

Titan Machinery Inc.
Form 10-Q
September 08, 2010
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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, 2010

Commission File No. 001-33866

TITAN MACHINERY INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

No. 45-0357838
(IRS Employer
Identification No.)

644 East Beaton Drive

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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 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 o 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, 2010 was: Common Stock, \$0.00001 par value, 17,852,784 shares.

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TITAN MACHINERY INC.
QUARTERLY REPORT ON FORM 10-Q

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TITAN MACHINERY INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

| | July 31, 2010 (Unaudited) | January 31, 2010 |
|--|--|-----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 61,461 | \$ 76,185 |
| Receivables, net | 29,478 | 22,254 |
| Inventories | 419,945 | 347,580 |
| Prepaid expenses | 633 | 1,009 |
| Income taxes receivable | | 1,595 |
| Deferred income taxes | 2,867 | 2,266 |
| Total current assets | 514,384 | 450,889 |
| INTANGIBLES AND OTHER ASSETS | | |
| Noncurrent parts inventories | 1,983 | 1,642 |
| Goodwill | 16,247 | 14,762 |
| Intangible assets, net of accumulated amortization | 408 | 295 |
| Other | 845 | 620 |
| | 19,483 | 17,319 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation | 53,938 | 46,604 |
| | \$ 587,805 | \$ 514,812 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 15,312 | \$ 12,352 |
| Floorplan notes payable | 317,506 | 249,872 |
| Current maturities of long-term debt and short-term advances | 8,801 | 7,218 |
| Customer deposits | 6,928 | 12,974 |
| Accrued expenses | 9,780 | 9,870 |
| Income taxes payable | 489 | |
| Total current liabilities | 358,816 | 292,286 |
| LONG-TERM LIABILITIES | | |

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| | | |
|---|------------|------------|
| Long-term debt, less current maturities | 24,351 | 21,852 |
| Deferred income taxes | 6,604 | 6,356 |
| Other long-term liabilities | 2,584 | 3,794 |
| | 33,539 | 32,002 |
| STOCKHOLDERS EQUITY | | |
| Common stock, par value \$.00001 per share, authorized - 25,000 shares; issued and outstanding - 17,851 at July 31, 2010 and 17,777 at January 31, 2010 | | |
| Additional paid-in-capital | 139,428 | 138,775 |
| Retained earnings | 56,022 | 51,749 |
| | 195,450 | 190,524 |
| | \$ 587,805 | \$ 514,812 |

See Notes to Consolidated Financial Statements

Table of Contents**TITAN MACHINERY INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(in thousands, except per share data)**

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| REVENUE | | | | |
| Equipment | \$ 153,131 | \$ 141,142 | \$ 303,491 | \$ 266,007 |
| Parts | 33,947 | 32,454 | 69,010 | 58,852 |
| Service | 17,502 | 15,640 | 34,053 | 28,182 |
| Other, including trucking and rental | 5,086 | 3,956 | 8,569 | 6,452 |
| TOTAL REVENUE | 209,666 | 193,192 | 415,123 | 359,493 |
| COST OF REVENUE | | | | |
| Equipment | 138,342 | 125,452 | 275,143 | 237,752 |
| Parts | 24,184 | 22,939 | 49,370 | 41,476 |
| Service | 6,970 | 5,586 | 12,941 | 10,186 |
| Other, including trucking and rental | 4,122 | 3,207 | 7,178 | 5,555 |
| TOTAL COST OF REVENUE | 173,618 | 157,184 | 344,632 | 294,969 |
| GROSS PROFIT | 36,048 | 36,008 | 70,491 | 64,524 |
| OPERATING EXPENSES | 29,212 | 26,662 | 59,008 | 51,367 |
| INCOME FROM OPERATIONS | 6,836 | 9,346 | 11,483 | 13,157 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest and other income | 34 | 140 | 207 | 351 |
| Floorplan interest expense | (1,911) | (932) | (3,712) | (1,663) |
| Interest expense other | (358) | (328) | (735) | (591) |
| INCOME BEFORE INCOME TAXES | 4,601 | 8,226 | 7,243 | 11,254 |
| PROVISION FOR INCOME TAXES | (1,887) | (3,375) | (2,970) | (4,613) |
| NET INCOME | \$ 2,714 | \$ 4,851 | \$ 4,273 | \$ 6,641 |
| EARNINGS PER SHARE - NOTE 1 | | | | |
| EARNINGS PER SHARE - BASIC | \$ 0.15 | \$ 0.28 | \$ 0.24 | \$ 0.38 |
| EARNINGS PER SHARE - DILUTED | \$ 0.15 | \$ 0.27 | \$ 0.24 | \$ 0.37 |
| WEIGHTED AVERAGE SHARES - BASIC | 17,635 | 17,589 | 17,626 | 17,577 |
| WEIGHTED AVERAGE SHARES - DILUTED | 18,080 | 17,998 | 18,060 | 17,930 |

See Notes to Consolidated Financial Statements

Table of Contents**TITAN MACHINERY INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****(in thousands)**

| | Six Months Ended July 31, | |
|--|----------------------------------|------------------|
| | 2010 | 2009 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 4,273 | \$ 6,641 |
| Adjustments to reconcile net income to net cash from operations | | |
| Depreciation and amortization | 4,204 | 3,962 |
| Deferred income taxes | (353) | 329 |
| Stock-based compensation expense | 564 | 432 |
| Other | (87) | (22) |
| Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities | | |
| Receivables, prepaid expenses and other assets | (6,848) | (755) |
| Inventories | (28,261) | (35,238) |
| Floorplan notes payable | (818) | 2,989 |
| Accounts payable, customer deposits, accrued expenses and other long-term liabilities | (4,918) | (8,785) |
| Income taxes | 2,084 | 3,042 |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | (30,160) | (27,405) |
| INVESTING ACTIVITIES | | |
| Net change in U.S. treasury bills | | 44,994 |
| Property and equipment purchases | (6,250) | (7,635) |
| Net proceeds from sale of equipment | 434 | 190 |
| Purchase of equipment dealerships, net of cash purchased | (2,423) | (4,025) |
| Other, net | (293) | |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | (8,532) | 33,524 |
| FINANCING ACTIVITIES | | |
| Net change in non-manufacturer floorplan notes payable | 23,444 | 25,185 |
| Short-term advances related to customer contracts in transit, net | (358) | 2,700 |
| Proceeds from long-term debt borrowings | 4,671 | 20,388 |
| Principal payments on long-term debt | (3,878) | (9,458) |
| Other | 89 | |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | 23,968 | 38,815 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (14,724) | 44,934 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 76,185 | 41,047 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 61,461 | \$ 85,981 |

See Notes to Consolidated Financial Statements

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****(in thousands)**

| | Six Months Ended July 31, | |
|---|----------------------------------|-------------|
| | 2010 | 2009 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period | | |
| Income taxes, net of refunds | \$ 1,247 | \$ 1,688 |
| Interest | \$ 4,460 | \$ 2,206 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Property and equipment purchased with long-term debt | \$ 3,647 | \$ 1,688 |
| Net transfer of equipment from (to) fixed assets to (from) inventories | \$ (1,744) | \$ 4,292 |
| Acquisition of equipment dealership assets in exchange for cash and assumption of liabilities including purchase accounting adjustments on prior acquisitions | | |
| Receivables | \$ | \$ (305) |
| Inventories | (2,000) | (6,203) |
| Deferred income taxes, net | | 133 |
| Property and equipment | (231) | (786) |
| Goodwill | (1,485) | (1,238) |
| Accounts payable, customer deposits and accrued expenses | 17 | 182 |
| Floorplan notes payable | 819 | 2,398 |
| Income taxes payable | | (73) |
| Long-term debt | | 1,867 |
| Non-cash consideration: other long-term liabilities | 457 | |
| Cash paid for dealerships, net of cash purchased and adjustments on prior acquisitions | \$ (2,423) | \$ (4,025) |

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 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. Operating results for the six-month period ended July 31, 2010 are not necessarily indicative of the results that may be expected for the year ending January 31, 2011. The information contained in the balance sheet as of January 31, 2010 was derived from the audited financial statements for Titan Machinery Inc. (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, 2010 as filed with the SEC.

Nature of Business

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

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

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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, 2010 and January 31, 2010.

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. The Company records a liability for any remaining lease obligations, net of estimated sublease income or estimated loss on disposal if the Company buys and subsequently sells the leased property, as of the date the Company ceases using the property. Any subsequent adjustments to that liability as a result of changes in estimates are recorded in the period incurred. The Company records a liability for employee termination costs at the date the termination benefits were communicated to the employees.

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As part of the Company's Construction business action plan, in April 2010, the Company decided to close its Construction store in Columbia Falls, Montana. The primary exit costs relate to estimated lease termination costs of \$185,000 and employee termination costs of \$27,000. The Company is transferring the majority of the assets and related floorplan notes payable and long-term debt to other stores. Exit costs of \$110,000 and \$75,000 are included in the line items of operating expenses and interest and other income, respectively, on the consolidated statements of operations for the three and six months ended July 31, 2010. A reconciliation of the beginning and ending liability balance follows:

| | (in thousands) | |
|--|----------------|------|
| Balance at January 31, 2010 | \$ | |
| Exit costs incurred and charged to expense | | 212 |
| Exit costs paid | | (60) |
| Balance at July 31, 2010 | \$ | 152 |

Recent Accounting Guidance

In July 2010, the FASB issued authoritative guidance on financing receivables and the allowance for credit losses, codified in ASC 310, *Receivables*. This guidance amends the current disclosure requirements to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. The guidance also requires an entity to disclose credit quality indicators, past due information, and modifications of its financing receivables. The guidance is effective for interim and annual reporting periods ending after December 15, 2010. The Company is in the process of determining the impact that this guidance will have on the Company's consolidated financial statements.

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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, | |
|---|-----------------------------|--------|---------------------------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | (in thousands) | |
| Basic weighted-average shares outstanding | 17,635 | 17,589 | 17,626 | 17,577 |
| Plus: Incremental shares from assumed conversions | | | | |
| Restricted Stock | 187 | 137 | 177 | 117 |
| Warrants | 56 | 79 | 58 | 80 |
| Stock Options | 202 | 193 | 199 | 156 |
| Diluted weighted-average shares outstanding | 18,080 | 17,998 | 18,060 | 17,930 |

There were 139,000 and 164,000 stock options outstanding as of July 31, 2010 and 2009, respectively, that were not included in the computation of diluted earnings per share because they were anti-dilutive.

NOTE 2 - INVENTORIES

| | July 31, | January 31, |
|-----------------------|----------------|-------------|
| | 2010 | 2010 |
| | (in thousands) | |
| New equipment | \$ 237,463 | \$ 174,193 |
| Used equipment | 132,930 | 127,884 |
| Parts and attachments | 45,356 | 42,611 |
| Work in process | 4,196 | 2,892 |
| | \$ 419,945 | \$ 347,580 |

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

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The Company entered into a Loan Agreement (the "Loan Agreement") with Bremer Bank National Association ("Bremer Bank") on July 15, 2009, as amended on July 13, 2010, which provides for a \$25.0 million revolving operating line of credit ("Revolving Loan") and a \$12.9 million term loan ("Term Loan"). The Revolving Loan may be used to fund short term working capital requirements of the Company, and replaces the Company's previous \$25.0 million operating line of credit with Bremer Bank. The Revolving Loan has a variable interest rate of 0.25% per annum below a Bremer Bank reference rate (subject to a minimum interest rate floor of 4.5%) on outstanding balances, has a 0.5% non-usage fee on the average monthly unused amount, requires monthly payments of accrued interest, and has a maturity date of July 12, 2011. Advances under the Loan Agreement are secured by substantially all of the Company's assets. See details of the Term Loan in the long-term debt schedule in the Company's Form 10-K for the fiscal year ended January 31, 2010 as filed with the SEC.

The Company had no amount outstanding on the Revolving Loan at July 31, 2010. The Loan Agreement contains certain financial covenants which impose minimum levels of current ratio, debt service coverage, and inventory turnover ratio

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and a maximum level of debt to tangible net worth ratio. As of July 31, 2010, the Company was in compliance with all of these financial covenants.

Floorplan Lines of Credit

The Company has discretionary floorplan lines of credit for equipment purchases totaling approximately \$400.0 million with various lending institutions, including a \$300.0 million Wholesale Floorplan Credit Facility with CNH Capital America LLC (CNH Capital) and \$50.0 million with GE Commercial Distribution Finance Corporation (GE). The available borrowings under the CNH Capital credit facility are reduced by outstanding floorplan notes payable, rental fleet financing and other acquisition-related financing arrangements with CNH Capital. During fiscal 2010, interest rates for new borrowings under the CNH Capital floorplan line of credit ranged from the prime rate plus 0.3% to the prime rate plus 6% per annum, subject to any interest-free periods offered by CNH Capital. Beginning in February 2010, interest rates are equal to the prime rate plus 4% on new borrowings, subject to any interest-free periods offered by CNH Capital. The CNH Capital credit facility automatically renews on August 31 of each year through August 31, 2012, unless earlier terminated by either party. Under covenants of the CNH Capital credit facility, the Company has agreed, among other things, to maintain various financial ratio levels and to submit certain financial information. It also contains various restrictive covenants that require prior consent of CNH Capital if the Company desires to engage in any acquisition of, consolidation or merger with any other business entity in which the Company is not the surviving company; create subsidiaries; move any collateral outside of the U.S.; or sell, rent, lease or otherwise dispose or transfer any of the collateral, other than in the ordinary course of business. CNH Capital's consent is also required for the acquisition of any CNH dealership. In addition, the CNH Capital credit facility restricts the Company's ability to incur any liens upon any substantial part of its assets.

The GE credit facility may be used to purchase new and used inventory from vendors approved by GE, or to finance or refinance new or used inventory. The interest rate on borrowings under the GE floorplan line of credit is equal to the three-month LIBOR rate plus 5.5%. The GE credit facility may be terminated by either party on 60 days notice. Under covenants of the GE credit facility, the Company has agreed, among other things, to maintain various financial ratio levels and to submit certain financial information. It also contains various restrictive covenants regarding related party transactions outside of the ordinary course of business and requires GE's prior consent if the Company desires to engage in any acquisition meeting certain financial thresholds; make any investments outside of the ordinary course of business; or have a change in control, as defined by the agreement.

Floorplan notes payable relating to these credit facilities totaled approximately \$303.2 million of the total floorplan notes payable balance of \$317.5 million outstanding as of July 31, 2010 and \$245.3 million of the total floorplan notes payable balance of \$249.9 million outstanding as of January 31, 2010. As of July 31, 2010, the Company had approximately \$82.2 million in available borrowings remaining under these lines of credit. These floorplan notes carried various interest rates primarily ranging from 3.25 to 7.25% as of July 31, 2010, subject to interest-free periods offered by CNH Capital, and are secured by the related inventory. Repayment terms vary by individual notes, but generally payments are made from sales proceeds or rental revenue from the related inventories. As of July 31, 2010, the Company was in compliance with all floorplan financial covenants.

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NOTE 4 - BUSINESS COMBINATIONS

On June 1, 2010, the Company acquired certain assets of Hubbard Implement, Inc. The acquired entity consisted of one agricultural equipment store located in Iowa Falls, Iowa which is contiguous to the Company's existing locations in Grundy Center and Waverly, Iowa. The acquisition-date fair value of the total consideration transferred for the dealership was \$1,496,000.

During the six months ended July 31, 2010 adjustments were recorded for additional consideration of \$1,384,000 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 of \$1,384,000.

The results of operations have been included in the Company's consolidated results of operations since the date of the business combination. The fair value of assets acquired and liabilities assumed in the above business combinations and adjustments on prior acquisitions are presented in the following table:

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| | July 31, 2010 | |
|--|--------------------------|-------|
| | (in thousands) | |
| Cash | \$ | 1 |
| Inventories | | 2,000 |
| Property and equipment | | 231 |
| Goodwill | | 1,485 |
| | \$ | 3,717 |
| Floorplan notes payable | \$ | 819 |
| Customer deposits | | 17 |
| | \$ | 836 |
| Cash consideration | | 2,424 |
| Non-cash consideration: other long-term liabilities | | 457 |
| Total consideration | \$ | 2,881 |
| Goodwill related to the Agriculture operating segment | \$ | 1,485 |
| Goodwill related to the Construction operating segment | \$ | |

NOTE 5 - SEGMENT INFORMATION AND OPERATING RESULTS

Certain financial information for each of the Company's business segments is set forth below. Revenues, 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 Resource assets primarily consist of cash and property and equipment. Intersegment revenues are immaterial.

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| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|-----------------------------|------------|---------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | (in thousands) | |
| Revenues | | | | |
| Agriculture | \$ 181,522 | \$ 170,366 | \$ 362,904 | \$ 318,695 |
| Construction | 36,209 | 30,451 | 68,313 | 55,149 |
| Segment revenues | 217,731 | 200,817 | 431,217 | 373,844 |
| Eliminations | (8,065) | (7,625) | (16,094) | (14,351) |
| Total | \$ 209,666 | \$ 193,192 | \$ 415,123 | \$ 359,493 |
| Income (Loss) Before Income Taxes | | | | |
| Agriculture | \$ 6,246 | \$ 10,002 | \$ 11,038 | \$ 15,718 |
| Construction | (852) | (785) | (2,767) | (2,735) |
| Segment income (loss) before income taxes | 5,394 | 9,217 | 8,271 | 12,983 |
| Shared Resources | (643) | (751) | (634) | (1,222) |
| Eliminations | (150) | (240) | (394) | (507) |
| Income before income taxes | \$ 4,601 | \$ 8,226 | \$ 7,243 | \$ 11,254 |

| | July 31, | January 31, |
|---------------------|----------------|-------------|
| | 2010 | 2010 |
| | (in thousands) | |
| Total Assets | | |
| Agriculture | \$ 433,970 | \$ 350,086 |
| Construction | 91,486 | 87,910 |
| Segment assets | 525,456 | 437,996 |
| Shared Resources | 63,559 | 77,631 |
| Eliminations | (1,210) | (815) |
| Total | \$ 587,805 | \$ 514,812 |

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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, 2010.

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, 2010.

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 our Form 10-K for the year ended January 31, 2010 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 markets surrounding our stores.

Our net income was \$2.7 million, or \$0.15 per diluted share, for the three months ended July 31, 2010, compared to \$4.9 million, or \$0.27 per diluted share, for the three months ended July 31, 2009. Significant factors impacting the quarterly comparisons were:

- Increase in revenue primarily due to Agriculture acquisitions and same-store sales growth in our Construction segment;

- Comparable gross profits to our second quarter of last year, which resulted from lower margins (primarily on equipment and service) on higher overall revenues in the three months ending July 31, 2010; and

- Increase in floorplan interest expense due to higher floorplan notes payable balances and higher interest rates.

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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.

| | Three Months Ended July 31, | | | Percent Change | Six Months Ended July 31, | | | Percent Change |
|---|--------------------------------|------------|--------|-------------------|--------------------------------|--------|--|-------------------|
| | 2010 (dollars in thousands) | 2009 | | | 2010 (dollars in thousands) | 2009 | | |
| Equipment | | | | | | | | |
| Revenue | \$ 153,131 | \$ 141,142 | 8.5% | \$ 303,491 | \$ 266,007 | 14.1% | | |
| Cost of revenue | 138,342 | 125,452 | 10.3% | 275,143 | 237,752 | 15.7% | | |
| Gross profit | \$ 14,789 | \$ 15,690 | (5.7)% | \$ 28,348 | \$ 28,255 | 0.3% | | |
| Gross profit margin | 9.7% | 11.1% | (1.4)% | 9.3% | 10.6% | (1.3)% | | |
| Parts | | | | | | | | |
| Revenue | \$ 33,947 | \$ 32,454 | 4.6% | \$ 69,010 | \$ 58,852 | 17.3% | | |
| Cost of revenue | 24,184 | 22,939 | 5.4% | 49,370 | 41,476 | 19.0% | | |
| Gross profit | \$ 9,763 | \$ 9,515 | 2.6% | \$ 19,640 | \$ 17,376 | 13.0% | | |
| Gross profit margin | 28.8% | 29.3% | (0.5)% | 28.5% | 29.5% | (1.0)% | | |
| Service | | | | | | | | |
| Revenue | \$ 17,502 | \$ 15,640 | 11.9% | \$ 34,053 | \$ 28,182 | 20.8% | | |
| Cost of revenue | 6,970 | 5,586 | 24.8% | 12,941 | 10,186 | 27.0% | | |
| Gross profit | \$ 10,532 | \$ 10,054 | 4.8% | \$ 21,112 | \$ 17,996 | 17.3% | | |
| Gross profit margin | 60.2% | 64.3% | (4.1)% | 62.0% | 63.9% | (1.9)% | | |
| Other, including trucking and rental | | | | | | | | |
| Revenue | \$ 5,086 | \$ 3,956 | 28.6% | \$ 8,569 | \$ 6,452 | 32.8% | | |
| Cost of revenue | 4,122 | 3,207 | 28.5% | 7,178 | 5,555 | 29.2% | | |
| Gross profit | \$ 964 | \$ 749 | 28.7% | \$ 1,391 | \$ 897 | 55.1% | | |
| Gross profit margin | 19.0% | 18.9% | 0.1% | 16.2% | 13.9% | 2.3% | | |

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

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--------------------------------------|-----------------------------|--------|---------------------------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | | | | |
| Equipment | 73.0% | 73.1% | 73.1% | 74.0% |
| Parts | 16.2% | 16.8% | 16.6% | 16.4% |
| Service | 8.4% | 8.1% | 8.2% | 7.8% |
| Other, including trucking and rental | 2.4% | 2.0% | 2.1% | 1.8% |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Total cost of revenue | 82.8% | 81.4% | 83.0% | 82.1% |
| Gross profit | 17.2% | 18.6% | 17.0% | 17.9% |
| Operating expenses | 13.9% | 13.8% | 14.2% | 14.2% |
| Income from operations | 3.3% | 4.8% | 2.8% | 3.7% |
| Other income (expense) | (1.1)% | (0.5)% | (1.1)% | (0.6)% |
| Income before income taxes | 2.2% | 4.3% | 1.7% | 3.1% |
| Provision for income taxes | (0.9)% | (1.8)% | (0.7)% | (1.3)% |
| Net income | 1.3% | 2.5% | 1.0% | 1.8% |

Three Months Ended July 31, 2010 Compared to Three Months Ended July 31, 2009

Consolidated Results

Revenue

| | Three months ended July 31, | | Increase | Percent Change |
|--------------------------------------|-----------------------------|------------|-----------|----------------|
| | 2010 | 2009 | | |
| | (dollars in thousands) | | | |
| Equipment | \$ 153,131 | \$ 141,142 | \$ 11,989 | 8.5% |
| Parts | 33,947 | 32,454 | 1,493 | 4.6% |
| Service | 17,502 | 15,640 | 1,862 | 11.9% |
| Other, including trucking and rental | 5,086 | 3,956 | 1,130 | 28.6% |
| Total Revenue | \$ 209,666 | \$ 193,192 | \$ 16,474 | 8.5% |

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The increase in revenue for the three months ended July 31, 2010, as compared to the same period last year, was due to acquisitions contributing \$10.0 million and same-store sales growth contributing \$6.5 million, representing a same-store sale growth of 3.4% over the prior year quarter. The revenue growth from acquisitions occurred in our Agriculture segment and the same-store sales growth primarily came from our Construction segment. The sales increases in the Construction segment are due in part to the execution of our fiscal 2011 Construction business action plan in the first half of fiscal 2011, which included right-sizing our rental fleet, changing key Construction personnel and implementing the Titan strong-store operating model into the fiscal 2009 Construction acquisition stores.

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Cost of Revenue

| | Three months ended July 31, | | | |
|--------------------------------------|-----------------------------|-------------------|------------------|----------------|
| | 2010 | 2009 | Increase | Percent Change |
| | (dollars in thousands) | | | |
| Equipment | \$ 138,342 | \$ 125,452 | \$ 12,890 | 10.3% |
| Parts | 24,184 | 22,939 | 1,245 | 5.4% |
| Service | 6,970 | 5,586 | 1,384 | 24.8% |
| Other, including trucking and rental | 4,122 | 3,207 | 915 | 28.5% |
| Total cost of revenue | \$ 173,618 | \$ 157,184 | \$ 16,434 | 10.5% |

The increase in cost of revenue for the three months ended July 31, 2010, as compared to the same period last year, was due to increased sales primarily in our equipment business. Acquisitions contributed \$8.4 million of the increase in total cost of revenue, while same-store sales growth contributed \$8.0 million of the increase. As a percentage of revenue, cost of revenue was 82.8% compared to 81.4% for the second quarter of fiscal 2010.

Gross Profit

| | Three months ended July 31, | | | |
|--------------------------------------|-----------------------------|------------------|-------------------------|----------------|
| | 2010 | 2009 | Increase/ (Decrease) | Percent Change |
| | (dollars in thousands) | | | |
| Gross Profit | | | | |
| Equipment | \$ 14,789 | \$ 15,690 | \$ (901) | (5.7)% |
| Parts | 9,763 | 9,515 | 248 | 2.6% |
| Service | 10,532 | 10,054 | 478 | 4.8% |
| Other, including trucking and rental | 964 | 749 | 215 | 28.7% |
| Total Gross Profit | \$ 36,048 | \$ 36,008 | \$ 40 | 0.1% |
| Gross Profit Margin | | | | |
| Equipment | 9.7% | 11.1% | (1.4)% | (12.6)% |
| Parts | 28.8% | 29.3% | (0.5)% | (1.7)% |
| Service | 60.2% | 64.3% | (4.1)% | (6.4)% |
| Other, including trucking and rental | 19.0% | 18.9% | 0.1% | 0.5% |
| Total Gross Profit Margin | 17.2% | 18.6% | (1.4)% | (7.5)% |
| Gross Profit Mix | | | | |
| Equipment | 73.0% | 73.1% | (0.1)% | (0.1)% |
| Parts | 16.2% | 16.8% | (0.6)% | (3.6)% |
| Service | 8.4% | 8.1% | 0.3% | 3.7% |
| Other, including trucking and rental | 2.4% | 2.0% | 0.4% | 20.0% |
| Total Gross Profit Mix | 100.0% | 100.0% | 0.0% | 0.0% |

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Gross profits were flat for the three months ended July 31, 2010, as compared to the same period last year. Acquisitions contributed \$1.6 million to the increase in gross profit for the three months ended July 31, 2010, while same-store gross profits decreased \$1.5 million. Contributing to the quarter over quarter comparable gross profits were increased revenues offset by lower margins primarily in the equipment (down 1.4% to 9.7%) and service (down 4.1% to 60.2%) areas of our business. Pricing pressure from our competition continues to compress equipment margins quarter over quarter. We anticipate this trend to moderate in the second half of the year as a result of increased equipment demand. Although our service margins were down we experienced a revenue increase of 11.9% in our service area resulting in a positive gross profit contribution from service of \$0.5 million over the prior year quarter. The lower service margins can partially be attributed to higher labor cost of sales related to the investment in new technicians through headcount additions, internship programs and service training as well as comparing to strong second quarter service margins in fiscal 2010.

Total gross profit margins were down 1.4% to 17.2% in the second quarter of fiscal 2011, compared to 18.6% in the second quarter of fiscal 2010. The decrease in total gross profit margins was primarily due to the lower equipment and service margins discussed above.

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Operating Expenses

| | Three months ended July 31, 2010 | | 2009 (dollars in thousands) | | Increase | Percent Change |
|--------------------|-------------------------------------|--------|--------------------------------|--------|----------|-------------------|
| Operating Expenses | \$ | 29,212 | \$ | 26,662 | \$ 2,550 | 9.6% |

The \$2.6 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 remained relatively flat at 13.9% for the second quarter of fiscal 2011 compared to 13.8% for the second quarter of fiscal 2010.

Other Income (Expense)

| | Three months ended July 31, 2010 | | 2009 (dollars in thousands) | | Increase/ (Decrease) | Percent Change |
|----------------------------|-------------------------------------|---------|--------------------------------|-------|-------------------------|-------------------|
| Interest and other income | \$ | 34 | \$ | 140 | \$ (106) | (75.7)% |
| Floorplan interest expense | | (1,911) | | (932) | 979 | 105.0% |
| Interest expense | | (358) | | (328) | 30 | 9.1% |

Floorplan interest expense increased \$1.0 million for the three months ended July 31, 2010, as compared to the same period in the prior year. Increases in floorplan notes payable balances accounted for 51% of this increase while higher interest rates generated the remaining 49% increase, as compared to the prior year quarter.

Provision for Income Taxes

| | Three months ended July 31, 2010 | | 2009 (dollars in thousands) | | Decrease | Percent Change |
|----------------------------|-------------------------------------|-------|--------------------------------|-------|------------|-------------------|
| Provision for income taxes | \$ | 1,887 | \$ | 3,375 | \$ (1,488) | (44.1)% |

The effective tax rate was 41.0% for the three months ended July 31, 2010 and 2009.

Segment Results

Certain financial information for our Agriculture and Construction business segments is set forth below. Revenues 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

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income/(expense) items that we have retained at the general corporate level. Intersegment revenues are immaterial.

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| | Three months ended July 31, 2010 | | 2009 (dollars in thousands) | | Increase/ (Decrease) | Percent Change |
|---|-------------------------------------|---------|--------------------------------|---------|-------------------------|-------------------|
| Revenues | | | | | | |
| Agriculture | \$ | 181,522 | \$ | 170,366 | \$ 11,156 | 6.5% |
| Construction | | 36,209 | | 30,451 | 5,758 | 18.9% |
| Segment revenues | | 217,731 | | 200,817 | 16,914 | 8.4% |
| Eliminations | | (8,065) | | (7,625) | (440) | (5.8)% |
| Total | \$ | 209,666 | \$ | 193,192 | \$ 16,474 | 8.5% |
| Income (Loss) Before Income Taxes | | | | | | |
| Agriculture | \$ | 6,246 | \$ | 10,002 | \$ (3,756) | (37.6)% |
| Construction | | (852) | | (785) | (67) | (8.5)% |
| Segment income (loss) before income taxes | | 5,394 | | 9,217 | (3,823) | (41.5)% |
| Shared Resources | | (643) | | (751) | 108 | 14.4% |
| Eliminations | | (150) | | (240) | 90 | 37.5% |
| Income before income taxes | \$ | 4,601 | \$ | 8,226 | \$ (3,625) | (44.1)% |

Agriculture

Agriculture revenues for the three months ended July 31, 2010 increased 6.5% compared to the same period last year. The revenue increase was primarily due to Agriculture segment acquisitions occurring over the past year, which consisted of eight stores. Same-store-sales for the Agriculture segment remained relatively flat, reflecting an increase of 0.6% over the second quarter of fiscal 2010.

Income before income taxes decreased 37.6% primarily due to lower Agriculture gross profit margins on equipment revenues, which is reflective of increased pricing pressures from our competition, as well as higher floorplan interest expense resulting from increased floorplan notes payable balances and increased interest rates in the second quarter of fiscal 2011 compared to the same period last year.

Construction

Construction revenues for the three months ended July 31, 2010 increased 18.9% compared to the same period last year. The revenue increase was primarily due to a Construction same-store sales increase of 18.7% over the second quarter of fiscal 2010.

Loss before income taxes increased 8.5% primarily due to higher floorplan interest expense resulting from increased floorplan notes payable balances and increased interest rates in the second quarter of fiscal 2011 compared to the same period last year. Also contributing to the loss were additional second quarter exit costs of \$92,000 related to the closing of our store in Columbia Falls, Montana. Partially offsetting these additional expenses was higher Construction segment gross profits due to increased revenues over the prior year second quarter.

Shared Resources/Eliminations

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Shared Resources allocations to each of our segments are set early in the year and therefore unallocated balances may occur. The Shared Resource amount decreased \$0.1 million in the second quarter of fiscal 2011 compared to the prior year.

Eliminations remove any inter-company revenues or income before income taxes residing in our segment results.

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| | Six Months Ended July 31, | | | |
|--------------------------------------|---------------------------|-------------------|------------------|----------------|
| | 2010 | 2009 | Increase | Percent Change |
| | (dollars in thousands) | | | |
| Equipment | \$ 303,491 | \$ 266,007 | \$ 37,484 | 14.1% |
| Parts | 69,010 | 58,852 | 10,158 | 17.3% |
| Service | 34,053 | 28,182 | 5,871 | 20.8% |
| Other, including trucking and rental | 8,569 | 6,452 | 2,117 | 32.8% |
| Total Revenue | \$ 415,123 | \$ 359,493 | \$ 55,630 | 15.5% |

The increase in revenue for the six months ended July 31, 2010, as compared to the same period last year, was due to acquisitions contributing \$27.7 million and same-store sales growth contributing \$27.9 million, representing a same-store sales growth of 7.9% over the prior year six months. This revenue growth was achieved in both our Agriculture and Construction segments.

Cost of Revenue

| | Six Months Ended July 31, | | | |
|--------------------------------------|---------------------------|-------------------|------------------|----------------|
| | 2010 | 2009 | Increase | Percent Change |
| | (dollars in thousands) | | | |
| Equipment | \$ 275,143 | \$ 237,752 | \$ 37,391 | 15.7% |
| Parts | 49,370 | 41,476 | 7,894 | 19.0% |
| Service | 12,941 | 10,186 | 2,755 | 27.0% |
| Other, including trucking and rental | 7,178 | 5,555 | 1,623 | 29.2% |
| Total cost of revenue | \$ 344,632 | \$ 294,969 | \$ 49,663 | 16.8% |

The increase in cost of revenue for the six months ended July 31, 2010, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed \$23.6 million of the increase in total cost of revenue, while same-store sales growth contributed \$26.1 million of the increase. As a percentage of revenue, cost of revenue was 83.0% compared to 82.1% for the first six months of fiscal 2010.

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Gross Profit

| | Six Months Ended July 31, | | Increase/ (Decrease) | Percent Change |
|--------------------------------------|---------------------------|------------------|-------------------------|-------------------|
| | 2010 | 2009 | | |
| | (dollars in thousands) | | | |
| Gross Profit | | | | |
| Equipment | \$ 28,348 | \$ 28,255 | \$ 93 | 0.3% |
| Parts | 19,640 | 17,376 | 2,264 | 13.0% |
| Service | 21,112 | 17,996 | 3,116 | 17.3% |
| Other, including trucking and rental | 1,391 | 897 | 494 | 55.1% |
| Total Gross Profit | \$ 70,491 | \$ 64,524 | \$ 5,967 | 9.2% |
| Gross Profit Margin | | | | |
| Equipment | 9.3% | 10.6% | (1.3)% | (12.3)% |
| Parts | 28.5% | 29.5% | (1.0)% | (3.4)% |
| Service | 62.0% | 63.9% | (1.9)% | (3.0)% |
| Other, including trucking and rental | 16.2% | 13.9% | 2.3% | 16.5% |
| Total Gross Profit Margin | 17.0% | 17.9% | (0.9)% | (5.0)% |
| Gross Profit Mix | | | | |
| Equipment | 73.1% | 74.0% | (0.9)% | (1.2)% |
| Parts | 16.6% | 16.4% | 0.2% | 1.2% |
| Service | 8.2% | 7.8% | 0.4% | 5.1% |
| Other, including trucking and rental | 2.1% | 1.8% | 0.3% | 16.7% |
| Total Gross Profit Mix | 100.0% | 100.0% | 0.0% | 0.0% |

The \$6.0 million increase in gross profit for the six months ended July 31, 2010, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed \$4.2 million to the increase in gross profit for the six months ended July 31, 2010, while increases in same-store gross profits contributed the remaining \$1.8 million. Offsetting the positive effect to gross profits of higher revenue were lower margins primarily on equipment, which decreased 1.3% from 10.6% to 9.3% in the six months ended July 31, 2010. The equipment margin compression is due to pricing pressure from our competitors. We anticipate this trend to moderate in the second half of the year as a result of increased equipment demand. Parts margins were down 1.0% to 28.5% and service margins were down 1.9% to 62.0%; however, we are still realizing increased same-store gross profits in both of these areas. The decrease in equipment, parts and service margins were the primary factors in decreasing total gross profit margins to 17.0% for the six months ended July 31, 2010 from 17.9% in the prior year six month period.

Operating Expenses

| | Six Months Ended July 31, | | Increase | Percent Change |
|--------------------|---------------------------|-----------|----------|-------------------|
| | 2010 | 2009 | | |
| | (dollars in thousands) | | | |
| Operating Expenses | \$ 59,008 | \$ 51,367 | \$ 7,641 | 14.9% |

The \$7.6 million increase in operating expenses for the first six months of fiscal 2011, 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

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expenses remained flat at 14.2% for the first six months of fiscal 2011 compared to 14.2% for the first six months of fiscal 2010.

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Other Income (Expense)

| | Six Months Ended July 31, | | | |
|----------------------------|---------------------------|---------|-------------------------|-------------------|
| | 2010 | 2009 | Increase/ (Decrease) | Percent Change |
| | (dollars in thousands) | | | |
| Interest and other income | \$ 207 | \$ 351 | \$ (144) | (41.0)% |
| Floorplan interest expense | (3,712) | (1,663) | 2,049 | 123.2% |
| Interest expense | (735) | (591) | 144 | 24.4% |

Floorplan interest expense increased \$2.0 million for the six months ended July 31, 2010, as compared to the same period in the prior year. Increases in floorplan notes payable balances accounted for 60% of this increase while higher interest rates generated the remaining 40% increase, as compared to the prior year six months.

Provision for Income Taxes

| | Six Months Ended July 31, | | | |
|----------------------------|---------------------------|----------|------------|-------------------|
| | 2010 | 2009 | Decrease | Percent Change |
| | (dollars in thousands) | | | |
| Provision for income taxes | \$ 2,970 | \$ 4,613 | \$ (1,643) | (35.6)% |

The effective tax rate was 41.0% for the six months ended July 31, 2010 and 2009.

Segment Results

Certain financial information for our Agriculture and Construction business segments is set forth below. Revenues 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 revenues are immaterial.

| | Six Months Ended July 31, | | | |
|--|---------------------------|------------|-------------------------|-------------------|
| | 2010 | 2009 | Increase/ (Decrease) | Percent Change |
| | (dollars in thousands) | | | |
| Revenues | | | | |
| Agriculture | \$ 362,904 | \$ 318,695 | \$ 44,209 | 13.9% |
| Construction | 68,313 | 55,149 | 13,164 | 23.9% |
| Segment revenues | 431,217 | 373,844 | 57,373 | 15.3% |
| Eliminations | (16,094) | (14,351) | (1,743) | (12.1)% |
| Total | \$ 415,123 | \$ 359,493 | \$ 55,630 | 15.5% |
| Income (Loss) Before Income Taxes | | | | |
| Agriculture | \$ 11,038 | \$ 15,718 | \$ (4,680) | (29.8)% |

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| | | | | |
|---|----------|-----------|------------|---------|
| Construction | (2,767) | (2,735) | (32) | (1.2)% |
| Segment income (loss) before income taxes | 8,271 | 12,983 | (4,712) | (36.3)% |
| Shared Resources | (634) | (1,222) | 588 | 48.1% |
| Eliminations | (394) | (507) | 113 | 22.3% |
| Income before income taxes | \$ 7,243 | \$ 11,254 | \$ (4,011) | (35.6)% |

Agriculture

Agriculture revenues for the six months ended July 31, 2010 increased 13.9% compared to the same period last year. The revenue increase was due to acquisitions and an Agriculture same-store sales increase of 6.4% over the six months ended July 31, 2009.

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Income before income tax decreased 29.8% primarily due to lower Agriculture gross profit margins on equipment revenues, which is reflective of increased pricing pressures from our competition, as well as higher floorplan interest expense resulting from increased floorplan notes payable balances and increased interest rates for the six months ended July 31, 2010 compared to the same period last year.

Construction

Construction revenues for the six months ended July 31, 2010 increased 23.9% compared to the same period last year. The revenue increase was due to acquisitions and a Construction same-store sales increase of 16.3% over the six months ended July 31, 2009.

Loss before income taxes increased 1.2% primarily due to higher floorplan interest expense resulting from increased floorplan notes payable balances and increased interest rates in the six months ended July 31, 2010 compared to the same period last year. Also contributing to the loss was \$212,000 in exit costs related to the closing of our store in Columbia Falls, Montana. Partially offsetting these additional expenses were higher Construction segment gross profits due to increased revenues in the six months ended July 31, 2010 compared to the same period last year.

Shared Resources/Eliminations

Shared Resources allocations to each of our segments are set early in the year and therefore unallocated balances may occur. The Shared Resource amount decreased \$0.6 million in the first six months of fiscal 2011 compared to the prior year.

Eliminations remove any inter-company revenues or income before income taxes residing in our segment results.

Liquidity and Capital Resources

Cash Flow from Operating Activities

For the six months ended July 31, 2010, our cash flow used for operating activities was \$30.2 million. Our cash flow used for operations was primarily the result of our reported net income of \$4.3 million and an add-back of non-cash depreciation and amortization of \$4.2 million. This amount was principally offset by an increase in net cash used for inventories of \$28.3 million, a net increase in receivables, prepaid expenses and other assets of \$6.8 million and a net decrease in accounts payable, customer deposits, accrued expenses and other long-term liabilities of \$4.9 million. The increase in inventories primarily reflects new equipment purchases to support future sales. We expect our inventory levels to decrease from current levels by the end of the fiscal year because of seasonally higher equipment sales in the second half of our fiscal year.

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For the six months ended July 31, 2009, our cash flow used in operating activities was \$27.4 million. Our cash flow from operations was primarily the result of our reported net income of \$6.6 million, an increase in floorplan notes payable of \$3.0 million, an increase in income taxes payable of \$3.0 million, and an add-back of non-cash depreciation and amortization of \$4.0 million. This amount was principally offset by an increase in inventories of \$35.2 million and a net decrease in accounts payable, customer deposits, accrued expenses and other long-term liabilities of \$8.8 million. The increase in inventories reflected historical stocking levels to support future sales.

We evaluate our cash flow from operating activities net of all floorplan activity and short-term advances related to customer contracts in transit. Taking these adjustments into account, our non-GAAP cash flow used for operating activities as of July 31, 2010 was \$7.1 million. For a reconciliation of this non-GAAP financial measure, please see the Non-GAAP Cash Flow Reconciliation section below.

Cash Flow from Investing Activities

For the six months ended July 31, 2010, cash used for investing activities was \$8.5 million. Our cash flow used for investing activities primarily consisted of purchases of property and equipment of \$6.3 million and the purchases of equipment dealerships (net of cash purchased) of \$2.4 million.

For the six months ended July 31, 2009, cash provided by investing activities was \$33.5 million. Our cash provided by investing activities primarily consisted of the sale of U.S. treasury bills of \$45.0 million, offset by purchases of property and equipment for \$7.6 million.

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Cash Flow from Financing Activities

For the six months ended July 31, 2010, cash provided by financing activities was \$24.0 million. Cash provided by financing activities was primarily the result of an increase in non-manufacturer floorplan notes payable of \$23.4 million and proceeds from long-term debt borrowings exceeding principal payments on long-term debt by \$0.8 million.

For the six months ended July 31, 2009, cash provided by financing activities was \$38.8 million. Cash provided by financing activities was primarily the result of an increase in non-manufacturer floorplan payable of \$25.2 million and proceeds from long-term debt and short term advances exceeding principal payments on long-term debt by \$13.6 million.

Non-GAAP Cash Flow Reconciliation

Non-GAAP cash flow provided by (used for) operating activities is a non-GAAP financial measure which is adjusted for the following:

- Non-manufacturer floorplan notes payable: We review our cash flow from operating activities to include all floorplan notes payable activity regardless of whether we obtain the financing from a manufacturer or a non-manufacturer. We consider inventory financing with both manufacturers and non-manufacturers to be part of the normal operations of our business and use the adjusted cash flow analysis in the evaluation of our inventory and inventory flooring needs. GAAP categorizes non-manufacturer floorplan payable as financing activities in the Consolidated Statements of Cash Flows.
- Short-term advances related to customer contracts in transit: We review our cash flow from operating activities to include short-term advances related to customer contracts in transit. These advances are directly related to our contracts in transit and are considered part of our working capital. GAAP categorizes short-term advances related to customer contracts in transit as financing activities in the Consolidated Statements of Cash Flows.

The following table reconciles net cash provided by (used for) operating activities, a GAAP measure, to non-GAAP cash flow provided by (used for) operating activities for the six months ended July 31, 2010 and 2009 and net cash provided by (used for) financing activities, a GAAP measure, to non-GAAP cash flow provided by (used for) financing activities for the six months ended July 31, 2010 and 2009:

| | As Reported | Adjustment (1) | Adjustment (2) | Non-GAAP Measures |
|--|----------------|-------------------|-------------------|----------------------|
| | (in thousands) | | | |
| Six months ended July 31, 2010: | | | | |
| Net cash provided by (used for) operating activities | \$ (30,160) | \$ 23,444 | \$ (358) | \$ (7,074) |
| Net cash provided by (used for) financing activities | 23,968 | (23,444) | 358 | 882 |

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Six months ended July 31, 2009:

| | | | | | | | | |
|--|----|----------|----|----------|----|---------|----|--------|
| Net cash provided by (used for) operating activities | \$ | (27,405) | \$ | 25,185 | \$ | 2,700 | \$ | 480 |
| Net cash provided by (used for) financing activities | | 38,815 | | (25,185) | | (2,700) | | 10,930 |

(1) - Net change in non-manufacturer floorplan notes payable

(2) - Net change in short-term advances related to customer contracts in transit

Non-GAAP cash flow provided by (used for) operating activities should be evaluated in addition to, and not considered a substitute for, or superior to, other GAAP measures such as net cash provided by (used for) operating activities.

Sources of Liquidity

Our primary sources of liquidity are cash reserves, cash flow from operations, proceeds from the issuance of debt and borrowings under our credit facilities. For more information on our credit facilities, please see Note 3 to the consolidated financial statements in this Quarterly Report on Form 10-Q. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources.

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Adequacy of Capital Resources

Our primary uses of cash have been to fund our strategic acquisitions, finance the purchase of inventory, meet debt service requirements and fund operating activities, working capital, payments due under building space operating leases and manufacturer floorplan notes payable. Based on our current operational performance, we believe our cash flow from operations, available cash and available borrowings under the existing credit facilities will adequately provide our liquidity needs for, at a minimum, the next 12 months.

Certain Information Concerning Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships. In the normal course of our business activities, we lease rental equipment and buildings under operating leases.

PRIVATE SECURITIES LITIGATION REFORM ACT

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Such forward-looking information is included in this Quarterly Report on Form 10-Q, including in Management's Discussion And Analysis Of Financial Condition And Results Of Operations, as well as in our Annual Report on Form 10-K for the year ended January 31, 2010 that was filed with the Securities and Exchange Commission, and in other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company).

Forward-looking statements include all statements based on future expectations and specifically include, among other things, all statements relating to our expectations regarding our primary liquidity sources, expectations as to gross margins and inventory, and expectations as to adequacy of our capital resources. Any statements that are not based upon historical facts, including the outcome of events that have not yet occurred and our expectations for future performance, are forward-looking statements. The words potential, believe, estimate, expect, intend, may, could, will, plan, anticipate, and similar words and expressions are intended to identify forward-looking statements. Such statements are based upon the current beliefs and expectations of our management. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, adverse market conditions in the agricultural and construction equipment industries, the continuation of unfavorable conditions in the credit markets and those matters identified and discussed in our Annual Report on Form 10-K under the section titled Risk Factors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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We are exposed to market risk from changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices such as interest rates. For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair value but do impact future earnings and cash flows, assuming other factors are held constant. We have both fixed and floating rate financing.

Based upon balances and interest rates as of July 31, 2010, holding other variables constant, a one percentage point increase in interest rates for the next 12-month period would decrease pre-tax earnings and cash flow by approximately \$1.7 million. Conversely, a one percentage point decrease in interest rates for the next 12-month period would result in an increase to pre-tax earnings and cash flow of approximately \$1.7 million. At July 31, 2010, we had variable rate floorplan notes payable of \$317.5 million, of which approximately \$151.3 million was interest-bearing, variable notes payable and long-term debt of \$13.8 million, and fixed rate notes payable and long-term debt of \$19.3 million.

Our policy is not to enter into derivatives or other financial instruments for trading or speculative purposes.

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ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* After evaluating the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act) as of the end of the period covered by this quarterly report, our Chief Executive Officer and Chief Financial Officer with the participation of the Company's management, have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are effective to ensure that information that is required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. Our Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, have also concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures.

(b) *Changes in internal controls.* There has not been any change in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during its most recently completed fiscal quarter 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

We are currently not a party to any material pending legal proceedings.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, including the important information in Private Securities Litigation Reform Act, you should carefully consider the Risk Factors discussed in our Form 10-K for the year ended January 31, 2010 as filed with the Securities and Exchange Commission. Those factors, if they were to occur, could cause our actual results to differ materially from those expressed in our forward-looking statements in this report, and materially adversely affect our financial condition or future results. Although we are not aware of any other factors that we currently anticipate will cause our forward-looking statements to differ materially from our future actual results, or materially affect the Company's financial condition or future results, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial might materially adversely affect our actual business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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SIGNATURES

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

Dated: September 8, 2010

TITAN MACHINERY INC.

By

/s/ Peter J. Christianson
Peter J. Christianson
President and Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

TITAN MACHINERY INC.

FORM 10-Q

| Exhibit No. | Description |
|--------------------|--|
| *31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| *31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| *32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| *32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

*Filed herewith