

Titan Machinery Inc.  
Form 10-Q  
June 05, 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 April 30, 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 May 31, 2014 was: Common Stock, \$0.00001 par value, 21,252,169 shares.

---

Table of Contents

TITAN MACHINERY INC.  
 QUARTERLY REPORT ON FORM 10-Q

Table of Contents  
 Insert Title Here

	Page No.
<u>PART I.</u>	<u>3</u>
<u>FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	<u>3</u>
<u>FINANCIAL STATEMENTS</u>	
<u>Consolidated Balance Sheets as of April 30, 2014 and January 31, 2014</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three months ended April 30, 2014 and 2013</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three months ended April 30, 2014 and 2013</u>	<u>5</u>
<u>Consolidated Statements of Stockholders' Equity for the three months ended April 30, 2014 and 2013</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the three months ended April 30, 2014 and 2013</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>ITEM 2.</u>	<u>18</u>
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	
<u>ITEM 3.</u>	<u>26</u>
<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	
<u>ITEM 4.</u>	<u>27</u>
<u>CONTROLS AND PROCEDURES</u>	
<u>PART II.</u>	<u>28</u>
<u>OTHER INFORMATION</u>	
<u>ITEM 1.</u>	<u>28</u>
<u>LEGAL PROCEEDINGS</u>	
<u>ITEM 1A.</u>	<u>28</u>
<u>RISK FACTORS</u>	
<u>ITEM 2.</u>	<u>28</u>
<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	
<u>ITEM 3.</u>	<u>28</u>
<u>DEFAULTS UPON SENIOR SECURITIES</u>	
<u>ITEM 4.</u>	<u>28</u>
<u>MINE SAFETY DISCLOSURES</u>	
<u>ITEM 5.</u>	<u>28</u>
<u>OTHER INFORMATION</u>	
<u>ITEM 6.</u>	<u>28</u>
<u>EXHIBITS</u>	
<u>Signatures</u>	<u>29</u>
<u>Exhibit Index</u>	<u>30</u>

Table of Contents

## PART I. — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TITAN MACHINERY INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	April 30, 2014 (Unaudited)	January 31, 2014
Assets		
Current Assets		
Cash	\$82,011	\$74,242
Receivables, net	79,895	97,894
Inventories	1,116,977	1,075,978
Prepaid expenses and other	17,392	24,740
Income taxes receivable	6,173	851
Deferred income taxes	13,441	13,678
Total current assets	1,315,889	1,287,383
Intangibles and Other Assets		
Noncurrent parts inventories	5,085	5,098
Goodwill	24,751	24,751
Intangible assets, net of accumulated amortization	11,582	11,750
Other	7,555	7,666
Total intangibles and other assets	48,973	49,265
Property and Equipment, net of accumulated depreciation	231,780	228,000
Total Assets	\$1,596,642	\$1,564,648
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$26,138	\$23,714
Floorplan payable	798,542	750,533
Current maturities of long-term debt	35,990	2,192
Customer deposits	36,384	61,286
Accrued expenses	43,634	36,968
Income taxes payable	3	344
Total current liabilities	940,691	875,037
Long-Term Liabilities		
Senior convertible notes	129,728	128,893
Long-term debt, less current maturities	66,690	95,532
Deferred income taxes	46,854	47,329
Other long-term liabilities	7,360	6,515
Total long-term liabilities	250,632	278,269
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value \$.00001 per share, 45,000 shares authorized; 21,253 shares issued and outstanding at April 30, 2014; 21,261 shares issued and outstanding at January 31, 2014	—	—
Additional paid-in-capital	238,795	238,857

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

Retained earnings	165,380	169,575
Accumulated other comprehensive income (loss)	(1,278	) 339
Total Titan Machinery Inc. stockholders' equity	402,897	408,771
Noncontrolling interest	2,422	2,571
Total stockholders' equity	405,319	411,342
Total Liabilities and Stockholders' Equity	\$1,596,642	\$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 April		
	30,		
	2014	2013	
Revenue			
Equipment	\$345,045	\$334,745	
Parts	68,379	62,837	
Service	37,084	31,998	
Rental and other	14,955	12,094	
Total Revenue	465,463	441,674	
Cost of Revenue			
Equipment	316,282	303,823	
Parts	48,014	44,711	
Service	14,403	11,363	
Rental and other	10,825	7,829	
Total Cost of Revenue	389,524	367,726	
Gross Profit	75,939	73,948	
Operating Expenses	71,152	68,933	
Realignment Costs	2,801	—	
Income from Operations	1,986	5,015	
Other Income (Expense)			
Interest income and other income (expense)	(224	) 597	
Floorplan interest expense	(4,593	) (3,442	)
Other interest expense	(3,441	) (3,167	)
Loss Before Income Taxes	(6,272	) (997	)
Benefit from Income Taxes	1,733	394	
Net Loss Including Noncontrolling Interest	\$(4,539	) \$(603	)
Less: Net Loss Attributable to Noncontrolling Interest	(344	) (189	)
Net Loss Attributable to Titan Machinery Inc.	\$(4,195	) \$(414	)
Net Loss per Share - Note 1			
Net Loss per Share - Basic	\$(0.20	) \$(0.02	)
Net Loss per Share - Diluted	\$(0.20	) \$(0.02	)
Weighted Average Common Shares - Basic	20,951	20,854	
Weighted Average Common Shares - Diluted	20,951	20,854	

See Notes to Consolidated Financial Statements

Table of Contents

TITAN MACHINERY INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
(in thousands)

	Three Months Ended April		
	30,		
	2014	2013	
Net Loss Including Noncontrolling Interest	\$ (4,539	) \$ (603	)
Other Comprehensive Income (Loss)			
Foreign currency translation adjustments	(1,220	) (797	)
Unrealized gain (loss) on net investment hedge derivative instruments, net of tax expense (benefit) of (\$498) and \$314 for the three months ended April 30, 2014 and 2013, respectively	(747	) 471	
Unrealized gain on interest rate swap cash flow hedge derivative instruments, net of tax expense of \$2 for the three months ended April 30, 2014	3	—	
Unrealized gain on foreign currency contract cash flow hedge derivative instruments, net of tax expense of \$21 for the three months ended April 30, 2014	32	—	
Reclassification of loss on foreign currency contract cash flow hedge derivative instruments included in net loss, net of tax expense of \$5 for the three months ended April 30, 2014	9	—	
Total Other Comprehensive Income (Loss)	(1,923	) (326	)
Comprehensive Loss	(6,462	) (929	)
Comprehensive Loss Attributable to Noncontrolling Interest	(650	) (324	)
Comprehensive Loss Attributable To Titan Machinery Inc.	\$ (5,812	) \$ (605	)

See Notes to Consolidated Financial Statements

Table of Contents

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands)

	Common Stock			Accumulated Other Comprehensive Loss						Total Titan Machinery Inc. Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares Outstanding	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Investments	Unrealized Gains (Losses) on Interest Rate Swap Hedges	Unrealized Gains (Losses) on Foreign Currency Contract 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	11	—272	—	—	—	—	—	—	272	—	272	
Stock-based compensation expense	—	—470	—	—	—	—	—	—	470	—	470	
Comprehensive income (loss):												
Net loss	—	—	(414 )	—	—	—	—	—	(414 )	(189 )	(603 )	
Other comprehensive income (loss)	—	—	—	(662 )	471	—	—	(191 )	(191 )	(135 )	(326 )	
Total comprehensive loss	—	—	—	—	—	—	—	—	(605 )	(324 )	(929 )	
Balance, April 30, 2013	21,103	\$-237,263	\$160,310	\$(888 )	\$(38 )	\$—	\$—	\$(926 )	\$396,647	\$3,085	\$399,732	
Balance, January 31, 2014	21,261	\$-238,857	\$169,575	\$1,541	\$(339 )	\$(737)	\$(126)	\$339	\$408,771	\$2,571	\$411,342	
Common stock issued on grant	(8 )	—(23 )	—	—	—	—	—	—	(23 )	—	(23 )	

of restricted stock (net of forfeitures), exercise of stock options and warrants, and tax benefits of equity awards												
Stock-based compensation	—	—463	—	—	—	—	—	—	463	—	463	
expense												
Other	—	—(502	) —	—	—	—	—	—	(502	) 501	(1	
Comprehensive income (loss):												
Net loss	—	—	(4,195	) —	—	—	—	—	(4,195	) (344	) (4,539	
Other comprehensive income (loss)	—	—	—	(914	) (747	) 3	41	(1,617	) (1,617	) (306	) (1,923	
Total comprehensive income	—	—	—	—	—	—	—	—	(5,812	) (650	) (6,462	
Balance, April 30, 2014	21,253	\$-238,795	\$165,380	\$627	\$(1,086)	\$(734)	\$(85	) \$(1,278)	\$402,897	\$2,422	\$405,319	

See Notes to Consolidated Financial Statements

Table of Contents

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended April	
	30,	
	2014	2013
Operating Activities		
Net income including noncontrolling interest	\$(4,539	) \$(603
Adjustments to reconcile net income including noncontrolling interest to net cash used for operating activities		)
Depreciation and amortization	6,729	5,869
Deferred income taxes	232	171
Stock-based compensation expense	463	470
Noncash interest expense	1,151	1,108
Other, net	(636	) 619
Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities		
Receivables, prepaid expenses and other assets	21,571	34,587
Inventories	(41,963	) (102,258
Manufacturer floorplan payable	(17,308	) 65,525
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	(14,639	) (4,612
Income taxes	(5,663	) (7,195
Net Cash Used for Operating Activities	(54,602	) (6,319
Investing Activities		
Rental fleet purchases	(629	) (329
Property and equipment purchases (excluding rental fleet)	(5,078	) (5,454
Net proceeds from sale of property and equipment	471	237
Purchase of equipment dealerships, net of cash purchased	—	(4,848
Other, net	(887	) 771
Net Cash Used for Investing Activities	(6,123	) (9,623
Financing Activities		
Net change in non-manufacturer floorplan payable	65,305	8,408
Proceeds from long-term debt borrowings	5,832	665
Principal payments on long-term debt	(2,505	) (3,405
Other, net	(207	) 272
Net Cash Provided by Financing Activities	68,425	5,940
Effect of Exchange Rate Changes on Cash	69	(106
Net Change in Cash	7,769	(10,108
Cash at Beginning of Period	74,242	124,360
Cash at End of Period	\$82,011	\$114,252
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period		
Income taxes, net of refunds	\$3,973	\$6,486
Interest	\$5,475	\$4,405
Supplemental Disclosures of Noncash Investing and Financing Activities		
Net property and equipment financed with long-term debt, accounts payable and accrued liabilities	\$1,100	\$4,285
Net transfer of assets to property and equipment from inventories	\$1,962	\$30,122
See Notes to Consolidated Financial Statements		



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 three-month period ended April 30, 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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements, including the consolidated statements of cash flows, to maintain consistency and comparability between periods presented. These reclassifications had no impact on previously reported cash flows from operating, investing or financing activities.

Earnings 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 attributable to Titan Machinery Inc. after allocation of income 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 attributable to Titan Machinery Inc. after allocation of income to participating securities by the weighted-average shares of common stock outstanding after adjusting for potential dilution

Table of Contents

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 375,000 and 380,000 stock options outstanding that were excluded from the computation of diluted EPS for the three months ended April 30, 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.

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

	Three Months Ended April 30,	
	2014	2013
	(in thousands, except per share data)	
Numerator		
Net Loss Attributable to Titan Machinery Inc.	\$ (4,195	) \$ (414
Less: Net Loss Allocated to Participating Securities	60	5
Net Loss Attributable to Titan Machinery Inc. Common Stockholders	\$ (4,135	) \$ (409
Denominator		
Basic Weighted-Average Common Shares Outstanding	20,951	20,854
Plus: Incremental Shares From Assumed Conversions of Stock Options	—	—
Diluted Weighted-Average Common Shares Outstanding	20,951	20,854
Net Loss per Share - Basic	\$ (0.20	) \$ (0.02
Net Loss per Share - Diluted	\$ (0.20	) \$ (0.02

## 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 guidance is effective for disposals of components of an entity occurring in fiscal years beginning after December 15, 2014, with early adoption permitted. 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.

Table of Contents

## NOTE 2—INVENTORIES

	April 30, 2014	January 31, 2014
	(in thousands)	
New equipment	\$622,677	\$575,518
Used equipment	348,003	363,755
Parts and attachments	126,023	126,666
Work in process	20,274	10,039
	\$1,116,977	\$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

	April 30, 2014	January 31, 2014
	(in thousands)	
Rental fleet equipment	\$146,956	\$145,007
Machinery and equipment	24,024	23,382
Vehicles	44,420	44,200
Furniture and fixtures	37,302	35,860
Land, buildings, and leasehold improvements	66,130	60,470
	318,832	308,919
Less accumulated depreciation	(87,052)	(80,919)
	\$231,780	\$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 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 America, LLC's captive finance subsidiary, CNH Capital America LLC ("CNH 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 April 30, 2014, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling approximately \$1.17 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 Capital, a \$225.0 million credit facility with Agricredit Acceptance LLC and the U.S. dollar equivalent of \$142.7 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$701.5 million of the total floorplan payable balance of \$798.5 million outstanding as of April 30, 2014 and \$692.8 million of the total floorplan payable balance of \$750.5 million outstanding as of January 31, 2014. As of

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

April 30, 2014, the Company had approximately \$401.7 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 Capital credit agreement). These U.S. floorplan payables carried various interest rates primarily ranging from 2.78% to 4.99%, and the foreign floorplan payables carried various interest rates primarily ranging from 2.34% to 12.16%, as of April 30, 2014.

Table of Contents

## Working Capital Line of Credit

As of April 30, 2014, the Company had a \$112.5 million working capital line of credit under the credit facility with Wells Fargo. The Company had \$48.0 million and \$47.8 million outstanding on its working capital line of credit as of April 30, 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:

	April 30, 2014	January 31, 2014
	(in thousands except conversion rate and conversion price)	
Principal value	\$150,000	\$150,000
Unamortized debt discount	(20,272	) (21,107
Carrying value of senior convertible notes	\$129,728	\$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	23.1626
Conversion price (per share of common stock)	\$43.17	\$43.17

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

	Three Months Ended April 30,	
	2014	2013
	(in thousands)	
Cash Interest Expense		
Coupon interest expense	\$1,406	\$1,406
Noncash Interest Expense		
Amortization of debt discount	835	779
Amortization of transaction costs	133	129
	\$2,374	\$2,314

As of April 30, 2014, the unamortized debt discount will be amortized over a remaining period of approximately 5 years. As of April 30, 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 7.00% for the period ended April 30, 2014.

## 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.

Table of Contents

## 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, an effective date of September 30, 2014 and a maturity date of 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 is hedging 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:	
	April 30, 2014	January 31, 2014
	(in thousands)	
Net investment hedge:		
Foreign currency contracts	\$38,522	\$43,742
Cash flow hedges:		
Interest rate swap	100,000	100,000
Foreign currency contracts	1,490	4,754
Derivatives not designated as hedging instruments:		
Foreign currency contracts	45,572	44,775

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
	April 30, 2014	January 31, 2014	
	(in thousands)		
<b>Asset Derivatives:</b>			
Derivatives designated as hedging instruments:			
Net investment hedges:			
Foreign currency contracts	\$—	\$157	Prepaid expenses and other
Derivatives not designated as hedging instruments:			
Foreign currency contracts	—	279	Prepaid expenses and other
Total Asset Derivatives	\$—	\$436	
<b>Liability Derivatives:</b>			
Derivatives designated as hedging instruments:			
Net investment hedges:			
Foreign currency contracts	\$175	\$—	Accrued expenses
Cash flow hedges:			
Interest rate swap	1,222	1,227	Accrued expenses
Foreign currency contracts	39	211	Accrued expenses
Derivatives not designated as hedging instruments:			
Foreign currency contracts	196	—	Accrued expenses
Total Liability Derivatives	\$1,632	\$1,438	

The following table sets forth the gains and losses recognized on the Company's derivative instruments for the three months ended April 30, 2014 and 2013:

	Three months ended April 30, 2014		Three months ended April 30, 2013		Income Statement Classification
	Other Comprehensive Income	Income	Other Comprehensive Income	Income	
	(in thousands)		(in thousands)		
<b>Derivatives Designated as Hedging Instruments:</b>					
Net investment hedges:					
Foreign currency contracts	\$ (1,245	) —	\$ 785	—	N/A
Cash flow hedges:					
Interest rate swap	5	—	—	—	N/A
Foreign currency contracts	53	—	—	—	N/A
<b>Derivatives Not Designated as Hedging Instruments:</b>					
Foreign currency contracts	—	(1,303	) —	720	Interest and other income
Total Derivatives	\$ (1,187	) \$ (1,303	) \$ 785	\$ 720	

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

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

As of April 30, 2014, the Company had \$1.2 million and \$0.2 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 \$1.0 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.

13

---

Table of Contents

## NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS

The assets and liabilities which are measured at fair value on a recurring basis as of April 30, 2014 and January 31, 2014 are as follows:

	April 30, 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	\$—	\$—	\$—	\$—	\$—	\$436	\$—	\$436
Total Financial Assets	\$—	\$—	\$—	\$—	\$—	\$436	\$—	\$436
<b>Financial Liabilities</b>								
Interest rate swap	\$—	\$1,222	\$—	\$1,222	\$—	\$1,227	\$—	\$1,227
Foreign currency contracts	—	410	—	410	—	211	—	211
Total Financial Liabilities	\$—	\$1,632	\$—	\$1,632	\$—	\$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 valued certain long-lived assets at fair value on a non-recurring basis, related to fixed assets at stores closed, during the three months ended April 30, 2014. The estimated fair value of these assets approximated zero, thus requiring a full impairment charge equal to the carrying values of such assets. The valuation methodologies utilized Level 3 fair value 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 April 30, 2014 and January 31, 2014, respectively. The following table provides details on the Senior Convertible Notes as of April 30, 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.

	April 30, 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	\$130,835	\$129,728	\$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.

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

14

---

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 April 30,	
	2014	2013
	(in thousands)	
Revenue		
Agriculture	\$352,648	\$360,344
Construction	101,879	82,841
International	30,341	27,730
Segment revenue	484,868	470,915
Eliminations	(19,405	) (29,241
Total	\$465,463	\$441,674
Income (Loss) Before Income Taxes		
Agriculture	\$3,318	\$7,999
Construction	(5,775	) (6,538
International	(3,065	) (526
Segment income (loss) before income taxes	(5,522	) 935
Shared Resources	(873	) (1,238
Eliminations	123	(694
Loss Before Income Taxes	\$(6,272	) \$(997

	April 30, 2014	January 31, 2014
	(in thousands)	
Total Assets		
Agriculture	\$874,217	\$943,212
Construction	411,641	308,525
International	224,456	195,534
Segment assets	1,510,314	1,447,271
Shared Resources	89,318	120,335
Eliminations	(2,990	) (2,958
Total	\$1,596,642	\$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 its 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 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 will be 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, are expected to be 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:

	Total Amount Expected to be Incurred	Amount Incurred During Three Months Ended April 30, 2014	Income Statement Classification
	(in thousands)		
<b>Construction Segment</b>			
Lease termination costs	\$1,518	\$1,518	Realignment Costs
Employee severance costs	451	451	Realignment Costs
Impairment of fixed assets	152	152	Realignment Costs
Asset relocation and other closing costs	728	165	Realignment Costs
	\$2,849	\$2,286	
<b>Agriculture Segment</b>			
Lease termination costs	\$114	\$114	Realignment Costs
Employee severance costs	71	71	Realignment Costs
Impairment of fixed assets	85	85	Realignment Costs
Asset relocation and other closing costs	72	32	Realignment Costs
Inventory cost adjustments	404	404	Equipment Cost of Sales
	\$746	\$706	
<b>Shared Resource Center</b>			
Employee severance costs	\$213	\$213	Realignment Costs
	\$213	\$213	
<b>Total</b>			
Lease termination costs	\$1,632	\$1,632	Realignment Costs
Employee severance costs	735	735	Realignment Costs
Impairment of fixed assets	237	237	Realignment Costs
Asset relocation and other closing costs	800	197	Realignment Costs
Inventory cost adjustments	404	404	Equipment Cost of Sales
	\$3,808	\$3,205	

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	1,598	
Employee severance costs	735	
Exit costs paid		
Lease termination costs	(51	)
Employee severance costs	(544	)
Adjustments		
Lease termination costs	76	
Balance, April 30, 2014	\$2,362	

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 its 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 \$3.2 million in exit costs during the three months ended April 30, 2014 and expect to recognize the remaining exit costs of approximately \$0.6 million during the three months ended July 31, 2014.

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 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 loss attributable to Titan Machinery Inc. common stockholders was \$4.1 million, or \$0.20 per diluted share, for the three months ended April 30, 2014, compared to \$0.4 million, or \$0.02 per diluted share, for the three months ended April 30, 2013. Significant factors impacting the quarterly comparisons were:

• Revenue increased 5.4% for the first quarter of fiscal 2015, as compared to the first quarter last year, primarily from an increase in Construction same-store sales, and partially offset by a decrease in Agriculture same-store sales;

• Total gross profit margin decreased to 16.3% for the first quarter of fiscal 2015, as compared to 16.7% for the first quarter of fiscal 2014, primarily caused by decreases in the gross profit margin on equipment and rental and other, and offset by the positive effects of a change in gross profit mix to our higher-margin parts and service business;

• Realignment costs totaling \$3.2 million were recognized during the first quarter of fiscal 2015 related to the headcount reductions and closing of seven Construction stores and one Agriculture store; and

Floorplan interest expense increased in the first quarter of fiscal 2015, as compared to the same period last year, due to higher floorplan payable balances resulting from growth in our equipment inventory, primarily in our International segment.

18

---

Table of Contents

## 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 April 30,			
	2014	2013		
	(dollars in thousands)			
Equipment				
Revenue	\$345,045	\$334,745		
Cost of revenue	316,282	303,823		
Gross profit	\$28,763	\$30,922		
Gross profit margin	8.3	% 9.2		%
Parts				
Revenue	\$68,379	\$62,837		
Cost of revenue	48,014	44,711		
Gross profit	\$20,365	\$18,126		
Gross profit margin	29.8	% 28.8		%
Service				
Revenue	\$37,084	\$31,998		
Cost of revenue	14,403	11,363		
Gross profit	\$22,681	\$20,635		
Gross profit margin	61.2	% 64.5		%
Rental and other				
Revenue	\$14,955	\$12,094		
Cost of revenue	10,825	7,829		
Gross profit	\$4,130	\$4,265		
Gross profit margin	27.6	% 35.3		%

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 April 30,			
	2014	2013		
Revenue				
Equipment	74.1	% 75.9		%
Parts	14.7	% 14.2		%
Service	8.0	% 7.2		%
Rental and other	3.2	% 2.7		%
Total Revenue	100.0	% 100.0		%
Total Cost of Revenue	83.7	% 83.3		%
Gross Profit	16.3	% 16.7		%
Operating Expenses	15.3	% 15.6		%
Realignment Costs	0.6	% —		%
Income from Operations	0.4	% 1.1		%
Other Income (Expense)	(1.7)	)% (1.3)		)%
Loss Before Income Taxes	(1.3)	)% (0.2)		)%
Benefit from Income Taxes	0.3	% 0.1		%
Net Loss Including Noncontrolling Interest	(1.0)	)% (0.1)		)%
Less: Net Loss Attributable to Noncontrolling Interest	(0.1)	)% —		%
Net Loss Attributable to Titan Machinery Inc.	(0.9)	)% (0.1)		)%

Three Months Ended April 30, 2014 Compared to Three Months Ended April 30, 2013

## Consolidated Results

## Revenue

	Three Months Ended April 30,			Percent	
	2014	2013	Increase	Change	
	(dollars in thousands)				
Equipment	\$345,045	\$334,745	\$10,300	3.1	%
Parts	68,379	62,837	5,542	8.8	%
Service	37,084	31,998	5,086	15.9	%
Rental and other	14,955	12,094	2,861	23.7	%
Total Revenue	\$465,463	\$441,674	\$23,789	5.4	%

The increase in revenue for the first quarter of fiscal 2015 was primarily due to an increase in same-store sales of 3.2% over the comparable prior year period, mainly driven by an increase in Construction segment same-store sales of 24.4% and offset by a decrease in Agriculture same-store sales of 1.2%. 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. The Agriculture same-store sales 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. The commodity price of corn, which is the predominant crop in our Agriculture store footprint, decreased significantly from the price during the first quarter of fiscal 2014, mainly as a result of an increase in U.S. corn supply compared to the prior year. Net farm income has been strong and increasing in many of the recent years, however, in February 2014, the U.S. Department of Agriculture published its projection of a decrease in net farm income from calendar year 2013 to 2014.



Table of Contents

## Gross Profit

	Three Months Ended April 30,		Increase/ (Decrease)	Percent	
	2014	2013		Change	
	(dollars in thousands)				
Gross Profit					
Equipment	\$28,763	\$30,922	\$(2,159)	(7.0)	)%
Parts	20,365	18,126	2,239	12.4	%
Service	22,681	20,635	2,046	9.9	%
Rental and other	4,130	4,265	(135)	(3.2)	)%
Total Gross Profit	\$75,939	\$73,948	\$1,991	2.7	%
Gross Profit Margin					
Equipment	8.3	% 9.2	% (0.9)	)%	(9.8)
Parts	29.8	% 28.8	% 1.0	% 3.5	%
Service	61.2	% 64.5	% (3.3)	)%	(5.1)
Rental and other	27.6	% 35.3	% (7.7)	)%	(21.8)
Total Gross Profit Margin	16.3	% 16.7	% (0.4)	)%	(2.4)
Gross Profit Mix					
Equipment	37.9	% 41.8	% (3.9)	)%	(9.3)
Parts	26.8	% 24.5	% 2.3	% 9.4	%
Service	29.9	% 27.9	% 2.0	% 7.2	%
Rental and other	5.4	% 5.8	% (0.4)	)%	(6.9)
Total Gross Profit Mix	100.0	% 100.0	% 0.0	% 0.0	%

The \$2.0 million increase in gross profit for the first quarter of fiscal 2015, as compared to the same period last year, was primarily due to an increase in revenue. Total gross profit margin of 16.3% for the first quarter of fiscal 2015 decreased slightly for the first quarter of fiscal 2014, mainly due to decrease in gross profit margin for equipment and rental and other, and somewhat offset by a change in gross profit mix to our higher-margin parts and service businesses. 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 rental and other gross profit margin resulted from a slight decrease in the dollar utilization of our rental fleet to 22.9% in the first quarter of fiscal 2015 from 23.7% and an increase in maintenance costs, as compared to the same period last year.

## Operating Expenses

	Three Months Ended April 30,		Increase/ (Decrease)	Percent	
	2014	2013		Change	
	(dollars in thousands)				
Operating Expenses	\$71,152	\$68,933	\$2,219	3.2	%
Operating Expenses as a Percentage of Revenue	15.3	% 15.6	% (0.3)	)%	(1.9)

The \$2.2 million increase in operating expenses, as compared to the same period last year, was primarily due to the additional costs associated with expanding our International distribution network and higher occupancy costs associated with store building improvements. Operating expenses as a percentage of total revenue remained relatively stable at 15.3% for the first quarter of fiscal 2015 compared to 15.6% for the first quarter of fiscal 2014.

Table of Contents

## Realignment Costs

	Three Months Ended April			Percent	
	2014	2013	Increase	Change	
	(dollars in thousands)				
Realignment Costs	\$2,801	\$—	\$2,801	100.0	%

The realignment costs recognized in the first quarter of fiscal 2015 relate to the 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 its Agriculture store in Oskaloosa, Iowa and merged it with the nearby Agriculture store in Pella, Iowa. There were no store closings in the first quarter of fiscal 2014.

## Other Income (Expense)

	Three Months Ended April			Percent	
	2014	2013	Increase/ (Decrease)	Change	
	(dollars in thousands)				
Interest income and other income (expense)	\$(224 )	\$597	\$(821 )	(137.5	)%
Floorplan interest expense	(4,593 )	(3,442 )	1,151	33.4	%
Other interest expense	(3,441 )	(3,167 )	274	8.7	%

The decrease in interest income and other income (expense) was primarily due to foreign currency losses in Ukraine, resulting from a devaluation of the Ukrainian Hryvnia in the first quarter of fiscal 2015. The increase in floorplan interest expense of \$1.2 million for the first quarter of fiscal 2015, as compared to the same period in the prior year, was primarily due to higher floorplan payable balances resulting from growth in our equipment inventory, primarily in our International segment.

## Benefit from Income Taxes

	Three Months Ended April			Percent	
	2014	2013	Increase/ (Decrease)	Change	
	(dollars in thousands)				
Benefit from Income Taxes	\$1,733	\$394	\$1,339	339.8	%

Our effective tax rate decreased to 27.6% for the first quarter of fiscal 2015 compared to 39.5% 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.

## 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.



Table of Contents

	Three Months Ended April		Increase/ (Decrease)	Percent Change	
	2014	2013			
(dollars in thousands)					
Revenue					
Agriculture	\$352,648	\$360,344	\$(7,696)	(2.1)	)%
Construction	101,879	82,841	19,038	23.0	%
International	30,341	27,730	2,611	9.4	%
Segment revenue	484,868	470,915	13,953	3.0	%
Eliminations	(19,405)	(29,241)	9,836	33.6	%
Total	\$465,463	\$441,674	\$23,789	5.4	%
Income (Loss) Before Income Taxes					
Agriculture	\$3,318	\$7,999	\$(4,681)	(58.5)	)%
Construction	(5,775)	(6,538)	763	11.7	%
International	(3,065)	(526)	(2,539)	(482.7)	)%
Segment income (loss) before income taxes	(5,522)	935	(6,457)	(690.6)	)%
Shared Resources	(873)	(1,238)	365	29.5	%
Eliminations	123	(694)	817	117.7	%
Loss Before Income Taxes	\$(6,272)	\$(997)	\$(5,275)	529.1	%
Agriculture					

Agriculture segment revenue for the first quarter of fiscal 2015 decreased 2.1% compared to the same period last year. The revenue decrease was due to an Agriculture same-store sales decrease of 1.2% over the first quarter of fiscal 2014, resulting from challenging industry conditions such as decreases in agricultural commodity prices and projected net farm income, which negatively affected customer sentiment in the first quarter of fiscal 2015 as compared to the same period in the prior year. The commodity price of corn, which is the predominant crop in our Agriculture store footprint, decreased significantly from the price during the first quarter of fiscal 2014, mainly as a result of an increase in U.S. corn supply compared to the prior year. Net farm income has been strong and increasing in many of the recent years, however, in February 2014, the U.S. Department of Agriculture published its projection of a decrease in net farm income from calendar year 2013 to 2014.

Agriculture segment income before income taxes for the first quarter of fiscal 2015 decreased 58.5% compared to the same period last year, primarily due to a decrease in gross profit on equipment and recognition of realignment costs. 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 realignment costs of \$0.7 million related to an Agriculture store closed in April 2014.

### Construction

Construction segment revenue for the first quarter of fiscal 2015 increased 23.0% compared to the same period last year. The revenue increase was due to a same-store sales increase of 24.4% over the first quarter 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 \$5.8 million for the first quarter of fiscal 2015 compared to segment income before income taxes of \$6.5 million for the first quarter of fiscal 2014. This improvement was primarily due to the increase in revenue, improved gross profit margins for equipment, parts and service, and partially offset by an increase in operating expenses and realignment costs. The increase in gross profit margins was primarily

due to the aforementioned industry and operational improvements. The increase in operating expense reflects increase commission costs, resulting from higher gross profit, and higher occupancy costs associated with store building improvements. 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.

## Table of Contents

### International

International segment revenue for the first quarter of fiscal 2015 increased \$2.6 million compared to the same period last year, primarily due to new store openings, and a same-store sales increase of 1.9%.

Our International segment loss before income taxes was \$3.1 million for the first quarter of fiscal 2015 compared to segment loss before income taxes of \$0.5 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 comparable 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 affect on our revenue, which reduces our ability to leverage these fixed operating costs. The increase in floorplan interest expense for the first 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. The decrease in interest income and other income (expense) was primarily due to foreign currency losses in Ukraine, resulting from a devaluation of the Ukrainian hryvnia in the first 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.

### Liquidity and Capital Resources

#### Sources of Liquidity

Our primary sources of liquidity are cash reserves, cash from operations, proceeds from our public stock offerings, proceeds from the issuance of our Senior Convertible Notes, 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.

#### Adequacy of Capital Resources

Our primary uses of cash have been to fund our strategic acquisitions, finance the purchase of inventory, meet debt service requirements and fund operating activities, working capital, payments due under building space operating leases and manufacturer floorplan payable. 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.

### Cash Flow

#### Cash Flow Used For Operating Activities

Net cash used for operating activities was \$54.6 million for the three months ended April 30, 2014, compared to \$6.3 million for the three months ended April 30, 2013. Net cash used for operating activities for the three months ended

April 30, 2014 was primarily attributable to an increase in our inventories and a decrease in floorplan payable financing of such inventories. Net cash used for operating activities for the three months ended April 30, 2013 was primarily attributable to an increase in our inventories, and partially offset by a decrease in receivables, prepaid expenses and other assets. The increase in net cash used for operating activities for the three months ended April 30, 2014, compared to the same period in the prior year, was primarily due to changes in working capital. 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 \$10.7 million and \$2.1 million for the three months ended April 30, 2014 and 2013, respectively. For reconciliation of this non-GAAP financial measure, please see the Non-GAAP Cash Flow Reconciliation below.

Table of Contents

## Cash Flow Used For Investing Activities

Net cash used for investing activities was \$6.1 million for the three months ended April 30, 2014, compared to \$9.6 million for the three months ended April 30, 2013. For the three months ended April 30, 2014, net cash used for investing activities was primarily comprised of property and equipment purchases. For the three months ended April 30, 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 \$68.4 million for the three months ended April 30, 2014 and \$5.9 million for the three months ended April 30, 2013. In both the three months ended April 30, 2014 and 2013, net cash provided by financing activities primarily consisted of an increase in non-manufacturer floorplan payables, which increased as a result of higher equipment inventory balances in each of the respective periods.

## 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 used for operating activities, a GAAP measure, to non-GAAP cash flow provided for operating activities, and net cash provided by financing activities, a GAAP measure, to non-GAAP cash flow provided by (used for) financing activities.

	As Reported	Adjustment	Non-GAAP Measures
	(in thousands)		
Three Months Ended April 30, 2014			
Net cash provided by (used for) operating activities	\$(54,602	) \$65,305	\$10,703
Net cash provided by (used for) financing activities	68,425	(65,305	) 3,120
Three Months Ended April 30, 2013			
Net cash provided by (used for) operating activities	\$(6,319	) \$8,408	\$2,089
Net cash provided by (used for) financing activities	5,940	(8,408	) (2,468

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

## Certain Information Concerning Off-Balance Sheet Arrangements

As of April 30, 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.

Table of Contents

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 April 30, 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 \$5.3 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 \$5.3 million. At April 30, 2014, we had variable rate floorplan payable of \$798.5 million, of which approximately \$481.6 million was interest-bearing, variable notes payable and long-term debt of \$48.0 million, and fixed rate notes payable and long-term debt of \$54.7 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 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 April 30, 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.

Table of Contents

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 April 30, 2014.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits - See “Exhibit Index” on page following signatures.

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: June 5, 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	Form of Performance Award Agreement under the Titan Machinery Inc. 2014 Equity Incentive Plan.+
*10.2	Form of Restricted Stock Award Agreement (Directors) under the Titan Machinery Inc. 2014 Equity Incentive Plan.+
*10.3	Form of Restricted Stock Award Agreement (Officers) under the Titan Machinery Inc. 2014 Equity Incentive Plan.+
*10.4	Description of the Titan Machinery Inc. Long-Term Incentive Plan.+
*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 April 30, 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