8%
Other income (expense)	(0.5)%	(1.1)%	(0.4)%	(1.1)%
Income before income taxes	3.3%	2.2%	3.6%	1.7%
Provision for income taxes	(1.3)%	(0.9)%	(1.4)%	(0.7)%
Net income	2.0%	1.3%	2.2%	1.0%

Three Months Ended July 31, 2011 Compared to Three Months Ended July 31, 2010

Consolidated Results

Revenue

	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010 (dollars in thousands)	Increase	Percent Change
Equipment	$ 225,283	$ 153,131	$ 72,152	47.1%
Parts	49,292	33,947	15,345	45.2%
Service	25,395	17,502	7,893	45.1%
Rental and other	10,879	5,086	5,793	113.9%
Total Revenue	$ 310,849	$ 209,666	$ 101,183	48.3%

The increase in revenue for the three months ended July 31, 2011, as compared to the same period last year, was due to acquisitions contributing $42.4 million and same-store sales growth contributing $58.8 million to current period revenue. This revenue growth was in both our Agriculture and Construction segments and resulted from the continuation of a strong agriculture equipment market and improved construction equipment market in the region in which we do business.

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Cost of Revenue

	Three Months Ended July 31, 2011	2010	Increase	Percent Change
	(dollars in thousands)			
Equipment	$ 204,430	$ 138,342	$ 66,088	47.8%
Parts	34,426	24,184	10,242	42.4%
Service	8,963	6,970	1,993	28.6%
Rental and other	7,179	4,122	3,057	74.2%
Total cost of revenue	$ 254,998	$ 173,618	$ 81,380	46.9%

The increase in cost of revenue for the three months ended July 31, 2011, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed $33.2 million of the increase in total cost of revenue, while same-store sales growth contributed $48.2 million of the increase. As a percentage of revenue, cost of revenue was 82.0% compared to 82.8% for the second quarter of fiscal 2011.

Gross Profit

	Three Months Ended July 31, 2011	2010	Increase/ (Decrease)	Percent Change
	(dollars in thousands)			
Gross Profit				
Equipment	$ 20,853	$ 14,789	$ 6,064	41.0%
Parts	14,866	9,763	5,103	52.3%
Service	16,432	10,532	5,900	56.0%
Rental and other	3,700	964	2,736	283.8%
Total Gross Profit	$ 55,851	$ 36,048	$ 19,803	54.9%
Gross Profit Margin				
Equipment	9.3%	9.7%	(0.4)%	(4.1)%
Parts	30.2%	28.8%	1.4%	4.9%
Service	64.7%	60.2%	4.5%	7.5%
Rental and other	34.0%	19.0%	15.0%	78.9%
Total Gross Profit Margin	18.0%	17.2%	0.8%	4.7%
Gross Profit Mix				
Equipment	37.3%	41.0%	(3.7)%	(9.0)%
Parts	26.6%	27.1%	(0.5)%	(1.8)%
Service	29.5%	29.2%	0.3%	1.0%
Rental and other	6.6%	2.7%	3.9%	144.4%
Total Gross Profit Mix	100.0%	100.0%		

The $19.8 million increase in gross profit for the three months ended July 31, 2011, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed $9.2 million to the increase in gross profit for the three months ended July 31, 2011, while increases in same-store gross profit contributed the remaining $10.6 million. The increase in gross profit margin from 17.2% for the three months ended July 31, 2010 to 18.0% for the three months ended July 31, 2011 was primarily due to the increase in gross profit margin for service and rental and other. The increase in gross profit margin on rental and other is due to an increase in utilization of our rental fleet.

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Operating Expenses

	Three Months Ended July 31, 2011	2010	Increase	Percent Change
	(dollars in thousands)			
Operating expenses	$ 44,060	$ 29,212	$ 14,848	50.8%
Operating expenses as a percentage of revenue	14.2%	13.9%	0.3%	2.2%

The $14.8 million increase in operating expenses, as compared to the same period last year, was primarily due to the additional costs associated with acquisitions such as compensation, rent and depreciation. As a percentage of total revenue, operating expenses increased slightly to 14.2% for the three months ended July 31, 2011 compared to 13.9% for the three months ended July 31, 2010, reflecting higher expenses related to the Construction segment.

Other Income (Expense)

	Three Months Ended July 31, 2011	2010	Increase/ (Decrease)	Percent Change
	(dollars in thousands)			
Interest and other income	$ 267	$ 34	$ 233	685.3%
Floorplan interest expense	(1,334)	(1,911)	(577)	(30.2)%
Interest expense other	(341)	(358)	(17)	(4.7)%

The decrease in floorplan interest expense of $0.6 million was primarily due to lower interest rates and lower interest-bearing floorplan notes payable balances associated with our new Credit Agreement entered into on October 31, 2010, for the three months ended July 31, 2011, as compared to the same period in the prior year. We expect floorplan interest expense and interest expense other in fiscal 2012 to continue to be positively impacted by the aforementioned Credit Agreement.

Provision for Income Taxes

	Three Months Ended July 31, 2011	2010	Increase	Percent Change
	(dollars in thousands)			
Provision for income taxes	$ 4,092	$ 1,887	$ 2,205	116.9%

Our effective tax rate decreased from 41.0% for the three months ended July 31, 2010 to 39.4% for the three months ended July 31, 2011. The decrease in our effective tax rate from the comparable period in the prior year primarily reflects a decrease in the effect of permanent differences between financial and income tax reporting, such as incentive stock options.

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Segment Results

Certain financial information for our Agriculture and Construction business segments is set forth below. Revenue and income (loss) before income taxes at the segment level are reported before eliminations. Shared Resources in the table below refers to the various unallocated income/(expense) items that we have retained at the general corporate level. Intersegment revenue is immaterial.

	Three Months Ended July 31, 2011	2010	Increase/ (Decrease)	Percent Change
	(dollars in thousands)			
Revenue				
Agriculture	$ 266,353	$ 181,522	$ 84,831	46.7%
Construction	59,821	36,209	23,612	65.2%
Segment revenue	326,174	217,731	108,443	49.8%
Eliminations	(15,325)	(8,065)	(7,260)	(90.0)%
Total	$ 310,849	$ 209,666	$ 101,183	48.3%
Income (Loss) Before Income Taxes				
Agriculture	$ 10,937	$ 6,246	$ 4,691	75.1%
Construction	576	(852)	1,428	167.6%
Segment income (loss) before income taxes	11,513	5,394	6,119	113.4%
Shared Resources	(887)	(643)	(244)	(37.9)%
Eliminations	(243)	(150)	(93)	(62.0)%
Income before income taxes	$ 10,383	$ 4,601	$ 5,782	125.7%

Agriculture

Agriculture segment revenue for the three months ended July 31, 2011 increased 46.7% compared to the same period last year. The revenue increase was due to acquisitions and an Agriculture same-store sales increase of 26.9% over the three months ended July 31, 2010. The same-store sales growth was positively impacted by a strong equipment market primarily caused by increased farm cash receipts for calendar year 2010 and anticipated strong farm cash receipts for calendar year 2011.

Agriculture segment income before income taxes for the three months ended July 31, 2011 increased 75.1% compared to the same period last year, primarily due to higher Agriculture segment revenue. Also contributing to the improvement in segment income before income taxes was a decrease in floorplan interest expense. This decrease resulted from our new C