

Titan Machinery Inc.  
Form 10-Q  
December 10, 2014  
Table of Contents

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 October 31, 2014

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  
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  NO

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  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if smaller reporting company)

Smaller reporting company

Edgar Filing: Titan Machinery Inc. - Form 10-Q

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

The number of shares outstanding of the registrant's common stock as of November 30, 2014 was: Common Stock, \$0.00001 par value, 21,411,320 shares.

---

Table of Contents

TITAN MACHINERY INC.  
 QUARTERLY REPORT ON FORM 10-Q

Table of Contents

	Page No.
PART I. FINANCIAL INFORMATION	<u>3</u>
ITEM 1. FINANCIAL STATEMENTS	<u>3</u>
Consolidated Balance Sheets as of October 31, 2014 and January 31, 2014	<u>3</u>
Consolidated Statements of Operations for the three and nine months ended October 31, 2014 and 2013	<u>4</u>
Consolidated Statements of Comprehensive Income for the three and nine months ended October 31, 2014 and 2013	<u>5</u>
Consolidated Statements of Stockholders' Equity for the nine months ended October 31, 2014 and 2013	<u>6</u>
Consolidated Statements of Cash Flows for the nine months ended October 31, 2014 and 2013	<u>7</u>
Notes to Consolidated Financial Statements	<u>8</u>
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>19</u>
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	<u>31</u>
ITEM 4. CONTROLS AND PROCEDURES	<u>32</u>
PART II. OTHER INFORMATION	<u>33</u>
ITEM 1. LEGAL PROCEEDINGS	<u>33</u>
ITEM 1A. RISK FACTORS	<u>33</u>
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	<u>33</u>
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	<u>33</u>
ITEM 4. MINE SAFETY DISCLOSURES	<u>33</u>
ITEM 5. OTHER INFORMATION	<u>33</u>
ITEM 6. EXHIBITS	<u>33</u>
Signatures	<u>34</u>
Exhibit Index	<u>35</u>

Table of Contents

## PART I. — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TITAN MACHINERY INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	October 31, 2014 (Unaudited)	January 31, 2014
Assets		
Current Assets		
Cash	\$ 110,222	\$ 74,242
Receivables, net	104,388	97,894
Inventories	1,062,123	1,075,978
Prepaid expenses and other	15,271	24,740
Income taxes receivable	2,327	851
Deferred income taxes	13,410	13,678
Total current assets	1,307,741	1,287,383
Intangibles and Other Assets		
Noncurrent parts inventories	4,958	5,098
Goodwill	24,742	24,751
Intangible assets, net of accumulated amortization	11,211	11,750
Other	7,173	7,666
Total intangibles and other assets	48,084	49,265
Property and Equipment, net of accumulated depreciation	216,947	228,000
Total Assets	\$ 1,572,772	\$ 1,564,648
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 26,680	\$ 23,714
Floorplan payable	761,182	750,533
Current maturities of long-term debt	37,467	2,192
Customer deposits	20,893	61,286
Accrued expenses	38,507	36,968
Income taxes payable	48	344
Total current liabilities	884,777	875,037
Long-Term Liabilities		
Senior convertible notes	131,456	128,893
Long-term debt, less current maturities	100,712	95,532
Deferred income taxes	47,925	47,329
Other long-term liabilities	2,869	6,515
Total long-term liabilities	282,962	278,269
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value \$.00001 per share, 45,000 shares authorized; 21,411 shares issued and outstanding at October 31, 2014; 21,261 shares issued and outstanding at January 31, 2014	—	—
Additional paid-in-capital	240,057	238,857

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Retained earnings	164,882	169,575
Accumulated other comprehensive income (loss)	(1,895	) 339
Total Titan Machinery Inc. stockholders' equity	403,044	408,771
Noncontrolling interest	1,989	2,571
Total stockholders' equity	405,033	411,342
Total Liabilities and Stockholders' Equity	\$1,572,772	\$1,564,648
See Notes to Consolidated Financial Statements		

3

---

Table of Contents

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended October		Nine Months Ended October	
	31,		31,	
	2014	2013	2014	2013
Revenue				
Equipment	\$343,482	\$441,752	\$1,008,614	\$1,134,885
Parts	80,692	80,903	219,597	214,373
Service	42,410	40,646	117,941	112,516
Rental and other	26,557	24,660	63,442	56,041
Total Revenue	493,141	587,961	1,409,594	1,517,815
Cost of Revenue				
Equipment	317,702	406,867	926,863	1,039,773
Parts	56,402	55,419	154,146	148,152
Service	15,037	14,453	42,969	40,199
Rental and other	19,309	17,616	45,333	38,595
Total Cost of Revenue	408,450	494,355	1,169,311	1,266,719
Gross Profit	84,691	93,606	240,283	251,096
Operating Expenses	69,459	75,005	208,406	214,083
Realignment Costs	—	—	2,952	—
Income from Operations	15,232	18,601	28,925	37,013
Other Income (Expense)				
Interest income and other income (expense)	(489	) (260	) (4,095	) 674
Floorplan interest expense	(5,444	) (4,779	) (15,345	) (11,944
Other interest expense	(3,586	) (3,493	) (10,586	) (10,115
Income (Loss) Before Income Taxes	5,713	10,069	(1,101)	15,628
Provision for Income Taxes	(3,400	) (4,311	) (4,254	) (6,506
Net Income (Loss) Including Noncontrolling Interest	\$2,313	\$5,758	\$(5,355)	\$9,122
Less: Net Income (Loss) Attributable to Noncontrolling Interest	(157	) (67	) (662	) (122
Net Income (Loss) Attributable to Titan Machinery Inc.	\$2,470	\$5,825	\$(4,693)	\$9,244
Earnings (Loss) per Share - Note 1				
Earnings (Loss) per Share - Basic	\$0.12	\$0.27	\$(0.22)	) \$0.44
Earnings (Loss) per Share - Diluted	\$0.11	\$0.27	\$(0.22)	) \$0.43
Weighted Average Common Shares - Basic	20,994	20,901	20,977	20,879
Weighted Average Common Shares - Diluted	21,102	21,031	20,977	21,029

See Notes to Consolidated Financial Statements

Table of Contents

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Net Income (Loss) Including Noncontrolling Interest	\$2,313	\$5,758	\$(5,355)	) \$9,122
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	(3,351	) 1,618	(3,505	) 791
Unrealized gain (loss) on net investment hedge derivative instruments, net of tax expense (benefit) of \$945 and (\$177) for the three months ended October 31, 2014 and 2013, respectively, and \$975 and \$15 for the nine months ended October 31, 2014 and 2013, respectively	1,418	(266	) 1,464	23
Unrealized loss on interest rate swap cash flow hedge derivative instrument, net of tax benefit of (\$442) and (\$519) for the three months ended October 31, 2014 and 2013, respectively, and (474) and (\$519) for the nine months ended October 31, 2014 and 2013, respectively	(664	) (780	) (710	) (780
Unrealized gain on foreign currency contract cash flow hedge derivative instruments, net of tax expense of \$29 for the nine months ended October 31, 2014	—	—	44	—
Reclassification of loss on interest rate swap cash flow hedge derivative instruments included in net income (loss), net of tax benefit of \$60 for the three months ended October 31, 2014 and \$60 for the nine months ended October 31, 2014	90	—	90	—
Reclassification of loss on foreign currency contract cash flow hedge derivative instruments included in net income (loss), net of tax benefit of \$15 for the three months ended October 31, 2014 and \$29 for the nine months ended October 31, 2014	23	—	43	—
Total Other Comprehensive Income (Loss)	(2,484	) 572	(2,574	) 34
Comprehensive Income (Loss)	(171	) 6,330	(7,929	) 9,156
Comprehensive Income (Loss) Attributable to Noncontrolling Interest	(484	) 345	(1,002	) 92
Comprehensive Income (Loss) Attributable To Titan Machinery Inc.	\$313	\$5,985	\$(6,927)	) \$9,064

See Notes to Consolidated Financial Statements

Table of Contents

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)					Total Titan Machinery Inc. Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares Outstanding	Additional Paid-in Capital		Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Net Investments Hedges	Unrealized (Losses) on Interest Rate Swap Cash Flow Hedges	Unrealized Gains (Losses) on Foreign Currency Contract Cash Flow Hedges	Total			
Balance, January 31, 2013	21,092	\$—\$236,521	\$160,724	\$(226 )	\$(509 )	\$—	\$—	\$(735 )	\$396,510	\$3,409	\$399,919
Common stock issued on grant of restricted stock (net of forfeitures), exercise of stock options and warrants, and tax benefits of equity awards	149	—261	—	—	—	—	—	—	261	—	261
Other	22	—(49 )	—	—	—	—	—	—	(49 )	(639 )	(688)
Stock-based compensation expense	—	—1,598	—	—	—	—	—	—	1,598	—	1,598
Comprehensive income (loss):											
Net income (loss)	—	—	9,244	—	—	—	—	—	9,244	(122 )	9,122
Other comprehensive income (loss)	—	—	—	577	23	(780 )	—	(180 )	(180 )	214	34
Total comprehensive income	—	—	—	—	—	—	—	—	9,064	92	9,156
Balance, October 31, 2013	21,263	\$—\$238,331	\$169,968	\$351	\$(486 )	\$(780 )	\$—	\$(915 )	\$407,384	\$2,862	\$410,246
Balance, January 31,	21,261	\$—\$238,857	\$169,575	\$1,541	\$(339 )	\$(737 )	\$(126)	\$339	\$408,771	\$2,571	\$411,342



Edgar Filing: Titan Machinery Inc. - Form 10-Q

2014

Common stock  
issued on grant  
of restricted  
stock (net of  
forfeitures),  
exercise of  
stock options  
and warrants,  
and tax benefits  
of equity  
awards

Stock-based  
compensation  
expense

Other

Comprehensive  
income (loss):

Net loss

Other

comprehensive  
income (loss)

Total

comprehensive  
loss

Balance,

October 31,  
2014

150	—(50	) —	—	—	—	—	—	—	(50	) —	(50
—	—1,752	—	—	—	—	—	—	—	1,752	—	1,752
—	—(502	) —	—	—	—	—	—	—	(502	) 420	(82
—	—	(4,693	) —	—	—	—	—	—	(4,693	) (662	) (5,355
—	—	—	(3,165	) 1,464	(620	) 87	(2,234	) (2,234	) (340	) (2,574	
—	—	—	—	—	—	—	—	—	(6,927	) (1,002	) (7,929
21,411	\$—	\$240,057	\$164,882	\$(1,624)	\$1,125	\$(1,357)	\$(39	) \$(1,895)	\$403,044	\$1,989	\$405,03

See Notes to Consolidated Financial Statements

6

Table of Contents

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended October	
	31,	
	2014	2013
Operating Activities		
Net income (loss) including noncontrolling interest	\$(5,355	) \$9,122
Adjustments to reconcile net income including noncontrolling interest to net cash used for operating activities		
Depreciation and amortization	23,915	23,148
Deferred income taxes	241	(231
Stock-based compensation expense	1,752	1,598
Noncash interest expense	3,501	3,394
Unrealized foreign currency (gain) loss on loans to international subsidiaries	2,676	(666
Other, net	159	(330
Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities		
Receivables, prepaid expenses and other assets	(4,981	) 1,545
Inventories	(2,448	) (287,380
Manufacturer floorplan payable	(68,489	) 151,131
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	(31,734	) (6,171
Income taxes	(1,792	) (2,515
Net Cash Used for Operating Activities	(82,555	) (107,355
Investing Activities		
Rental fleet purchases	(502	) (783
Property and equipment purchases (excluding rental fleet)	(12,139	) (15,792
Net proceeds from sale of property and equipment	13,133	10,597
Purchase of equipment dealerships, net of cash purchased	(584	) (4,848
Proceeds from net investment hedge derivative instruments	3,359	902
Settlement of net investment hedge derivative instruments	(915	) (981
Other, net	104	(63
Net Cash Provided by (Used for) Investing Activities	2,456	(10,968
Financing Activities		
Net change in non-manufacturer floorplan payable	83,232	95,330
Proceeds from long-term debt borrowings	49,874	61,684
Principal payments on long-term debt	(16,153	) (49,450
Other, net	(383	) (194
Net Cash Provided by Financing Activities	116,570	107,370
Effect of Exchange Rate Changes on Cash	(491	) (39
Net Change in Cash	35,980	(10,992
Cash at Beginning of Period	74,242	124,360
Cash at End of Period	\$ 110,222	\$ 113,368
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period		
Income taxes, net of refunds	\$5,799	\$9,124
Interest	\$20,998	\$16,981
Supplemental Disclosures of Noncash Investing and Financing Activities		
	\$4,462	\$18,636

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Net property and equipment financed with long-term debt, accounts payable and accrued liabilities

Net transfer of assets to property and equipment from inventories	\$9,815	\$43,815
---	---------	----------

See Notes to Consolidated Financial Statements

7

---

Table of Contents

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 the Company’s Agriculture, Construction and International customers. Therefore, operating results for the nine-month period ended October 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2015. The information contained in the balance sheet as of January 31, 2014 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, 2014 as filed with the SEC.

Nature of Business

The Company is engaged in the retail sale, service and rental of agricultural and construction machinery through its stores in the United States and Europe. The Company’s North American stores are located in Arizona, Colorado, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, South Dakota, Wisconsin and Wyoming, and its European stores are located in Bulgaria, Romania, Serbia and Ukraine.

Estimates

The preparation of financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, particularly related to realization of inventory, initial valuation and impairment analyses of intangible assets, collectability of receivables, and income taxes.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All material accounts, transactions and profits between the consolidated companies have been eliminated in consolidation.

Earnings (Loss) Per Share (“EPS”)

The Company uses the two-class method to calculate basic and diluted EPS. Unvested restricted stock awards are considered participating securities because they entitle holders to non-forfeitable rights to dividends during the vesting term. Under the two-class method, basic EPS were computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of income (loss) to participating securities by the weighted-average number of shares

of common stock outstanding during the year.

Diluted EPS were computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of income (loss) to participating securities by the weighted-average shares of common stock outstanding after adjusting for potential dilution related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted EPS. There were approximately 104,000 and 99,000 stock options outstanding that were excluded from the computation of diluted EPS for the three months ended October 31, 2014 and 2013, respectively, because they were anti-dilutive. There were approximately 219,000 and 99,000 stock options outstanding that were excluded from the computation of diluted EPS for the nine months ended October 31, 2014 and 2013, respectively, because they were anti-dilutive. None of the approximately 3,474,000 shares underlying the Company's senior convertible notes were included in the computation of diluted EPS because the Company's average stock price was less than the conversion price of \$43.17.

8

---

Table of Contents

The following table sets forth the calculation of basic and diluted EPS:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands, except per share data)		(in thousands, except per share data)	
Numerator				
Net Income (Loss) Attributable to Titan Machinery Inc.	\$ 2,470	\$ 5,825	\$ (4,693 )	\$ 9,244
Net (Income) Loss Allocated to Participating Securities	(49 )	(97 )	80	(132 )
Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders	\$ 2,421	\$ 5,728	\$ (4,613 )	\$ 9,112
Denominator				
Basic Weighted-Average Common Shares Outstanding	20,994	20,901	20,977	20,879
Plus: Incremental Shares From Assumed Exercise of Stock Options	108	130	—	150
Diluted Weighted-Average Common Shares Outstanding	21,102	21,031	20,977	21,029
Earnings (Loss) per Share - Basic	\$ 0.12	\$ 0.27	\$ (0.22 )	\$ 0.44
Earnings (Loss) per Share - Diluted	\$ 0.11	\$ 0.27	\$ (0.22 )	\$ 0.43

## Recent Accounting Guidance

In April 2014, the Financial Accounting Standards Board ("FASB") amended authoritative guidance on reporting discontinued operations and disclosures of disposals of components of an entity, codified in Accounting Standard Codification ("ASC") 205-20, Discontinued Operations and 360, Property, Plant, and Equipment. The amended guidance changed the criteria for reporting discontinued operations, to only include disposals that represent a strategic shift and have a major effect on the entity's operations and financial results. The amended guidance also requires entities to provide additional disclosure of disposals reported as discontinued operations, and for disposals that do not qualify for discontinued operations presentation. The Company will adopt this guidance on February 1, 2015. Its adoption is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued authoritative guidance on accounting for revenue recognition, codified in ASC 606, Revenue from Contracts with Customers. This guidance supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Company will adopt this guidance on February 1, 2017, using one of two retrospective application methods. The Company has not determined the potential effects on the consolidated financial statements.

In August 2014, the FASB issued authoritative guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures, codified in ASC 205-40, Going Concern. The guidance provides a definition of the term substantial doubt, requires an evaluation every reporting period including interim periods, provides principles for considering the mitigating effect of management's plans, requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, requires an express statement and other disclosures when substantial doubt is not alleviated, and

requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The Company will adopt this guidance for the year-ended January 31, 2017, and it will apply to each interim and annual period thereafter. Its adoption is not expected to have a material effect on the Company's consolidated financial statements.

Table of Contents

## NOTE 2—INVENTORIES

	October 31, 2014	January 31, 2014
	(in thousands)	
New equipment	\$623,604	\$575,518
Used equipment	309,283	363,755
Parts and attachments	113,787	126,666
Work in process	15,449	10,039
	\$1,062,123	\$1,075,978

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—PROPERTY AND EQUIPMENT

	October 31, 2014	January 31, 2014
	(in thousands)	
Rental fleet equipment	\$151,199	\$145,007
Machinery and equipment	24,867	23,382
Vehicles	43,879	44,200
Furniture and fixtures	39,033	35,860
Land, buildings, and leasehold improvements	58,235	60,470
	317,213	308,919
Less accumulated depreciation	(100,266	) (80,919
	\$216,947	\$228,000

## NOTE 4—LINES OF CREDIT / FLOORPLAN PAYABLE

## Floorplan Lines of Credit

Floorplan payable balances reflect the amount owed for new equipment inventory purchased from a manufacturer and for used equipment inventory, which is primarily purchased through trade-in on equipment sales. Certain of the manufacturers from which the Company purchases new equipment inventory offer financing on these purchases, either offered directly from the manufacturer or through the manufacturers' captive finance subsidiaries. CNH Industrial America LLC's captive finance subsidiary, CNH Industrial Capital America LLC ("CNH Industrial Capital"), also provides financing of used equipment inventory. The Company also has floorplan payable balances with non-manufacturer lenders for new and used equipment inventory. Changes in manufacturer floorplan payable are reported as operating cash flows and changes in non-manufacturer floorplan payable are reported as financing cash flows in the Company's consolidated statements of cash flows.

As of October 31, 2014, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling approximately \$1.16 billion, which includes a \$350.0 million Floorplan Payable Line with a group of banks led by Wells Fargo Bank, National Association ("Wells Fargo"), a \$450.0 million credit facility with CNH Industrial Capital, a \$225.0 million credit facility with Agrico Credit Acceptance LLC and the U.S. dollar equivalent of \$135.0 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$696.9 million of the total floorplan payable balance of \$761.2 million outstanding as of October 31, 2014 and \$692.8 million of the total floorplan payable balance of \$750.5 million outstanding as of



## Edgar Filing: Titan Machinery Inc. - Form 10-Q

January 31, 2014. As of October 31, 2014, the Company had approximately \$411.7 million in available borrowings remaining under these lines of credit (net of adjustments based on borrowing base calculations and standby letters of credit under the Wells Fargo credit agreement, and rental fleet financing and other acquisition-related financing arrangements under the CNH Industrial Capital credit agreement). The U.S. floorplan payables carried various interest rates primarily ranging from 2.78% to 4.98%, and the foreign floorplan payables carried various interest rates primarily ranging from 1.59% to 10.50%, as of October 31, 2014.

Effective October 31, 2014, the Company amended its credit facility with Wells Fargo. The amendment, among other things, replaced the consolidated net income financial covenant with a minimum consolidated income before income taxes

Table of Contents

covenant, calculated as the income before income taxes for the last four quarters, adjusted for certain impairment charges, realignment charges, and foreign currency remeasurement losses resulting from a devaluation of the Ukrainian hryvnia. The minimum income before income tax covenant is \$10.0 million for the four quarter period ended October 31, 2014, \$5.0 million for the period ended January 31, 2015, \$6.0 million for each of the two periods ended April 30, 2015 and July 31, 2015, \$10.0 million for each of the two periods ended October 31, 2015 and January 31, 2016, and \$15.0 million for each period thereafter. The amendment also modified certain borrowing base advance rates and changed the interest rate margin from 1.5% to 2.625% to 1.5% to 2.875% per annum.

Effective October 31, 2014, the Company also amended its credit facility with CNH Industrial Capital. The amendment, amongst other things, replaced the minimum debt service ratio financial covenant with a minimum fixed charge coverage ratio financial covenant of not less than 1.25:1.00, and added or modified related definitions.

## Working Capital Line of Credit

As of October 31, 2014, the Company had a \$112.5 million working capital line of credit under the credit facility with Wells Fargo. The Company had \$75.6 million and \$47.8 million outstanding on its working capital line of credit as of October 31, 2014 and January 31, 2014, respectively. Amounts outstanding are recorded as long-term debt, within long-term liabilities on the consolidated balance sheets, as the Company does not have an obligation to repay amounts borrowed within one year.

## NOTE 5—SENIOR CONVERTIBLE NOTES

The Company's 3.75% Senior Convertible Notes issued on April 24, 2012 ("Convertible Notes") consisted of the following:

	October 31, 2014	January 31, 2014
	(in thousands except conversion rate and conversion price)	
Principal value	\$150,000	\$150,000
Unamortized debt discount	(18,544	) (21,107
Carrying value of senior convertible notes	\$131,456	\$128,893
Carrying value of equity component, net of deferred taxes	\$15,546	\$15,546
Conversion rate (shares of common stock per \$1,000 principal amount of notes)	23.1626	
Conversion price (per share of common stock)	\$43.17	

The Company recognized interest expense associated with its Senior Convertible Notes as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Cash Interest Expense				
Coupon interest expense	\$1,406	\$1,406	\$4,219	\$4,219
Noncash Interest Expense				
Amortization of debt discount	864	806	2,563	2,392
Amortization of transaction costs	135	131	402	391
	\$2,405	\$2,343	\$7,184	\$7,002

As of October 31, 2014, the unamortized debt discount will be amortized over a remaining period of approximately 4.5 years. As of October 31, 2014 and January 31, 2014, the if-converted value of the Senior Convertible Notes does not exceed the principal balance. The effective interest rate of the liability component was equal to 7.0% for each of the statements of operations periods presented.

Table of Contents

NOTE 6—DERIVATIVE INSTRUMENTS

The Company holds derivative instruments for the purpose of minimizing exposure to fluctuations in foreign currency exchange rates to which the Company is exposed in the normal course of its operations.

Net Investment Hedges

To protect the value of the Company's investments in its foreign operations against adverse changes in foreign currency exchange rates, the Company may, from time to time, hedge a portion of its net investment in one or more of its foreign subsidiaries. Gains and losses on derivative instruments that are designated and effective as a net investment hedge are included in other comprehensive income and only reclassified into earnings in the period during which the hedged net investment is sold or liquidated. Any hedge ineffectiveness is recognized in earnings immediately.

Cash Flow Hedges

On October 9, 2013, the Company entered into a forward-starting interest rate swap instrument which has a notional amount of \$100.0 million dollars, became effective September 30, 2014 and matures September 30, 2018. The objective of the instrument is to, beginning on September 30, 2014, protect the Company from changes in benchmark interest rates to which the Company is exposed through certain of its variable interest rate credit facilities. The instrument provides for a fixed interest rate of 1.901% up to the maturity date.

The Company may, from time to time, hedge foreign currency exchange rate risk arising from inventory purchases denominated in Canadian dollars through the use of foreign currency forward contracts. The maximum length of time over which the Company hedges its exposure to the variability in future cash flows associated with the Canadian dollar purchasing is less than 12 months.

The interest rate swap instrument and foreign currency contracts have been designated as cash flow hedging instruments and accordingly changes in the effective portion of the fair value of the instruments are recorded in other comprehensive income and only reclassified into earnings in the period(s) in which the related hedged item affects earnings or the anticipated underlying hedged transactions are no longer probable of occurring. Any hedge ineffectiveness is recognized in earnings immediately.

Derivative Instruments Not Designated as Hedging Instruments

The Company uses foreign currency forward contracts to hedge the effects of fluctuations in exchange rates on outstanding intercompany loans. The Company does not formally designate and document such derivative instruments as hedging instruments; however, the instruments are an effective economic hedge of the underlying foreign currency exposure. Both the gain or loss on the derivative instrument and the offsetting gain or loss on the underlying intercompany loan are recognized in earnings immediately, thereby eliminating or reducing the impact of foreign currency exchange rate fluctuations on net income.

The following table sets forth the notional value of the Company's outstanding derivative instruments.

	Notional Amount as of:	
	October 31, 2014	January 31, 2014
	(in thousands)	
Net investment hedge:		
Foreign currency contracts	\$23,473	\$43,742

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Cash flow hedges:		
Interest rate swap	100,000	100,000
Foreign currency contracts	—	4,754
Derivatives not designated as hedging instruments:		
Foreign currency contracts	32,812	44,775

12

---

Table of Contents

The following table sets forth the fair value of the Company's outstanding derivative instruments.

	Fair Value as of:		Balance Sheet Location
	October 31, 2014 (in thousands)	January 31, 2014	
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Net investment hedges:			
Foreign currency contracts	\$ 152	\$ 157	Prepaid expenses and other
Derivatives not designated as hedging instruments:			
Foreign currency contracts	194	279	Prepaid expenses and other
Total Asset Derivatives	\$ 346	\$ 436	
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Cash flow hedges:			
Interest rate swap	\$ 2,262	\$ 1,227	Accrued expenses
Foreign currency contracts	—	211	Accrued expenses
Total Liability Derivatives	\$ 2,262	\$ 1,438	

The following table sets forth the gains and losses recognized in other comprehensive income (loss) ("OCI") and income (loss) related to the Company's derivative instruments for the three and nine months ended October 31, 2014 and 2013, respectively. All amounts included in income (loss) in the table below from derivatives designated as hedging instruments relate to reclassifications from accumulated other comprehensive income.

	Three Months Ended October 31, 2014		2013		Nine Months Ended October 31, 2014		2013		Statements of Operations Classification
	OCI	Income (Loss)	OCI	Income (Loss)	OCI	Income (Loss)	OCI	Income (Loss)	
	(in thousands)				(in thousands)				
Derivatives Designated as Hedging Instruments:									
Net investment hedges:									
Foreign currency contracts	\$ 2,363	\$ —	\$ (443 )	\$ —	\$ 2,439	\$ —	\$ 38	\$ —	N/A
Cash flow hedges:									
Interest rate swap	(1,106 )	(150 )	(1,299 )	—	(1,184 )	(150 )	(1,299 )	—	Interest income and other income (expense)
Foreign currency contracts	—	(37 )	—	—	73	(72 )	—	—	Cost of revenue - equipment
Derivatives Not Designated as Hedging Instruments:									

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Foreign currency contracts	—	2,436	—	(851 )	—	2,582	—	(781 )	Interest income and other income (expense)
Total Derivatives	\$1,257	\$2,249	\$(1,742)	\$(851 )	\$1,328	\$2,360	\$(1,261)	\$(781 )	

No components of the Company's net investment or cash flow hedging instruments were excluded from the assessment of hedge ineffectiveness.

Table of Contents

As of October 31, 2014, the Company had \$2.4 million and \$0.1 million in pre-tax net unrealized losses associated with its interest rate swap and foreign currency contract cash flow hedging instruments recorded in accumulated other comprehensive income, respectively. The Company expects that \$1.7 million and \$0.1 million of pre-tax unrealized losses associated with its interest rate swap and foreign currency contracts, respectively, will be reclassified into net income over the next 12 months.

**NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS**

The assets and liabilities which are measured at fair value on a recurring basis as of October 31, 2014 and January 31, 2014 are as follows:

	October 31, 2014				January 31, 2014			
	Level 1 (in thousands)	Level 2	Level 3	Total	Level 1 (in thousands)	Level 2	Level 3	Total
<b>Financial Assets</b>								
Foreign currency contracts	\$—	\$346	\$—	\$346	\$—	\$436	\$—	\$436
Total Financial Assets	\$—	\$346	\$—	\$346	\$—	\$436	\$—	\$436
<b>Financial Liabilities</b>								
Interest rate swap	\$—	\$2,262	\$—	\$2,262	\$—	\$1,227	\$—	\$1,227
Foreign currency contracts	—	—	—	—	—	211	—	211
Total Financial Liabilities	\$—	\$2,262	\$—	\$2,262	\$—	\$1,438	\$—	\$1,438

The valuation for the Company's foreign currency contracts and interest rate swap derivative instruments were valued using discounted cash flow analyses, an income approach, utilizing readily observable market data as inputs.

The Company also has financial instruments that are not recorded at fair value in its consolidated financial statements. 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, which are Level 2 fair value inputs. Based upon current borrowing rates with similar maturities, which are Level 2 fair value inputs, the carrying value of long-term debt approximates the fair value as of October 31, 2014 and January 31, 2014, respectively. The following table provides details on the Senior Convertible Notes as of October 31, 2014 and January 31, 2014. The difference between the face value and the carrying value of these notes is the result of the allocation between the debt and equity components. Fair value of the Senior Convertible Notes was estimated based on Level 2 fair value inputs.

	October 31, 2014			January 31, 2014		
	Estimated Fair Value (in thousands)	Carrying Value	Face Value	Estimated Fair Value (in thousands)	Carrying Value	Face Value
Senior convertible notes	\$115,254	\$131,456	\$150,000	\$128,522	\$128,893	\$150,000

**NOTE 8—SEGMENT INFORMATION AND OPERATING RESULTS**

The Company owns and operates a network of full service agricultural and construction equipment stores in the United States and Europe. The Company has three reportable segments: Agriculture, Construction and International. The Company's segments are organized based on types of products sold and geographic areas, as described in the following paragraphs. The operating results for each segment are reported separately to the Company's Chief Executive Officer and President to make decisions regarding the allocation of resources, to assess the Company's operating performance and to make strategic decisions.



Edgar Filing: Titan Machinery Inc. - Form 10-Q

The Company's Agriculture segment sells, services, and rents machinery, and related parts and attachments, for uses ranging from large-scale farming to home and garden use for customers in North America. This segment also includes ancillary sales and services related to agricultural activities and products such as equipment transportation, Global Positioning System ("GPS") signal subscriptions and finance and insurance products.

The Company's Construction segment sells, services, and rents machinery, and related parts and attachments, for uses ranging from heavy construction to light industrial machinery use to customers in North America. This segment also includes

Table of Contents

ancillary sales and services related to construction activities such as equipment transportation, GPS signal subscriptions and finance and insurance products.

The Company's International segment sells, services, and rents machinery, and related parts and attachments, for uses ranging from large-scale farming and construction to home and garden use to customers in Eastern Europe. It also includes export sales of equipment and parts to customers outside of the United States.

Revenue, income (loss) before income taxes 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. Revenue between segments is immaterial. Revenue amounts included in Eliminations primarily relate to transactions within a segment.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Revenue				
Agriculture	\$346,116	\$459,005	\$1,013,118	\$1,186,893
Construction	110,095	109,850	325,482	290,637
International	53,348	40,255	127,249	107,855
Segment revenue	509,559	609,110	1,465,849	1,585,385
Eliminations	(16,418)	) (21,149)	) (56,255)	) (67,570)
Total	\$493,141	\$587,961	\$1,409,594	\$1,517,815
Income (Loss) Before Income Taxes				
Agriculture	\$5,150	\$16,677	\$13,747	\$34,451
Construction	77	(3,407)	) (5,647)	) (11,642)
International	(1,447)	) (1,022)	) (11,866)	) (1,441)
Segment income (loss) before income taxes	3,780	12,248	(3,766)	) 21,368
Shared Resources	971	(2,424)	) 800	(4,775)
Eliminations	962	245	1,865	(965)
Income (Loss) Before Income Taxes	\$5,713	\$10,069	\$(1,101)	) \$15,628

	October 31,	January 31,
	2014	2014
	(in thousands)	
Total Assets		
Agriculture	\$861,235	\$943,212
Construction	424,300	308,525
International	181,643	195,534
Segment assets	1,467,178	1,447,271
Shared Resources	106,885	120,335
Eliminations	(1,291)	) (2,958)
Total	\$1,572,772	\$1,564,648



Table of Contents

## NOTE 9—STORE CLOSINGS AND REALIGNMENT COSTS

To better align its Construction business in certain markets, in April 2014, the Company reduced its Construction-related headcount by approximately 12% primarily through the closing of seven underperforming Construction stores, staff reductions at other dealerships and reductions in support staff at its Shared Resource Center. The closed stores were located in Bozeman, Big Sky and Helena, Montana; Cheyenne, Wyoming; Clear Lake, Iowa; Flagstaff, Arizona; and Rosemount, Minnesota. The Company also closed one Agriculture store in Oskaloosa, Iowa and merged it with the nearby Agriculture store in Pella, Iowa. The Company's remaining stores in each of the respective areas assumed the majority of the distribution rights for the CNH Industrial brand previously held by the stores which have closed. The majority of the assets of the closed stores have been redeployed to other store locations. Certain inventory items which are not sold by any of our remaining stores were sold at auction. The inventory markdown attributable to such items are included in the exit cost summary below. The majority of the exit costs were recognized during the three months ended April 30, 2014; however the remaining costs, which primarily relate to asset relocation and other closing costs, were incurred during the three months ended July 31, 2014.

The following summarizes the exit costs associated with the store closings and realignment that occurred in April 2014. The amounts incurred during the six months ended July 31, 2014 reflect the total amounts expected to be incurred related to the closing of these stores.

	Amount Incurred During the Three Months Ended October 31, 2014 (in thousands)	Amount Incurred During the Nine Months Ended October 31, 2014	Income Statement Classification
<b>Construction Segment</b>			
Lease termination costs	\$—	\$1,511	Realignment Costs
Employee severance costs	—	451	Realignment Costs
Impairment of fixed assets, net of gains on asset disposition	—	(60	) Realignment Costs
Asset relocation and other closing costs	—	362	Realignment Costs
	\$—	\$2,264	
<b>Agriculture Segment</b>			
Lease termination costs	\$—	\$148	Realignment Costs
Employee severance costs	—	71	Realignment Costs
Impairment of fixed assets, net of gains on asset disposition	—	85	Realignment Costs
Asset relocation and other closing costs	—	84	Realignment Costs
Inventory cost adjustments	—	471	Equipment Cost of Sales
	\$—	\$859	
<b>Shared Resource Center</b>			
Employee severance costs	\$—	\$300	Realignment Costs
	\$—	\$300	
<b>Total</b>			
Lease termination costs	\$—	\$1,659	Realignment Costs
Employee severance costs	—	822	Realignment Costs
Impairment of fixed assets, net of gains on asset disposition	—	25	Realignment Costs
Asset relocation and other closing costs	—	446	Realignment Costs
Inventory cost adjustments	—	471	Equipment Cost of Sales
	\$—	\$3,423	



Table of Contents

The Company accrued for lease termination and employee severance costs in April 2014, but exit costs related to impairment, asset relocation and other closing costs and inventory cost adjustments were not accrued but recognized as incurred. A reconciliation of the beginning and ending exit cost liability balance, which is included in accrued expenses in the consolidated balance sheets, follows:

	Amount (in thousands)
Balance, January 31, 2014	\$548
Exit costs incurred and charged to expense	
Lease termination costs	1,659
Employee severance costs	822
Exit costs paid	
Lease termination costs	(514 )
Employee severance costs	(722 )
Adjustments	
Lease termination costs	(106 )
Balance, October 31, 2014	\$1,687

## NOTE 10—INCOME TAXES

The Company incurs a provision for income taxes in jurisdictions in which it has taxable income. Generally the Company receives a benefit for income taxes in jurisdictions in which it has taxable losses unless it has recorded a valuation allowance for that jurisdiction. The fluctuations in our effective income tax rate are primarily due to losses in our international subsidiaries in which we record a valuation allowance against our net operating losses. These losses are available to reduce future taxable income, if earned within the allowable net operating loss carryforward period, in these jurisdictions. The foreign jurisdictions in which the Company operates have net operating loss carryforward periods ranging from five to seven years, with certain jurisdictions having indefinite carryforward periods.

	Three Months Ended October		Nine Months Ended October	
	31, 2014	2013	31, 2014	2013
	(dollars in thousands)		(dollars in thousands)	
Income (Loss) Before Income Taxes	\$5,713	\$10,069	\$(1,101 )	\$15,628
Provision for Income Taxes	(3,400 )	(4,311 )	(4,254 )	(6,506 )
Effective Income Tax Rate	59.5	% 42.8	% 386.4	% 41.6

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate is as follows:

	Three Months Ended October		Nine Months Ended October	
	31, 2014	2013	31, 2014	2013
U.S. statutory rate	35.0	% 35.0	% (35.0 )	% 35.0
Foreign statutory rates	3.7	% 0.6	% (3.7 )	% 0.6
State taxes on income net of federal tax benefit	4.9	% 4.9	% (4.9 )	% 4.9
Tax effect of not recording a benefit on losses in jurisdictions with a valuation allowance	7.4	% 0.1	% 399.0	% 0.1
All other, net	8.5	% 2.2	% 31.0	% 1.0
	59.5	% 42.8	% 386.4	% 41.6

Table of Contents

## NOTE 11—BUSINESS COMBINATIONS

The Company continued to implement its strategy of consolidating dealerships in desired market areas. Below is a summary of the acquisition completed during the nine months ended October 31, 2014. 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 statements of operations since the date of the business combination.

On August 29, 2014, the Company acquired certain assets of Midland Equipment, Inc. The acquired entity consisted of one agriculture equipment store in Wayne, Nebraska, which expands the Company's agricultural presence in Nebraska. The allocation of the purchase price is presented in the following table.

	(in thousands)
Receivables	\$147
Inventories	525
Property and equipment	156
Total assets	\$828
Cash consideration	\$584
Non-cash consideration: liabilities incurred	244
Total consideration	\$828

Table of Contents

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 I 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, 2014.

Realignment Costs

To better align its Construction business in certain markets, in April 2014, the Company reduced its Construction-related headcount by approximately 12% primarily through the closing of seven underperforming Construction stores, staff reductions at other dealerships and reductions in support staff at its Shared Resource Center. The closed stores were located in Bozeman, Big Sky and Helena, Montana; Cheyenne, Wyoming; Clear Lake, Iowa; Flagstaff, Arizona; and Rosemount, Minnesota. The Company also closed one Agriculture store in Oskaloosa, Iowa and merged it with the nearby Agriculture store in Pella, Iowa. The Company's remaining stores in each of the respective areas assumed the majority of the distribution rights for the CNH Industrial brand previously held by the stores which have closed. We recognized \$3.4 million in exit costs during the nine months ended October 31, 2014. See also the Non-GAAP Financial Measures section below for impact of these costs on non-GAAP Diluted EPS.

Foreign Currency Remeasurement Losses

In February of 2014, the National Bank of Ukraine terminated the currency peg of the Ukrainian hryvnia ("UAH") to the USD; subsequent to the decoupling and as a result of the economic and political conditions present in the country, the UAH experienced significant devaluation from the date the currency peg was terminated through the end of the Company's third fiscal quarter. We recognized \$0.5 million and \$4.9 million in foreign currency remeasurement losses resulting from a devaluation of the UAH during the three and nine months ended October 31, 2014, respectively. These losses are included in interest income and other income (expense) in our consolidated statements of operations. See also the Non-GAAP Financial Measures section below for impact of these costs on non-GAAP Diluted EPS.

Critical Accounting Policies and Estimates

There have been no material changes in our Critical Accounting Policies and Estimates, as disclosed in our Annual Report on Form 10-K for the year ended January 31, 2014.

Overview

We own and operate a network of full service agricultural and construction equipment stores in the United States and Europe. Based upon information provided to us by CNH Industrial N.V. or its U.S. subsidiary CNH Industrial America, LLC, we are the largest retail dealer of Case IH Agriculture equipment in the world, the largest retail dealer of Case Construction equipment in North America and a major retail dealer of New Holland Agriculture and New Holland Construction equipment in the U.S. We operate our business through three reportable segments, Agriculture, Construction and International. Within each segment, we have four principal sources of revenue: new and used equipment sales, parts sales, service, and equipment rental and other activities.

Our net income attributable to Titan Machinery Inc. common stockholders was \$2.4 million, or \$0.11 per diluted share, for the three months ended October 31, 2014, compared to \$5.7 million, or \$0.27 per diluted share, for the three months ended October 31, 2013. Our non-GAAP Diluted EPS was \$0.14 and \$0.27 for the three months ended



Edgar Filing: Titan Machinery Inc. - Form 10-Q

October 31, 2014 and 2013, respectively. See the Non-GAAP Financial Measures section below for a reconciliation between the GAAP and non-GAAP measures. Significant factors impacting the quarterly comparisons were:

Revenue decreased 16.1% for the third quarter of fiscal 2015, as compared to the third quarter last year, primarily due to a decrease in Agriculture same-store sales, and partially offset by an increase in Construction same-store sales;

Table of Contents

Total gross profit margin increased to 17.2% for the third quarter of fiscal 2015, as compared to 15.9% for the third quarter of fiscal 2014, primarily caused by a change in gross profit mix to our higher-margin parts, service and rental and other businesses;

Floorplan interest expense increased in the third quarter of fiscal 2015, as compared to the same period last year, due to the increase in floorplan payable and the related equipment inventory balances in our International segment, and higher interest rates in Ukraine associated with the political and economic instability that is present in the current fiscal year; and

Interest income and other income (expense) decreased primarily due to foreign currency remeasurement losses in Ukraine, resulting from continued devaluation of the Ukrainian hryvnia in the third quarter of fiscal 2015.

## 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.

Same-store sales for any period represent sales by stores that were part of the Company for the entire comparable periods in the current and preceding fiscal years. We do not distinguish relocated or newly-expanded stores in this same-store analysis. Closed stores are excluded from the same-store analysis. Stores that do not meet the criteria for same-store classification are described as acquisition stores throughout the Results of Operations section in this Quarterly Report on Form 10-Q.

	Three Months Ended October 31,		Nine Months Ended October 31,		
	2014	2013	2014	2013	
	(dollars in thousands)		(dollars in thousands)		
Equipment					
Revenue	\$343,482	\$441,752	\$1,008,614	\$1,134,885	
Cost of revenue	317,702	406,867	926,863	1,039,773	
Gross profit	\$25,780	\$34,885	\$81,751	\$95,112	
Gross profit margin	7.5	% 7.9	% 8.1	% 8.4	%
Parts					
Revenue	\$80,692	\$80,903	\$219,597	\$214,373	
Cost of revenue	56,402	55,419	154,146	148,152	
Gross profit	\$24,290	\$25,484	\$65,451	\$66,221	
Gross profit margin	30.1	% 31.5	% 29.8	% 30.9	%
Service					
Revenue	\$42,410	\$40,646	\$117,941	\$112,516	
Cost of revenue	15,037	14,453	42,969	40,199	
Gross profit	\$27,373	\$26,193	\$74,972	\$72,317	
Gross profit margin	64.5	% 64.4	% 63.6	% 64.3	%
Rental and other					
Revenue	\$26,557	\$24,660	\$63,442	\$56,041	
Cost of revenue	19,309	17,616	45,333	38,595	
Gross profit	\$7,248	\$7,044	\$18,109	\$17,446	
Gross profit margin	27.3	% 28.6	% 28.5	% 31.1	%



Table of Contents

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

	Three Months Ended October		Nine Months Ended October		
	31,		31,		
	2014	2013	2014	2013	
Revenue					
Equipment	69.6	% 75.1	% 71.5	% 74.8	%
Parts	16.4	% 13.8	% 15.6	% 14.1	%
Service	8.6	% 6.9	% 8.4	% 7.4	%
Rental and other	5.4	% 4.2	% 4.5	% 3.7	%
Total Revenue	100.0	% 100.0	% 100.0	% 100.0	%
Total Cost of Revenue	82.8	% 84.1	% 83.0	% 83.5	%
Gross Profit	17.2	% 15.9	% 17.0	% 16.5	%
Operating Expenses	14.1	% 12.7	% 14.7	% 14.1	%
Realignment Costs	—	% —	% 0.2	% —	%
Income from Operations	3.1	% 3.2	% 2.1	% 2.4	%
Other Income (Expense)	(1.9)	)% (1.5)	)% (2.2)	)% (1.4)	)%
Income (Loss) Before Income Taxes	1.2	% 1.7	% (0.1)	)% 1.0	%
Provision for Income Taxes	(0.7)	)% (0.7)	)% (0.3)	)% (0.4)	)%
Net Income (Loss) Including Noncontrolling Interest	0.5	% 1.0	% (0.4)	)% 0.6	%
Less: Net Income (Loss) Attributable to Noncontrolling Interest	—	% —	% (0.1)	)% —	%
Net Income (Loss) Attributable to Titan Machinery Inc.	0.5	% 1.0	% (0.3)	)% 0.6	%

## Three Months Ended October 31, 2014 Compared to Three Months Ended October 31, 2013

## Consolidated Results

## Revenue

	Three Months Ended October		Increase/	Percent	
	31,		(Decrease)	Change	
	2014	2013			
	(dollars in thousands)				
Equipment	\$343,482	\$441,752	\$(98,270)	(22.2)	)%
Parts	80,692	80,903	(211)	(0.3)	)%
Service	42,410	40,646	1,764	4.3	%
Rental and other	26,557	24,660	1,897	7.7	%
Total Revenue	\$493,141	\$587,961	\$(94,820)	(16.1)	)%

The decrease in revenue for the third quarter of fiscal 2015 was primarily due to a decrease in same-store sales of 14.1% over the comparable prior year period, mainly driven by a decrease in Agriculture same-store sales of 23.8% and partially offset by an increase in Construction segment same-store sales of 10.7%. Agriculture same-store sales decreased primarily due to a decrease in equipment revenue and were negatively impacted by challenging industry conditions such as decreases in agricultural commodity prices and projected net farm income, which have a negative effect on customer sentiment. Changes in actual or anticipated net farm income, or in any of the significant components of net farm income, generally have a direct correlation with agricultural equipment purchases by farmers. In February and August 2014, the U.S. Department of Agriculture published its projections of a decrease in net farm income from calendar year 2013 to 2014. The commodity price of corn and soybeans, which are the predominant

crops in our Agriculture store footprint, decreased significantly from the price during the third quarter of fiscal 2014, mainly as a result of a projected increase in U.S. corn and soybean supply compared to the prior year. The increase in Construction segment revenue, which included increases in all lines of the Construction segment's business, resulted from improved industry conditions and the positive impact of operational initiatives.

Table of Contents

## Gross Profit

	Three Months Ended October 31,		Increase/ (Decrease)	Percent	
	2014	2013		Change	
	(dollars in thousands)				
Gross Profit					
Equipment	\$25,780	\$34,885	\$(9,105)	) (26.1	)%
Parts	24,290	25,484	(1,194)	) (4.7	)%
Service	27,373	26,193	1,180	4.5	%
Rental and other	7,248	7,044	204	2.9	%
Total Gross Profit	\$84,691	\$93,606	\$(8,915)	) (9.5	)%
Gross Profit Margin					
Equipment	7.5	% 7.9	% (0.4	)% (5.1	)%
Parts	30.1	% 31.5	% (1.4	)% (4.4	)%
Service	64.5	% 64.4	% 0.1	% 0.2	%
Rental and other	27.3	% 28.6	% (1.3	)% (4.5	)%
Total Gross Profit Margin	17.2	% 15.9	% 1.3	% 8.2	%
Gross Profit Mix					
Equipment	30.4	% 37.3	% (6.9	)% (18.5	)%
Parts	28.7	% 27.2	% 1.5	% 5.5	%
Service	32.3	% 28.0	% 4.3	% 15.4	%
Rental and other	8.6	% 7.5	% 1.1	% 14.7	%
Total Gross Profit Mix	100.0	% 100.0	% —	% —	%

The \$8.9 million decrease in gross profit for the third quarter of fiscal 2015, as compared to the same period last year, was primarily due to a decrease in revenue. The increase in total gross profit margin from 15.9% for the third quarter of fiscal 2014 to 17.2% for the third quarter of fiscal 2015 was mainly due to a change in gross profit mix to our higher-margin parts, service and rental and other businesses, and partially offset by decreases in gross profit margin on certain of our components of revenue. The change in gross profit mix primarily resulted from decreased equipment revenue causing a change in sales mix.

## Operating Expenses

	Three Months Ended October 31,		Increase/ (Decrease)	Percent	
	2014	2013		Change	
	(dollars in thousands)				
Operating Expenses	\$69,459	\$75,005	\$(5,546)	) (7.4	)%
Operating Expenses as a Percentage of Revenue	14.1	% 12.7	% 1.4	% 11.0	%

The \$5.5 million decrease in operating expenses, as compared to the same period last year, was primarily due to decreased commissions expense resulting from the decrease in equipment gross profit, and cost savings associated with the closing of eight stores in the first quarter of fiscal 2015. These decreases in operating expenses were partially offset by additional costs associated with expanding our International distribution network. The increase in operating expenses as a percentage of total revenue was primarily due to the decrease in total revenue in the third quarter of fiscal 2015, as compared to the third quarter of fiscal 2014, which negatively affected our ability to leverage our fixed operating costs.

## Other Income (Expense)

	Three Months Ended October 31,	Increase/ (Decrease)	Percent Change
--	-----------------------------------	-------------------------	-------------------

Edgar Filing: Titan Machinery Inc. - Form 10-Q

	2014	2013	(Decrease)	Change	
	(dollars in thousands)				
Interest income and other income (expense)	\$(489	) \$(260	) \$(229	) (88.1	)%
Floorplan interest expense	(5,444	) (4,779	) 665	13.9	%
Other interest expense	(3,586	) (3,493	) 93	2.7	%

22

---

Table of Contents

The decrease in interest income and other income (expense) was primarily due to foreign currency remeasurement losses in Ukraine, resulting from a devaluation of the Ukrainian hryvnia in the third quarter of fiscal 2015. See the Non-GAAP Financial Measures section below for impact of these costs on non-GAAP Diluted EPS. The increase in floorplan interest expense of \$0.7 million for the third quarter of fiscal 2015 was primarily due to the increase in floorplan payable and the related equipment inventory balances in our International segment, and higher interest rates in Ukraine associated with the political and economic instability that is present in the current fiscal year.

## Provision for Income Taxes

	Three Months Ended		Decrease	Percent
	October 31,			
	2014	2013		
	(dollars in thousands)			
Provision for Income Taxes	\$3,400	\$4,311	\$(911 )	(21.1 )%

Our effective tax rate increased to 59.5% for the third quarter of fiscal 2015 compared to 42.8% for the same period last year, primarily due to losses in our international subsidiaries, where we record a valuation allowance against our net operating losses, and the impact of permanent differences and discrete items. The impact of these international subsidiaries' losses on our effective tax rate for the third quarter of fiscal 2015 amounted to 7.4%, and the impact of the permanent differences and discrete items amounted to 8.5%. These items have a larger impact on our effective tax rate in the current year due to our lower income before income taxes than the prior year. See Note 10 of the notes to our consolidated financial statements for additional information regarding our effective tax rate.

## Segment Results

Certain financial information for our Agriculture, Construction and International 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. Revenue between segments is immaterial. Revenue amounts included in Eliminations primarily relate to transactions within a segment.

	Three Months Ended October		Increase/ (Decrease)	Percent
	31,			
	2014	2013		
	(dollars in thousands)			
Revenue				
Agriculture	\$346,116	\$459,005	\$(112,889 )	(24.6 )%
Construction	110,095	109,850	245	0.2 %
International	53,348	40,255	13,093	32.5 %
Segment revenue	509,559	609,110	(99,551 )	(16.3 )%
Eliminations	(16,418 )	(21,149 )	4,731	22.4 %
Total	\$493,141	\$587,961	\$(94,820 )	(16.1 )%
Income (Loss) Before Income Taxes				
Agriculture	\$5,150	\$16,677	\$(11,527 )	(69.1 )%
Construction	77	(3,407 )	3,484	102.3 %
International	(1,447 )	(1,022 )	(425 )	(41.6 )%
Segment income (loss) before income taxes	3,780	12,248	(8,468 )	(69.1 )%
Shared Resources	971	(2,424 )	3,395	140.1 %



Edgar Filing: Titan Machinery Inc. - Form 10-Q

Eliminations	962	245	717	292.7	%
Income (Loss) Before Income Taxes	\$5,713	\$10,069	\$(4,356)	(43.3)	)%

23

---

## Table of Contents

### Agriculture

Agriculture segment revenue for the third quarter of fiscal 2015 decreased 24.6% compared to the same period last year. The revenue decrease was due to an Agriculture same-store sales decrease of 23.8% over the third quarter of fiscal 2014, which was primarily due to a decrease in equipment revenue, and were negatively impacted by challenging industry conditions, such as decreases in agricultural commodity prices and projected net farm income, which negatively affected customer sentiment in the third quarter of fiscal 2015 as compared to the same period in the prior year. Parts and service same-store sales for the third quarter of fiscal 2015 remained consistent with the third quarter of fiscal 2014. Changes in actual or anticipated net farm income, or in any of the significant components of net farm income, generally have a direct correlation with agricultural equipment purchases by farmers. In February and August 2014, the U.S. Department of Agriculture published its projections of a decrease in net farm income from calendar year 2013 to 2014. The commodity price of corn and soybeans, which are the predominant crops in our Agriculture store footprint, decreased significantly from the price during the third quarter of fiscal 2014, mainly as a result of a projected increase in U.S. corn and soybean supply compared to the prior year.

Agriculture segment income before income taxes for the third quarter of fiscal 2015 decreased 69.1% compared to the same period last year, primarily due to the aforementioned decrease in equipment revenue.

### Construction

Construction segment revenue for the third quarter of fiscal 2015 increased 0.2% compared to the same period last year. The revenue increase was due to a same-store sales increase of 10.7% over the third quarter of fiscal 2014, which was offset by the impact of our store closings. The increase in Construction segment revenue, which included increases in all lines of business, resulted from improved industry conditions and the positive impact of operational initiatives.

Our Construction segment income before income taxes was \$0.1 million for the third quarter of fiscal 2015 compared to segment loss before income taxes of \$3.4 million for the third quarter of fiscal 2014. This improvement was primarily due to improved gross profit margin on equipment, a decrease in operating expenses, and partially offset by an increase in floorplan interest expense. The increase in gross profit margin on equipment was primarily due to the aforementioned improved industry conditions. The decrease in operating expense mainly reflects cost savings associated with the closing of seven stores in the first quarter of fiscal 2015. The increase in floorplan interest expense reflects higher equipment inventory balances during the third quarter of fiscal 2015, as compared to the third quarter of fiscal 2014. The dollar utilization of our rental fleet decreased, from 36.9% in the third quarter of fiscal 2014 to 33.6% in the third quarter of fiscal 2015, primarily due to lower rental revenue earned on our rental fleet than the third quarter of last year.

### International

International segment revenue for the third quarter of fiscal 2015 increased \$13.1 million compared to the same period last year, primarily due to new store openings, and a same-store sales increase of 33.9%.

Our International segment loss before income taxes was \$1.4 million for the third quarter of fiscal 2015 compared to \$1.0 million for the same period last year. This decrease was primarily due to increases in operating expenses and floorplan interest expense, and a decrease in interest income and other income (expense), as compared to the same period of the prior year. Operating expenses increased due to expanding our distribution network in Eastern Europe, including opening a new store in Ukraine and establishing a European operations center to support our European stores. We believe the political and economic instability in Ukraine has had a negative impact on our revenue, which reduces our ability to leverage these fixed operating costs. The increase in floorplan interest expense for the third

quarter of fiscal 2015, as compared to the same period in the prior year, was primarily due to the increase in floorplan payable and the related equipment inventory balances in our International segment, and higher interest rates in Ukraine associated with the political and economic instability that is present in the current fiscal year. The decrease in interest income and other income (expense) was primarily due to foreign currency remeasurement losses in Ukraine, resulting from a further devaluation of the Ukrainian hryvnia in the third quarter of fiscal 2015.

#### Shared Resources/Eliminations

We incur centralized expenses/income at our general corporate level, which we refer to as “Shared Resources,” and then allocate these net expenses to our segments. Since these allocations are set early in the year, unallocated balances may occur.

Eliminations remove any inter-company revenue or income (loss) before income taxes residing in our segment results.

Table of Contents

Nine Months Ended October 31, 2014 Compared to Nine Months Ended October 31, 2013

## Consolidated Results

## Revenue

	Nine Months Ended October 31,		Increase/ (Decrease)	Percent Change	
	2014	2013			
	(dollars in thousands)				
Equipment	\$1,008,614	\$1,134,885	\$(126,271 )	(11.1 )	%
Parts	219,597	214,373	5,224	2.4	%
Service	117,941	112,516	5,425	4.8	%
Rental and other	63,442	56,041	7,401	13.2	%
Total Revenue	\$1,409,594	\$1,517,815	\$(108,221 )	(7.1 )	%

The decrease in revenue for the first nine months of fiscal 2015 was primarily due to a decrease in same-store sales of 6.6% over the comparable prior year period, mainly driven by a decrease in Agriculture same-store sales of 14.3% and partially offset by an increase in Construction segment same-store sales of 20.3%. Agriculture same-store sales decreased primarily due to a decrease in equipment revenue and were negatively impacted by challenging industry conditions such as decreases in agricultural commodity prices and projected net farm income, which have a negative effect on customer sentiment. Changes in actual or anticipated net farm income, or in any of the significant components of net farm income, generally have a direct correlation with agricultural equipment purchases by farmers. In February and August 2014, the U.S. Department of Agriculture published its projections of a decrease in net farm income from calendar year 2013 to 2014. The commodity prices of corn and soybeans, which are the predominant crops in our Agriculture store footprint, were significantly lower during the first nine months of fiscal 2015 than the prices during the first nine months of fiscal 2014, mainly as a result of a projected increase in U.S. corn and soybean supply compared to the prior year. The increase in Construction segment revenue, which included increases in all lines of the Construction segment's business, resulted from improved industry conditions and the positive impact of operational initiatives.

## Gross Profit

	Nine Months Ended October 31,		Increase/ (Decrease)	Percent Change	
	2014	2013			
	(dollars in thousands)				
Gross Profit					
Equipment	\$81,751	\$95,112	\$(13,361 )	(14.0 )	%
Parts	65,451	66,221	(770 )	(1.2 )	%
Service	74,972	72,317	2,655	3.7	%
Rental and other	18,109	17,446	663	3.8	%
Total Gross Profit	\$240,283	\$251,096	\$(10,813 )	(4.3 )	%
Gross Profit Margin					
Equipment	8.1	% 8.4	% (0.3 )	% (3.6 )	%
Parts	29.8	% 30.9	% (1.1 )	% (3.6 )	%
Service	63.6	% 64.3	% (0.7 )	% (1.1 )	%
Rental and other	28.5	% 31.1	% (2.6 )	% (8.4 )	%
Total Gross Profit Margin	17.0	% 16.5	% 0.5	% 3.0	%
Gross Profit Mix					
Equipment	34.0	% 37.9	% (3.9 )	% (10.3 )	%
Parts	27.3	% 26.4	% 0.9	% 3.4	%

Edgar Filing: Titan Machinery Inc. - Form 10-Q

Service	31.2	% 28.8	% 2.4	% 8.3	%
Rental and other	7.5	% 6.9	% 0.6	% 8.7	%
Total Gross Profit Mix	100.0	% 100.0	% —	% —	%

25

---

Table of Contents

The \$10.8 million decrease in gross profit for the first nine months of fiscal 2015, as compared to the same period last year, was primarily due to lower equipment revenue and equipment gross profit margin. Total gross profit margin of 17.0% for the first nine months of fiscal 2015 increased from the first nine months of fiscal 2014, mainly due to a change in gross profit mix to our higher-margin parts, service and rental and other businesses, and partially offset by the decreases in gross profit margin on each of our components of revenue. The change in gross profit mix primarily resulted from decreased equipment revenue causing a change in sales mix. The decrease in rental and other gross profit margin resulted from a decrease in the dollar utilization of our rental fleet, from 30.8% in the first nine months of fiscal 2014 to 28.7% in the first nine months of fiscal 2015, primarily due to a higher average size rental fleet for the first nine months of the current year.

## Operating Expenses

	Nine Months Ended October		Increase/ (Decrease)	Percent	
	31, 2014	2013		Change	
	(dollars in thousands)				
Operating Expenses	\$208,406	\$214,083	\$(5,677)	(2.7)	)%
Operating Expenses as a Percentage of Revenue	14.7	% 14.1	% 0.6	% 4.3	%

The \$5.7 million decrease in operating expenses, as compared to the same period last year, was primarily due to decreased commissions expense resulting from the decrease in equipment gross profit, and cost savings associated with the closing of eight stores in the first quarter of fiscal 2015. These decreases in operating expenses were partially offset by higher occupancy costs associated with store building improvements and additional costs associated with expanding our International distribution network. The increase in operating expenses as a percentage of total revenue was primarily due to the decrease in total revenue in the first nine months of fiscal 2015, as compared to the first nine months of fiscal 2014, which negatively affected our ability to leverage our fixed operating costs.

## Realignment Costs

	Nine Months Ended October		Increase	Percent	
	31, 2014	2013		Change	
	(dollars in thousands)				
Realignment Costs	\$2,952	\$—	\$2,952	100.0	%

The realignment costs recognized in the first nine months of fiscal 2015 relate to the the closing of seven underperforming Construction stores, staff reductions at other dealerships and reductions in support staff at the Company's Shared Resource Center that took place in April 2014. The closed stores were located in Bozeman, Big Sky and Helena, Montana; Cheyenne, Wyoming; Clear Lake, Iowa; Flagstaff, Arizona; and Rosemount, Minnesota. The Company also closed its Agriculture store in Oskaloosa, Iowa and merged it with the nearby Agriculture store in Pella, Iowa. See the Non-GAAP Financial Measures section below for impact of these costs on non-GAAP Diluted EPS.

## Other Income (Expense)

	Nine Months Ended October		Increase/ (Decrease)	Percent	
	31, 2014	2013		Change	
	(dollars in thousands)				
Interest income and other income (expense)	\$(4,095)	) \$674	\$(4,769)	(707.6)	)%
Floorplan interest expense	(15,345)	) (11,944)	) 3,401	28.5	%
Other interest expense	(10,586)	) (10,115)	) 471	4.7	%

The decrease in interest income and other income (expense) was primarily due to foreign currency remeasurement losses in Ukraine, resulting from a devaluation of the Ukrainian hryvnia in the first nine months of fiscal 2015. See the Non-GAAP Financial Measures section below for impact of these costs on non-GAAP Diluted EPS. The increase in floorplan interest expense of \$3.4 million for the first nine months of fiscal 2015 was primarily due to the increase in floorplan payable and the related equipment inventory balances in our International segment, and higher interest rates in Ukraine associated with the political and economic instability that is present in the current fiscal year.

Table of Contents

## Provision for Income Taxes

	Nine Months Ended October			Percent
	31, 2014	2013	Decrease	
Provision for Income Taxes	\$4,254	\$6,506	\$(2,252 )	(34.6 )%

Our effective tax rate was 386.4% for the first nine months of fiscal 2015, compared to 41.6% for the same period last year. The impact on our effective tax rate for the first nine months of fiscal 2015 of not recording an income tax benefit on losses in jurisdictions with a valuation allowance was 399.0%, as shown in Note 10 of the notes to our consolidated financial statements.

## Segment Results

Certain financial information for our Agriculture, Construction and International 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. Revenue between segments is immaterial. Revenue amounts included in Eliminations primarily relate to transactions within a segment.

	Nine Months Ended October			Increase/ (Decrease)	Percent
	31, 2014	2013	(Decrease)		
	(dollars in thousands)				
Revenue					
Agriculture	\$1,013,118	\$1,186,893	\$(173,775 )	(14.6 )%	
Construction	325,482	290,637	34,845	12.0 %	
International	127,249	107,855	19,394	18.0 %	
Segment revenue	1,465,849	1,585,385	(119,536 )	(7.5 )%	
Eliminations	(56,255 )	(67,570 )	11,315	16.7 %	
Total	\$1,409,594	\$1,517,815	\$(108,221 )	(7.1 )%	
Income (Loss) Before Income Taxes					
Agriculture	\$13,747	\$34,451	\$(20,704 )	(60.1 )%	
Construction	(5,647 )	(11,642 )	5,995	51.5 %	
International	(11,866 )	(1,441 )	(10,425 )	(723.5 )%	
Segment income (loss) before income taxes	(3,766 )	21,368	(25,134 )	(117.6 )%	
Shared Resources	800	(4,775 )	5,575	116.8 %	
Eliminations	1,865	(965 )	2,830	293.3 %	
Income (Loss) Before Income Taxes	\$(1,101 )	\$15,628	\$(16,729 )	(107.0 )%	
Agriculture					

Agriculture segment revenue for the first nine months of fiscal 2015 decreased 14.6% compared to the same period last year. The revenue decrease was due to an Agriculture same-store sales decrease of 14.3% compared to the same period last year, which was primarily due to a decrease in equipment revenue. Equipment revenue was negatively impacted by challenging industry conditions, such as decreases in agricultural commodity prices and projected net farm income, which negatively affected customer sentiment in the first nine months of fiscal 2015 as compared to the same period in the prior year. Changes in actual or anticipated net farm income, or in any of the significant components of net farm income, generally have a direct correlation with agricultural equipment purchases by farmers.



In February and August 2014, the U.S. Department of Agriculture published its projections of a decrease in net farm income from calendar year 2013 to 2014. The commodity prices of corn and soybeans, which are the predominant crops in our Agriculture store footprint, were significantly lower during the first nine months of fiscal 2015 than the price during the first nine months of fiscal 2014, mainly as a result of a projected increase in U.S. corn and soybean supply compared to the prior year.

## Table of Contents

Agriculture segment income before income taxes for the first nine months of fiscal 2015 decreased 60.1% compared to the same period last year, primarily due to the aforementioned decrease in equipment revenue, a decrease in equipment gross profit margin and partially offset by a decrease in operating expenses. The compression in equipment gross profit margin was primarily caused by the previously discussed Agriculture industry challenges as well as an oversupply of used equipment in the Agriculture industry. The decrease in operating expenses was primarily due to lower commissions expense resulting from the decrease in equipment gross profit.

### Construction

Construction segment revenue for the first nine months of fiscal 2015 increased 12.0% compared to the same period last year. The revenue increase was due to a same-store sales increase of 20.3% over the first nine months of fiscal 2014. The increase in Construction segment revenue, which included increases in all lines of business, resulted from improved industry conditions and the positive impact of operational initiatives.

Our Construction segment loss before income taxes was \$5.6 million for the first nine months of fiscal 2015 compared to segment loss before income taxes of \$11.6 million for the first nine months of fiscal 2014. This improvement was primarily due to the increase in revenue, decrease in operating expenses, and partially offset by realignment costs. Realignment costs totaling \$2.3 million were recognized during the first quarter of fiscal 2015 related to the headcount reductions and closing of seven Construction stores, which was discussed above. The decrease in operating expenses resulted from the cost savings associated with closing these stores. The dollar utilization of our rental fleet decreased, from 30.8% in the first nine months of fiscal 2014 to 28.7% in the first nine months of fiscal 2015, primarily due to a higher average size rental fleet for the first nine months of the current year.

### International

International segment revenue for the first nine months of fiscal 2015 increased \$19.4 million compared to the same period last year, primarily due to new store openings, and a same-store sales increase of 22.3%.

Our International segment loss before income taxes was \$11.9 million for the first nine months of fiscal 2015 compared to segment loss before income taxes of \$1.4 million for the same period last year. This increased loss was primarily due to increases in operating expenses and floorplan interest expense, and a decrease in interest income and other income (expense), as compared to the same period of the prior year. Operating expenses increased due to expanding our distribution network in Eastern Europe, including opening a new store in Ukraine and establishing a European operations center to support our European stores. We believe the political and economic instability in Ukraine has had a negative impact on our revenue, which reduces our ability to leverage these fixed operating costs. The increase in floorplan interest expense for the first nine months of fiscal 2015, as compared to the same period in the prior year, was primarily due to the increase in floorplan payable and the related equipment inventory balances in our International segment, and higher interest rates in Ukraine associated with the political and economic instability that is present in the current fiscal year. The decrease in interest income and other income (expense) was primarily due to foreign currency remeasurement losses in Ukraine, resulting from a devaluation of the Ukrainian hryvnia in the first nine months of fiscal 2015.

### Shared Resources/Eliminations

We incur centralized expenses/income at our general corporate level, which we refer to as “Shared Resources,” and then allocate these net expenses to our segments. Since these allocations are set early in the year, unallocated balances may occur.

Eliminations remove any inter-company revenue or income (loss) before income taxes residing in our segment results.

Non-GAAP Financial Measures

To supplement our earnings (loss) per share - diluted ("Diluted EPS") presented on a GAAP basis, we use non-GAAP Diluted EPS, which excludes the impact of our store closing costs and foreign currency remeasurement losses in Ukraine, resulting from a devaluation of the Ukrainian hryvnia. We believe that the presentation of non-GAAP Diluted EPS is relevant and useful to our investors because it provides a measurement of earnings on activities we consider to occur in the ordinary course of our business. Non-GAAP Diluted EPS should be evaluated in addition to, and not considered a substitute for, or superior to, the GAAP measure of Diluted EPS.

Table of Contents

The following table reconciles Diluted EPS, a GAAP measure, to non-GAAP Diluted EPS:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(dollars in thousands, except per share data)			
Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders				
Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders	\$2,421	\$5,728	\$(4,613	) \$9,112
Non-GAAP Adjustments				
Store Closing Costs (1)	—	—	2,035	—
Ukraine Remeasurement (2)	508	—	4,840	—
Adjusted Net Income Attributable to Titan Machinery Inc. Common Stockholders	\$2,929	\$5,728	\$2,262	\$9,112
Diluted EPS				
Diluted EPS	\$0.11	\$0.27	\$(0.22	) \$0.43
Non-GAAP Adjustments				
Impact of Store Closing Costs (1)	—	—	0.10	—
Impact of Ukraine Remeasurement (2)	0.03	—	0.23	—
Adjusted Diluted EPS	\$0.14	\$0.27	\$0.11	\$0.43

(1) See Note 9 of the notes to our consolidated financial statements for details of this matter.

(2) See the Foreign Currency Remeasurement Losses section of Management's Discussion and Analysis of Financial Condition and Results of Operations for details of this matter.

## Liquidity and Capital Resources

### Sources of Liquidity

Our primary sources of liquidity are cash reserves, cash from operations, and borrowings under our floorplan payable and other credit facilities. We expect these sources of liquidity to be sufficient to fund our working capital requirements, acquisitions, capital expenditures and other investments in our business, service our debt, pay our tax obligations and commitments and contingencies, and meet any seasonal operating requirements for the foreseeable future, provided, however, that our borrowing capacity under our credit agreements is dependent on compliance with various financial covenants as further described in the "Risk Factors" section of our Annual Report on Form 10-K. We have worked in the past, and will continue to work in the future, with our lenders to implement satisfactory modifications to certain financial covenants as appropriate for the business conditions confronted by us.

### 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, provide working capital, make payments due under building space operating leases and manufacturer floorplan payables. Based on our current operational performance, we believe our cash flow from operations, available cash and available borrowings under our existing credit facilities will adequately provide our liquidity needs for, at a minimum, the next 12 months. Our main financing arrangements, in which we had discretionary floorplan lines of credit totaling approximately \$1.16 billion as of October 31, 2014, are described in Note 4 of the notes to our consolidated financial statements. As of October 31, 2014, we are in compliance with the financial covenants under these agreements. If anticipated operating results create the likelihood of a future covenant violation, we would work with our lenders on an appropriate modification or amendment to our financing

arrangements.

Cash Flow

Cash Flow Used For Operating Activities

Net cash used for operating activities was \$82.6 million for the nine months ended October 31, 2014, compared to \$107.4 million for the nine months ended October 31, 2013. Net cash used for operating activities for the nine months ended

29

---

Table of Contents

October 31, 2014 was primarily attributable to decreases in our manufacturer floorplan payable and accounts payable, customer deposits, accrued expenses and other long-term liabilities. The decrease in manufacturer floorplan payable was due to an increase in the use of non-manufacturer floorplan payables for financing of our equipment inventories. Net cash used for operating activities for the nine months ended October 31, 2013 was primarily attributable to an increase in our inventories, partially offset by an increase in manufacturer floorplan payable financing of such inventories. The decrease in net cash used for operating activities for the nine months ended October 31, 2014, compared to the same period in the prior year, was primarily due to a decrease in equipment inventory purchases, net of manufacturer floorplan payable financing of such inventories, as compared to the same period last year. We evaluate our cash flow from operating activities net of all floorplan activity. Taking this adjustment into account, our non-GAAP cash flow provided by operating activities was \$0.7 million and cash flow used for operating activities was \$12.0 million for the nine months ended October 31, 2014 and 2013, respectively. For reconciliation of this non-GAAP financial measure, please see the Non-GAAP Cash Flow Reconciliation below.

Cash Flow Provided By Or Used For Investing Activities

Net cash provided by investing activities was \$2.5 million for the nine months ended October 31, 2014, compared to net cash used for investing activities of \$11.0 million for the nine months ended October 31, 2013. For the nine months ended October 31, 2014, net cash provided by investing activities was primarily comprised of proceeds from the sale property and equipment, and partially offset by property and equipment purchases. For the nine months ended October 31, 2013, net cash used for investing activities was primarily comprised of property and equipment purchases and business combinations consisting of two stores.

Cash Flow Provided By Financing Activities

Net cash provided by financing activities was \$116.6 million for the nine months ended October 31, 2014 and \$107.4 million for the nine months ended October 31, 2013. For the nine months ended October 31, 2014, net cash provided by financing activities primarily consisted of an increase in non-manufacturer floorplan payables, which increased as a result of reductions in manufacturer floorplan payable balances, and proceeds from long-term debt. For the nine months ended October 31, 2013, net cash provided by financing activities primarily consisted of proceeds from long-term debt for rental fleet financing, and an increase in non-manufacturer floorplan payables, which increased as a result of higher equipment inventory balances.

Non-GAAP Cash Flow Reconciliation

We consider our cash flow from operating activities to include all equipment inventory financing activity regardless of whether we obtain the financing from a manufacturer or other source. We consider equipment inventory financing with both manufacturers and other sources to be part of the normal operations of our business and use the adjusted cash flow analysis in the evaluation of our equipment inventory and inventory flooring needs. Non-GAAP cash flow used for operating activities is a non-GAAP financial measure which is adjusted for non-manufacturer floorplan payable. The adjustment is equal to the net change in non-manufacturer floorplan payable, as shown on the consolidated statements of cash flows. GAAP categorizes non-manufacturer floorplan payable as financing activities in the consolidated statements of cash flows.

We believe that the presentation of non-GAAP cash flow used for operating activities is relevant and useful to our investors because it provides information on activities we consider normal operations of our business, regardless of financing source. 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, and net cash provided by (used for) financing activities, a GAAP measure, to non-GAAP cash flow provided by (used for) financing activities.

As Reported	Adjustment
-------------	------------

Edgar Filing: Titan Machinery Inc. - Form 10-Q

	(in thousands)		Non-GAAP Measures
Nine Months Ended October 31, 2014			
Net cash provided by (used for) operating activities	\$(82,555	) \$83,232	\$677
Net cash provided by (used for) financing activities	116,570	(83,232	) 33,338
Nine Months Ended October 31, 2013			
Net cash provided by (used for) operating activities	\$(107,355	) \$95,330	\$(12,025
Net cash provided by (used for) financing activities	107,370	(95,330	) 12,040

30

---

Table of Contents

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

**Certain Information Concerning Off-Balance Sheet Arrangements**

As of October 31, 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose 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 real estate, vehicles and equipment 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, 2014, 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 exchange rate and interest rate impact, farm income levels and performance of the agricultural and construction industries, equipment inventory levels, and our primary liquidity sources and 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 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**

We are exposed to various market risks, including changes in interest rates and foreign currency exchange rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates.

**Interest Rate Risk:** Exposure to changes in interest rates results from borrowing activities used to fund operations. 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 market value but do impact future earnings and cash flows, assuming other factors are held constant. We have both fixed and floating rate financing. Some of our floating rate credit facilities contain minimum rates of interest to be charged. Based upon balances and interest rates as of October 31, 2014, 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 \$4.7 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 \$4.7 million. At October 31, 2014, we had variable rate floorplan payable of \$761.2 million, of which approximately \$384.5 million was interest-bearing, variable notes payable and long-term debt of \$83.3 million, and fixed rate notes payable and long-term debt of \$54.9 million.

**Foreign Currency Exchange Rate Risk:** Foreign currency exposures arise as the result of our foreign operations. The Company is exposed to foreign currency exchange rate risk, as our net investment in our foreign operations is exposed to changes in foreign currency exchange rates. In addition, the Company is exposed to the translation of foreign currency earnings to the U.S. dollar, whereby the results of our operations and cash flows may be adversely impacted by fluctuating foreign currency exchange rates. The Company is also exposed to foreign currency transaction risk from purchasing inventory in currencies other than the U.S. dollar and as the result of certain intercompany financing transactions. The Company attempts to

Table of Contents

manage its foreign currency exchange rate risk through the use of derivative financial instruments, primarily foreign exchange forward contracts. Based upon balances and exchange rates as of October 31, 2014, holding other variables constant, we believe that a hypothetical 10% increase or decrease in foreign exchange rates would not have a material impact on our results of operations or cash flows.

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, the Company's 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.

(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.

Table of Contents

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, from time to time, subject to claims and suits arising in the ordinary course of business. Such claims have, in the past, generally been covered by insurance. There can be no assurance that our insurance will be adequate to cover all liabilities that may arise out of claims brought against us, or that our insurance will cover all claims. We are not currently a party to any material litigation.

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, 2014 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, aside from those discussed in our Form 10-K, 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

We did not have any unregistered sales of equity securities during the fiscal quarter ended October 31, 2014.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Effective October 31, 2014, the Company entered into Amendment No. 5 to its Amended and Restated Credit Agreement dated March 30, 2012, by and among the Company, Wells Fargo Bank, National Association, and the other lenders party thereto. This credit facility provides to the Company floorplan financing for equipment inventory purchases. The amendment modified the borrowing base advance rates, revised the interest rate pricing, replaced the consolidated net income covenant with a minimum consolidated income before income taxes covenant, as adjusted for certain impairment charges, realignment charges, and foreign currency remeasurement losses, and changed the covenant respecting investment in and guaranties of bank indebtedness of foreign subsidiaries. The foregoing summary of the amendment is qualified by reference to the full text of the amendment, a copy of which is attached to this quarterly report as Exhibit 10.1.

Effective October 31, 2014, the Company entered into an Amendment to the Amended and Restated Wholesale Floor Plan Credit Facility and Security Agreement dated November 13, 2007, by and between the Company and CNH Industrial Capital America LLC. This credit facility provides to the Company floor plan financing for inventory purchases. The amendment, amongst other things, replaced the minimum debt service ratio financial covenant with a

minimum fixed charge coverage ratio financial covenant of not less than 1.25:1.00, and added or modified related definitions. The foregoing summary of the amendment is qualified by reference to the full text of the amendment, a copy of which is attached to this quarterly report as Exhibit 10.2.

ITEM 6. EXHIBITS

Exhibits - See "Exhibit Index" on page following signatures.

33

---

Table of Contents

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: December 10, 2014

TITAN MACHINERY INC.

By /s/ Mark Kalvoda  
Mark Kalvoda  
Chief Financial Officer  
(Principal Financial Officer)

Table of Contents

EXHIBIT INDEX  
TITAN MACHINERY INC.  
FORM 10-Q

Exhibit No.	Description
*10.1	Fifth Amendment, dated as of December 5, 2014, to Amended and Restated Credit Agreement by and among the registrant, Wells Fargo Bank, National Association, and the Financial Institutions Party Thereto.
*10.2	Amendment dated as of December 8, 2014, to Amended and Restated Wholesale Floor Plan Credit Facility and Security Agreement, by and between the registrant and CNH industrial Capital LLC.
*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
**101	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended October 31, 2014, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

\*Filed herewith

\*\* Furnished herewith

+ Management compensatory plan or arrangement