

Titan Machinery Inc.  
Form 10-Q  
December 06, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

---

**FORM 10-Q**

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

**For the quarterly period ended October 31, 2012**

**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**

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

(Address of Principal Executive Offices)

Registrant's telephone number (701) 356-0130

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>
(Do not check if smaller reporting company)			

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

The number of shares outstanding of the registrant's common stock as of November 30, 2012 was: Common Stock, \$0.00001 par value, 21,047,214 shares.

---

Table of Contents

**TITAN MACHINERY INC.**  
**QUARTERLY REPORT ON FORM 10-Q**

**Table of Contents**

		<b>Page No.</b>
<b><u>PART I.</u></b>	<b><u>FINANCIAL INFORMATION</u></b>	3
<b><u>ITEM 1.</u></b>	<b><u>FINANCIAL STATEMENTS</u></b>	3
	<u>Consolidated Balance Sheets as of October 31, 2012 and January 31, 2012</u>	3
	<u>Consolidated Statements of Operations for the three and nine months ended October 31, 2012 and 2011</u>	4
	<u>Consolidated Statements of Comprehensive Income for the three and nine months ended October 31, 2012 and 2011</u>	5
	<u>Consolidated Statement of Stockholders' Equity for the nine months ended October 31, 2012</u>	6
	<u>Consolidated Statements of Cash Flows for the nine months ended October 31, 2012 and 2011</u>	7
	<u>Notes to Consolidated Financial Statements</u>	8
<b><u>ITEM 2.</u></b>	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	19
<b><u>ITEM 3.</u></b>	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	30
<b><u>ITEM 4.</u></b>	<b><u>CONTROLS AND PROCEDURES</u></b>	30
<b><u>PART II.</u></b>	<b><u>OTHER INFORMATION</u></b>	30
<b><u>ITEM 1.</u></b>	<b><u>LEGAL PROCEEDINGS</u></b>	30
<b><u>ITEM 1A.</u></b>	<b><u>RISK FACTORS</u></b>	30
<b><u>ITEM 2.</u></b>	<b><u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	31
<b><u>ITEM 3.</u></b>	<b><u>DEFAULTS UPON SENIOR SECURITIES</u></b>	31
<b><u>ITEM 4.</u></b>	<b><u>MINE SAFETY DISCLOSURES</u></b>	31
<b><u>ITEM 5.</u></b>	<b><u>OTHER INFORMATION</u></b>	31

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

<u>ITEM 6.</u>	<u>EXHIBITS</u>	31
<u>Signatures</u>		32
<u>Exhibit Index</u>		33

---

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TITAN MACHINERY INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

	<b>October 31, 2012 (Unaudited)</b>	<b>January 31, 2012</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 115,668	\$ 79,842
Receivables, net	96,568	82,518
Inventories	1,048,004	748,047
Prepaid expenses and other	4,225	2,108
Income taxes receivable		3,140
Deferred income taxes	5,182	5,370
Total current assets	1,269,647	921,025
<b>INTANGIBLES AND OTHER ASSETS</b>		
Noncurrent parts inventories	3,480	2,792
Goodwill	29,547	24,404
Intangible assets, net of accumulated amortization	12,477	10,793
Other	7,641	2,776
Total intangibles and other assets	53,145	40,765
PROPERTY AND EQUIPMENT, net of accumulated depreciation	185,656	126,282
<b>TOTAL ASSETS</b>	<b>\$ 1,508,448</b>	<b>\$ 1,088,072</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 34,597	\$ 28,424
Floorplan notes payable	782,357	552,428
Current maturities of long-term debt	10,123	4,755
Customer deposits	25,063	49,540
Accrued expenses	32,527	26,735
Income taxes payable	5,023	
Total current liabilities	889,690	661,882
<b>LONG-TERM LIABILITIES</b>		
Senior convertible notes	124,887	
Long-term debt, less current maturities	69,345	57,405

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

Deferred income taxes	38,656	28,592
Other long-term liabilities	1,870	2,854
Total long-term liabilities	234,758	88,851
<b>STOCKHOLDERS EQUITY</b>		
Common stock, par value \$.00001 per share; authorized - 45,000 shares, issued and outstanding - 21,047 at October 31, 2012 and authorized - 25,000 shares, issued and outstanding - 20,911 at January 31, 2012		
Additional paid-in-capital	235,892	218,156
Retained earnings	145,118	118,251
Accumulated other comprehensive loss	(631)	(70)
Total Titan Machinery Inc. stockholders equity	380,379	336,337
Noncontrolling interest	3,621	1,002
Total stockholders equity	384,000	337,339
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,508,448</b>	<b>\$ 1,088,072</b>

See Notes to Consolidated Financial Statements

Table of Contents**TITAN MACHINERY INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(in thousands, except per share data)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
<b>REVENUE</b>				
Equipment	\$ 456,168	\$ 312,304	\$ 1,084,866	\$ 786,816
Parts	72,101	64,468	188,840	155,670
Service	33,365	29,843	93,583	76,202
Rental and other	20,478	16,345	46,617	33,286
<b>TOTAL REVENUE</b>	<b>582,112</b>	<b>422,960</b>	<b>1,413,906</b>	<b>1,051,974</b>
<b>COST OF REVENUE</b>				
Equipment	414,028	283,690	985,397	711,421
Parts	49,266	44,389	130,276	108,535
Service	11,611	10,304	32,448	27,175
Rental and other	13,148	10,580	30,953	22,192
<b>TOTAL COST OF REVENUE</b>	<b>488,053</b>	<b>348,963</b>	<b>1,179,074</b>	<b>869,323</b>
<b>GROSS PROFIT</b>	<b>94,059</b>	<b>73,997</b>	<b>234,832</b>	<b>182,651</b>
<b>OPERATING EXPENSES</b>	<b>63,950</b>	<b>50,060</b>	<b>175,313</b>	<b>133,556</b>
<b>INCOME FROM OPERATIONS</b>	<b>30,109</b>	<b>23,937</b>	<b>59,519</b>	<b>49,095</b>
<b>OTHER INCOME (EXPENSE)</b>				
Interest and other income	258	307	865	859
Floorplan interest expense	(3,704)	(2,625)	(9,022)	(5,121)
Other interest expense	(2,886)	(283)	(6,453)	(899)
<b>INCOME BEFORE INCOME TAXES</b>	<b>23,777</b>	<b>21,336</b>	<b>44,909</b>	<b>43,934</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>(9,418)</b>	<b>(8,536)</b>	<b>(17,786)</b>	<b>(17,575)</b>
<b>NET INCOME INCLUDING NONCONTROLLING INTEREST</b>	<b>14,359</b>	<b>12,800</b>	<b>27,123</b>	<b>26,359</b>
<b>LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	<b>298</b>		<b>256</b>	
<b>NET INCOME ATTRIBUTABLE TO TITAN MACHINERY INC.</b>	<b>\$ 14,061</b>	<b>\$ 12,800</b>	<b>\$ 26,867</b>	<b>\$ 26,359</b>
<b>EARNINGS PER SHARE - NOTE 1</b>				
<b>EARNINGS PER SHARE - BASIC</b>	<b>\$ 0.67</b>	<b>\$ 0.62</b>	<b>\$ 1.28</b>	<b>\$ 1.34</b>
<b>EARNINGS PER SHARE - DILUTED</b>	<b>\$ 0.66</b>	<b>\$ 0.61</b>	<b>\$ 1.27</b>	<b>\$ 1.31</b>
<b>WEIGHTED AVERAGE SHARES - BASIC</b>	<b>20,814</b>	<b>20,572</b>	<b>20,773</b>	<b>19,538</b>
<b>WEIGHTED AVERAGE SHARES - DILUTED</b>	<b>20,988</b>	<b>20,890</b>	<b>20,982</b>	<b>19,903</b>

See Notes to Consolidated Financial Statements



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

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
NET INCOME INCLUDING NONCONTROLLING INTEREST	\$ 14,359	\$ 12,800	\$ 27,123	\$ 26,359
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Foreign currency translation adjustments	403		(533)	
Unrealized loss on net investment hedge derivative instruments (net of tax of \$82)	(129)		(129)	
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>274</b>		<b>(662)</b>	
<b>COMPREHENSIVE INCOME</b>	<b>14,633</b>	<b>12,800</b>	<b>26,461</b>	<b>26,359</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	<b>309</b>		<b>155</b>	
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO TITAN MACHINERY INC.</b>	<b>\$ 14,324</b>	<b>\$ 12,800</b>	<b>\$ 26,306</b>	<b>\$ 26,359</b>

See Notes to Consolidated Financial Statements

Table of Contents**TITAN MACHINERY INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)****(in thousands)**

	Common Stock		Additional	Retained	Accumulated	Total Titan	Noncontrolling	Total
	Shares	Amount	Paid-In	Earnings	Other	Machinery Inc.	Interest	Stockholders
	Outstanding		Capital		Comprehensive	Stockholders		Equity
					Loss	Equity		Equity
BALANCE, JANUARY 31, 2012	20,911	\$	\$ 218,156	\$ 118,251	\$ (70)	\$ 336,337	\$ 1,002	\$ 337,339
Senior convertible notes offering			15,501			15,501		15,501
Common stock issued on grant of restricted stock, exercise of stock options and warrants, and tax benefits of equity awards	136		1,055			1,055		1,055
Issuance of subsidiary shares to noncontrolling interest holders							2,464	2,464
Stock-based compensation expense			1,180			1,180		1,180
Comprehensive income (loss):								
Net income (loss)				26,867		26,867	256	27,123
Other comprehensive loss					(561)	(561)	(101)	(662)
Total comprehensive income (loss)						26,306	155	26,461
BALANCE, OCTOBER 31, 2012	21,047	\$	\$ 235,892	\$ 145,118	\$ (631)	\$ 380,379	\$ 3,621	\$ 384,000

See Notes to Consolidated Financial Statements

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

	<b>Nine Months Ended October 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>OPERATING ACTIVITIES</b>		
Net income including noncontrolling interest	\$ 27,123	\$ 26,359
Adjustments to reconcile net income to net cash used for operating activities		
Depreciation and amortization	17,518	10,172
Deferred income taxes	8	184
Stock-based compensation expense	1,180	987
Noncash interest expense	2,339	387
Other, net	(543)	(138)
Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities		
Receivables, prepaid expenses and other assets	(13,813)	(4,117)
Inventories	(212,948)	(232,519)
Floorplan notes payable	18,080	8,217
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	(19,775)	14,638
Income taxes	8,158	(1,012)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>(172,673)</b>	<b>(176,842)</b>
<b>INVESTING ACTIVITIES</b>		
Rental fleet purchases	(15,014)	(824)
Property and equipment purchases (excluding rental fleet)	(20,724)	(10,878)
Net proceeds from sale of property and equipment	4,022	3,244
Purchase of equipment dealerships, net of cash acquired	(16,175)	(38,607)
Other, net	9	(99)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(47,882)</b>	<b>(47,164)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from senior convertible notes offering, net of direct issuance costs of \$4,753	145,247	
Proceeds from follow-on offering of common stock, net of underwriting discount of \$4,166 and other direct costs of \$286		74,898
Net change in non-manufacturer floorplan notes payable	118,655	162,698
Proceeds from long-term debt borrowings	94,736	20,000
Principal payments on long-term debt	(103,591)	(12,139)
Proceeds from sale of subsidiary shares to noncontrolling interest holders	2,464	
Other, net	(194)	327
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>257,317</b>	<b>245,784</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(936)</b>	
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>35,826</b>	<b>21,778</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>79,842</b>	<b>76,112</b>

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

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	115,668	\$	97,890
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period				
Income taxes, net of refunds	\$	9,217	\$	18,191
Interest	\$	9,865	\$	5,390
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Property and equipment financed with long-term debt	\$	26,153	\$	8,720
Net transfer of assets to property and equipment from inventories	\$	15,374	\$	35,721
Net transfer of financing to long-term debt from floorplan notes payable	\$		\$	1,696

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 and Construction customers. Therefore, operating results for the nine-month period ended October 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2013. The information contained in the balance sheet as of January 31, 2012 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, 2012 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 stores in the United States and Europe. The Company 's North American stores are located in North Dakota, South Dakota, Minnesota, Iowa, Nebraska, Montana, Wyoming, Wisconsin, Colorado and Arizona, and its European stores are located in Romania and Bulgaria.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, 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 significant accounts, transactions and profits between the consolidated companies have been eliminated in consolidation.

*Derivative Instruments*

In the normal course of business, the Company is subject to risk from adverse fluctuations in foreign currency exchange rates. The Company manages its foreign currency exposure through a program that includes the use of derivative instruments, primarily foreign exchange forward contracts. The Company's objective in managing its exposure to foreign currency risk is to minimize the impact on earnings, cash flows and the consolidated balance sheet. The Company does not use derivative instruments for trading or speculative purposes.

All outstanding derivative instruments are recognized in the consolidated balance sheet at fair value. The effect on earnings from recognizing the fair value of the derivative instrument depends on its intended use, the hedge designation, and the effectiveness in offsetting the exposure of the underlying hedged item. Changes in fair values of instruments designated to reduce or eliminate fluctuations in the fair values of recognized assets and liabilities and unrecognized firm commitments are

Table of Contents

reported currently in earnings along with the change in the fair value of the hedged items. Changes in the effective portion of the fair values of derivative instruments used to reduce or eliminate fluctuations in cash flows of forecasted transactions are reported in other comprehensive income, a component of stockholders' equity. Amounts accumulated in other comprehensive income are reclassified to earnings when the related hedged items affect earnings or the anticipated transactions are no longer probable. Changes in the fair value of derivative instruments designated to reduce or eliminate fluctuations in the net investment of a foreign subsidiary are reported in other comprehensive income. Changes in the fair value of derivative instruments that are not designated as hedging instruments or do not qualify for hedge accounting treatment are reported currently in earnings.

For derivative instruments accounted for as hedging instruments, the Company formally designates and documents, at inception, the instrument as a hedge of a specific underlying exposure, the risk management objective and the manner by which the effectiveness of the hedging instrument will be evaluated. At each reporting period after inception, the Company evaluates the hedging instrument's effectiveness in reducing or eliminating the underlying hedged exposure. Any hedge ineffectiveness is recognized in earnings immediately.

*Fair Value Measurements*

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Three levels of inputs may be used to measure fair value:

Level 1 Values derived from unadjusted quoted prices in active markets for identical assets and liabilities

Level 2 Values derived from observable inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets in markets that are not active.

Level 3 Values derived from unobservable inputs for which there is little or no market data available, thereby requiring the reporting entity to develop its own assumptions.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

As of October 31, 2012, the Company had recognized a derivative liability for outstanding foreign currency forward contracts which are recorded at fair value in an amount equal to \$0.2 million. Fair value was determined based on Level 2 inputs, including the use of pricing components (e.g., exchange rates and interest rates) which trade in active markets. No instruments measured at fair value were outstanding as of January 31, 2012.

*Fair Value of Financial Instruments*

The carrying amount of cash, receivables, payables, short-term debt and other current liabilities approximates fair value because of the short maturity and/or frequent repricing of those instruments. The carrying amount of derivative instruments is equal to the fair value. Based upon current borrowing rates with similar maturities of our long-term debt instruments, the carrying value of the long-term debt approximates the fair value as of October 31, 2012 and January 31, 2012. As of October 31, 2012, the fair value of the Company's senior convertible notes was approximately \$140.0 million and the carrying value was approximately \$124.9 million. Fair value of the senior convertible notes was estimated based on quoted market prices for these instruments.



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

### Table of Contents

#### *Recent Accounting Guidance*

In July 2012, the FASB amended authoritative guidance on impairment testing for indefinite-lived intangible assets, codified in ASC 350, *Intangibles - Goodwill and Other*. The amended guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is impaired. If an entity determines that the fair value of the indefinite-lived intangible asset is not more likely than not impaired, then the entity is not required to perform a quantitative assessment. However, if an entity concludes that the fair value of an indefinite-lived intangible asset is more likely than not impaired, it is required to perform the impairment test by comparing the fair value with the carrying amount. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. The guidance is effective for the interim and annual periods beginning after September 15, 2012, with early adoption permitted. The Company adopted this guidance on July 31, 2012. Its adoption did not have a material effect on the Company's consolidated financial statements.

#### *Earnings Per Share*

The Company uses the two-class method to calculate basic and diluted earnings per share. 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 earnings per share 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 earnings per share 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 related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted earnings per share. There were approximately 99,000 and 10,000 stock options outstanding that were excluded from the computation of diluted earnings per share for the three and nine months ended October 31, 2012, respectively, because they were anti-dilutive. There were approximately 72,000 and 10,000 stock options outstanding that were excluded from the computation of diluted earnings per share for the three and nine months ended October 31, 2011, respectively, because they were anti-dilutive.

The following table sets forth the calculation of basic and diluted earnings per share:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
<b>Numerator</b>				
Net income attributable to Titan Machinery Inc.	\$ 14,061	\$ 12,800	\$ 26,867	\$ 26,359
Net income allocated to participating securities	(150)	(113)	(270)	(238)
Net income attributable to Titan Machinery Inc. common stockholders	\$ 13,911	\$ 12,687	\$ 26,597	\$ 26,121
<b>Denominator</b>				
Basic weighted-average common shares outstanding	20,814	20,572	20,773	19,538

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

Plus: Incremental shares from assumed conversions

Warrants	12	29	20	30
Stock options	162	289	189	335
Diluted weighted-average common shares outstanding	20,988	20,890	20,982	19,903
Earnings per share - basic	\$ 0.67	\$ 0.62	\$ 1.28	\$ 1.34
Earnings per share - diluted	\$ 0.66	\$ 0.61	\$ 1.27	\$ 1.31

Table of Contents**NOTE 2 - INVENTORIES**

	October 31, 2012	January 31, 2012
	(in thousands)	
New equipment	\$ 726,865	\$ 445,513
Used equipment	218,351	219,849
Parts and attachments	93,466	76,073
Work in process	9,322	6,612
	\$ 1,048,004	\$ 748,047

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

**NOTE 3 - PROPERTY AND EQUIPMENT**

	October 31, 2012	January 31, 2012
	(in thousands)	
Rental fleet equipment	\$ 105,111	\$ 62,440
Machinery and equipment	19,449	17,562
Vehicles	35,987	28,277
Furniture and fixtures	25,163	19,097
Land, buildings, and leasehold improvements	50,875	34,705
	\$ 236,585	\$ 162,081
Less accumulated depreciation	(50,929)	(35,799)
	\$ 185,656	\$ 126,282

**NOTE 4 - LINES OF CREDIT / FLOORPLAN NOTES PAYABLE***Operating Line of Credit*

As of October 31, 2012, the Company had a \$75.0 million working capital line of credit under a credit agreement with a group of banks led by Wells Fargo Bank, National Association ( Wells Fargo ). The Company had \$20.0 million and \$33.9 million outstanding on its working capital line of credit as of October 31, 2012 and January 31, 2012, respectively. Amounts outstanding are recorded as long-term debt, within long-term liabilities on the consolidated balance sheets, as the Company does not have the intention or obligation to repay amounts borrowed within one year.

*Floorplan Lines of Credit*

As of October 31, 2012, the Company had discretionary floorplan lines of credit for equipment purchases totaling approximately \$925.0 million with various lending institutions, including \$300.0 million under the aforementioned credit agreement with Wells Fargo, a \$450.0 million credit agreement with CNH Capital America LLC ( CNH Capital ) and a \$175.0 million credit agreement with Agricredit Acceptance LLC. Floorplan notes payable relating to these credit agreements totaled approximately \$716.5 million of the total floorplan notes payable balance of \$782.4 million outstanding as of October 31, 2012 and \$505.6 million of the total floorplan notes payable balance of \$552.4 million outstanding as of January 31, 2012. As of October 31, 2012, the Company had approximately \$188.9 million in available borrowings remaining under these lines of credit (net of standby letters of credit under the aforementioned Wells Fargo credit agreement and rental fleet financing and other acquisition-related financing arrangements under the CNH Capital credit agreement). These floorplan

Table of Contents

notes carried various interest rates primarily ranging from 2.46% to 7.25% as of October 31, 2012, subject to interest-free periods offered by CNH Capital. As of October 31, 2012, the Company was in compliance with all floorplan financial covenants. Subsequent to October 31, 2012, the Company amended various terms of the credit agreement with Wells Fargo, including increasing the floorplan line of credit from \$300.0 million to \$375.0 million, amending the interest rate on outstanding balances from LIBOR plus an applicable margin of 1.5% to 2.25% to LIBOR plus an applicable margin of 1.5% to 2.625%, and changing certain financial covenants.

**NOTE 5 - SENIOR CONVERTIBLE NOTES**

On April 24, 2012, the Company issued through a private offering \$150 million of 3.75% Senior Convertible Notes (the "Convertible Notes"). The Convertible Notes bear interest at a rate of 3.75% per year, payable semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2012. The Convertible Notes mature on May 1, 2019, unless earlier purchased by the Company, redeemed or converted.

The Convertible Notes are unsecured and unsubordinated obligations; rank equal in right of payment to the Company's existing and future unsecured indebtedness that is not subordinated; are effectively subordinated in right of payment to the Company's existing and future secured indebtedness; and are structurally subordinated to all existing and future indebtedness and liabilities of the Company's subsidiaries.

The Convertible Notes are initially convertible into the Company's common stock at a conversion rate of 23.1626 shares of common stock per \$1,000 principal amount of convertible notes, representing an initial effective conversion price of \$43.17 per share of common stock. The conversion rate may be subject to adjustment upon the occurrence of certain specified events as provided in the indenture governing the Convertible Notes, dated April 24, 2012 between the Company and Wells Fargo Bank, National Association, as trustee (the "Indenture"), but will not be adjusted for accrued but unpaid interest. Upon conversion of a Convertible Note, the Company will settle the conversion obligation in cash up to the aggregate principal amount of the Convertible Note being converted, and any conversion obligation in excess thereof will be settled in cash, shares of the Company's common stock, or a combination thereof, at the Company's election, subject to certain limitations as defined in the Indenture.

Holders of the Convertible Notes may convert their notes at the applicable conversion rate under the following circumstances:

- i. During any fiscal quarter commencing after July 31, 2012, if for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter, the last reported sale price of the Company's common stock on such trading day is greater than or equal to 120% of the applicable conversion price on such trading day.
- ii. During the five consecutive business day period immediately following any five consecutive trading day period in which, for each trading day of that period, the trading price per \$1,000 principal amount of the Convertible Notes is less than 98% of the product of the last reported sale price of the Company's common stock on such trading day and the applicable conversion rate on such trading day.

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

- iii. If the Company calls any or all of the Convertible Notes for redemption at any time prior to the close of business on the business day immediately preceding the redemption date.
  
- iv. Upon the occurrence of corporate transactions specified in the Indenture.
  
- v. At any time on and after February 1, 2019 until the close of business on the business day immediately preceding the maturity date.

Holders of the Convertible Notes who convert their Convertible Notes in connection with a make-whole fundamental change, as defined in the Indenture, may be entitled to a make-whole premium in the form of an increase to the conversion rate. In addition, upon the occurrence of a fundamental change, as defined in the Indenture, holders of the Convertible Notes may require the Company to purchase all or a portion of their Convertible Notes for cash at a price equal to 100% of the principal amount of the Convertible Notes to be purchased plus any accrued but unpaid interest.

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

### Table of Contents

The number of shares the Company may deliver upon conversion of the Convertible Notes will be subject to certain limitations, and the Company is subject to certain other obligations and restrictions related to such share caps, as described in the Indenture. On or after May 6, 2015, the Company may redeem for cash all or a portion of the Convertible Notes if the last reported sale price of the Company's common stock has been at least 120% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption.

The Indenture provides for customary events of default, including, but not limited to, cross acceleration to certain other indebtedness of the Company and its subsidiaries. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding Convertible Notes will become due and payable immediately without further action or notice. If any other event of default under the Indenture occurs or is continuing, the trustee or holders of at least 25% in aggregate principal amount of the then outstanding Convertible Notes may declare all of the Convertible Notes to be due and payable immediately.

In accounting for the Convertible Notes, the Company segregated the liability component of the instrument from the equity component. The liability component was measured by estimating the fair value of a non-convertible debt instrument that is similar in its terms to the Convertible Notes. Fair value was estimated through discounting future interest and principal payments, an income approach, due under the Convertible Notes at a discount rate of 7.00%, an interest rate equal to the estimated borrowing rate for similar non-convertible debt. The excess of the aggregate face value of the Convertible Notes over the estimated fair value of the liability component is recognized as a debt discount which will be amortized over the expected life of the Convertible Notes using the effective interest rate method. Amortization of the debt discount is recognized as non-cash interest expense.

The equity component of the Convertible Notes is measured as the residual difference between the aggregate face value of the Convertible Notes and the estimated aggregate fair value of the liability component. The equity component will not be remeasured in subsequent periods provided that the component continues to meet the conditions necessary for equity classification.

The transaction costs incurred in connection with the issuance of the Convertible Notes were allocated to the liability and equity components based on their relative values. Transaction costs allocated to the liability component are being amortized using the effective interest rate method and recognized as non-cash interest expense over the expected term of the Convertible Notes. Transaction costs allocated to the equity component reduced the value of the equity component recognized in stockholders' equity.

Proceeds upon issuance of the Convertible Notes were as follows:

	<b>April 24, 2012</b>	
	<b>(in thousands)</b>	
Principal value	\$	150,000
Less: transaction costs		(4,753)
Net proceeds, senior convertible notes	\$	145,247
<b>Amounts recognized at issuance:</b>		
Senior convertible notes, net	\$	123,319
Additional paid-in capital		15,501

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

Transaction costs allocated to the liability component		(3,907)
Long-term deferred tax liability		10,334
Net proceeds, senior convertible notes	\$	145,247



Table of Contents

As of October 31, 2012, the Convertible Notes consisted of the following:

	<b>October 31, 2012</b>
	<b>(in thousands except conversion rate and conversion price)</b>
Principal value	\$ 150,000
Unamortized debt discount	(25,113)
Carrying value of senior convertible notes	\$ 124,887
Carrying value of equity component, net of deferred taxes	\$ 15,501
Conversion rate (shares of common stock per \$1,000 principal amount of notes)	23.1626
Conversion price (per share of common stock)	\$ 43.17

As of October 31, 2012, the unamortized debt discount will be amortized over a seven-year period. The if-converted value as of October 31, 2012 does not exceed the principal balance of the Convertible Notes. For the period ended October 31, 2012, the Company recognized coupon interest expense of \$2.9 million, and non-cash interest expense of \$1.6 million related to the amortization of the debt discount and \$0.2 million related to the amortization of the liability-allocated transaction costs. The effective interest rate of the liability component for the period ended October 31, 2012 was equal to 7.00%.

**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.

As of October 31, 2012, the notional amount of outstanding foreign currency forward contracts designated as net investment hedges was approximately \$31.8 million. No derivative instruments designated as net investment hedges were outstanding as of January 31, 2012.

*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 Company's risk management program allows for short-term hedging of the foreign currency risk exposure associated with outstanding intercompany loans whereby the maturity date of all hedging instruments is equal to the quarterly reporting date. As a result, no derivative instruments not designated as hedging instruments were outstanding as of October 31, 2012. For the three months ended October 31, 2012, the maximum notional amount outstanding at any point during the period was approximately \$10.7 million. No derivative instruments not designated as hedging instruments were outstanding as of or during the year ended January 31, 2012.

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

Table of Contents

The following table sets forth the fair value of the Company's derivative instruments outstanding as of October 31, 2012. No derivative instruments were outstanding as of January 31, 2012.

	Balance Sheet Location	Fair Value as of:	
		October 31, 2012	January 31, 2012
(in thousands)			
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Accrued expenses	\$ (211)	

The following table sets forth the gains and losses recognized on the Company's derivative instruments for the three months ended October 31, 2012. No derivative instruments were outstanding during the three-month period ended October 31, 2011.

	Amount of Gain (Loss) Recognized in Other Comprehensive Income Three Months Ended October 31, 2012		Amount of Gain (Loss) Recognized in Income Three Months Ended October 31, 2011		Income Statement Classification
	(in thousands)		(in thousands)		
Derivatives Designated as Hedging Instruments:					
Net investment hedges:					
Foreign exchange contracts	\$ (211)	\$	\$	\$	N/A
Derivatives Not Designated as Hedging Instruments:					
Foreign exchange contracts			(397)		Interest and other income
Total Derivatives	\$ (211)	\$	\$ (397)	\$	

The following table sets forth the gains and losses recognized on the Company's derivative instruments for the nine months ended October 31, 2012. No derivative instruments were outstanding during the nine-month period ended October 31, 2011.

	Amount of Gain (Loss) Recognized in Other Comprehensive Income Nine Months Ended October 31, 2012		Amount of Gain (Loss) Recognized in Income Nine Months Ended October 31, 2011		Income Statement Classification
	(in thousands)		(in thousands)		
Derivatives Designated as Hedging Instruments:					
Net investment hedges:					
Foreign exchange contracts	\$ (211)	\$	\$	\$	N/A
Derivatives Not Designated as Hedging Instruments:					

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

Foreign exchange contracts	\$	\$	\$	(380)	\$	Interest and other income
Total Derivatives	\$	(211)	\$	\$	(380)	\$

**NOTE 7 - BUSINESS COMBINATIONS**

The Company continued to implement its strategy of consolidating dealerships in desired market areas. Below is a summary of the acquisitions completed for the nine months ended October 31, 2012. In certain of the business combination transactions the Company recognized goodwill. Factors contributing to the recognition of goodwill include an evaluation of future and historical financial performance, the value of the workforce acquired and proximity to other existing and future planned Company locations. Pro forma results are not presented as the acquisitions are not considered material, individually

Table of Contents

or in aggregate, to the Company. The results of operations have been included in the Company's consolidated statements of operations since the date of each respective business combination.

On February 27, 2012, the Company acquired certain assets of the Colorado division of Adobe Truck & Equipment, LLC. The acquired entity consisted of three construction equipment stores in Denver, Colorado Springs, and Loveland, Colorado. The acquisition establishes the Company's first construction equipment stores in Colorado and allows the Company to have the exclusive Case Construction contract for all of Colorado east of the Rocky Mountains. The acquisition-date fair value of the total consideration transferred for the stores was \$3.4 million.

On March 5, 2012, the Company acquired, through its subsidiary, Titan Machinery Bulgaria AD, certain assets of Rimex 1-Holding EAD. The acquired entity consisted of seven agricultural equipment stores in the following cities in Bulgaria: Sofia, Dobrich, Burgas, Pleven, Ruse, Montana, and Stara Zagora. The acquisition expands the Company's operations in Europe and provides a significant opportunity to leverage its domestic operating model and dealership experience into an additional growth platform. The acquisition-date fair value of the total consideration transferred for the stores was \$2.6 million. Subsequent to the acquisition, Titan Machinery Bulgaria AD issued a 30% ownership interest to the former owner of the acquired entity for \$2.5 million. The 30% ownership interest is included in the consolidated financial statements as a noncontrolling interest.

On March 30, 2012, the Company acquired certain assets of Haberer's Implement, Inc. The acquired entity consisted of one agricultural equipment store in Bowdle, South Dakota which is contiguous to the Company's existing locations in Aberdeen, Redfield and Highmore, South Dakota and Wishek, North Dakota. The acquisition-date fair value of the total consideration transferred for the store was \$1.2 million.

On April 2, 2012, the Company acquired certain assets of East Helena Rental, LLC. The acquired entity consisted of one construction equipment rental store in Helena, Montana which is contiguous to the Company's existing locations in Missoula, Great Falls, Bozeman and Big Sky, Montana. The acquisition-date fair value of the total consideration transferred for the store was \$0.6 million.

On July 2, 2012, the Company acquired certain assets of Curly Olney's, Inc. The acquired entity consisted of two agricultural equipment stores in McCook and Imperial, Nebraska and expands the Company's agriculture presence in Nebraska. The acquisition-date fair value of the total consideration transferred for the stores was \$5.5 million.

During the nine months ended October 31, 2012, adjustments were recorded for additional consideration of \$3.3 million earned and paid pursuant to a business combination accounted for under the purchase method of accounting which required that additional consideration be recognized once all contingencies have been resolved and that such consideration be included as an additional cost of the entity and therefore recognized as goodwill. This additional consideration resulted in a net increase in goodwill for the Agriculture segment of \$3.3 million, and was the final payment under this agreement.

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

### Table of Contents

The allocations of the purchase prices in the above business combinations are presented in the following table. The estimated fair values of the intangible assets acquired are provisional estimates which are subject to change upon completion of the final valuation.

	<b>October 31, 2012 (in thousands)</b>
Cash	\$ 1
Receivables	2,200
Inventories	17,281
Prepaid expenses and other	352
Property and equipment	2,676
Intangible assets	2,255
Goodwill	5,150
	\$ 29,915
Accounts payable	\$ 3,094
Floorplan notes payable	7,572
Customer deposits	1,473
Accrued expenses	6
	\$ 12,145
Cash consideration	\$ 16,176
Non-cash consideration: liabilities incurred	1,594
Total consideration	\$ 17,770
Goodwill related to the Agriculture operating segment	\$ 3,785
Goodwill related to the Construction operating segment	\$ 1,365
Goodwill expected to be deductible for tax purposes	\$ 5,150

Table of Contents**NOTE 8 - SEGMENT INFORMATION AND OPERATING RESULTS**

Revenue, income 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. Intersegment revenue is immaterial.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
<b>Revenue</b>				
Agriculture	\$ 503,518	\$ 361,601	\$ 1,200,148	\$ 914,932
Construction	94,852	77,435	271,728	181,395
Segment revenue	598,370	439,036	1,471,876	1,096,327
Eliminations	(16,258)	(16,076)	(57,970)	(44,353)
Total	\$ 582,112	\$ 422,960	\$ 1,413,906	\$ 1,051,974
<b>Income Before Income Taxes</b>				
Agriculture	\$ 26,060	\$ 20,068	\$ 50,971	\$ 43,964
Construction	519	3,254	767	4,482
Segment income before income taxes	26,579	23,322	51,738	48,446
Shared Resources	(2,340)	(1,772)	(4,843)	(3,786)
Eliminations	(462)	(214)	(1,986)	(726)
Income before income taxes	\$ 23,777	\$ 21,336	\$ 44,909	\$ 43,934
<b>Total Assets</b>				
			October 31, 2012	January 31, 2012
			(in thousands)	
Agriculture			\$ 941,883	\$ 781,098
Construction			395,978	250,474
Segment assets			1,337,861	1,031,572
Shared Resources			173,955	57,882
Eliminations			(3,368)	(1,382)
Total			\$ 1,508,448	\$ 1,088,072

**NOTE 9 - SUBSEQUENT EVENTS**

On November 1, 2012, the Company acquired certain assets of Toner's, Inc. The acquired entity consisted of three agricultural equipment stores in Grand Island, Broken Bow and Ord, Nebraska which are contiguous to the Company's existing locations in Kearney, Lexington, North Platte and Hastings, Nebraska. The acquisition-date fair value of the total consideration transferred for the stores was \$13.9 million.

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

On November 1, 2012, the Company acquired certain assets of Falcon Power Inc. The acquired entity consisted of two construction equipment stores in Phoenix and Flagstaff, Arizona and expands the Company's presence into Arizona. The acquisition-date fair value of the total consideration transferred for the stores was \$1.4 million.

Subsequent to October 31, 2012, the Company entered into a Purchase Agreement to acquire certain assets of VAIT D.o.o. The acquisition consists of one agricultural equipment store in the Vojvodina region of Serbia, which is contiguous to the Company's existing locations in Romania and Bulgaria, and expands the Company's Eastern European operations into Serbia. The Company expects the closing date to be on or about December 14, 2012.



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 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2012.

**Critical Accounting Policies**

There have been no material changes in our Critical Accounting Policies, as disclosed in our Annual Report on Form 10-K for the year ended January 31, 2012.

**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 Global 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 two reportable segments, Agriculture and Construction. Within each segment, we have four principal sources of revenue, new and used equipment sales, parts sales, service, and equipment rental and other activities.

Our net income attributable to Titan Machinery Inc. common stockholders was \$14.1 million, or \$0.66 per diluted share, for the three months ended October 31, 2012, compared to \$12.8 million, or \$0.61 per diluted share, for the three months ended October 31, 2011. Significant factors impacting the quarterly comparisons were:

- Increase in revenue due to acquisitions and same-store sales growth in both our Agriculture and Construction segments. The increase in equipment revenue was primarily due to a strong Agriculture equipment market caused by anticipated strong net farm income for calendar year 2012;
- Increase in total gross profit primarily due to an increase in revenue. Decrease in total gross profit margin primarily due to the change in sales mix, in which our equipment business contributed a larger percentage of our total gross profit, as compared to the same period last year; and

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

- Increase in floorplan interest expense due to an increase in floorplan notes payable and an increase in other interest expense primarily due to the issuance of our Senior Convertible Notes in April 2012.

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.

	Three Months Ended October 31,		Percent	Nine Months Ended October 31,		Percent
	2012	2011	Change	2012	2011	Change
	(dollars in thousands)			(dollars in thousands)		
<b>Equipment</b>						
Revenue	\$ 456,168	\$ 312,304	46.1%	\$ 1,084,866	\$ 786,816	37.9%
Cost of revenue	414,028	283,690	45.9%	985,397	711,421	38.5%
Gross profit	\$ 42,140	\$ 28,614	47.3%	\$ 99,469	\$ 75,395	31.9%
Gross profit margin	9.2%	9.2%	0.0%	9.2%	9.6%	(0.4)%
<b>Parts</b>						
Revenue	\$ 72,101	\$ 64,468	11.8%	\$ 188,840	\$ 155,670	21.3%
Cost of revenue	49,266	44,389	11.0%	130,276	108,535	20.0%
Gross profit	\$ 22,835	\$ 20,079	13.7%	\$ 58,564	\$ 47,135	24.2%
Gross profit margin	31.7%	31.1%	0.6%	31.0%	30.3%	0.7%
<b>Service</b>						
Revenue	\$ 33,365	\$ 29,843	11.8%	\$ 93,583	\$ 76,202	22.8%
Cost of revenue	11,611	10,304	12.7%	32,448	27,175	19.4%
Gross profit	\$ 21,754	\$ 19,539	11.3%	\$ 61,135	\$ 49,027	24.7%
Gross profit margin	65.2%	65.5%	(0.3)%	65.3%	64.3%	1.0%
<b>Rental and other</b>						
Revenue	\$ 20,478	\$ 16,345	25.3%	\$ 46,617	\$ 33,286	40.0%
Cost of revenue	13,148	10,580	24.3%	30,953	22,192	39.5%
Gross profit	\$ 7,330	\$ 5,765	27.1%	\$ 15,664	\$ 11,094	41.2%
Gross profit margin	35.8%	35.3%	0.5%	33.6%	33.3%	0.3%

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

### Table of Contents

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
Revenue				
Equipment	78.4%	73.8%	76.7%	74.8%
Parts	12.4%	15.2%	13.4%	14.8%
Service	5.7%	7.1%	6.6%	7.2%
Rental and other	3.5%	3.9%	3.3%	3.2%
Total revenue	100.0%	100.0%	100.0%	100.0%
Total cost of revenue	83.8%	82.5%	83.4%	82.6%
Gross profit	16.2%	17.5%	16.6%	17.4%
Operating expenses	11.0%	11.8%	12.4%	12.7%
Income from operations	5.2%	5.7%	4.2%	4.7%
Other income (expense)	(1.1)%	(0.7)%	(1.0)%	(0.5)%
Income before income taxes	4.1%	5.0%	3.2%	4.2%
Provision for income taxes	(1.6)%	(2.0)%	(1.3)%	(1.7)%
Net income including noncontrolling interest	2.5%	3.0%	1.9%	2.5%
Less: net income attributable to noncontrolling interest	0.1%	0.0%	0.0%	0.0%
Net income attributable to Titan Machinery Inc.	2.4%	3.0%	1.9%	2.5%

### *Three Months Ended October 31, 2012 Compared to Three Months Ended October 31, 2011*

#### **Consolidated Results**

##### *Revenue*

	Three Months Ended October 31,		Increase	Percent Change
	2012	2011		
	(dollars in thousands)			
Equipment	\$ 456,168	\$ 312,304	\$ 143,864	46.1%
Parts	72,101	64,468	7,633	11.8%
Service	33,365	29,843	3,522	11.8%
Rental and other	20,478	16,345	4,133	25.3%

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

Total Revenue	\$	582,112	\$	422,960	\$	159,152	37.6%
---------------	----	---------	----	---------	----	---------	-------

The increase in revenue for the third quarter of fiscal 2013, as compared to the same period last year, was due to acquisitions contributing \$57.3 million and same-store sales growth contributing \$101.9 million to current period revenue. This revenue growth was across all revenue sources and in both our Agriculture and Construction segments. The increase in equipment revenue was primarily due to a strong Agriculture equipment market caused by anticipated strong net farm income for calendar year 2012.

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

Table of Contents

*Gross Profit*

	Three Months Ended October 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
<b>Gross Profit</b>				
Equipment	\$ 42,140	\$ 28,614	\$ 13,526	47.3%
Parts	22,835	20,079	2,756	13.7%
Service	21,754	19,539	2,215	11.3%
Rental and other	7,330	5,765	1,565	27.1%
<b>Total Gross Profit</b>	<b>\$ 94,059</b>	<b>\$ 73,997</b>	<b>\$ 20,062</b>	<b>27.1%</b>
<b>Gross Profit Margin</b>				
Equipment	9.2%	9.2%	0.0%	0.0%
Parts	31.7%	31.1%	0.6%	1.9%
Service	65.2%	65.5%	(0.3)%	(0.5)%
Rental and other	35.8%	35.3%	0.5%	1.4%
<b>Total Gross Profit Margin</b>	<b>16.2%</b>	<b>17.5%</b>	<b>(1.3)%</b>	<b>(7.4)%</b>
<b>Gross Profit Mix</b>				
Equipment	44.8%	38.7%	6.1%	15.8%
Parts	24.3%	27.1%	(2.8)%	(10.3)%
Service	23.1%	26.4%	(3.3)%	(12.5)%
Rental and other	7.8%	7.8%	0.0%	0.0%
<b>Total Gross Profit Mix</b>	<b>100.0%</b>	<b>100.0%</b>		

The \$20.1 million increase in gross profit for the third quarter of fiscal 2013, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed \$8.2 million to the increase in gross profit for the third quarter of fiscal 2013, while increases in same-store gross profit contributed the remaining \$11.9 million. The decrease in gross profit margin from 17.5% for the third quarter of fiscal 2012 to 16.2% for the third quarter of fiscal 2013 was primarily due to the change in sales mix, in which our equipment business contributed a larger percentage of our total gross profit, as compared to the same period last year.

*Operating Expenses*

	Three Months Ended October 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
Operating expenses	\$ 63,950	\$ 50,060	\$ 13,890	27.7%
Operating expenses as a percentage of revenue	11.0%	11.8%	(0.8)%	(6.8)%

The \$13.9 million increase in operating expenses for the third quarter of fiscal 2013, as compared to the same period last year, was primarily due to the additional costs associated with acquisitions such as compensation, rent, travel and depreciation. As a percentage of total revenue, operating expenses decreased to 11.0% for the third quarter of fiscal 2013 compared to 11.8% for the third quarter of fiscal 2012, primarily due

to improved fixed operating cost leverage resulting from higher revenue.

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

Table of Contents

*Other Income (Expense)*

	Three Months Ended October 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
Interest and other income	\$ 258	\$ 307	\$ (49)	(16.0)%
Floorplan interest expense	(3,704)	(2,625)	1,079	41.1%
Other interest expense	(2,886)	(283)	2,603	919.8%

The increase in floorplan interest expense of \$1.1 million and other interest expense of \$2.6 million, for the third quarter of fiscal 2013, as compared to the same period in the prior year, was primarily due to the increase in floorplan notes payable and long-term debt balances, including our Senior Convertible Notes issued in April 2012.

*Provision for Income Taxes*

	Three Months Ended October 31,		Increase	Percent
	2012	2011		Change
	(dollars in thousands)			
Provision for income taxes	\$ 9,418	\$ 8,536	\$ 882	10.3%

Our effective tax rate decreased slightly from 40.0% for the third quarter of fiscal 2012 to 39.6% for the third quarter of fiscal 2013.

**Segment Results**

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

	Three Months Ended October 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
<b>Revenue</b>				
Agriculture	\$ 503,518	\$ 361,601	\$ 141,917	39.2%
Construction	94,852	77,435	17,417	22.5%
Segment revenue	598,370	439,036	159,334	36.3%
Eliminations	(16,258)	(16,076)	(182)	(1.1)%
Total	\$ 582,112	\$ 422,960	\$ 159,152	37.6%
<b>Income Before Income Taxes</b>				
Agriculture	\$ 26,060	\$ 20,068	\$ 5,992	29.9%



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

Construction	519	3,254	(2,735)	(84.1)%
Segment income before income taxes	26,579	23,322	3,257	14.0%
Shared Resources	(2,340)	(1,772)	(568)	(32.1)%
Eliminations	(462)	(214)	(248)	(115.9)%
Income before income taxes	\$ 23,777	\$ 21,336	\$ 2,441	11.4%

*Agriculture*

Agriculture segment revenue for the third quarter of fiscal 2013 increased 39.2% compared to the same period last year. The revenue increase was due to acquisitions and an Agriculture same-store sales increase of 26.4% over the third quarter

Table of Contents

of fiscal 2012. The same-store sales growth was positively impacted by a strong equipment market primarily caused by anticipated strong net farm income for calendar year 2012.

Agriculture segment income before income taxes for the third quarter of fiscal 2013 increased 29.9% compared to the same period last year, primarily due to higher revenue. This increase was partially offset by an increase in floorplan interest expense resulting from higher floorplan notes payable balances, as compared to the same period in the prior year.

*Construction*

Construction segment revenue for the third quarter of fiscal 2013 increased 22.5% compared to the same period last year. The revenue increase was due to acquisitions and a Construction same-store sales increase of 15.2% over the third quarter of fiscal 2012. The same-store sales growth was positively impacted by a growing construction industry in the region in which we do business and an increase in our rental business, reflecting our initiative to expand this growth platform through strategic acquisitions, new store openings, and an increase in the size of our rental fleet.

Our Construction segment income before income taxes for the third quarter of fiscal 2013 decreased 84.1% compared to the same period last year, primarily due to a lower gross profit margin on equipment, and an increase in floorplan interest expense and other interest expense. The decrease in the gross profit margin on equipment was primarily due to competitive markets in the regions in which we operate, caused by an increase in equipment supply in the construction industry and location of our more recently acquired stores in larger metro areas. The increase in floorplan interest expense and other interest expense resulted from an increase in floorplan notes payable balances and rental fleet long-term debt, respectively, as compared to the prior year.

*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 before income taxes residing in our segment results.

***Nine months ended October 31, 2012 Compared to Nine Months Ended October 31, 2011***

**Consolidated Results**

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

Revenue

	Nine Months Ended October 31,			
	2012	2011	Increase	Percent Change
	(dollars in thousands)			
Equipment	\$ 1,084,866	\$ 786,816	\$ 298,050	37.9%
Parts	188,840	155,670	33,170	21.3%
Service	93,583	76,202	17,381	22.8%
Rental and other	46,617	33,286	13,331	40.0%
<b>Total Revenue</b>	<b>\$ 1,413,906</b>	<b>\$ 1,051,974</b>	<b>\$ 361,932</b>	<b>34.4%</b>

The increase in revenue for the nine months ended October 31, 2012, as compared to the same period last year, was due to acquisitions contributing \$168.9 million and same-store sales growth contributing \$193.0 million to current nine-month period revenue. This revenue growth was across all revenue sources and in both our Agriculture and Construction segments and resulted from a strong Agriculture equipment market primarily caused by anticipated strong net farm income for calendar year 2012, a growing construction industry in the region in which we do business, and growth in the rental business in our Construction segment. The increase in our rental business reflects our initiative to expand this growth platform through strategic acquisitions, new store openings, and an increase in the size of our rental fleet.

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

Table of Contents

*Gross Profit*

	Nine Months Ended October 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
<b>Gross Profit</b>				
Equipment	\$ 99,469	\$ 75,395	\$ 24,074	31.9%
Parts	58,564	47,135	11,429	24.2%
Service	61,135	49,027	12,108	24.7%
Rental and other	15,664	11,094	4,570	41.2%
<b>Total Gross Profit</b>	<b>\$ 234,832</b>	<b>\$ 182,651</b>	<b>\$ 52,181</b>	<b>28.6%</b>
<b>Gross Profit Margin</b>				
Equipment	9.2%	9.6%	(0.4)%	(4.2)%
Parts	31.0%	30.3%	0.7%	2.3%
Service	65.3%	64.3%	1.0%	1.6%
Rental and other	33.6%	33.3%	0.3%	0.9%
<b>Total Gross Profit Margin</b>	<b>16.6%</b>	<b>17.4%</b>	<b>(0.8)%</b>	<b>(4.6)%</b>
<b>Gross Profit Mix</b>				
Equipment	42.4%	41.3%	1.1%	2.7%
Parts	24.9%	25.8%	(0.9)%	(3.5)%
Service	26.0%	26.8%	(0.8)%	(3.0)%
Rental and other	6.7%	6.1%	0.6%	9.8%
<b>Total Gross Profit Mix</b>	<b>100.0%</b>	<b>100.0%</b>		

The \$52.2 million increase in gross profit for the nine months ended October 31, 2012, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed \$26.7 million to the increase in gross profit for the nine months ended October 31, 2012, while increases in same-store gross profit contributed the remaining \$25.5 million. The decrease in gross profit margin from 17.4% for the nine months ended October 31, 2011 to 16.6% for the nine months ended October 31, 2012, was primarily due to the change in sales mix, in which our equipment business contributed a larger percentage of our total gross profit, and a decrease in gross profit margin on equipment, as compared to the same period last year. The gross profit margin on equipment was negatively impacted by competitive Agriculture and Construction equipment retail environments in the regions in which we operate and softening of Agriculture customer demand as a result of regional drought conditions. Due to these factors, we were able to maintain sales activity but experienced a compression in our overall equipment margins and in particular our used equipment margins.

*Operating Expenses*

	Nine Months Ended October 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
Operating expenses	\$ 175,313	\$ 133,556	\$ 41,757	31.3%
Operating expenses as a percentage of revenue	12.4%	12.7%	(0.3)%	(2.4)%

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

The \$41.8 million increase in operating expenses for the nine months ended October 31, 2012, as compared to the same period last year, was primarily due to the additional costs associated with acquisitions such as compensation, rent, travel and depreciation. As a percentage of total revenue, operating expenses decreased to 12.4% for the nine months ended October 31, 2012, compared to 12.7% for the same period in the prior year, primarily due to improved fixed operating cost leverage resulting from higher revenue.

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

Table of Contents

*Other Income (Expense)*

	Nine Months Ended October 31,			
	2012	2011	Increase	Percent Change
	(dollars in thousands)			
Interest and other income	\$ 865	\$ 859	\$ 6	0.7%
Floorplan interest expense	(9,022)	(5,121)	3,901	76.2%
Other interest expense	(6,453)	(899)	5,554	617.8%

The increase in floorplan interest expense of \$3.9 million and other interest expense of \$5.6 million for the nine months ended October 31, 2012, as compared to the same period in the prior year, was primarily due to the increase in floorplan notes payable and long-term debt balances, including our Senior Convertible Notes issued in April 2012.

*Provision for Income Taxes*

	Nine Months Ended October 31,			
	2012	2011	Increase	Percent Change
	(dollars in thousands)			
Provision for income taxes	\$ 17,786	\$ 17,575	\$ 211	1.2%

Our effective tax rate decreased slightly from 40.0% for the nine months ended October 31, 2011 to 39.6% for the nine months ended October 31, 2012.

**Segment Results**

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

	Nine Months Ended October 31,			
	2012	2011	Increase/ (Decrease)	Percent Change
	(dollars in thousands)			
<b>Revenue</b>				
Agriculture	\$ 1,200,148	\$ 914,932	\$ 285,216	31.2%
Construction	271,728	181,395	90,333	49.8%
Segment revenue	1,471,876	1,096,327	375,549	34.3%
Eliminations	(57,970)	(44,353)	(13,617)	(30.7)%
Total	\$ 1,413,906	\$ 1,051,974	\$ 361,932	34.4%

**Income Before Income Taxes**

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

Agriculture	\$	50,971	\$	43,964	\$	7,007	15.9%
Construction		767		4,482		(3,715)	(82.9)%
Segment income before income taxes		51,738		48,446		3,292	6.8%
Shared Resources		(4,843)		(3,786)		(1,057)	(27.9)%
Eliminations		(1,986)		(726)		(1,260)	(173.6)%
Income before income taxes	\$	44,909	\$	43,934	\$	975	2.2%

*Agriculture*

Agriculture segment revenue for the nine months ended October 31, 2012 increased 31.2% compared to the same period last year. The revenue increase was due to acquisitions and an Agriculture same-store sales increase of 17.7%, as

Table of Contents

compared to the same period in the prior year. The same-store sales growth was positively impacted by a strong equipment market primarily caused by anticipated strong net farm income for calendar year 2012.

Agriculture segment income before income taxes for the nine months ended October 31, 2012 increased 15.9% compared to the same period last year, primarily due to higher Agriculture segment revenue. This increase was partially offset by a decrease in gross profit margin for equipment, which was negatively impacted by increased equipment availability in the market resulting in a competitive equipment retail environment and softening of Agriculture customer demand as a result of regional drought conditions, and an increase in floorplan interest expense resulting from higher floorplan notes payable balances, as compared to the same period in the prior year.

*Construction*

Construction segment revenue for the nine months ended October 31, 2012 increased 49.8% compared to the same period last year. The revenue increase was due to acquisitions and a Construction same-store sales increase of 28.4% as compared to the same period in the prior year. The same-store sales growth was positively impacted by a growing construction industry in the region in which we do business and an increase in our rental business, reflecting our initiative to expand this growth platform through strategic acquisitions, new store openings, and an increase in the size of our rental fleet.

Construction segment income before income taxes for the nine months ended October 31, 2012 decreased 82.9% compared to the same period last year, primarily due to a lower gross profit margin on equipment and an increase in floorplan interest expense and other interest expense. The decrease in the gross profit margin on equipment was primarily due to competitive markets in the regions in which we operate, caused by an increase in equipment supply in the construction industry and location of our more recently acquired stores in larger metro areas. The increase in floorplan interest expense and other interest expense resulted from an increase in floorplan notes payable balances and rental fleet long-term debt, respectively, as compared to the prior year.

*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 before income taxes residing in our segment results.

**Liquidity and Capital Resources**

*Cash Flow from Operating Activities*



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

For the nine months ended October 31, 2012, cash used for operating activities was \$172.7 million. Our cash used for operating activities was primarily the result of an increase in net cash for inventories of \$212.9 million, a net decrease in accounts payable, customer deposits, accrued expenses and other long-term liabilities of \$19.8 million and a net increase in receivables, prepaid expenses and other assets of \$13.8 million. This amount was principally offset by our reported net income including noncontrolling interest of \$27.1 million, an add-back of non-cash depreciation and amortization of \$17.5 million and a net increase in floorplan notes payable of \$18.1 million. The increase in inventories primarily reflects new equipment stocking to support forecasted equipment sales. Given the increased new equipment supply in the agriculture industry, we have adjusted our strategy for new equipment inventory and expect this strategy to result in a decrease of new equipment inventory, excluding acquisitions, during the last quarter of fiscal 2013. We evaluate our cash flow from operating activities net of all floorplan activity. Taking this adjustment into account, our non-GAAP cash flow used for operating activities was \$32.9 million and \$14.1 million for the nine months ended October 31, 2012 and 2011, respectively. For a reconciliation of this non-GAAP financial measure, please see the Non-GAAP Cash Flow Reconciliation below.

For the nine months ended October 31, 2011, cash used for operating activities was \$176.8 million. Our cash used for operating activities was primarily the result of an increase in net cash for inventories of \$232.5 million. This amount was principally offset by our reported net income including noncontrolling interest of \$26.4 million, an add-back of non-cash depreciation and amortization of \$10.2 million, and an increase in accounts payable, customer deposits, accrued expenses and other long-term liabilities of \$14.6 million. The increase in inventories primarily reflected new equipment stocking to support forecasted equipment sales.

Table of Contents

*Cash Flow from Investing Activities*

For the nine months ended October 31, 2012, cash used for investing activities was \$47.9 million. Our cash used for investing activities primarily consisted of purchases of equipment dealerships (net of cash purchased) of \$16.2 million, purchases of rental fleet of \$15.0 million and purchases of property and equipment (excluding rental fleet) of \$20.7 million.

For the nine months ended October 31, 2011, cash used for investing activities was \$47.2 million. Our cash used for investing activities primarily consisted of purchases of equipment dealerships (net of cash purchased) of \$38.6 million and purchases of property and equipment (excluding rental fleet) of \$10.9 million.

*Cash Flow from Financing Activities*

For the nine months ended October 31, 2012, cash provided by financing activities was \$257.3 million. Our cash provided by financing activities was primarily the result of proceeds from our Senior Convertible Notes offering of \$145.2 million and an increase in non-manufacturer floorplan notes payable of \$118.7 million, offset by principal payments exceeding proceeds from long-term debt by \$8.9 million. We used the proceeds from our Senior Convertible Notes to reduce certain interest-bearing floorplan notes payable and long-term debt balances.

For the nine months ended October 31, 2011, cash provided by financing activities was \$245.8 million. Cash provided by financing activities was primarily the result of an increase in non-manufacturer floorplan notes payable of \$162.7 million, \$74.9 million in net proceeds from our follow-on offering, and proceeds from long-term debt borrowings exceeding principal payments on long-term debt by \$7.9 million.

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

- Non-manufacturer floorplan notes payable: The adjustment is equal to the net change in non-manufacturer floorplan notes payable, as shown on the consolidated statements of cash flows. GAAP categorizes non-manufacturer floorplan notes payable as financing activities in the consolidated statements of cash flows.

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

- Impact of senior convertible notes: We issued \$150.0 million of Senior Convertible Notes (the Convertible Notes ) in April 2012. We used a significant amount of the proceeds from the Convertible Notes to reduce our floorplan notes payable balances, resulting in a higher level of equity in our equipment inventory than we have historically maintained. To analyze the impact of this fluctuation of equity in our equipment inventory, we use this adjustment to maintain a constant level of equipment financing. The adjustment is equal to the difference between our actual equity in inventory at the balance sheet date and our historical average level of equity in inventory of 15%. GAAP categorizes proceeds from our Convertible Notes offering as financing activities in the consolidated statements of cash flows.

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. 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 (in thousands):

Table of Contents

	As Reported	Adjustment (1)	Adjustment (2)	Non-GAAP Measures
	(in thousands)			
<b>Nine months ended October 31, 2012</b>				
Net cash provided by (used for) operating activities	\$ (172,673)	\$ 118,655	\$ 21,077	\$ (32,941)
Net cash provided by (used for) financing activities	257,317	(118,655)	(21,077)	117,585
<b>Nine months ended October 31, 2011</b>				
Net cash provided by (used for) operating activities	\$ (176,842)	\$ 162,698	\$	\$ (14,144)
Net cash provided by (used for) financing activities	245,784	(162,698)		83,086

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

(2) - Impact of Convertible Notes

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

**Sources of Liquidity**

Our primary sources of liquidity are cash reserves, cash flow from operations, proceeds from the issuance of debt and equity, and borrowings under our credit facilities. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources.

**Adequacy of Capital Resources**

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

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

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet

arrangements or other contractually narrow or limited purposes. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships. In the normal course of our business activities, we lease rental equipment and buildings under operating leases.

#### **PRIVATE SECURITIES LITIGATION REFORM ACT**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Such forward-looking information is included in this Quarterly Report on Form 10-Q, including in Management's Discussion And Analysis Of Financial Condition And Results Of Operations, as well as in our Annual Report on Form 10-K for the year ended January 31, 2012, 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 the benefits of certain acquisitions, our expectations regarding the closing of certain acquisitions, equipment inventory expectations, evaluation of the operating effectiveness of key internal controls, obligations under our Senior Convertible Notes 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 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

Table of Contents

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

Based upon balances and interest rates as of October 31, 2012, holding other variables constant, a one percentage point increase in interest rates for the next 12-month period would decrease pre-tax earnings and cash flow by approximately \$4.5 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 \$4.5 million. At October 31, 2012, we had variable rate floorplan notes payable of \$782.4 million, of which approximately \$419.8 million was interest-bearing, variable notes payable and long-term debt of \$26.0 million, and fixed rate notes payable and long-term debt of \$53.5 million.

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

**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.

**PART II. - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, including the important information in Private Securities Litigation Reform Act, you should carefully consider the Risk Factors discussed in our Form 10-K for the year ended January 31, 2012 and Form 10-Q for the quarter ended April 30, 2012 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 the below and 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.

*Our international operations expose us to risks regarding fluctuations in foreign currency exchange rates and our related hedging activities cannot eliminate all risk to which we are exposed.*

The functional currency for most of our international subsidiaries is the applicable local currency. When the U.S. dollar strengthens or weakens against a foreign currency, the relative value of revenue recognized and the operating results of our international subsidiaries decreases or increases, respectively. As a result, fluctuations in foreign currency exchange rates, which we cannot predict, may adversely affect the results of our operations, the value of our foreign assets and liabilities and our cash flows.

To protect the value of the our investments in our foreign operations against adverse changes in foreign currency exchange rates, we may, from time to time, hedge a portion of our net investment in one or more of our foreign subsidiaries through the use of derivative instruments. In addition, we may use derivative instruments to hedge the effects of fluctuations in exchange rates on outstanding intercompany loans. However, our hedging activities may not fully eliminate all foreign currency risk to which we are exposed.

The use of derivative instruments exposes us to counterparty credit risk whereby our results of operations and cash flows may be negatively impacted if the counterparties to our derivative instruments are not able to satisfy their obligations to us.

Table of Contents

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

On November 20, 2012, we entered into a letter agreement amendment to our Amended and Restated Wholesale Floorplan Credit Facility and Security Agreement, dated November 13, 2007, as amended, with CNH Capital America LLC. The amendment, dated effective October 31, 2012, increases our wholesale floorplan credit limit by \$100.0 million, from \$350.0 million to \$450.0 million. There were no other changes to the credit facility.

Effective December 4, 2012, the Company entered into a first amendment to its amended and restated credit agreement, dated March 30, 2012, by and among the Company, Wells Fargo Bank, National Association, and the Lenders party thereto. The amendment increased the floorplan line of credit under the agreement from \$300.0 million to \$375.0 million, amended the interest rate on outstanding balances from LIBOR plus an applicable margin of 1.5% to 2.0% to LIBOR plus an applicable margin of 1.5% to 2.625%, and changed certain financial covenants. The remainder of the agreement remained materially unchanged.

**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: December 6, 2012

**TITAN MACHINERY INC.**

By

/s/ Mark P. Kalvoda  
Mark P. Kalvoda  
Chief Financial Officer  
(Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

TITAN MACHINERY INC.

FORM 10-Q

<b>Exhibit No.</b>	<b>Description</b>
*10.1	Letter Agreement Amendment, dated November 20, 2012, to Amended and Restated Wholesale Floorplan Credit Facility and Security Agreement with CNH Capital America LLC.
*10.2	First Amendment to Amended and Restated Credit Agreement, dated as of December 4, 2012, by and among the Company, Wells Fargo Bank, National Association, and the Lenders party thereto.
*31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**101	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended October 31, 2012, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Stockholders Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

---

\*Filed herewith

\*\* Furnished herewith