

Titan Machinery Inc.  
Form 10-Q  
June 02, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2016

Commission File No. 001-33866

TITAN MACHINERY INC.  
(Exact name of registrant as specified in its charter)

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

644 East Beaton Drive  
West Fargo, ND 58078-2648  
(Address of Principal Executive Offices)

Registrant's telephone number (701) 356-0130

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  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

Smaller reporting company

(Do not check if smaller reporting company)

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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 16, 2016 was: Common Stock, \$0.00001 par value, 21,587,727 shares.

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 QUARTERLY REPORT ON FORM 10-Q

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## PART I. — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TITAN MACHINERY INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	April 30, 2016 (Unaudited)	January 31, 2016
Assets		
Current Assets		
Cash	\$63,782	\$89,465
Receivables (net of allowance of \$3,768 and \$3,591 as of April 30, 2016 and January 31, 2016, respectively)	55,389	56,552
Inventories	684,829	689,464
Prepaid expenses and other	6,686	9,753
Income taxes receivable	11,862	13,011
Total current assets	822,548	858,245
Noncurrent Assets		
Intangible assets, net of accumulated amortization	5,091	5,134
Property and equipment, net of accumulated depreciation	177,082	183,179
Other	1,322	1,317
Total noncurrent assets	183,495	189,630
Total Assets	\$1,006,043	\$1,047,875
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$18,322	\$16,863
Floorplan payable	446,304	444,780
Current maturities of long-term debt	13,333	1,557
Customer deposits	16,769	31,159
Accrued expenses	27,245	28,914
Income taxes payable	38	152
Total current liabilities	522,011	523,425
Long-Term Liabilities		
Senior convertible notes	108,105	134,145
Long-term debt, less current maturities	26,223	38,409
Deferred income taxes	10,809	11,135
Other long-term liabilities	2,269	2,412
Total long-term liabilities	147,406	186,101
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value \$.00001 per share, 45,000 shares authorized; 21,588 shares issued and outstanding at April 30, 2016; 21,604 shares issued and outstanding at January 31, 2016	—	—
Additional paid-in-capital	243,736	242,491
Retained earnings	95,842	99,526
Accumulated other comprehensive loss	(3,559)	(4,461)
Total Titan Machinery Inc. stockholders' equity	336,019	337,556

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Noncontrolling interest	607	793
Total stockholders' equity	336,626	338,349
Total Liabilities and Stockholders' Equity	\$1,006,043	\$1,047,875
See Notes to Consolidated Financial Statements		

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## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended	
	April 30,	
	2016	2015
Revenue		
Equipment	\$184,874	\$244,983
Parts	57,509	61,520
Service	30,992	32,902
Rental and other	11,485	13,791
Total Revenue	284,860	353,196
Cost of Revenue		
Equipment	170,324	227,033
Parts	40,501	43,571
Service	11,600	11,360
Rental and other	8,887	10,797
Total Cost of Revenue	231,312	292,761
Gross Profit	53,548	60,435
Operating Expenses	54,502	57,110
Impairment and Realignment Costs	247	1,601
Income (Loss) from Operations	(1,201)	) 1,724
Other Income (Expense)		
Interest income and other income (expense)	137	(2,124)
Floorplan interest expense	(3,743)	) (4,599)
Other interest expense	(993)	) (3,827)
Income (Loss) Before Income Taxes	(5,800)	) (8,826)
Provision for (Benefit from) Income Taxes	(1,942)	) (1,936)
Net Income (Loss) Including Noncontrolling Interest	\$(3,858)	) \$(6,890)
Less: Net Income (Loss) Attributable to Noncontrolling Interest	(174)	) (586)
Net Income (Loss) Attributable to Titan Machinery Inc.	\$(3,684)	) \$(6,304)
Net (Income) Loss Allocated to Participating Securities - Note 1	68	105
Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders	\$(3,616)	) \$(6,199)
Earnings (Loss) per Share - Note 1		
Earnings (Loss) per Share - Basic	\$(0.17)	) \$(0.29)
Earnings (Loss) per Share - Diluted	\$(0.17)	) \$(0.29)
Weighted Average Common Shares - Basic	21,203	21,044
Weighted Average Common Shares - Diluted	21,203	21,044

See Notes to Consolidated Financial Statements

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## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in thousands)

	Three Months Ended April 30,	
	2016	2015
Net Income (Loss) Including Noncontrolling Interest	\$(3,858)	\$(6,890 )
Other Comprehensive Income (Loss)		
Foreign currency translation adjustments	754	(6,191 )
Unrealized gain on net investment hedge derivative instruments, net of tax expense of \$44 for the three months ended April 30, 2015	—	67
Unrealized gain (loss) on interest rate swap cash flow hedge derivative instrument, net of tax expense (benefit) of (\$57) and \$72 for the three months ended April 30, 2016 and 2015, respectively	(87 )	109
Reclassification of loss on interest rate swap cash flow hedge derivative instruments included in net loss, net of tax benefit of \$148 and \$172 for the three months ended April 30, 2016 and April 30, 2015 respectively	223	258
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, 2015	—	8
Total Other Comprehensive Income (Loss)	890	(5,749 )
Comprehensive Income (Loss)	(2,968 )	(12,639 )
Comprehensive Income (Loss) Attributable to Noncontrolling Interest	(186 )	(1,705 )
Comprehensive Income (Loss) Attributable To Titan Machinery Inc.	\$(2,782)	\$(10,934)

See Notes to Consolidated Financial Statements

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## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands)

	Common Stock			Accumulated Other Comprehensive Income (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 Hedges	Unrealized Gains (Losses) on Interest Rate Swap Cash Flow Hedges	Unrealized Gains (Losses) on Foreign Currency Contract Cash Flow Hedges	Total			
Balance, January 31, 2015	21,406	\$-240,180	\$137,418	\$(1,632)	\$2,510	\$(1,940)	\$(37)	\$(1,099)	\$376,499	\$1,860	\$378,359
Common stock issued on grant of restricted stock (net of forfeitures and shares withheld for income taxes), exercise of stock options, and tax benefits of equity awards	(14 )	—(206 )	—	—	—	—	—	—	(206 )	—	(206 )
Stock-based compensation expense	—	—531	—	—	—	—	—	—	531	—	531
Comprehensive loss:											
Net loss	—	—	(6,304 )	—	—	—	—	—	(6,304 )	(586 )	(6,890 )
Other comprehensive income (loss)	—	—	—	(5,072 )	67	367	8	(4,630 )	(4,630 )	(1,119 )	(5,749 )
Total comprehensive loss	—	—	—	—	—	—	—	—	(10,934 )	(1,705 )	(12,639 )
Balance, April 30, 2015	21,392	\$-240,505	\$131,114	\$(6,704)	\$2,577	\$(1,573)	\$(29)	\$(5,729)	\$365,890	\$155	\$366,045
Balance, January 31, 2016	21,604	\$-242,491	\$99,526	\$(5,500)	\$2,711	\$(1,672)	\$—	\$(4,461)	\$337,556	\$793	\$338,349
	(16 )	—(408 )	—	—	—	—	—	—	(408 )	—	(408 )



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Common stock issued on grant of restricted stock (net of forfeitures and shares withheld for income taxes), exercise of stock options, and tax benefits of equity awards											
Stock-based compensation expense	—	—627	—	—	—	—	—	—	627	—	627
Repurchase of Senior Convertible Notes	—	—1,026	—	—	—	—	—	—	1,026	—	1,026
Comprehensive loss:											
Net loss	—	—	(3,684 )	—	—	—	—	—	(3,684 )	(174 )	(3,858 )
Other comprehensive income (loss)	—	—	—	766	—	136	—	902	902	(12 )	890
Total comprehensive loss	—	—	—	—	—	—	—	—	(2,782 )	(186 )	(2,968 )
Balance, April 30, 2016	21,588	\$-243,736	\$95,842	\$(4,734)	\$2,711	\$(1,536)	\$—	\$(3,559)	\$336,019	\$607	\$336,626

See Notes to Consolidated Financial Statements

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## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended April 30,	
	2016	2015
Operating Activities		
Net income (loss) including noncontrolling interest	\$(3,858 )	\$(6,890 )
Adjustments to reconcile net income (loss) including noncontrolling interest to net cash provided by (used for) operating activities		
Depreciation and amortization	6,208	6,667
Impairment	—	152
Deferred income taxes	609	497
Stock-based compensation expense	627	531
Noncash interest expense	1,378	1,765
Unrealized foreign currency (gain) loss on loans to international subsidiaries	(842 )	100
Gain on repurchase of Senior Convertible Notes	(2,102 )	—
Other, net	89	126
Changes in assets and liabilities		
Receivables, prepaid expenses and other assets	4,702	13,525
Inventories	9,422	522
Manufacturer floorplan payable	(26,996 )	12,980
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	(14,892 )	(9,092 )
Income taxes	781	(6,577 )
Net Cash Provided by (Used for) Operating Activities	(24,874 )	14,306
Investing Activities		
Rental fleet purchases	(561 )	(112 )
Property and equipment purchases (excluding rental fleet)	(1,051 )	(2,170 )
Proceeds from sale of property and equipment	892	634
Other, net	48	198
Net Cash Used for Investing Activities	(672 )	(1,450 )
Financing Activities		
Net change in non-manufacturer floorplan payable	25,117	(30,001 )
Repurchase of Senior Convertible Notes	(24,983 )	—
Proceeds from long-term debt borrowings	—	811
Principal payments on long-term debt	(526 )	(5,687 )
Other, net	(158 )	(443 )
Net Cash Used for Financing Activities	(550 )	(35,320 )
Effect of Exchange Rate Changes on Cash	413	(709 )
Net Change in Cash	(25,683 )	(23,173 )
Cash at Beginning of Period	89,465	127,528
Cash at End of Period	\$63,782	\$104,355
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period		
Income taxes, net of refunds	\$(3,327 )	\$4,093
Interest	\$4,667	\$7,684
Supplemental Disclosures of Noncash Investing and Financing Activities		
Net property and equipment financed with long-term debt, accounts payable and accrued liabilities	\$941	\$77

Net transfer of assets to (from) property and equipment from (to) inventories	\$(1,882 ) \$(7,029 )
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See Notes to Consolidated Financial Statements

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TITAN MACHINERY INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1—BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the “Company”) are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company’s Agriculture, Construction and International customers. Therefore, operating results for the three-month period ended April 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2017. The information contained in the balance sheet as of January 31, 2016 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 Annual Report on Form 10-K for the fiscal year ended January 31, 2016 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 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 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. All anti-dilutive securities were excluded from the computation of diluted EPS.

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

	Three Months Ended April 30,	
	2016	2015
	(in thousands, except per share data)	
Basic Weighted-Average Common Shares Outstanding	21,203	21,044
Plus: Incremental Shares From Assumed Exercise of Stock Options	—	—
Diluted Weighted-Average Common Shares Outstanding	21,203	21,044
Anti-Dilutive Shares Excluded From Diluted Weighted-Average Common Shares Outstanding		
Stock Options	146	211
Shares Underlying Senior Convertible Notes (conversion price of \$43.17)	2,777	3,475
Earnings (Loss) per Share - Basic	\$ (0.17 )	\$ (0.29 )
Earnings (Loss) per Share - Diluted	\$ (0.17 )	\$ (0.29 )

## Recent Accounting Guidance

In May 2014 and August 2015, the FASB issued authoritative guidance on accounting for revenue recognition, codified in ASC 606, Revenue from Contracts with Customers. This guidance has been amended on various occasions and 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, 2018, and will employ one of the two retrospective application methods. The Company has not determined the potential effects adoption of this standard will have 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.

In July 2015, the FASB amended authoritative guidance on accounting for measurement of inventory, codified in ASC 330, Inventory. The amended guidance requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for the Company on February 1, 2017, with early adoption permitted. The Company has not determined the potential effects adoption of this standard will have on the consolidated financial statements.

In February 2016, the FASB amended authoritative guidance on leases, codified in ASC 842, Leases. The amended guidance requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The new standard also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach, with elective reliefs, which requires application of the guidance for all periods presented. The Company has not determined the potential effects adoption of this standard will have on the

consolidated financial statements.

In March 2016, the FASB amended authoritative guidance on stock-based compensation, codified in ASC 718, Compensation - Stock Compensation. The amended guidance changes the accounting for certain aspects of share-based payments, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statements of cash flows. This guidance is effective for the Company on February 1, 2017, with early

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adoption permitted. The manner of application varies by the various provisions of the guidance, with certain provisions applied on a retrospective or modified retrospective approach, while others are applied prospectively. The Company has not determined the potential effects adoption of this standard will have on the consolidated financial statements.

## NOTE 2—INVENTORIES

	April 30, 2016	January 31, 2016
	(in thousands)	
New equipment	\$338,374	\$ 323,393
Used equipment	246,956	267,893
Parts and attachments	87,673	87,807
Work in process	11,826	10,371
	\$684,829	\$ 689,464

## NOTE 3—PROPERTY AND EQUIPMENT

	April 30, 2016	January 31, 2016
	(in thousands)	
Rental fleet equipment	\$ 134,454	\$ 137,754
Machinery and equipment	23,053	23,051
Vehicles	36,593	36,537
Furniture and fixtures	38,275	38,149
Land, buildings, and leasehold improvements	63,241	63,460
	295,616	298,951
Less accumulated depreciation	(118,534 )	(115,772 )
	\$177,082	\$ 183,179

## 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 acquired 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. Cash flows associated with manufacturer floorplan payable are reported as operating cash flows while cash flows associated with non-manufacturer floorplan payable are reported as financing cash flows in the Company's consolidated statements of cash flows. The Company has three significant floorplan lines of credit for U.S. operations, credit facilities related to its foreign subsidiaries, and other floorplan payable balances with non-manufacturer lenders and manufacturers other than CNH Industrial.

As of April 30, 2016, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling approximately \$1.0 billion, which includes a \$275.0 million Floorplan Line with Wells Fargo Bank, National Association ("Wells Fargo"), a \$450.0 million credit facility with CNH Industrial Capital, a \$110.0 million credit facility with DLL Finance LLC ("DLL Finance") and the U.S. dollar equivalent of \$117.8 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$431.1 million of the total floorplan payable balance of \$446.3 million outstanding as of April 30, 2016 and \$420.7 million of the total floorplan payable balance of \$444.8 million outstanding as of January 31, 2016; the remaining outstanding balances relate to equipment inventory financing from manufacturers and non-manufacturer lenders other than the aforementioned lines of credit. As of April 30, 2016, the interest-bearing U.S. floorplan payables carried various interest rates primarily ranging from 2.68% to 5.57%, and the foreign floorplan payables carried various interest rates

primarily ranging from 1.56% to 7.70%.

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## Working Capital Revolver Line

As of April 30, 2016, the Company had a \$75 million Working Capital Revolver Line under the Credit Facility with Wells Fargo. The Company had no amount outstanding on this Working Capital Revolver Line as of April 30, 2016 and January 31, 2016, respectively.

## NOTE 5—SENIOR CONVERTIBLE NOTES

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

	April 30, 2016	January 31, 2016
	(in thousands except conversion rate and conversion price)	
Principal value	\$ 119,900	\$ 150,000
Unamortized debt discount	(10,382 )	(13,946 )
Unamortized debt issuance costs	(1,413 )	(1,909 )
Carrying value of Senior Convertible Notes	\$ 108,105	\$ 134,145
Carrying value of equity component, net of deferred taxes	\$ 14,520	\$ 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	

In April 2016, the Company repurchased \$30.1 million face value (\$27.1 million carrying value) of its Senior Convertible Notes with \$25.0 million in cash, and recognized a pre-tax gain of approximately \$2.1 million in the first quarter of fiscal 2017. This gain is included in other interest expense on the consolidated statements of operations.

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

	Three Months Ended April 30, 2016 2015 (in thousands)	
Cash Interest Expense		
Coupon interest expense	\$1,337	\$1,406
Noncash Interest Expense		
Amortization of debt discount	910	894
Amortization of transaction costs	133	136
	\$2,380	\$2,436

The Senior Convertible Notes mature on May 1, 2019, unless earlier purchased by the Company, redeemed or converted. As of April 30, 2016, the unamortized debt discount will be amortized over a remaining period of approximately 3.0 years. As of April 30, 2016 and January 31, 2016, the if-converted value of the Senior Convertible Notes did not exceed the principal balance. The effective interest rate of the liability component was equal to 7.3% for each of the statements of operations periods presented.

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## 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, 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 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:	
	April 30, 2016	January 31, 2016
	(in thousands)	
Cash flow hedges:		
Interest rate swap	\$ 100,000	\$ 100,000
Derivatives not designated as hedging instruments:		
Foreign currency contracts	17,059	13,148

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The following table sets forth the fair value of the Company's outstanding derivative instruments. Asset derivatives are included in prepaid expenses and other on the consolidated balance sheets, and liability derivatives are included in accrued expenses on the consolidated balance sheets.

	Fair Value as of:	
	April 30,	January 31,
	2016	2016
	(in thousands)	
Asset Derivatives:		
Derivatives not designated as hedging instruments:		
Foreign currency contracts	\$—	\$ 125
Total Asset Derivatives	\$—	\$ 125

Liability Derivatives:		
Derivatives designated as hedging instruments:		
Cash flow hedges:		
Interest rate swap	\$ 2,609	\$ 2,836
Derivatives not designated as hedging instruments:		
Foreign currency contracts	198	—
Total Liability Derivatives	\$ 2,807	\$ 2,836

The following table sets forth the gains and losses (before the related income tax effects) recognized in other comprehensive income (loss) ("OCI") and income (loss) related to the Company's derivative instruments for the three months ended April 30, 2016 and 2015, 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 April 30,			
	2016		2015	
	OCI	Income (Loss)	OCI	Income (Loss)
	(in thousands)			
Derivatives Designated as Hedging Instruments:				
Net investment hedges:				
Foreign currency contracts	\$—	\$—	\$111	\$—
Cash flow hedges:				
Interest rate swap <sup>(a)</sup>	(144 )	(371 )	181	(430 )
Foreign currency contracts <sup>(b)</sup>	—	—	—	(13 )
Derivatives Not Designated as Hedging Instruments:				
Foreign currency contracts <sup>(c)</sup>	—	(640 )	—	82
Total Derivatives	\$(144)	\$(1,011)	\$292	\$(361)

<sup>(a)</sup> Amounts are included in floorplan interest expense in the consolidated statements of operations.

<sup>(b)</sup> Amounts are included in Cost of revenue - equipment in the consolidated statements of operations

<sup>(c)</sup> Amounts are included in Interest income and other income (expense) in the consolidated statements of operations

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

As of April 30, 2016, the Company had \$2.6 million in pre-tax net unrealized losses associated with its interest rate swap cash flow hedging instrument recorded in accumulated other comprehensive income. The Company expects that \$1.3 million of pre-tax unrealized losses associated with its interest rate swap will be reclassified into income over the next 12 months.



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## NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS

The liabilities which are measured at fair value on a recurring basis as of April 30, 2016 and January 31, 2016 are as follows:

	April 30, 2016			January 31, 2016		
	Level	Level	Total	Level	Level	Total
	1	2		3	1	
	(in thousands)			(in thousands)		
<b>Financial Assets</b>						
Foreign currency contracts	\$—	\$—	\$—	\$—	\$—	\$—
Total Financial Assets	\$—	\$—	\$—	\$—	\$—	\$—

**Financial Liabilities**

Interest rate swap	\$—	\$—	\$—	\$—	\$—	\$—
Foreign currency contracts	\$2,609	\$—	\$2,609	\$2,836	\$—	\$2,836
Total Financial Liabilities	\$2,609	\$—	\$2,609	\$2,836	\$—	\$2,836

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 April 30, 2016 and January 31, 2016, respectively. The following table provides details on the Senior Convertible Notes as of April 30, 2016 and January 31, 2016. 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, and unamortized debt issuance costs. Fair value of the Senior Convertible Notes was estimated based on Level 2 fair value inputs.

	April 30, 2016			January 31, 2016		
	Estimated	Carrying	Face	Estimated	Carrying	Face
	Fair	Value	Value	Fair	Value	Value
	(in thousands)			(in thousands)		
Senior convertible notes	\$100,000	\$108,105	\$119,900	\$105,000	\$134,145	\$150,000

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## NOTE 8—SEGMENT INFORMATION AND OPERATING RESULTS

The Company has three reportable segments: Agriculture, Construction and International. Revenue between segments is immaterial. 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, deferred tax assets and property and equipment.

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

	Three Months Ended	
	April 30,	
	2016	2015
	(in thousands)	
Revenue		
Agriculture	\$ 178,807	\$ 239,855
Construction	78,001	81,171
International	28,052	32,170
Total	\$ 284,860	\$ 353,196
Income (Loss) Before Income Taxes		
Agriculture	\$(3,758 )	\$(1,086 )
Construction	(2,044 )	(3,565 )
International	(517 )	(4,371 )
Segment income (loss) before income taxes	(6,319 )	(9,022 )
Shared Resources	519	196
Total	\$(5,800 )	\$(8,826 )

	April 30,	January 31,
	2016	2016
	(in thousands)	
Total Assets		
Agriculture	\$ 529,862	\$ 557,579
Construction	267,869	294,891
International	121,429	109,706
Segment assets	919,160	962,176
Shared Resources	86,883	85,699
Total	\$ 1,006,043	\$ 1,047,875

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## NOTE 9—STORE CLOSINGS AND REALIGNMENT COSTS

Exit costs associated with the Company's store closings and realignment activities are summarized in the following table. Such costs are included in Impairment and Realignment Costs in the consolidated statements of operations.

	Three Months Ended April 30, 2016 2015 (in thousands)	
<b>Agriculture Segment</b>		
Lease termination costs <sup>(a)</sup>	\$(152)	\$251
Employee severance costs	—	304
Asset relocation and other closing costs	—	85
	\$(152)	\$640
<b>Construction Segment</b>		
Lease termination costs <sup>(a)</sup>	\$—	\$261
Employee severance costs	21	258
Impairment of fixed assets, net of gains on asset disposition	—	90
Asset relocation and other closing costs	—	54
	\$21	\$663
<b>Shared Resource Center</b>		
Lease termination costs <sup>(a)</sup>	\$—	\$49
Employee severance costs	378	187
Impairment of fixed assets, net of gains on asset disposition	—	62
	\$378	\$298
<b>Total</b>		
Lease termination costs <sup>(a)</sup>	\$(152)	\$561
Employee severance costs	399	749
Impairment of fixed assets, net of gains on asset disposition	—	152
Asset relocation and other closing costs	—	139
	\$247	\$1,601

<sup>(a)</sup> Net of gain on changes in lease termination accrual assumptions

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, 2016	\$ 660
Exit costs incurred and charged to expense	
Lease termination costs	(152 )
Employee severance costs	399
Exit costs paid	
Lease termination costs	(89 )
Employee severance costs	(306 )
Balance, April 30, 2016	\$ 512

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## 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. These losses are available to reduce future taxable income in these jurisdictions if earned within the allowable net operating loss carryforward period. 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.

The components of income (loss) before income taxes are as follows:

	Three Months Ended April 30,	
	2016	2015
	(in thousands)	
U.S.	\$(5,283)	\$(4,488)
Foreign	(517 )	(4,338 )
Total	\$(5,800)	\$(8,826)

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

	Three Months Ended April 30,	
	2016	2015
U.S. statutory rate	(35.0)%	(35.0)%
Foreign statutory rates	2.1 %	11.7 %
State taxes on income net of federal tax benefit	(4.1 )%	(4.1 )%
Change in valuation allowance	6.6 %	35.7 %
Tax effect of Ukrainian hryvnia devaluation <sup>(a)</sup>	(6.0 )%	(28.0)%
All other, net	2.9 %	(2.2 )%
	(33.5)%	(21.9)%

<sup>(a)</sup> Represents the tax impact of differences in foreign currency losses recognized as the result of Ukrainian hryvnia devaluation between Ukrainian taxable income (loss) and financial reporting income (loss).



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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes included in Item 1 of Part 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, 2016.

Realignment Costs

We recognized \$0.2 million and \$1.6 million in realignment costs during the three months ended April 30, 2016 and 2015, respectively. To better align our cost structure and re-balance staffing levels with the evolving needs of the business, in March 2015, we approved a realignment plan that reduced our headcount by approximately 14%, which included headcount reductions at stores in each of our operating segments and our Shared Resource Center, as well as from the closing of three Agriculture stores and one Construction store. Our remaining stores in each of the respective areas assumed the distribution rights for the CNH Industrial brand previously held by the closed stores. See also the Non-GAAP Financial Measures section below for the 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 July 2015, and has continued to experience more modest volatility through April 2016. We recognized foreign currency remeasurement losses resulting from a devaluation of the UAH totaling \$0.2 million and \$2.0 million for the three months ended April 30, 2016 and 2015, 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, 2016.

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.

The agriculture industry has been experiencing challenging conditions such as decreases in agricultural commodity prices and projected net farm income, which, among other things, have a negative effect on customer sentiment and our customers' ability to secure financing for their equipment purchases. Changes in actual or anticipated net farm income generally have a direct correlation with agricultural equipment purchases by farmers. In February 2016, the U.S. Department of Agriculture ("USDA") published its projections of a 37.7% decrease in net farm income from calendar year 2014 to 2015 and an additional 3.0% decrease in calendar year 2016. These industry conditions have negatively impacted our customer demand, resulting in decreased same-store sales and equipment revenue and an oversupply of equipment inventory in the agriculture industry in fiscal 2017.

Certain of our Construction stores, particularly those in the northern and western parts of our footprint, are impacted by the strength of the oil industry. The significant decrease in oil prices, which began in the third quarter of fiscal 2015 and continued through fiscal 2016, has caused a decrease in oil production and infrastructure activity in these areas. In addition, the aforementioned agriculture industry conditions have also led to a reduction of purchases of

Construction equipment by customers in the agriculture industry, negatively affecting certain of our Construction stores. These factors have reduced demand for equipment purchases, equipment rentals, and service work and parts and have caused an oversupply of equipment inventory and rental fleet equipment in these areas.

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Our net loss attributable to Titan Machinery Inc. common stockholders was \$3.6 million, or \$0.17 per diluted share, for the three months ended April 30, 2016, compared to \$6.2 million, or \$0.29 per diluted share, for the three months ended April 30, 2015. Our non-GAAP diluted loss per share was \$0.21 for the three months ended April 30, 2016, compared to non-GAAP diluted loss per share of \$0.13 for the three months ended April 30, 2015. 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 19.3% for the first quarter of fiscal 2017, as compared to the first quarter last year, mainly driven by a decrease in Agriculture same-store sales, which primarily resulted from a decrease in equipment revenue;

Total gross profit margin increased to 18.8% for the first quarter of fiscal 2017, as compared to 17.1% for the first quarter of fiscal 2016, primarily caused by a change in gross profit mix to our higher-margin parts business and increase in gross profit margin on equipment;

Floorplan interest expense decreased 18.6% primarily due to a decrease in our average interest-bearing inventory in the first quarter of fiscal 2017, as compared to the first quarter last year;

Other interest expense decreased 74.1% for the first quarter of fiscal 2017, as compared to the first quarter last year, primarily as a result of a \$2.1 million gain recognized in the first quarter of fiscal 2017 related to the repurchase of \$30.1 million of our Senior Convertible Notes.

Results of Operations

The results shown below include the operating results of any 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 excluded stores throughout the Results of Operations section in this Quarterly Report on Form 10-Q.

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Comparative financial data for each of our four sources of revenue are expressed below.

	Three Months Ended		April 30,	
	2016	2015		
	(dollars in thousands)			
Equipment				
Revenue	\$ 184,874	\$ 244,983		
Cost of revenue	170,324	227,033		
Gross profit	\$ 14,550	\$ 17,950		
Gross profit margin	7.9	% 7.3	%	
Parts				
Revenue	\$ 57,509	\$ 61,520		
Cost of revenue	40,501	43,571		
Gross profit	\$ 17,008	\$ 17,949		
Gross profit margin	29.6	% 29.2	%	
Service				
Revenue	\$ 30,992	\$ 32,902		
Cost of revenue	11,600	11,360		
Gross profit	\$ 19,392	\$ 21,542		
Gross profit margin	62.6	% 65.5	%	
Rental and other				
Revenue	\$ 11,485	\$ 13,791		
Cost of revenue	8,887	10,797		
Gross profit	\$ 2,598	\$ 2,994		
Gross profit margin	22.6	% 21.7	%	

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,	
	2016	2015		
Revenue				
Equipment	64.9	% 69.4	%	
Parts	20.2	% 17.4	%	
Service	10.9	% 9.3	%	
Rental and other	4.0	% 3.9	%	
Total Revenue	100.0	% 100.0	%	
Total Cost of Revenue	81.2	% 82.9	%	
Gross Profit Margin	18.8	% 17.1	%	
Operating Expenses	19.1	% 16.2	%	
Impairment and Realignment Costs	0.1	% 0.4	%	
Income (Loss) from Operations	(0.4)	)% 0.5	%	
Other Income (Expense)	(1.6)	)% (3.0)	)%	
Income (Loss) Before Income Taxes	(2.0)	)% (2.5)	)%	
Provision for (Benefit from) Income Taxes	(0.6)	)% (0.5)	)%	
Net Income (Loss) Including Noncontrolling Interest	(1.4)	)% (2.0)	)%	
Less: Net Income (Loss) Attributable to Noncontrolling Interest	(0.1)	)% (0.2)	)%	
Net Income (Loss) Attributable to Titan Machinery Inc.	(1.3)	)% (1.8)	)%	



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Three Months Ended April 30, 2016 Compared to Three Months Ended April 30, 2015

## Consolidated Results

## Revenue

	Three Months Ended April 30,		Percent	
	2016	2015	(Decrease)	Change
	(dollars in thousands)			
Equipment	\$184,874	\$244,983	\$(60,109)	(24.5)%
Parts	57,509	61,520	(4,011)	(6.5)%
Service	30,992	32,902	(1,910)	(5.8)%
Rental and other	11,485	13,791	(2,306)	(16.7)%
Total Revenue	\$284,860	\$353,196	\$(68,336)	(19.3)%

The decrease in revenue for the first quarter of fiscal 2017 was primarily due to a decrease in same-store sales of 18.9% over the comparable prior year period. This decrease was mainly driven by a decrease in Agriculture same-store sales of 25.1% in the first quarter of fiscal 2017, which primarily resulted from a decrease in equipment revenue. These decreases in same-store sales were primarily the result of the challenging industry conditions facing our Agriculture segment discussed in the Overview section above. The Construction industry conditions led to lower rental and other revenue, particularly in our Construction stores in oil production areas.

## Gross Profit

	Three Months Ended April 30,		Increase/ Percent	
	2016	2015	(Decrease)	Change
	(dollars in thousands)			
Gross Profit				
Equipment	\$14,550	\$17,950	\$(3,400)	(18.9)%
Parts	17,008	17,949	(941)	(5.2)%
Service	19,392	21,542	(2,150)	(10.0)%
Rental and other	2,598	2,994	(396)	(13.2)%
Total Gross Profit	\$53,548	\$60,435	\$(6,887)	(11.4)%
Gross Profit Margin				
Equipment	7.9	% 7.3	% 0.6	% 8.2
Parts	29.6	% 29.2	% 0.4	% 1.4
Service	62.6	% 65.5	%(2.9)	%(4.4)
Rental and other	22.6	% 21.7	% 0.9	% 4.1
Total Gross Profit Margin	18.8	% 17.1	% 1.7	% 9.9
Gross Profit Mix				
Equipment	27.2	% 29.7	%(2.5)	%(8.4)
Parts	31.8	% 29.7	% 2.1	% 7.1
Service	36.2	% 35.6	% 0.6	% 1.7
Rental and other	4.8	% 5.0	%(0.2)	%(4.0)
Total Gross Profit Mix	100.0	% 100.0	% —	% —

The \$6.9 million decrease in gross profit for the first quarter of fiscal 2017, as compared to the same period last year, was primarily due to a decrease in revenue. The increase in total gross profit margin from 17.1% for the first quarter of fiscal 2016 to 18.8% for the first quarter of fiscal 2017 was mainly due to a change in gross profit mix to our higher-margin parts and service businesses, and an increase in gross profit margin on equipment in our Construction and International segments.

Our company-wide absorption decreased slightly to 72.1% for the first quarter of fiscal 2017 compared to 73.3% during the same period last year as a result of lower gross profit from parts, service and rental and other.

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## Operating Expenses

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2016	2015		
Operating Expenses	\$54,502	\$57,110	\$(2,608 )	(4.6 )%
Operating Expenses as a Percentage of Revenue	19.1 %	16.2 %	2.9 %	17.9 %

The \$2.6 million decrease in operating expenses, as compared to the same period last year, was primarily the result of our realignment plan implemented in the first quarter of fiscal 2016 in which we reduced our headcount by 14% and generated additional cost savings associated with the closing of four stores in that quarter, and a decrease in commission expense in the first quarter of fiscal 2017 relative to the prior year due to the decrease in equipment gross profit. The increase in operating expenses as a percentage of total revenue was primarily due to the decrease in total revenue in the first quarter of fiscal 2017, as compared to the first quarter of fiscal 2016, which negatively affected our ability to leverage our fixed operating costs.

## Impairment and Realignment Costs

	Three Months Ended April 30,		Percent Change	
	2016	2015	Decrease	
Impairment and Realignment Costs	\$247	\$1,601	\$(1,354 )	(84.6)%

The realignment costs recognized in the first quarters of fiscal 2017 and 2016 arose as the result of our realignment plans and associated exit costs, including accruals for lease terminations and remaining lease obligations, employee severance costs, the impairment of certain fixed assets, and the costs associated with relocating certain assets of our closed stores. See the Realignment Costs section above for further details on our store realignment plans and associated exit costs, and the Non-GAAP Financial Measures section below for impact of these amounts on non-GAAP Diluted EPS.

## Other Income (Expense)

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2016	2015		
Interest income and other income (expense)	\$137	\$(2,124)	\$2,261	106.5 %
Floorplan interest expense	(3,743)	(4,599 )	(856 )	(18.6 )%
Other interest expense	(993 )	(3,827 )	(2,834 )	(74.1 )%

The improvement in interest income and other income (expense) is primarily due to a decrease in foreign currency remeasurement losses in Ukraine, resulting from changes in the valuation of the Ukrainian hryvnia, which totaled \$0.2 million and \$2.0 million for the first quarters of 2017 and 2016, respectively. The decrease in floorplan interest expense for the first quarter of fiscal 2017, as compared to the first quarter of fiscal 2016, was primarily due to a decrease in our average interest-bearing inventory in the first quarter of fiscal 2017. The decrease in other interest expense is primarily the result of a \$2.1 million gain recognized in the first quarter of fiscal 2017 related to the repurchase of \$30.1 million of our Senior Convertible Notes and \$0.5 million of expense recognized in the first quarter of fiscal 2016 related to the write-off of capitalized debt issuance costs related to amending our Wells Fargo credit facility. See the Non-GAAP Financial Measures section below for impact of the Ukraine foreign currency remeasurement losses, gain on repurchase of Senior Convertible Notes and write-off of capitalized debt issuance costs on non-GAAP Diluted EPS.

## Provision for (Benefit from) Income Taxes

Percent



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Three Months  
Ended April 30,  
2016 2015 Increase Change  
(dollars in thousands)

Provision for (Benefit from) Income Taxes \$(1,942) \$(1,936) \$ 6 0.3 %

Our effective tax rate was 33.5% for the first quarter of fiscal 2017 and 21.9% for the same period last year. The difference in our effective tax rate is primarily due to the change in mix of our domestic and foreign losses before income taxes in relation to our total loss before income taxes. In addition, as the majority of our foreign operations have full valuation

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allowances on deferred tax assets including net operating losses, they do not recognize any income tax expense or benefit. See Note 10 to our consolidated financial statements for further details on our effective tax rate and the components of income (loss) before income taxes.

**Segment Results**

Certain financial information for our Agriculture, Construction and International business segments is set forth below. “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.

	Three Months Ended		Increase/ (Decrease)	Percent Change
	April 30, 2016	2015		
(dollars in thousands)				
<b>Revenue</b>				
Agriculture	\$178,807	\$239,855	\$(61,048 )	(25.5 )%
Construction	78,001	81,171	(3,170 )	(3.9 )%
International	28,052	32,170	(4,118 )	(12.8 )%
Total	\$284,860	\$353,196	\$(68,336 )	(19.3 )%
<b>Income (Loss) Before Income Taxes</b>				
Agriculture	\$(3,758 )	\$(1,086 )	\$(2,672 )	(246.0)%
Construction	(2,044 )	(3,565 )	1,521	42.7 %
International	(517 )	(4,371 )	3,854	88.2 %
Segment income (loss) before income taxes	(6,319 )	(9,022 )	2,703	30.0 %
Shared Resources	519	196	323	164.8 %
Total	\$(5,800 )	\$(8,826 )	\$3,026	34.3 %

**Agriculture**

Agriculture segment revenue for the first quarter of fiscal 2017 decreased 25.5% compared to the same period last year. The revenue decrease was due to a same-store sales decrease of 25.1% over the first quarter of fiscal 2016, which was primarily caused by a decrease in equipment revenue, largely resulting from the challenging industry conditions discussed in the Overview section above.

Agriculture segment loss before income taxes was \$3.8 million for the first quarter of fiscal 2017 compared to \$1.1 million for the first quarter of fiscal 2016. The decline in segment results is primarily due to the aforementioned decrease in equipment revenue, but partially offset by decreases in operating expenses, realignment costs and floorplan interest expense. The decrease in operating expenses is the result of the cost savings associated with our realignment plan implemented in the first quarter of fiscal 2016, and the decrease in floorplan interest expense is the result of decrease in our average interest-bearing inventory in the first quarter of fiscal 2017.

**Construction**

Construction segment revenue for the first quarter of fiscal 2017 decreased 3.9% compared to the same period last year, largely due to the challenging industry conditions discussed in the Overview section above.

Our Construction segment loss before income taxes was \$2.0 million for the first quarter of fiscal 2017 compared to \$3.6 million for the first quarter of fiscal 2016. The improvement in segment results was primarily due to decreases in operating expenses, realignment costs and floorplan interest expense, and partially offset by the aforementioned decrease in segment revenue. The decrease in operating expenses reflects costs savings associated with our realignment plan implemented in the first quarter of fiscal 2016, and the decrease in floorplan interest expense is the result of decrease in our average interest-bearing inventory in the first quarter of fiscal 2017. The dollar utilization of our rental fleet increased slightly from 19.1% in the first quarter of fiscal 2016 to 19.7% in the first quarter of fiscal 2017.

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International

International segment revenue for the first quarter of fiscal 2017 decreased 12.8% compared to the same period last year primarily due to low global commodity prices as well as continued high interest rates and restricted credit availability in Ukraine. The challenging geopolitical and financial conditions in Ukraine are negatively impacting customer demand for equipment in that market.

Our International segment loss before income taxes was \$0.5 million for the first quarter of fiscal 2017 compared to \$4.4 million for the same period last year. The improvement in segment results was primarily the result of increased equipment gross profit margin, lower foreign currency remeasurement losses in Ukraine, and lower floorplan interest expense, but partially offset by the aforementioned decrease in revenue. Floorplan interest expense decreased in the first quarter of fiscal 2017 compared to the same period last year due to a reduction in interest-bearing floorplan payables resulting from a reduction in our inventory levels.

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.

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 the gain on repurchase of Senior Convertible Notes, write-off of debt issuance costs, costs associated with our realignment/store closings and foreign currency remeasurement losses in Ukraine resulting from a devaluation of the UAH. We believe that the presentation of non-GAAP Diluted EPS is relevant and useful to our management and investors because it provides a measurement of earnings on activities that 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. In addition, other companies may calculate non-GAAP Diluted EPS in a different manner, which may hinder comparability of our results with those of other companies.

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

	Three Months Ended April 30, 2016 2015 (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	\$(3,616)	\$(6,199)
Non-GAAP Adjustments		
Gain on Repurchase of Senior Convertible Notes <sup>(1)</sup>	(1,238 )	—
Debt Issuance Cost Write-Off	—	318
Realignment / Store Closing Costs <sup>(2)</sup>	145	945
Ukraine Remeasurement <sup>(3)</sup>	191	2,006
Total Non-GAAP Adjustments	(902 )	3,269
Adjusted Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders	\$(4,518)	\$(2,930)
Earnings (Loss) per Share - Diluted		
Earnings (Loss) per Share - Diluted	\$(0.17 )	\$(0.29 )
Non-GAAP Adjustments		
Gain on Repurchase of Senior Convertible Notes <sup>(1)</sup>	(0.06 )	—
Debt Issuance Cost Write-Off	—	0.02
Realignment / Store Closing Costs <sup>(2)</sup>	0.01	0.04
Ukraine Remeasurement <sup>(3)</sup>	0.01	0.10
Total Non-GAAP Adjustments	(0.04 )	0.16
Adjusted Earnings (Loss) per Share - Diluted	\$(0.21 )	\$(0.13 )

<sup>(1)</sup> See Note 5 to our financial statements for additional details of this matter.

<sup>(2)</sup> See Note 9 to our financial statements for additional details of this matter.

<sup>(3)</sup> 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 generated 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 and lease obligations and other 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 covenants as further described in the "Risk Factors" section of our Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q.

##### Equipment Inventory and Floorplan Payable Credit Facilities

As of April 30, 2016, the Company had discretionary floorplan payable lines of credit for equipment purchases totaling approximately \$1.0 billion, which included a \$275.0 million Floorplan Payable Line with Wells Fargo, a \$450.0 million credit facility with CNH Industrial Capital, a \$110.0 million credit facility with DLL Finance and the U.S. dollar equivalent of \$117.8 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$431.1 million of the total floorplan payable balance of \$446.3 million outstanding as of April 30, 2016.

Our equipment inventory turnover was 1.2 for the four quarters ended April 30, 2016 compared to 1.3 for the four quarters ended April 30, 2015. While our equipment inventories, including amounts classified as held for sale, decreased 24.5%



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from April 30, 2015 to April 30, 2016, the decrease in turnover was the result of the lower equipment sales in the four-quarter period ended April 30, 2016. Our equity in equipment inventory, which reflects the portion of our equipment inventory balance that is not financed by floorplan payables, decreased to 23.8% as of April 30, 2016 from 24.8% as of January 31, 2016.

### Adequacy of Capital Resources

Our primary uses of cash have been to fund our strategic acquisitions and fund our operating activities, including the purchase of inventory, meeting our debt service requirements, providing working capital, making 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 \$1.0 billion as of April 30, 2016, are described in Note 4 of the notes to our consolidated financial statements. As of April 30, 2016, the Company was in compliance with the financial covenants under these agreements, and was not subject to the fixed charge coverage ratio covenant under the Wells Fargo Credit Facility. If anticipated operating results create the likelihood of a future covenant violation, we would expect to work with our lenders on an appropriate modification or amendment to our financing arrangements.

### Cash Flow

#### Cash Flow Provided By Or Used For Operating Activities

Net cash used for operating activities was \$24.9 million for the three months ended April 30, 2016, compared to net cash provided by operating activities of \$14.3 million for the three months ended April 30, 2015. Net cash used for operating activities for the three months ended April 30, 2016 was primarily attributable to a changing mix of manufacturer versus non-manufacturer floorplan financing, and reduction in our inventories. Net cash provided by operating activities for the three months ended April 30, 2015 was primarily attributable to a reduction in working capital, including a reduction of accounts receivables and prepaid expenses and an increase in manufacturer floorplan payables.

We evaluate our cash flow from operating activities net of all floorplan activity and maintaining a constant level of equity in our equipment inventory. Taking these adjustments into account, our non-GAAP cash flow used for operating activities was \$5.8 million and cash flow provided by operating activities was \$7.8 million for the three months ended April 30, 2016 and 2015, respectively. This decrease from the prior year is due to changes in working capital. For reconciliation of this non-GAAP financial measure, please see the Non-GAAP Cash Flow Reconciliation below.

#### Cash Flow Used For Investing Activities

Net cash used for investing activities was \$0.7 million for the three months ended April 30, 2016, compared to net cash used for investing activities of \$1.5 million for the three months ended April 30, 2015. Cash used for investing activities was primarily for the purchase of property and equipment, net of any proceeds from the sale of property and equipment.

#### Cash Flow Provided By Or Used For Financing Activities

Net cash used for financing activities was \$0.6 million for the three months ended April 30, 2016 compared to net cash used for financing activities of \$35.3 million for the three months ended April 30, 2015. For the three months ended April 30, 2016, net cash used for financing activities primarily related to the use of \$25.0 million to repurchase Senior Convertible Notes, and offset by an increase in non-manufacturer floorplan payable. For the three months ended April 30, 2015, net cash used for financing activities primarily resulted from a decrease in non-manufacturer floorplan payables.

#### 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. 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.

Our non-GAAP cash flow provided by (used for) operating activities is also impacted by the change in our equity in equipment inventory, which reflects the portion of our equipment inventory balance that is not financed by floorplan payables. Equity in equipment inventory decreased to 23.8% as of April 30, 2016 from 24.8% as of January 31, 2016, and increased to 22.0% as of April 30, 2015 from 19.0% as of January 31, 2015. We analyze our cash flow provided by (used for) operating activities by assuming a constant level of equipment inventory financing throughout each respective fiscal year. The adjustment eliminates the impact of this fluctuation of equity in our equipment inventory, and is equal to the difference between our actual

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level of equity in equipment inventory at each period end presented on the consolidated statements of cash flows, compared to the actual level of equity in equipment inventory at the beginning of the fiscal year.

Non-GAAP cash flow provided by (used for) operating activities is a non-GAAP financial measure which is adjusted for non-manufacturer floorplan payable and changes in the level of equity in equipment inventory. We believe that the presentation of non-GAAP cash flow provided by (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 and level of financing for our equipment inventory. 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.

	Net Cash Provided by (Used for) Operating Activities Three Months Ended April 30, 2016 (in thousands)		Net Cash Provided by (Used for) Financing Activities Three Months Ended April 30, 2015 (in thousands)	
Cash Flow, As Reported	\$(24,874)	\$14,306	\$(550 )	\$(35,320)
Net Change in Non-Manufacturer Floorplan Payable	25,117	(30,001 )	(25,117 )	30,001
Adjustment for Constant Equity in Equipment Inventory	(6,004 )	23,470	—	—
Adjusted Cash Flow	\$(5,761 )	\$7,775	\$(25,667)	\$(5,319 )

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 April 30, 2016, 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.

**FORWARD-LOOKING STATEMENTS**

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, 2016, 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, the impact of farm income levels on our customers' demand for agricultural equipment and services, the impact of oil prices on market demand for equipment and services, the general market conditions of the agricultural and construction industries, equipment inventory levels, estimated realignment costs and savings, 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 similar words and expressions are intended to identify forward-looking statements. Such statements are based upon the current beliefs and expectations



of our management. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, adverse market conditions in the agricultural and construction equipment industries, and those matters identified and discussed under the section titled “Risk Factors” in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q.

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**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 our interest-bearing balances and interest rates as of April 30, 2016, 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 \$2.5 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 \$2.5 million. At April 30, 2016, we had total floorplan payables of variable rate floorplan payable of \$446.3 million, of which approximately \$241.5 million was interest-bearing, \$104.8 million was non-interest bearing and \$100.0 million was effectively fixed rate due to our interest rate swap instrument. At April 30, 2016, we also had variable notes payable and long-term debt of \$11.7 million, and fixed rate notes payable and long-term debt of \$27.8 million.

**Foreign Currency Exchange Rate Risk**

Our foreign currency exposures arise as the result of our foreign operations. We are exposed to transactional foreign currency exchange rate risk through our foreign entities' holding assets and liabilities denominated in currencies other than their functional currency. In addition, the Company is exposed to foreign currency transaction risk as the result of certain intercompany financing transactions. The Company attempts to manage its transactional foreign currency exchange rate risk through the use of derivative financial instruments, primarily foreign exchange forward contracts, or through natural hedging instruments. Based upon balances and exchange rates as of April 30, 2016, holding other variables constant, we believe that a hypothetical 10% increase or decrease in all applicable foreign exchange rates would not have a material impact on our results of operations or cash flows. As of April 30, 2016, our Ukrainian subsidiary had \$1.3 million of net monetary assets denominated in Ukrainian hryvnia (UAH). We have attempted to minimize our net monetary asset position through reducing overall asset levels in Ukraine and through borrowing in UAH which serves as a natural hedging instrument offsetting our net UAH denominated assets. At certain times, currency and payment controls imposed by the National Bank of Ukraine have limited our ability to manage our net monetary asset position. The UAH devalued significantly during the six month period ended July 31, 2015, but has remained relatively stable since that time. Continued and significant devaluation of the UAH could have a material impact on our results of operations and cash flows.

In addition to transactional foreign currency exchange rate risk, we are also exposed to translational foreign currency exchange rate risk as we translate the results of operations and assets and liabilities of our foreign operations from their functional currency to the U.S. dollar. As a result, our results of operations, cash flows and net investment in our foreign operations may be adversely impacted by fluctuating foreign currency exchange rates. We believe that a hypothetical 10% increase or decrease in all applicable foreign exchange rates, holding all other variables constant, 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.

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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 Quarterly Report, including the important information in “Forward-Looking Statements,” you should carefully consider the “Risk Factors” discussed in our Form 10-K for the year ended January 31, 2016 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 may 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 may materially adversely affect our 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, 2016.

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.

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SIGNATURES

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

Dated: June 2, 2016

TITAN MACHINERY INC.

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

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EXHIBIT INDEX  
TITAN MACHINERY INC.  
FORM 10-Q

No. Description

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended April 30, 2016, 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.

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