

Titan Machinery Inc.
Form 10-Q
September 06, 2018
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 July 31, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 31, 2018, 22,218,146 shares of Common Stock, \$0.00001 par value, of the registrant were outstanding.

Table of Contents

TITAN MACHINERY INC.
 QUARTERLY REPORT ON FORM 10-Q

Table of Contents

| | Page No. |
|--|-----------|
| PART I. FINANCIAL INFORMATION | <u>3</u> |
| ITEM 1. FINANCIAL STATEMENTS | <u>3</u> |
| Consolidated Balance Sheets as of July 31, 2018 and January 31, 2018 | <u>3</u> |
| Consolidated Statements of Operations for the three and six months ended July 31, 2018 and 2017 | <u>4</u> |
| Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended July 31, 2018 and 2017 | <u>5</u> |
| Consolidated Statements of Cash Flows for the six months ended July 31, 2018 and 2017 | <u>6</u> |
| Notes to Consolidated Financial Statements | <u>7</u> |
| ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | <u>21</u> |
| ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | <u>36</u> |
| ITEM 4. CONTROLS AND PROCEDURES | <u>36</u> |
| PART II. OTHER INFORMATION | <u>37</u> |
| ITEM 1. LEGAL PROCEEDINGS | <u>37</u> |
| ITEM 1A. RISK FACTORS | <u>37</u> |
| ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | <u>37</u> |
| ITEM 3. DEFAULTS UPON SENIOR SECURITIES | <u>37</u> |
| ITEM 4. MINE SAFETY DISCLOSURES | <u>37</u> |
| ITEM 5. OTHER INFORMATION | <u>37</u> |
| ITEM 6. EXHIBITS | <u>38</u> |
| Exhibit Index | <u>39</u> |
| Signatures | <u>40</u> |

Table of Contents

PART I. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TITAN MACHINERY INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share data)

| | July 31, 2018 | January 31, 2018 |
|---|------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$49,673 | \$53,396 |
| Receivables, net of allowance for doubtful accounts | 78,411 | 60,672 |
| Inventories | 547,062 | 472,467 |
| Prepaid expenses and other | 11,149 | 12,611 |
| Total current assets | 686,295 | 599,146 |
| Noncurrent Assets | | |
| Intangible assets, net of accumulated amortization | 5,361 | 5,193 |
| Property and equipment, net of accumulated depreciation | 143,575 | 151,047 |
| Deferred income taxes | 2,785 | 3,472 |
| Other | 1,433 | 1,450 |
| Total noncurrent assets | 153,154 | 161,162 |
| Total Assets | \$839,449 | \$760,308 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | \$18,721 | \$15,136 |
| Floorplan payable | 365,634 | 247,392 |
| Senior convertible notes | 44,444 | — |
| Current maturities of long-term debt | 1,974 | 1,574 |
| Deferred revenue | 22,731 | 32,324 |
| Accrued expenses and other | 26,811 | 31,863 |
| Total current liabilities | 480,315 | 328,289 |
| Long-Term Liabilities | | |
| Senior convertible notes | — | 62,819 |
| Long-term debt, less current maturities | 22,419 | 34,578 |
| Deferred income taxes | 2,492 | 2,275 |
| Other long-term liabilities | 8,268 | 10,492 |
| Total long-term liabilities | 33,179 | 110,164 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Common stock, par value \$.00001 per share, 45,000 shares authorized; 22,218 shares issued and outstanding at July 31, 2018; 22,102 shares issued and outstanding at January 31, 2018 | — | — |
| Additional paid-in-capital | 247,149 | 246,509 |
| Retained earnings | 80,613 | 77,046 |
| Accumulated other comprehensive loss | (1,807) | (1,700) |
| Total stockholders' equity | 325,955 | 321,855 |
| Total Liabilities and Stockholders' Equity | \$839,449 | \$760,308 |
| 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 | | Six Months Ended | |
|---|--------------------|------------|------------------|-------------|
| | July 31, | | July 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | | | | |
| Equipment | \$192,721 | \$167,881 | \$349,625 | \$335,796 |
| Parts | 59,998 | 55,580 | 111,533 | 112,163 |
| Service | 31,271 | 30,509 | 58,627 | 59,275 |
| Rental and other | 15,901 | 14,901 | 25,784 | 25,755 |
| Total Revenue | 299,891 | 268,871 | 545,569 | 532,989 |
| Cost of Revenue | | | | |
| Equipment | 174,472 | 154,729 | 316,239 | 310,246 |
| Parts | 42,544 | 39,103 | 79,202 | 79,460 |
| Service | 11,432 | 11,444 | 22,634 | 22,238 |
| Rental and other | 12,542 | 10,788 | 21,035 | 19,319 |
| Total Cost of Revenue | 240,990 | 216,064 | 439,110 | 431,263 |
| Gross Profit | 58,901 | 52,807 | 106,459 | 101,726 |
| Operating Expenses | 47,633 | 50,523 | 94,360 | 102,510 |
| Impairment of Long-Lived Assets | 156 | — | 156 | — |
| Restructuring Costs | 565 | 5,549 | 565 | 7,893 |
| Income (Loss) from Operations | 10,547 | (3,265) | 11,378 | (8,677) |
| Other Income (Expense) | | | | |
| Interest income and other income | 1,462 | 682 | 1,846 | 1,460 |
| Floorplan interest expense | (1,727) | (2,163) | (3,077) | (4,819) |
| Other interest expense | (2,490) | (2,464) | (4,520) | (4,584) |
| Income (Loss) Before Income Taxes | 7,792 | (7,210) | 5,627 | (16,620) |
| Provision for (Benefit from) Income Taxes | 2,612 | (2,024) | 2,061 | (5,502) |
| Net Income (Loss) | \$5,180 | \$(5,186) | \$3,566 | \$(11,118) |
| Earnings (Loss) per Share: | | | | |
| Basic | \$0.23 | \$(0.24) | \$0.16 | \$(0.51) |
| Diluted | \$0.23 | \$(0.24) | \$0.16 | \$(0.51) |
| Weighted Average Common Shares: | | | | |
| Basic | 21,826 | 21,546 | 21,781 | 21,461 |
| Diluted | 21,831 | 21,546 | 21,788 | 21,461 |

See Notes to Consolidated Financial Statements

Table of Contents

TITAN MACHINERY INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in thousands)

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|-----------|------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net Income (Loss) | \$5,180 | \$(5,186) | \$3,566 | \$(11,118) |
| Other Comprehensive Income (Loss) | | | | |
| Foreign currency translation adjustments | (1,408) | 930 | (107) | 1,391 |
| Unrealized gain on interest rate swap cash flow hedge derivative instrument, net of tax expense of \$19 for the six months ended July 31, 2017 | — | — | — | 29 |
| Reclassification of loss on interest rate swap cash flow hedge derivative instrument included in net income (loss), net of tax benefit of \$68 for the three months ended July 31, 2017 and \$394 for the six months ended July 31, 2017 | — | 104 | — | 592 |
| Total Other Comprehensive Income (Loss) | (1,408) | 1,034 | (107) | 2,012 |
| Comprehensive Income (Loss) | 3,772 | (4,152) | \$3,459 | \$(9,106) |

See Notes to Consolidated Financial Statements

Table of Contents

TITAN MACHINERY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

| | Six Months Ended | |
|--|------------------|------------|
| | July 31, | |
| | 2018 | 2017 |
| Operating Activities | | |
| Net income (loss) | \$3,566 | \$(11,118) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities | | |
| Depreciation and amortization | 11,447 | 12,268 |
| Impairment | 156 | — |
| Deferred income taxes | 891 | (4,927) |
| Stock-based compensation expense | 1,249 | 1,732 |
| Noncash interest expense | 1,430 | 2,139 |
| Loss (gain) on repurchase of senior convertible notes | 615 | (40) |
| Other, net | 837 | (1,865) |
| Changes in assets and liabilities | | |
| Receivables, prepaid expenses and other assets | (16,117) | (2,340) |
| Inventories | (73,915) | (31,981) |
| Manufacturer floorplan payable | 69,225 | 107,833 |
| Accounts payable, customer deposits, accrued expenses and other and other long-term liabilities | (13,277) | (4,562) |
| Income taxes | (194) | (262) |
| Net Cash Provided by (Used for) Operating Activities | (14,087) | 66,877 |
| Investing Activities | | |
| Rental fleet purchases | (3,145) | (10,222) |
| Property and equipment purchases (excluding rental fleet) | (2,609) | (7,472) |
| Proceeds from sale of property and equipment | 614 | 2,253 |
| Other, net | (169) | 78 |
| Net Cash Used for Investing Activities | (5,309) | (15,363) |
| Financing Activities | | |
| Net change in non-manufacturer floorplan payable | 50,422 | (38,030) |
| Repurchase of senior convertible notes | (20,025) | (19,340) |
| Proceeds from long-term debt borrowings | — | 33,000 |
| Principal payments on long-term debt | (14,062) | (22,722) |
| Other, net | (618) | (482) |
| Net Cash Provided by (Used for) Financing Activities | 15,717 | (47,574) |
| Effect of Exchange Rate Changes on Cash | (44) | 435 |
| Net Change in Cash | (3,723) | 4,375 |
| Cash at Beginning of Period | 53,396 | 53,151 |
| Cash at End of Period | \$49,673 | \$57,526 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash paid during the period | | |
| Income taxes, net of refunds | \$1,145 | \$3 |
| Interest | \$5,442 | \$7,240 |
| Supplemental Disclosures of Noncash Investing and Financing Activities | | |
| Net property and equipment financed with long-term debt, capital leases, accounts payable and accrued expenses and other | \$2,310 | \$1,262 |
| Net transfer of assets from property and equipment to inventories | \$2,715 | \$1,905 |

See Notes to Consolidated Financial Statements

6

Table of Contents

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

NOTE 1 - BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the “Company”) are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company’s Agriculture, Construction and International customers. Therefore, operating results for the six-month period ended July 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2019. The information contained in the consolidated balance sheet as of January 31, 2018 was derived from the audited consolidated financial statements for the Company for the fiscal 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, 2018 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, impairment of long-lived assets, collectability of receivables, and income taxes.

Principles of Consolidation

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

Reclassifications

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

Earnings (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 was computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of net income to participating securities by the weighted-average number of shares of common stock outstanding during the relevant period. In the event of a net loss, no amount of the loss is allocated to the participating securities as they do not share in the losses of the Company.

Diluted EPS was computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of net 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 EPS. All anti-dilutive securities were excluded from the computation of diluted EPS.

Table of Contents

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

| | Three Months Ended July 31, 2018 | | Six Months Ended July 31, 2017 | |
|--|--|-----------|--------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands, except per share data) | | | |
| Numerator: | | | | |
| Net income (loss) | \$5,180 | \$(5,186) | \$3,566 | \$(11,118) |
| Income allocated to participating securities | (80) | — | (57) | — |
| Net income (loss) attributable to Titan Machinery Inc. common stockholders | \$5,100 | \$(5,186) | \$3,509 | \$(11,118) |
| Denominator: | | | | |
| Basic weighted-average common shares outstanding | 21,826 | 21,546 | 21,781 | 21,461 |
| Plus: incremental shares from assumed exercises of stock options and vesting of restricted stock units | 5 | — | 7 | — |
| Diluted weighted-average common shares outstanding | 21,831 | 21,546 | 21,788 | 21,461 |
| Earnings (Loss) Per Share: | | | | |
| Basic | \$0.23 | \$(0.24) | \$0.16 | \$(0.51) |
| Diluted | \$0.23 | \$(0.24) | \$0.16 | \$(0.51) |

Anti-dilutive shares excluded from diluted weighted-average common shares outstanding:

| | | | | |
|--|-------|-------|-------|-------|
| Stock options and restricted stock units | 53 | 133 | 53 | 143 |
| Shares underlying senior convertible notes | 1,057 | 1,748 | 1,057 | 1,748 |

Recent Accounting Guidance
Accounting guidance adopted

In May 2014, the FASB issued authoritative guidance on accounting for revenue recognition, codified in Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. 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 adopted ASC 606 as of February 1, 2018 using the modified retrospective method of adoption. Results for reporting periods beginning after February 1, 2018 are presented under the guidelines of ASC 606, while prior period amounts have not been adjusted and continue to be reported under the accounting standards in effect for those periods. Upon adoption of ASC 606, the Company did not recognize a cumulative effect adjustment of initially applying the standard as no material adjustments to contracts not completed as of the date of adoption were identified. The adoption of ASC 606 did not materially impact the amount of revenue recognized or any other financial statement line item as of and for the three and six months ended July 31, 2018. The Company has included the additional disclosures required under ASC 606 in Notes 2, 3 and 7.

Accounting guidance not yet adopted

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. In July 2018, the FASB issued additional authoritative guidance providing companies with a new prospective transition method to apply the provisions of this guidance. The Company will elect this transition method applying the new lease standard on a prospective basis at the adoption date and recognize any cumulative-effect adjustments to the opening balance of retained earnings in the

period of adoption. Prior period amounts will not be adjusted and will continue to be reported under the accounting standards in effect for those periods. The Company will adopt the new standard on February 1, 2019, and expects to elect the package of practical expedients afforded under the guidance. The practical expedient

Table of Contents

package applies to leases that commenced prior to adoption of the new standard and permits an entity not to: 1) reassess whether existing or expired contracts are or contain a lease, 2) reassess the lease classification, and 3) reassess any initial direct costs for any existing leases. We continue to evaluate if we will elect the use of hindsight to determine the lease term. Our implementation efforts to date have consisted of identifying the Company's lease population, selecting a lease software to implement that will assist with the reporting and disclosure requirements under the standard and abstracting and validating our lease information.

While we continue to evaluate this standard, we anticipate this standard will have a material impact on our consolidated balance sheets due to the capitalization of a right-of-use asset and lease liability associated with our current operating leases in which we are the lessee, but we do not believe it will have a material impact on our consolidated statements of operations or cash flows. Our rental fleet and equipment inventory rental activities in which we are the lessor in the transaction are also subject to ASC 842. While our evaluation of the impact of this standard on our rental transactions is ongoing, we do not believe the standard will have a material impact on our consolidated balance sheets, statements of operations or cash flows for such transactions.

In August 2017, the FASB amended authoritative guidance on hedge accounting, codified in ASC 815, Derivatives and Hedging. The amendments better align the accounting rules with a company's risk management activities, better reflects economic results of hedging in financial statements, and simplifies hedge accounting treatment. The guidance is effective for the Company as of the first quarter of its fiscal year ending January 31, 2020. The Company does not believe the update will have a material impact on its consolidated financial statements.

NOTE 2 - REVENUE

Revenues are recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration we expect to collect in exchange for those goods or services. Sales, value added and other taxes collected from our customers concurrent with our revenue activities are excluded from revenue.

The following tables presents our revenue disaggregated by revenue source and segment:

| | Three Months Ended July 31, 2018 | | | |
|---------------------------------------|----------------------------------|--------------|---------------|-----------|
| | Agriculture | Construction | International | Total |
| | (in thousands) | | | |
| Equipment | \$94,231 | \$ 42,168 | \$ 56,322 | \$192,721 |
| Parts | 35,796 | 14,482 | 9,720 | 59,998 |
| Service | 20,486 | 9,699 | 1,086 | 31,271 |
| Other | 1,463 | 216 | 74 | 1,753 |
| Revenue from contracts with customers | 151,976 | 66,565 | 67,202 | 285,743 |
| Rental | 837 | 12,680 | 631 | 14,148 |
| Total revenues | \$152,813 | \$ 79,245 | \$ 67,833 | \$299,891 |

| | Six Months Ended July 31, 2018 | | | |
|---------------------------------------|--------------------------------|--------------|---------------|-----------|
| | Agriculture | Construction | International | Total |
| | (in thousands) | | | |
| Equipment | \$185,229 | \$ 74,454 | \$ 89,942 | \$349,625 |
| Parts | 67,979 | 27,676 | 15,878 | 111,533 |
| Service | 38,697 | 18,165 | 1,765 | 58,627 |
| Other | 2,716 | 389 | 108 | 3,213 |
| Revenue from contracts with customers | 294,621 | 120,684 | 107,693 | 522,998 |
| Rental | 1,063 | 20,652 | 856 | 22,571 |
| Total revenues | \$295,684 | \$ 141,336 | \$ 108,549 | \$545,569 |

Table of Contents

Equipment Revenue

Equipment revenue transactions include the sale of new and used agricultural and construction equipment. The Company satisfies its performance obligations and recognizes revenue at a point in time, primarily upon the delivery of the product. Once a product is delivered, the customer has physical possession of the asset, can direct the use of the asset, and has the significant risks and rewards of ownership of the asset. Equipment transactions often include both cash and noncash consideration. Cash consideration is paid directly by our customers or by third-party financial institutions financing our customer transactions. Noncash consideration is in the form of trade-in equipment assets. We assign a value to trade-in assets by estimating a future selling price, which we estimate based on relevant internal and third-party data, less a gross profit amount to be realized at the time the trade-in asset is sold and an estimate of any reconditioning work required to ready the asset for sale. Both cash and noncash consideration can be received prior to or after our performance obligation is satisfied. Any consideration received prior to the satisfaction of our performance obligation is recognized as deferred revenue. Receivables recognized for amounts not paid at the time our performance obligation is satisfied, including amounts due from third-party financial institutions, generally do not have established payment terms but are collected in relatively short time periods.

For certain equipment sale transactions, the Company provides a residual value guarantee to CNH Industrial Capital in connection with a customer leasing arrangement in which we sell the equipment to CNH Industrial Capital, who simultaneously executes a leasing arrangement with our end-user customer. The amount of revenue recognized for the sale of the equipment asset is reduced by, and we recognize a corresponding liability equal to, our estimate of the amount that is probable of being paid under the guarantee discounted at a rate of interest to reflect the risk inherent in the liability.

Also included in equipment revenue are net commissions earned for serving as the agent in facilitating sales of equipment assets we hold as consignee on behalf of the consignor, as well as net commissions earned for facilitating the sale of extended warranty protection plans provided by our suppliers or third-party insurance providers.

We have elected, as a practical expedient, to recognize sales commissions earned on the sale of equipment inventory as an expense when incurred because the amortization period of this cost if it was otherwise capitalized would be less than one year. These costs are recorded in operating expenses in our consolidated statements of operations.

Parts Revenue

We sell a broad range of maintenance and replacement parts for both equipment that we sell and other types of equipment. The Company satisfies its performance obligation and recognizes revenue at a point in time, upon delivery of the product to the customer. Once a product is delivered, the Company has a present right to payment, the customer has physical possession of the asset, can direct the use of the asset, and has the significant risks and rewards of ownership of the asset. In many cases, customers tender payment at the time of delivery. Balances not paid at the time of delivery are typically due in full within 30 days. Most parts are sold with a thirty-day right of return or exchange. Historically, parts returns have not been material.

Parts revenue also includes the retail value of parts inventories consumed during the course of customer repair and maintenance services and services provided under manufacturer warranties. As further described below, we recognize revenue from these activities over time.

Service Revenue

We provide repair and maintenance services, including repairs performed under manufacturer warranties, for our customer's equipment. We recognize service and associated parts revenue of our repair and maintenance services over time as we transfer control of these goods and services over time. The Company recognizes revenue over time in the amount to which we have the right to invoice the customer as such an amount corresponds to the value of our performance completed to date. Generally, the Company has the right to invoice the customer for labor hours incurred and parts inventories consumed during the performance of the service arrangement. Customer invoicing most often occurs at the conclusion of our repair and maintenance services. Accordingly, we recognize unbilled receivables for the amount of unbilled labor hours incurred and parts inventories consumed under our repair and maintenance arrangements. Upon customer invoicing, unbilled receivables are reclassified to receivables. In many cases, customers tender payment at the completion of our work and the creation of the invoice. Balances not paid at the time of invoicing are typically due in full within 30 days.

Other Revenue

Other revenues primarily consist of fees charged in connection with short-haul equipment delivery and pick-up services, in which revenue is recognized at a point in time when the service is completed, and Global Positioning System ("GPS") signal subscriptions, in which revenue is recognized on a straight-line basis over the subscription period.

10

Table of Contents**Rental Revenue**

We rent equipment to our customers on a short-term basis for periods ranging from a few days to a few months. Rental revenue is recognized on a straight-line basis over the period of the related rental agreement. Revenue from rental equipment delivery and pick-up services is recognized when the service is performed.

Unbilled Receivables and Deferred Revenue

Unbilled receivables amounted to \$14.5 million and \$11.0 million as of July 31, 2018 and January 31, 2018. The increase in unbilled receivables is primarily the result of a seasonal increase in the volume of our service transactions in which we recognize revenue as our work is performed and prior to customer invoicing.

Deferred revenue from contracts with customers amounted to \$21.1 million and \$30.1 million as of July 31, 2018 and January 31, 2018. Our deferred revenue most often increases in the fourth quarter of each fiscal year due to a higher level of customer down payments or prepayments and longer time periods between customer payment and delivery of the equipment asset, and the related recognition of equipment revenue, prior to its seasonal use. During the three and six months ended July 31, 2018, the Company recognized \$9.8 million and \$27.0 million of revenue that was included in the deferred revenue balance as of January 31, 2018.

No material amount of revenue was recognized during the three or six months ended July 31, 2018 from performance obligations satisfied in previous periods. The Company has elected as a practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of service of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. The contracts for which the practical expedient has been applied include (i) equipment revenue transactions, which do not have a stated contractual term, but are short-term in nature, and (ii) service revenue transactions, which also do not have a stated contractual term but are generally completed within 30 days and for such contracts we recognize revenue over time at the amount to which we have the right to invoice for services completed to date.

NOTE 3 - RECEIVABLES

| | July 31, 2018 | January 31, 2018 |
|--|------------------|---------------------|
| | (in thousands) | |
| Trade and unbilled receivables from contracts with customers | | |
| Trade receivables due from customers | \$35,071 | \$ 25,396 |
| Trade receivables due from finance companies | 13,682 | 8,901 |
| Unbilled receivables | 14,492 | 10,967 |
| Trade and unbilled receivables from rental contracts | | |
| Trade receivables | 7,978 | 7,571 |
| Unbilled receivables | 1,458 | 847 |
| Other receivables | | |
| Due from manufacturers | 8,404 | 8,805 |
| Other | 472 | 1,136 |
| Total receivables | 81,557 | 63,623 |
| Less allowance for doubtful accounts | (3,146) | (2,951) |
| Receivables, net of allowance for doubtful accounts | \$78,411 | \$ 60,672 |

The Company recognized impairment losses on receivables arising from contracts with customers for the three and six months ended July 31, 2018 of \$0.2 million and \$0.3 million. Impairment losses on receivables arising from other contracts amounted to \$0.1 million and \$0.2 million for the three and six months ended July 31, 2018.

Table of Contents

NOTE 4 - INVENTORIES

| | July 31, 2018 | January 31, 2018 |
|-----------------------|------------------|---------------------|
| | (in thousands) | |
| New equipment | \$346,145 | \$ 258,559 |
| Used equipment | 127,644 | 141,450 |
| Parts and attachments | 71,373 | 71,110 |
| Work in process | 1,900 | 1,348 |
| | \$547,062 | \$ 472,467 |

NOTE 5 - PROPERTY AND EQUIPMENT

| | July 31, 2018 | January 31, 2018 |
|---|------------------|---------------------|
| | (in thousands) | |
| Rental fleet equipment | \$ 119,065 | \$ 123,430 |
| Machinery and equipment | 22,123 | 22,025 |
| Vehicles | 39,296 | 37,741 |
| Furniture and fixtures | 39,911 | 39,851 |
| Land, buildings, and leasehold improvements | 62,985 | 62,243 |
| | 283,380 | 285,290 |
| Less accumulated depreciation | (139,805) | (134,243) |
| | \$ 143,575 | \$ 151,047 |

During the three months ended July 31, 2018, the Company determined that the current period operating loss combined with historical losses and anticipated future operating losses of a specific store location was an indication that the long-lived assets of this store may not be recoverable. In light of these circumstances, the Company performed step one of the impairment analysis for this long-lived asset group, which has a combined carrying value of \$0.4 million. Step one of the impairment analysis indicated that the carrying value of this long-lived asset group was not recoverable. Accordingly, the Company performed step two of the impairment analysis and estimated the fair value of these assets primarily using estimated selling prices of similar assets. Step two of the analysis indicated that an impairment charge in the amount of \$0.2 million was necessary. The impairment charge was recognized within the Company's International segment.

NOTE 6 - 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's captive finance subsidiary, 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 payables are reported as operating cash flows, while cash flows associated with non-manufacturer floorplan payables are reported as financing cash flows in the Company's consolidated statement of cash flows. The Company has three significant floorplan lines of credit for U.S. operations, floorplan credit facilities for its foreign subsidiaries, and other floorplan payable balances with non-manufacturer lenders and manufacturers.

As of July 31, 2018, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling \$611.8 million, which includes a \$140.0 million floorplan payable line of credit under our second amended and restated credit agreement with Wells Fargo (the "Wells Fargo Credit Agreement"), a \$320.0 million credit facility with CNH Industrial Capital, a \$30.0 million credit facility with DLL Finance and the U.S. dollar equivalent of \$121.8 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled \$349.4 million of the total floorplan payable balance of \$365.6 million outstanding as of July 31, 2018 and

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\$239.2 million of the total floorplan payable balance of \$247.4 million outstanding as of January 31, 2018. The remaining outstanding balances relate to equipment inventory financing from manufacturers and non-manufacturer lenders other than the lines of credit described above. As of

12

Table of Contents

July 31, 2018, the interest-bearing U.S. floorplan payables carried various interest rates primarily ranging from 4.34% to 7.00%, and the foreign floorplan payables carried various interest rates primarily ranging from 0.93% to 8.08%. As of July 31, 2018, the Company had a compensating balance arrangement under one of its foreign floorplan credit facilities, which requires a minimum cash deposit to be maintained with the lender in the amount of \$5.0 million for the term of the credit facility.

Working Capital Line of Credit

As of July 31, 2018, the Company had a \$60.0 million working capital line of credit under the Wells Fargo Credit Agreement. The Company had no amount and \$13.0 million outstanding on this line of credit as of July 31, 2018 and January 31, 2018. As of July 31, 2018, the working capital line of credit carried an interest rate of 4.34%.

Wells Fargo Credit Agreement

In February 2018, the Wells Fargo Credit Agreement was amended to (i) move the maturity testing date under the Wells Fargo Credit Agreement from November 1, 2018 to February 1, 2019, a date that is three months prior to the scheduled maturity date of the Company's outstanding senior convertible notes, and (ii) modify the maturity test calculation. The maturity date for the Wells Fargo Credit Agreement will remain October 28, 2020 so long as (i) the Company's fixed charge coverage ratio for the 12 month period ending December 31, 2018 is at least 1.1 to 1.0 and (ii) a liquidity test, requiring that the Company have unrestricted cash on hand plus excess borrowing availability under the Wells Fargo Credit Agreement (on a pro-forma basis reflecting the Company's repayment in full of its outstanding senior convertible notes) in an amount that is greater than 20% of the maximum credit amount under the facility, are met on February 1, 2019. If both financial tests are not satisfied on February 1, 2019, the Wells Fargo Credit Agreement will immediately mature and all amounts outstanding become immediately due and payable in full.

CNH Industrial Capital Floorplan Payable Line of Credit

In April 2018, the Company entered into an amendment to the credit facility with CNH Industrial Capital. The amendment decreased available borrowings under this facility from \$450.0 million to \$350.0 million.

In May 2018, the Company entered into an additional amendment to the credit facility with CNH Industrial Capital. This amendment decreased our U.S. available borrowings under this facility from \$350.0 million to \$320.0 million. Concurrent with this amendment, CNH Industrial increased the available borrowing capacity of our international subsidiaries from \$50.0 million to \$80.0 million.

DLL Finance Floorplan Payable Line of Credit

In August 2018, the Company entered into an amendment to the credit facility with DLL Finance. The amendment, among other things, increased the available borrowings under this facility from \$30.0 million to \$45.0 million and decreased the variable interest rate on outstanding balances from three-month LIBOR plus an applicable margin of 3.5% per annum to three-month LIBOR plus an applicable margin of 3.0% per annum.

NOTE 7 - DEFERRED REVENUE

| | July 31, 2018 | January 31, 2018 |
|--|------------------|---------------------|
| | (in thousands) | |
| Deferred revenue from contracts with customers | \$21,126 | \$ 30,139 |
| Deferred revenue from rental and other contracts | 1,605 | 2,186 |
| | \$22,731 | \$ 32,324 |

Table of Contents

NOTE 8 - SENIOR CONVERTIBLE NOTES

The Company's 3.75% senior convertible notes issued on April 24, 2012 ("senior convertible notes") consist of the following:

| | July 31, 2018 | January 31, 2018 |
|---|--|---------------------|
| | (in thousands except conversion rate and conversion price) | |
| Principal value | \$ 45,644 | \$ 65,644 |
| Unamortized debt discount | (1,061) | (2,497) |
| Unamortized debt issuance costs | (139) | (328) |
| Carrying value of senior convertible notes | \$ 44,444 | \$ 62,819 |
| Carrying value of equity component, net of deferred taxes | \$ 14,923 | \$ 14,923 |

Conversion rate (shares of common stock per \$1,000 principal amount of notes) 23.1626

Conversion price (per share of common stock) \$ 43.17

During the six months ended July 31, 2018, the Company repurchased an aggregate of \$20.0 million face value (\$19.4 million carrying value) of its senior convertible notes with \$20.0 million in cash. All consideration was attributed to the extinguishment of the liability and the Company recognized a pre-tax loss of \$0.6 million on the repurchase. For the six months ended July 31, 2017, the Company repurchased an aggregate of \$20.3 million face value (\$18.8 million carrying value) of its senior convertible notes with \$19.3 million in cash. Of the \$19.3 million in total cash consideration, \$18.7 million was attributed to the extinguishment of the liability and \$0.6 million was attributed to the reacquisition of a portion of the equity component of the instrument. The Company recognized an immaterial net pre-tax gain on the extinguishment of the liability and recognized a \$0.6 million after tax reduction in additional paid-in capital from the reacquisition of the equity component. In total, the Company has repurchased an aggregate of \$104.4 million face value (\$96.6 million carrying value) of its senior convertible notes with \$95.1 million in cash. Gains and losses on repurchases are included in other interest expense in the Consolidated Statements of Operations. The Company recognized interest expense associated with its senior convertible notes as follows:

| | Three Months | | Six Months | |
|-----------------------------------|----------------|---------|----------------|---------|
| | Ended July 31, | | Ended July 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | (in thousands) | |
| Cash Interest Expense | | | | |
| Coupon interest expense | \$546 | \$708 | \$1,151 | \$1,491 |
| Noncash Interest Expense | | | | |
| Amortization of debt discount | 446 | 540 | 915 | 1,111 |
| Amortization of transaction costs | 59 | 74 | 123 | 154 |
| | \$1,051 | \$1,322 | \$2,189 | \$2,756 |

The senior convertible notes mature on May 1, 2019, unless purchased earlier by the Company, redeemed or converted. As of July 31, 2018, the unamortized debt discount will be amortized over a remaining period of nine months. As of July 31, 2018 and January 31, 2018, 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 consolidated statements of operations periods presented.

Table of Contents

NOTE 9 - DERIVATIVE INSTRUMENTS

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

Cash Flow Hedge

On October 9, 2013, the Company entered into a forward-starting interest rate swap instrument, which had 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 was to, beginning on September 30, 2014, protect the Company from changes in benchmark interest rates to which the Company was exposed through certain of its variable interest rate credit facilities. The instrument provided for a fixed interest rate of 1.901% up to the maturity date. The interest rate swap instrument was designated as a cash flow hedging instrument and accordingly changes in the effective portion of the fair value of the instrument have been 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.

In April 2017, the Company elected to terminate the interest rate swap instrument. The Company paid \$0.9 million to terminate the instrument. This cash payment is presented as a financing cash outflow in the consolidated statements of cash flows.

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: | |
| | July 31, | January 31, |
| | 2018 | 2018 |
| | (in thousands) | |
| Cash flow hedges: | | |
| Interest rate swap | \$ — | \$ — |
| Derivatives not designated as hedging instruments: | | |
| Foreign currency contracts | 24,128 | 14,368 |

As of July 31, 2018 and January 31, 2018, the fair value of the Company's outstanding derivative instruments was not material. Derivative instruments recognized as assets are recorded in prepaid expenses and other in the consolidated balance sheet, and derivative instruments recognized as liabilities are recorded in accrued expenses and other in the consolidated balance sheet.

Table of Contents

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 and six months ended July 31, 2018 and 2017:

| | Three Months Ended | | Six Months Ended July | | |
|--|--------------------|-------------|-----------------------|------------|------------|
| | July 31, | | 31, | | |
| | 2018 | 2017 | 2018 | 2017 | |
| | OCI | Income | OCI | Income | OCI |
| | (Loss) | (Loss) | (Loss) | (Loss) | (Loss) |
| | (in thousands) | | (in thousands) | | |
| Derivatives Designated as Hedging Instruments: | | | | | |
| Cash flow hedges: | | | | | |
| Interest rate swap ^(a) | — | —(172) | — | 48 | (986) |
| Derivatives Not Designated as Hedging Instruments: | | | | | |
| Foreign currency contracts ^(b) | —588 | —(988) | —1,123 | — (1,056) | |
| Total Derivatives | \$ —588 | \$ —(1,160) | \$ —1,123 | \$ 48 | \$ (2,042) |

^(a) No material hedge ineffectiveness has been recognized. The amounts shown in income (loss) above are reclassification amounts from accumulated other comprehensive income (loss) and are recorded in floorplan interest expense in the consolidated statements of operations.

^(b) Amounts are included in interest income and other income in the consolidated statements of operations.

During the three months ended April 30, 2017, the Company reclassified \$0.6 million of pre-tax accumulated losses on its interest rate swap instrument from accumulated other comprehensive income (loss) to income as the original forecasted interest payments, which served as the hedged item underlying the interest rate swap instrument, were no longer probable of occurring during the time period over which such transactions were previously anticipated to occur.

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

As of July 31, 2018 and January 31, 2018, the fair value of the Company's foreign currency contracts, which are either assets or liabilities measured at fair value on a recurring basis, was not material. These foreign currency contracts were valued using a discounted cash flow analysis, an income approach, utilizing readily observable market data as inputs, which is classified as a Level 2 fair value measurement.

The Company also valued an immaterial amount of long-lived assets at fair value on a non-recurring basis as of July 31, 2018 as part of its long-lived asset impairment testing. The Company estimated the fair value of these assets based on estimated sales prices of similar assets, which are unobservable Level 3 fair value inputs. In certain instances the Company estimated the fair value of certain long-lived assets to approximate zero as no future cash flows were assumed to be generated from the use of such assets and the expected sales values were deemed to be nominal.

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 for similar instruments with similar maturities, which are Level 2 fair value inputs, the carrying value of long-term debt approximates the fair value as of July 31, 2018 and January 31, 2018. The following table provides details on the senior convertible notes as of July 31, 2018 and January 31, 2018. 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.

| | July 31, 2018 | | | January 31, 2018 | | |
|--------------------------|----------------|----------|----------|------------------|----------|----------|
| | Estimated | Carrying | Face | Estimated | Carrying | Face |
| | Fair | Value | Value | Fair | Value | Value |
| | Value | | | Value | | |
| | (in thousands) | | | (in thousands) | | |
| Senior convertible notes | \$45,644 | \$44,444 | \$45,644 | \$65,000 | \$62,819 | \$65,644 |

NOTE 11 - 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

16

Table of Contents

the Company refers to as “Shared Resources” in the table below. Shared Resources assets primarily consist of cash and property and equipment.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|------------|
| | July 31, | | July 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | (in thousands) | |
| Revenue | | | | |
| Agriculture | \$152,813 | \$138,545 | \$295,684 | \$302,170 |
| Construction | 79,245 | 77,890 | 141,336 | 141,310 |
| International | 67,833 | 52,436 | 108,549 | 89,509 |
| Total | \$299,891 | \$268,871 | \$545,569 | \$532,989 |
| Income (Loss) Before Income Taxes | | | | |
| Agriculture | \$4,960 | \$(6,882) | \$6,283 | \$(10,779) |
| Construction | (30) |) 930 | (2,927) |) (1,703) |
| International | 3,726 | 283 | 3,639 | 878 |
| Segment income (loss) before income taxes | 8,656 | (5,669) | 6,995 | (11,604) |
| Shared Resources | (864) |) (1,541) | (1,368) |) (5,016) |
| Total | \$7,792 | \$(7,210) | \$5,627 | \$(16,620) |

| | July 31, | January 31, |
|--|----------------|-------------|
| | 2018 | 2018 |
| | (in thousands) | |

| | | |
|------------------|-----------|-----------|
| Total Assets | | |
| Agriculture | \$428,877 | \$400,017 |
| Construction | 244,101 | 211,154 |
| International | 172,248 | 126,251 |
| Segment assets | 845,226 | 737,422 |
| Shared Resources | (5,777) |) 22,886 |
| Total | \$839,449 | \$760,308 |

NOTE 12 - RESTRUCTURING COSTS

In February 2017, to better align the Company's cost structure and business in certain markets, the Company announced a restructuring plan (the "Fiscal 2018 Restructuring Plan") to close one Construction location and 14 Agriculture locations. As of January 31, 2018, the Company had closed and fully exited all of these locations and had completed its Fiscal 2018 Restructuring Plan.

Restructuring costs associated with the Fiscal 2018 Restructuring Plan are summarized in the following table:

| | Three Months | | Six Months | | Cumulative Amount |
|---|----------------|---------|------------|---------|----------------------|
| | Ended July | | Ended July | | |
| | 31, | 31, | 31, | 31, | |
| | 2018 | 2017 | 2018 | 2017 | |
| | (in thousands) | | | | |
| Lease accrual and terminations costs | \$565 | \$4,069 | \$565 | \$4,322 | \$6,246 |
| Termination benefits | — | 1,906 | — | 3,724 | 5,053 |
| Impairment of fixed assets, net of gains on asset disposition | — | (565) | — | (565) | 2,206 |
| Asset relocation and other closing costs | — | 139 | — | 412 | 516 |
| | \$565 | \$5,549 | \$565 | \$7,893 | \$14,021 |

Table of Contents

Restructuring charges associated with the Fiscal 2018 Restructuring Plan are summarized by segment in the following table:

| Segment | Three Months Ended July 31, 2018 | | Six Months Ended July 31, 2018 | |
|------------------|----------------------------------|---------|--------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Agriculture | \$233 | \$5,194 | \$233 | \$6,672 |
| Construction | 332 | 252 | 332 | 338 |
| International | — | — | — | — |
| Shared Resources | — | 103 | — | 883 |
| Total | \$565 | \$5,549 | \$565 | \$7,893 |

A reconciliation of the beginning and ending exit cost liability balance associated with the Fiscal 2018 Restructuring Plan is as follows:

| | Lease Accrual & Termination Costs | Termination Benefits | Total |
|---|---|-------------------------|-----------|
| | (in thousands) | | |
| Balance, January 31, 2018 | \$5,393 | \$ 404 | \$5,797 |
| Exist costs incurred and charged to expense | — | — | \$— |
| Adjustments | 653 | (17) | \$636 |
| Exit costs paid | (3,293) | (387) | \$(3,680) |
| Balance, July 31, 2018 | \$2,753 | \$ — | \$2,753 |

As of July 31, 2018 and January 31, 2018, \$2.5 million and \$4.8 million of the exit cost liability is included in other long-term liabilities and \$0.3 million and \$1.0 million are included in accrued expenses and other in the consolidated balance sheets.

In April 2018, the Company paid \$3.0 million to terminate the real estate lease agreement for one of the Company's previously closed stores. The termination payment approximated the recorded lease accrual liability and therefore the impact to the consolidated statement of operations was not material. In July 2018, based on changes in circumstances, the Company revised its assumptions regarding the timing and amount of estimated future cash flows associated with its cease-use lease liabilities for certain of its closed store locations. The cumulative effect of these revised estimates resulted in the recognition of \$0.6 million of additional expense, recognized as restructuring costs in the consolidated statement of operations, and a corresponding increase to the cease-use lease liability.

NOTE 13 - INCOME TAXES

Our effective tax rate was 33.5% and 36.6% for the three and six months ended July 31, 2018 compared to an effective tax rate of 28.1% and 33.1% for the three and six months ended July 31, 2017.

Our effective tax rate is impacted by the mix of domestic and foreign income or losses and the impact of the recognition of valuation allowances on our U.S. federal, state and certain of our foreign deferred tax assets, including net operating losses. Our effective tax rate is also impacted by the enactment on December 22, 2017 of the federal tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad changes to the U.S. tax code, including, among other things, to reduce the U.S. federal corporate tax rate from 35% to 21%, creates a new provision designed to tax global intangible low-taxed income ("GILTI"), creates a new limitation on deductible interest expense, and modifies the rules related to uses and limitations of net operating losses.

The Company has applied the guidance in Accounting Standards Update 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, when accounting for the

enactment-date effects of the Tax Act. As of July 31, 2018, the Company has completed its evaluation of the GILTI provisions of the Tax Act. Under U.S. accounting rules, the Company is allowed to make an accounting policy election of either treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred or factoring such amounts into our measurement of deferred taxes. The Company has elected to treat future GILTI inclusions as a current period expense when incurred. The Company has included the current period estimated tax effects of GILTI within its estimated annual

Table of Contents

effective tax rate. The estimated impact of GILTI on our annual effective tax rate is based on current GILTI regulations, as regulatory guidance evolves the impact on our effective tax rate may change.

NOTE 14 - RELATED PARTY TRANSACTIONS

Effective February 1, 2017, the Company and Peter Christianson (our former President and former member of our Board of Directors), who is a brother of Tony Christianson (a member of our Board of Directors), agreed to terminate a consulting arrangement between the parties. In connection with the termination, the Company agreed to pay Mr. Peter Christianson the sum of \$0.7 million, payable in two equal installments in fiscal 2018 and 2019. All unvested stock options and shares of restricted stock held by Mr. Peter Christianson will continue to vest as scheduled. As a result of the termination agreement, the Company recognized for the six months ended July 31, 2017, a total of \$0.8 million in termination costs, consisting of \$0.7 million for future cash payments owed to Mr. Peter Christianson and \$0.1 million for unvested shares of restricted stock. These termination costs are included in restructuring costs in the consolidated statements of operations. As of July 31, 2018, all amounts owed to Mr. Peter Christianson had been paid in full.

NOTE 15 - CONTINGENCIES

On October 11, 2017, the Romania Competition Council ("RCC") initiated an administrative investigation of the Romanian Association of Manufacturers and Importers of Agricultural Machinery ("APIMAR") and all its members, including Titan Machinery Romania. The RCC's investigation involves whether the APIMAR members engaged in anti-competitive practices in their sales of agricultural machinery not involving European Union ("EU") subvention funding programs, by referring to the published sales prices governing EU subvention funded transactions, which prices are mandatorily disclosed to and published by AFIR, a Romanian government agency that oversees the EU subvention funding programs in Romania. The investigation is in a preliminary stage and the Company is currently unable to predict its outcome or reasonably estimate any potential loss that may result from the investigation. The Company is engaged in legal proceedings incidental to the normal course of business. Due to their nature, such legal proceedings involve inherent uncertainties, including but not limited to, court rulings, negotiations between affected parties and governmental intervention. Based upon the information available to the Company and discussions with legal counsel, it is the Company's opinion that the outcome of these various legal actions and claims will not have a material impact on the financial position, results of operations or cash flows. Such matters, however, are subject to many uncertainties, and the outcome of any matter is not predictable with assurance.

NOTE 16 - SUBSEQUENT EVENTS

On July 2, 2018, the Company, through a newly created, wholly-owned German subsidiary, acquired all interests of two commonly-controlled companies, AGRAM Landtechnikvertrieb GmbH and AGRAM Landtechnik Rollwitz GmbH (collectively "AGRAM"), for \$19.2 million in cash consideration. AGRAM consists of four Case IH agriculture dealership locations in the following cities of Germany: Altranft, Burkau, Gutzkow, and Rollwitz. Founded in 1990, AGRAM has been a successful Case IH and Steyr dealership complex, and our acquisition of these entities provides the Company the opportunity to expand our international presence into the large, well-established German market.

Following the acquisition, the legal name of AGRAM Landtechnikvertrieb GmbH was changed to Titan Machinery Deutschland GmbH ("Titan Deutschland"). The Company has filed with the German Commercial Register to merge the three German legal entities into a single entity, with Titan Deutschland remaining as the surviving entity. The Company expects the merger to be finalized by the end of fiscal 2019.

Each of the Company's foreign subsidiaries, including its Luxembourg domiciled holding subsidiary, which is the direct owner of the newly created, wholly-owned German subsidiary created to complete the acquisition, have fiscal quarters and a fiscal year-end equal to the calendar quarterly periods and year-end. Titan Deutschland also maintains fiscal quarters and a fiscal year-end equal to the calendar periods. The quarterly and annual financial statements of all of the Company's foreign subsidiaries are consolidated into the Company's U.S. quarterly and annual fiscal periods that end on April 30th, July 31st, October 31st and January 31st. Accordingly, this July 2, 2018 foreign acquisition is a third-quarter transaction and therefore no amounts were recognized in the consolidated financial statements for the quarter ended July 31, 2018.

The acquisition has been accounted for under the acquisition method of accounting, which requires the Company to estimate the acquisition date fair value of the assets acquired and liabilities assumed. The fair value of the consideration paid exceeded the preliminarily estimated fair value of the assets acquired and liabilities assumed, which resulted in the recognition of \$0.8 million of goodwill. The recognition of goodwill arose from the acquisition of an assembled workforce and anticipated

Table of Contents

synergies within our International segment. The entire goodwill amount will be assigned to the International segment and is not expected to be deductible for income tax purposes. The Company recognized a customer relationship intangible asset in the amount of \$0.1 million, which will be amortized over a three-year period, and recognized a distribution rights intangible asset in the amount of \$1.8 million that is an indefinite-lived intangible asset not subject to amortization. All acquisition-related costs, which amounted to \$0.2 million, have been expensed as incurred and recognized as operating expenses in the consolidated statement of operations.

Due to the limited time since the acquisition, the estimated fair values of acquired assets and assumed liabilities are provisional estimates, but are based on the best information currently available. These provisional estimates are subject to change as the Company completes all remaining steps in finalizing the purchase price allocation. The Company expects to finalize the valuation of all assets and liabilities by January 31, 2019. The preliminary allocation of the purchase price to assets acquired and liabilities assumed is as follows:

(in thousands)

Assets acquired:

| | |
|----------------------------|----------|
| Cash | \$3,857 |
| Receivables | 5,341 |
| Inventories | 21,725 |
| Prepaid expenses and other | 887 |
| Property and equipment | 3,512 |
| Intangible assets | 1,944 |
| Goodwill | 765 |
| Other | 61 |
| | \$38,092 |

Liabilities assumed:

| | |
|----------------------------|----------|
| Accounts payable | 1,553 |
| Floorplan payable | 13,820 |
| Deferred revenue | 85 |
| Accrued expenses and other | 1,120 |
| Long-term debt | 1,725 |
| Deferred income taxes | 632 |
| | \$18,935 |
| Net assets acquired | \$19,157 |

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes included in Item 1 of Part I of this Quarterly Report, and the audited consolidated financial statements and related 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 fiscal year ended January 31, 2018.

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 low agricultural commodity prices and 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 August 2018, the U.S. Department of Agriculture ("USDA") published its U.S. farm sector financial indicators. The USDA projected net farm income for calendar year 2018 to decrease 13.0% as compared to calendar year 2017 and to be approximately 25.0% below the most recent five-year average. These industry conditions have reduced demand for equipment purchases, service work and parts, resulting in decreased same-store sales, equipment revenue and equipment gross profit margin, and have caused an oversupply of equipment inventory in our geographic footprint. In addition, these agriculture industry conditions have also led to a reduction of purchases of construction equipment by customers in the agriculture industry, negatively impacting certain of our Construction stores.

Our net income was \$5.2 million, or \$0.23 per diluted share, for the second quarter of fiscal 2019, compared to a net loss of \$5.2 million, or \$0.24 per diluted share, for the second quarter of fiscal 2018. On an adjusted basis, our diluted earnings per share was \$0.28 for the second quarter of fiscal 2019, compared to an adjusted diluted loss per share of \$0.04 for the second quarter of fiscal 2018. See the Non-GAAP Financial Measures section below for a reconciliation of adjusted diluted earnings per share to the most comparable GAAP measure. Significant factors impacting the quarterly comparisons were:

• Revenue increased 11.5% in the second quarter of fiscal 2019, as compared to the second quarter last year. This revenue increase was primarily the result of higher equipment sales in our Agriculture and International Segments.

• Operating expenses decreased \$2.9 million, or 5.7%, in the second quarter of fiscal 2019, as compared to the second quarter of fiscal 2018, primarily as the result of cost savings arising from our Fiscal 2018 Restructuring Plan.

In the second quarter of fiscal 2019, restructuring and impairment changes decreased \$5.0 million, as compared to the second quarter last year, due to restructuring charges associated with our Fiscal 2018 Restructuring Plan primarily being incurred during fiscal 2018. See the Fiscal 2018 Restructuring Plan section below for further details.

• Floorplan interest expense decreased 20.2% in the second quarter of fiscal 2019, as compared to the second quarter last year, primarily due to a decrease in our interest-bearing inventory in the second quarter of fiscal 2019.

Table of Contents

Fiscal 2018 Restructuring Plan

In February 2017, to better align the Company's cost structure and business in certain markets, the Company announced a dealership restructuring plan (the "Fiscal 2018 Restructuring Plan") which included the closure of one Construction location and 14 Agriculture locations. As of January 31, 2018, the Company had closed and fully exited all of these locations and had completed its Fiscal 2018 Restructuring Plan. In the second quarter of fiscal 2019, the Company recognized \$0.6 million of restructuring costs as the Company revised its assumptions regarding the timing and amount of estimated future cash flows associated with its cease-use lease liabilities for certain of its close store locations. The Company recognized \$5.5 million and \$7.9 million in restructuring charges for the three and six months ended July 31, 2017 and \$10.5 million in restructuring charges during the full fiscal year ended January 31, 2018.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended January 31, 2018. Other than the adoption of the new revenue recognition guidance described in Note 1, Business Activity and Significant Accounting Policies, and Note 2, Revenue, there have been no other changes in our critical accounting policies since January 31, 2018.

Results of Operations

The results shown below include the operating results of any acquisitions made during these periods and the operating results of any stores closed during these periods up to the date of the store closure. 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 between 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.

Table of Contents

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

| | Three Months Ended | | Six Months Ended July | | |
|-------------------------|------------------------|-----------|------------------------|-----------|---|
| | July 31, 2018 | 2017 | 31, 2018 | 2017 | |
| | (dollars in thousands) | | (dollars in thousands) | | |
| Equipment | | | | | |
| Revenue | \$192,721 | \$167,881 | \$349,625 | \$335,796 | |
| Cost of revenue | 174,472 | 154,729 | 316,239 | 310,246 | |
| Gross profit | \$18,249 | \$13,152 | \$33,386 | \$25,550 | |
| Gross profit margin | 9.5 | % 7.8 | % 9.5 | % 7.6 | % |
| Parts | | | | | |
| Revenue | \$59,998 | \$55,580 | \$111,533 | \$112,163 | |
| Cost of revenue | 42,544 | 39,103 | 79,202 | 79,460 | |
| Gross profit | \$17,454 | \$16,477 | \$32,331 | \$32,703 | |
| Gross profit margin | 29.1 | % 29.6 | % 29.0 | % 29.2 | % |
| Service | | | | | |
| Revenue | \$31,271 | \$30,509 | \$58,627 | \$59,275 | |
| Cost of revenue | 11,432 | 11,444 | 22,634 | 22,238 | |
| Gross profit | \$19,839 | \$19,065 | \$35,993 | \$37,037 | |
| Gross profit margin | 63.4 | % 62.5 | % 61.4 | % 62.5 | % |
| Rental and other | | | | | |
| Revenue | \$15,901 | \$14,901 | \$25,784 | \$25,755 | |
| Cost of revenue | 12,542 | 10,789 | 21,034 | 19,318 | |
| Gross profit | \$3,359 | \$4,112 | \$4,750 | \$6,437 | |
| Gross profit margin | 21.1 | % 27.6 | % 18.4 | % 25.0 | % |

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

| | Three Months | | Six Months Ended | | |
|--|------------------------|---------|------------------|---------|---|
| | Ended July 31, 2018 | 2017 | July 31, 2018 | 2017 | |
| Revenue | | | | | |
| Equipment | 64.3 | % 62.4 | % 64.1 | % 63.0 | % |
| Parts | 20.0 | % 20.7 | % 20.4 | % 21.0 | % |
| Service | 10.4 | % 11.3 | % 10.8 | % 11.1 | % |
| Rental and other | 5.3 | % 5.5 | % 4.7 | % 4.8 | % |
| Total Revenue | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Total Cost of Revenue | 80.4 | % 80.4 | % 80.5 | % 80.9 | % |
| Gross Profit Margin | 19.6 | % 19.6 | % 19.5 | % 19.1 | % |
| Operating Expenses | 15.9 | % 18.8 | % 17.3 | % 19.2 | % |
| Impairment of Intangible and Long-Lived Assets | 0.1 | % — | % — | % — | % |
| Restructuring Costs | 0.2 | % 2.1 | % 0.1 | % 1.5 | % |
| Income (Loss) from Operations | 3.5 | % (1.2) | % 2.1 | % (1.6) | % |
| Other Income (Expense) | (0.9) | % (1.5) | % (1.1) | % (1.5) | % |
| Income (Loss) Before Income Taxes | 2.6 | % (2.7) | % 1.0 | % (3.1) | % |
| Provision for (Benefit from) Income Taxes | 0.9 | % (0.8) | % 0.4 | % (1.0) | % |
| Net Income (Loss) | 1.7 | % (1.9) | % 0.7 | % (2.1) | % |

Table of Contents

Three Months Ended July 31, 2018 Compared to Three Months Ended July 31, 2017

Consolidated Results

Revenue

| | Three Months Ended July 31, | | Increase/ | Percent |
|------------------|--------------------------------|-----------|------------|---------|
| | 2018 | 2017 | (Decrease) | Change |
| | (dollars in thousands) | | | |
| Equipment | \$192,721 | \$167,881 | \$24,840 | 14.8 % |
| Parts | 59,998 | 55,580 | 4,418 | 7.9 % |
| Service | 31,271 | 30,509 | 762 | 2.5 % |
| Rental and other | 15,901 | 14,901 | 1,000 | 6.7 % |
| Total Revenue | \$299,891 | \$268,871 | \$31,020 | 11.5 % |

The increase in revenue for the second quarter of fiscal 2019 compared to the second quarter of fiscal 2018 was the result of increased revenue from all revenue sources. Same-store sales increased 11.4% primarily as a result of an increase in equipment revenue within our Agriculture and International segments plus increased parts and service revenue within these segments resulting from the late spring planting season that shifted parts and service revenue from the first to the second quarter of fiscal 2019.

Gross Profit

| | Three Months Ended July 31, | | Increase/ | Percent |
|---------------------------|--------------------------------|----------|------------|----------|
| | 2018 | 2017 | (Decrease) | Change |
| | (dollars in thousands) | | | |
| Gross Profit | | | | |
| Equipment | \$18,249 | \$13,152 | \$5,097 | 38.8 % |
| Parts | 17,454 | 16,477 | 977 | 5.9 % |
| Service | 19,839 | 19,065 | 774 | 4.1 % |
| Rental and other | 3,359 | 4,112 | (753) | (18.3)% |
| Total Gross Profit | \$58,901 | \$52,806 | \$6,095 | 11.5 % |
| Gross Profit Margin | | | | |
| Equipment | 9.5 | % 7.8 | % 1.7 | % 21.8 % |
| Parts | 29.1 | % 29.6 | % (0.5) | (1.7)% |
| Service | 63.4 | % 62.5 | % 0.9 | % 1.4 % |
| Rental and other | 21.1 | % 27.6 | % (6.5) | (23.6)% |
| Total Gross Profit Margin | 19.6 | % 19.6 | % — | % — % |
| Gross Profit Mix | | | | |
| Equipment | 31.0 | % 24.9 | % 6.1 | % 24.5 % |
| Parts | 29.6 | % 31.2 | % (1.6) | (5.1)% |
| Service | 33.7 | % 36.1 | % (2.4) | (6.6)% |
| Rental and other | 5.7 | % 7.8 | % (2.1) | (26.9)% |
| Total Gross Profit Mix | 100.0 | % 100.0 | % | |

Gross profit for the second quarter of fiscal 2019 increased 11.5% as compared to the same period last year. Gross profit margins remained flat at 19.6% with the comparable period last year. The increase in gross profit was the result of increased revenue. Our gross profit margin remained flat as the effect of higher equipment gross profit margins was offset by lower rental and other gross profit margins and a change in gross profit mix with more revenue resulting from our lower margin equipment sales compared to our parts, service and rental and other revenues.

Table of Contents

Our company-wide absorption rate increased to 88.6% for the second quarter of fiscal 2019 compared to 80.1% during the same period last year primarily due to increased gross profit from parts and service and a reduction in our fixed operating costs and floorplan interest expense.

Operating Expenses

| | Three Months Ended July 31, | | Increase/ (Decrease) | Percent Change |
|---|--------------------------------|----------|-------------------------|-------------------|
| | 2018 | 2017 | | |
| | (dollars in thousands) | | | |
| Operating Expenses | \$47,633 | \$50,523 | \$(2,890) | 5.7 % |
| Operating Expenses as a Percentage of Revenue | 15.9 % | 18.8 % | (2.9 %) | 15.4 % |

Our operating expenses in the second quarter of fiscal 2019 decreased \$2.9 million as compared to the second quarter of fiscal 2018 and operating expenses as a percentage of revenue improved to 15.9% in the second quarter of fiscal 2019 from 18.8% in the second quarter of fiscal 2018. These decreases are primarily the result of cost savings arising from our Fiscal 2018 Restructuring Plan and the impact of operating expense leverage in the quarter resulting from higher second quarter fiscal 2019 sales volumes, partially offset by an increase in our International segment operating expenses resulting from the continued build-out of our footprint and presence in our European markets.

Restructuring Costs

| | Three Months Ended July 31, | | Increase/ (Decrease) | Percent Change |
|---------------------------------|--------------------------------------|-------|-------------------------|-------------------|
| | 2018 | 2017 | | |
| | (dollars in thousands) | | | |
| Impairment of Long-Lived Assets | \$156 | \$ — | \$ 156 | n/m |
| Restructuring Costs | 565 | 5,549 | (4,984) | 90.0% |

Restructuring costs of \$0.6 million were recognized in the second quarter of fiscal 2019 related to the Company's revised assumptions, based on changes in circumstances, for our cease-use lease liabilities. Restructuring costs of \$5.5 million were recognized in the second quarter of fiscal 2018 relating to charges recognized in connection with our Fiscal 2018 Restructuring Plan and included accrued charges for lease terminations and remaining lease obligations, termination benefits, and the costs associated with relocating certain assets of our closed stores.

Other Income (Expense)

| | Three Months Ended July 31, | | Increase/ (Decrease) | Percent Change |
|----------------------------------|--------------------------------|---------|-------------------------|-------------------|
| | 2018 | 2017 | | |
| | (dollars in thousands) | | | |
| Interest income and other income | \$1,462 | \$682 | \$ 780 | 114.4 % |
| Floorplan interest expense | (1,727) | (2,163) | (436) | 20.2 % |
| Other interest expense | (2,490) | (2,463) | 27 | (1.1)% |

The decrease in floorplan interest expense for the second quarter of fiscal 2019 as compared to the second quarter of fiscal 2018 was primarily due to a lower level of interest-bearing inventory in the second quarter of fiscal 2019. Interest expense associated with our senior convertible notes, which is reflected in other interest expense, decreased in the second quarter of fiscal 2019 by \$0.3 million, as compared to the same period last year, due to our repurchases or our outstanding notes. Other interest expense for the second quarter of fiscal 2019 includes a \$0.6 million loss recognized on our senior convertible notes repurchased in the quarter. Other interest expense for the second quarter of fiscal 2018 includes \$0.4 million of debt issuance cost write-offs recognized as a result of our election to reduce the maximum available credit under our Wells Fargo Credit Agreement. Interest income and other income increased \$0.8 million in the second quarter of fiscal 2019 compared to the second quarter of fiscal 2018 primarily due to foreign currency gains recognized as a result of a strengthening U.S. dollar.

Table of Contents

Provision for (Benefit from) Income Taxes

| | Three Months Ended July 31, | | Increase/ | Percent |
|---|-----------------------------|-----------|------------|---------|
| | 2018 | 2017 | (Decrease) | Change |
| Provision for (Benefit from) Income Taxes | \$2,612 | \$(2,024) | \$ 4,636 | n/m |

(dollars in thousands)

Our effective tax rate was 33.5% for the second quarter of fiscal 2019 and 28.1% for the second quarter of fiscal 2018. Our effective tax rate is impacted by the mix of income or losses in our domestic and international jurisdictions as well as the impact of recognizing valuation allowances on our deferred tax assets, including net operating losses. Our effective tax rate is also impacted by the Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017. The Tax Act, among other things, reduced the U.S. federal corporate tax rate from 35% to 21% and introduced a new provision designed to tax global intangible low-taxed income ("GILTI"). For fiscal 2019, we anticipate that the benefit from the reduced federal corporate tax rate will be partially offset by the impact of GILTI.

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 July 31, | | Increase/ | Percent |
|---------------|-----------------------------|-----------|------------|---------|
| | 2018 | 2017 | (Decrease) | Change |
| Revenue | | | | |
| Agriculture | \$152,813 | \$138,545 | \$ 14,268 | 10.3 % |
| Construction | 79,245 | 77,890 | 1,355 | 1.7 % |
| International | 67,833 | 52,436 | 15,398 | 29.4 % |
| Total | \$299,891 | \$268,871 | \$ 31,021 | 11.5 % |

(dollars in thousands)

Income (Loss) Before Income Taxes

| | | | | |
|---|---------|-----------|-----------|----------|
| Agriculture | \$4,960 | \$(6,882) | \$ 11,842 | n/m |
| Construction | (30) |) 930 | (960) | (103.2)% |
| International | 3,726 | 283 | 3,443 | n/m |
| Segment income (loss) before income taxes | 8,656 | (5,669) | 14,325 | n/m |
| Shared Resources | (864) |) (1,541) | 678 | 44.0 % |
| Total | \$7,792 | \$(7,210) | \$ 15,003 | n/m |

Agriculture

Agriculture segment revenue for the second quarter of fiscal 2019 increased 10.3% compared to the second quarter of fiscal 2018. The increase in segment revenue was due to a same-store sales increase of 10.1% compared to the second quarter of fiscal 2018. The increase in same-store sales was primarily the result of increased equipment revenue and increased parts and service revenue resulting from the late spring planting season that shifted parts and service revenue from the first to the second quarter of fiscal 2019.

Agriculture segment income before income taxes was \$5.0 million for the second quarter of fiscal 2019 compared to a \$6.9 million loss before income taxes for the second quarter of fiscal 2018. The improvement in segment results was the result of increased equipment, parts, and service revenues, increased equipment gross profit margins, operating expense savings as a result of our Fiscal 2018 Restructuring Plan, a lack of restructuring charges recognized in the second quarter of fiscal 2019, as well as a decrease in floorplan interest expense as the result of a decrease in our interest-bearing inventory in the second quarter of fiscal 2019.

Construction

Construction segment revenue for the second quarter of fiscal 2019 increased 1.7% compared to the second quarter of fiscal 2018.

Table of Contents

Our Construction segment income before income taxes was break-even for the second quarter of fiscal 2019 compared to \$0.9 million of income before income taxes in the second quarter of fiscal 2018. The decrease in segment results was primarily due to lower rental and other gross profit margins primarily due to a changing mix of rental revenue with a higher percentage of revenue arising from lower margin inventory rentals and higher maintenance costs on our dedicated rental fleet in the second quarter of fiscal 2019 as compared to the second quarter of fiscal 2018. The impact of lower rental and other gross profit margins was partially offset by reduced floorplan and other interest expense due to a reduced level of interest-bearing inventory and rental fleet in the second quarter of fiscal 2019 compared to the second quarter of fiscal 2018. The dollar utilization of our rental fleet increased slightly from 24.7% in the second quarter of fiscal 2018 to 25.2% in the second quarter of fiscal 2019.

International

International segment revenue for the second quarter of fiscal 2019 increased 29.4% compared to the second quarter of fiscal 2018 primarily due to increased equipment revenue. Equipment revenue increased in the second quarter of fiscal 2019 due to continued strong demand in certain of our markets, which is aided by the continued availability of subvention funds and strong calendar year 2017 crop yields. In addition, the late spring planting in our European markets also resulted in a shift of parts and service revenue from the first quarter of fiscal 2019 to the second quarter. Our International segment income before income taxes was \$3.7 million for the second quarter of fiscal 2019 compared to \$0.3 million for the same period last year. The increase in segment results was primarily due to increased equipment revenues with higher gross profit margins, but partially offset by an increase in operating expenses resulting from the continued build-out of our footprint and presence in our European markets. In addition, foreign currency gains resulting from a strengthening U.S dollar also benefited the second quarter of fiscal 2019.

Shared Resources/Eliminations

We incur centralized expenses/income at our general corporate level, which we refer to as “Shared Resources,” and then allocate most of these net expenses to our segments. Since these allocations are set early in the year, and a portion is planned to be unallocated, unallocated balances may occur. Shared Resources loss before income taxes was \$0.9 million for the second quarter of fiscal 2019 compared to loss before income taxes of \$1.5 million for the same period last year. For the second quarter of fiscal 2019, loss before income taxes included a loss of \$0.6 million recognized as a result of our repurchase of \$20.0 million face value of senior convertible notes.

Six Months Ended July 31, 2018 Compared to Six Months Ended July 31, 2017

Consolidated Results**Revenue**

| | Six Months Ended July 31, | | Increase/ (Decrease) | Percent Change |
|------------------|------------------------------|-----------|-------------------------|-------------------|
| | 2018 | 2017 | | |
| | (dollars in thousands) | | | |
| Equipment | \$349,625 | \$335,796 | \$13,829 | 4.1 % |
| Parts | 111,533 | 112,163 | (630) | (0.6)% |
| Service | 58,627 | 59,275 | (648) | (1.1)% |
| Rental and other | 25,784 | 25,755 | 29 | 0.1 % |
| Total Revenue | \$545,569 | \$532,989 | \$12,580 | 2.4 % |

The increase in revenue for the first six months of fiscal 2019 was primarily the result of an increase in International segment revenue partially offset by a decrease in revenue in our Agriculture segment. International segment revenue increased over the comparable prior year period primarily due to increased equipment revenue. The Agriculture revenue decrease was primarily the result of our store closings associated with our Fiscal 2018 Restructuring Plan and the challenging industry conditions facing our Agriculture segment discussed in the Overview section above.

Table of Contents

Gross Profit

| | Six Months Ended July 31, | | Increase/ (Decrease) | Percent Change |
|---------------------------|---------------------------|-----------|-------------------------|-------------------|
| | 2018 | 2017 | | |
| | (dollars in thousands) | | | |
| Gross Profit | | | | |
| Equipment | \$33,386 | \$25,550 | \$7,836 | 30.7 % |
| Parts | 32,331 | 32,703 | (372) | (1.1)% |
| Service | 35,993 | 37,037 | (1,044) | (2.8)% |
| Rental and other | 4,749 | 6,436 | (1,687) | (26.2)% |
| Total Gross Profit | \$106,459 | \$101,726 | \$4,733 | 4.7 % |
| Gross Profit Margin | | | | |
| Equipment | 9.5 | % 7.6 | % 1.9 | % 25.0 % |
| Parts | 29.0 | % 29.2 | % (0.2) | % (0.7)% |
| Service | 61.4 | % 62.5 | % (1.1) | % (1.8)% |
| Rental and other | 18.4 | % 25.0 | % (6.6) | % (26.4)% |
| Total Gross Profit Margin | 19.5 | % 19.1 | % 0.4 | % 2.1 % |
| Gross Profit Mix | | | | |
| Equipment | 31.3 | % 25.1 | % 6.3 | % 25.1 % |
| Parts | 30.4 | % 32.2 | % (1.7) | % (5.3)% |
| Service | 33.8 | % 36.4 | % (2.6) | % (7.1)% |
| Rental and other | 4.5 | % 6.3 | % (1.8) | % (28.6)% |
| Total Gross Profit Mix | 100.0 | % 100.0 | % | |

The \$4.7 million increase in gross profit for the first six months of fiscal 2019, as compared to the same period last year, was primarily due to higher revenue for the first six months of fiscal 2019 and improved gross profit margins, from 19.1% for the first six months of fiscal 2018 to 19.5% for the first six months of fiscal 2019. The improvement in gross profit margin was the result of improved equipment margins partially offset by lower gross profit margins from rental and other revenue and a changing mix of revenue, with more revenue being generated from our lower margin equipment sales as compared to our higher margin parts, service and rental businesses.

Our company-wide absorption for the first six months of fiscal 2019 increased to 81.5% as compared to 76.1% during the same period last year, as our decrease in gross profit from parts, service and rental and other in fiscal 2019 was more than offset by a reduction in our fixed operating costs and floorplan interest expense.

Operating Expenses

| | Six Months Ended July 31, | | Increase/ (Decrease) | Percent Change |
|---|---------------------------|-----------|-------------------------|-------------------|
| | 2018 | 2017 | | |
| | (dollars in thousands) | | | |
| Operating Expenses | \$94,360 | \$102,510 | \$(8,150) | 8.0 % |
| Operating Expenses as a Percentage of Revenue | 17.3 | % 19.2 | % (1.9) | % 9.9 % |

Our operating expenses for the first six months of fiscal 2019 decreased \$8.2 million as compared to the first six months of fiscal 2018 and operating expenses as a percentage of revenue improved to 17.3% in the first six months of fiscal 2019 from 19.2% in the second quarter of fiscal 2018. These decreases are primarily the result of cost savings arising from our Fiscal 2018 Restructuring Plan and the impact of operating expense leverage resulting from higher fiscal 2019 sales volumes, partially offset by an increase in our International segment operating expenses resulting from the continued build-out of our footprint and presence in our European markets.

Table of Contents

Restructuring Costs

| | Six Months | | | |
|---------------------------------|------------------------|-------|-------------------|--------|
| | Ended July | | Increase/ Percent | |
| | 31, | | | |
| | 2018 | 2017 | Decrease | Change |
| | (dollars in thousands) | | | |
| Impairment of Long-Lived Assets | \$156 | \$ | -\$ 156 | n/m |
| Restructuring Costs | 565 | 7,893 | (7,328) | 93.0 % |

Restructuring costs of \$0.6 million were recognized for the first six months of fiscal 2019 related to the Company's revised assumptions, based on changes in circumstances, for our cease-use lease liabilities. Restructuring costs of \$7.9 million were recognized in the first six months of fiscal 2018 relating to charges recognized in connection with our Fiscal 2018 Restructuring Plan and included accrued charges for lease terminations and remaining lease obligations, termination benefits, and the costs associated with relocating certain assets of our closed stores.

Other Income (Expense)

| | Six Months | | | |
|----------------------------------|------------------------|----------|-------------------|--------|
| | Ended July 31, | | Increase/ Percent | |
| | 2018 | 2017 | (Decrease) | Change |
| | (dollars in thousands) | | | |
| Interest income and other income | \$1,846 | \$1,460 | \$ 386 | 26.4 % |
| Floorplan interest expense | (3,077) | (4,819) | (1,742) | 36.1 % |
| Other interest expense | (4,520) | (4,584) | (64) | 1.4 % |

The decrease in floorplan interest expense for the first six months of fiscal 2019, as compared to the same period last year, was primarily due to a decrease in our interest-bearing inventory in the first six months of fiscal 2019. In addition, floorplan interest expense for the first six months of fiscal 2018 included \$0.6 million of expense resulting from the termination and reclassification of accumulated losses on our interest rate swap instrument. Interest expense associated with our senior convertible notes, which is reflected in other interest expense, decreased \$0.6 million for the first six months of fiscal 2019, as compared to the same period last year, due to interest expense savings resulting from our repurchases of our outstanding notes, offset by a \$0.6 million loss recognized on our most recent repurchase of our senior convertible notes. Other interest expense for the first six months of fiscal 2018 includes \$0.4 million of debt issuance cost write-offs recognized as a result of our election to reduce the maximum available credit under our Wells Fargo Credit Agreement.

Provision for (Benefit from) Income Taxes

| | Six Months | | | |
|---|------------------------|-----------|-------------------|--------|
| | Ended July 31, | | Increase/ Percent | |
| | 2018 | 2017 | Decrease | Change |
| | (dollars in thousands) | | | |
| Provision for (Benefit from) Income Taxes | \$2,061 | \$(5,502) | \$ 7,563 | n/m |

Our effective tax rate was 36.6% for the first six months of fiscal 2019 and 33.1% for the same period last year. Our effective tax rate is impacted by the mix of income or losses in our domestic and international jurisdictions as well as the impact of recognizing valuation allowances on our deferred tax assets, including net operating losses. Our effective tax rate is also impacted by the the Tax Act enacted in December 2017. For fiscal 2019, we anticipate that the benefit from the reduced federal corporate tax rate will be partially offset by the new GILTI provisions of the Tax Act.

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.

Table of Contents

| | Six Months Ended | | Increase/ (Decrease) | Percent Change |
|---|------------------------|-------------|-------------------------|-------------------|
| | July 31, 2018 | 2017 | | |
| | (dollars in thousands) | | | |
| Revenue | | | | |
| Agriculture | \$295,684 | \$302,170 | \$ (6,486) | (2.1)% |
| Construction | 141,336 | 141,310 | 26 | — % |
| International | 108,549 | 89,509 | 19,042 | 21.3 % |
| Total | \$545,569 | \$532,989 | \$ 12,582 | 2.4 % |
| Income (Loss) Before Income Taxes | | | | |
| Agriculture | \$6,283 | \$(10,779) | \$ 17,062 | n/m |
| Construction | (2,927) | (1,703) | (1,224) | (71.9)% |
| International | 3,639 | 878 | 2,761 | n/m |
| Segment income (loss) before income taxes | 6,995 | (11,604) | 18,599 | n/m |
| Shared Resources | (1,368) | (5,016) | 3,649 | 72.7 % |
| Total | \$5,627 | \$(16,620) | \$ 22,248 | 133.9 % |

Agriculture

Agriculture segment revenue for the first six months of fiscal 2019 decreased 2.1% compared to the same period last year. The revenue decrease was primarily due to a decrease in revenue resulting from the impact of our store closings associated with our Fiscal 2018 Restructuring Plan. Agriculture same-store sales remained relatively flat with a 0.6% increase compared to the same period last year.

Agriculture segment income before income taxes was \$6.3 million for the first six months of fiscal 2019 compared to a loss before income taxes of \$10.8 million over the first six months of fiscal 2018. The improvement in segment results was largely the result of higher gross profit margins on equipment revenue, operating expense savings as a result of our Fiscal 2018 Restructuring Plan and a decrease in floorplan interest expense as the result of a decrease in our interest-bearing inventory in the first six months of fiscal 2019. Also contributing to the improvement in segment results was a decrease in restructuring charges of \$6.7 million in the first six months of 2018 to \$0.6 million in the first six months of 2019.

Construction

Construction segment revenue for the first six months of fiscal 2019 remained flat compared to the same period last year.

Our Construction segment loss before income taxes was \$2.9 million for the first six months of fiscal 2019 compared to \$1.7 million for the first six months of fiscal 2018. The decrease in segment results was primarily due to lower rental and other gross profit margins primarily due to a changing mix of rental revenue with a higher percentage of revenue arising from lower margin inventory rentals and higher maintenance costs on our dedicated rental fleet in the first six months of fiscal 2019 as compared to the first six months of fiscal 2018. The impact of lower rental and other gross profit margins was partially offset by reduced floorplan and other interest expense due to a reduced level of interest-bearing inventory and rental fleet in the first six months of fiscal 2019 compared to the first six months of fiscal 2018. The dollar utilization of our rental fleet decreased slightly from 22.0% in the first six months of fiscal 2018 to 21.7% in the first six months of fiscal 2019.

International

International segment revenue for the first six months of fiscal 2019 increased 21.3% compared to the same period last year primarily due to increased equipment revenue. Equipment revenue increased in the first six months of fiscal 2019 primarily due to continued strong demand in certain of our markets, which is aided by the continued availability of subvention funds and strong calendar year 2017 crop yields.

Our International segment income before income taxes was \$3.6 million for the first six months of fiscal 2019 compared to income before income taxes of \$0.9 million for the same period last year. The increase in segment income before income taxes was primarily due to the increase in segment revenue as noted above, but partially offset

by an increase in operating expenses resulting from the continued build-out of our footprint and presence in our European markets.

30

Table of Contents

Shared Resources/Eliminations

We incur centralized expenses/income at our general corporate level, which we refer to as “Shared Resources,” and then allocate most of these net expenses to our segments. Since these allocations are set early in the year, and a portion is planned to be unallocated, unallocated balances may occur. Shared Resources loss before income taxes was \$1.4 million for the first six months of fiscal 2019 compared to loss before income taxes of \$5.0 million for the same period last year. For the first six months of fiscal 2019, loss before income taxes was impacted by a \$0.6 million loss recognized as a result of the Company's repurchase of \$20.0 million face value of senior convertible notes. For the first six months of fiscal 2018, loss before income taxes was impacted by \$0.9 million in restructuring costs related to the Fiscal 2018 Restructuring Plan and \$0.6 million in floorplan interest expense related to the interest rate swap termination and reclassification.

Non-GAAP Financial Measures

To supplement net income (loss) and our diluted earnings (loss) per share (“Diluted EPS”), both GAAP measures, we present adjusted net income (loss) and adjusted Diluted EPS, both non-GAAP measures, which exclude gains or losses on repurchases of senior convertible notes, costs associated with our restructuring activities, impairment charges, the write-off of capitalized debt issuance costs and the reclassification of accumulated losses on our interest rate swap. We believe that the presentation of adjusted net income (loss) and adjusted 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. Adjusted net income (loss) and adjusted Diluted EPS should be evaluated in addition to, and not considered a substitute for, or superior to, the most comparable GAAP measure. In addition, other companies may calculate these non-GAAP measures in a different manner, which may hinder comparability of our adjusted results with those of other companies.

Table of Contents

The following tables reconcile (i) net income (loss), a GAAP measure, to adjusted net income (loss) and (ii) Diluted EPS, a GAAP measure, to adjusted Diluted EPS:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|-----------|---------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands, except per share data) | | | |
| Adjusted Net Income (Loss) | | | | |
| Net Income (Loss) | \$5,180 | \$(5,186) | \$3,566 | \$(11,118) |
| Adjustments | | | | |
| (Gain) loss on repurchase of senior convertible notes | 615 | — | 615 | (40) |
| Debt issuance cost write-off | — | 416 | — | 416 |
| Restructuring & impairment charges | 721 | 5,549 | 721 | 7,893 |
| Interest rate swap termination & reclassification | — | — | — | 631 |
| Total Pre-Tax Adjustments | 1,336 | 5,965 | 1,336 | 8,900 |
| Less: Tax Effect of Adjustments (1) | 248 | 1,941 | 248 | 3,116 |
| Plus: Income Tax Valuation Allowance | — | 200 | — | 200 |
| Total Adjustments | 1,088 | 4,224 | 1,088 | 5,984 |
| Adjusted Net Income (Loss) | \$6,268 | \$(962) | \$4,654 | \$(5,134) |
| Adjusted Diluted EPS | | | | |
| Diluted EPS | \$0.23 | \$(0.24) | \$0.16 | \$(0.51) |
| Adjustments (2) | | | | |
| (Gain) loss on repurchase of senior convertible notes | 0.03 | — | 0.03 | — |
| Debt issuance cost write-off | — | 0.02 | — | 0.02 |
| Restructuring & impairment charges | 0.03 | 0.25 | 0.03 | 0.36 |
| Interest rate swap termination & reclassification | — | — | — | 0.03 |
| Total Pre-Tax Adjustments | 0.06 | 0.27 | 0.06 | 0.41 |
| Less: Tax Effect of Adjustments (1) | 0.01 | 0.08 | 0.01 | 0.14 |
| Plus: Income Tax Valuation Allowance | — | 0.01 | — | 0.01 |
| Total Adjustments | 0.05 | 0.20 | 0.05 | 0.28 |
| Adjusted Diluted EPS | \$0.28 | \$(0.04) | \$0.21 | \$(0.23) |

(1) The tax effect of adjustments for the three and six months ended July 31, 2018 was calculated using a 21% tax rate for all U.S. related items. This rate was determined based on a 21% federal statutory rate and no impact for state taxes given our valuation allowance against stated deferred tax assets. No tax effect was recognized for foreign related items as all adjustments occurred in a foreign jurisdiction that has a full valuation allowance on its deferred tax assets. The tax effect of adjustments for the three and six months ended July 31, 2017 was calculated using a 35% tax rate. This rate was applied as all adjustments were made to our U.S. operations and was determined based on a 35% federal statutory tax rate and no impact for state taxes given our valuation allowances against state deferred tax assets.

(2) Adjustments are net of amounts allocated to participating securities where applicable.

Table of Contents

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 in Form 10-K.

Equipment Inventory and Floorplan Payable Credit Facilities

As of July 31, 2018, the Company had discretionary floorplan payable lines of credit for equipment purchases totaling \$611.8 million, which included a \$140.0 million floorplan payable line under the Wells Fargo Credit Agreement, a \$320.0 million credit facility with CNH Industrial Capital, a \$30.0 million credit facility with DLL Finance and the U.S. dollar equivalent of \$121.8 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$349.4 million of the total floorplan payable balance of \$365.6 million outstanding as of July 31, 2018.

In August 2018, the Company entered into an amendment to the credit facility with DLL Finance. The amendment, among other things, increased the available borrowings under this facility from \$30.0 million to \$45.0 million, therefore increasing our total discretionary floorplan payable lines of credit from \$611.8 to \$626.8 million.

Our Wells Fargo Credit Agreement includes a maturity testing date of February 1, 2019, a date that is three months prior to the scheduled maturity date of the Company's outstanding senior convertible notes. The maturity date for the Wells Fargo Credit Agreement will be October 28, 2020 so long as (i) the Company's fixed charge coverage ratio for the 12 month period ending December 31, 2018 is at least 1.1 to 1.0 and (ii) a liquidity test, requiring that the Company have unrestricted cash on hand plus excess borrowing availability under the Wells Fargo Credit Agreement (on a pro-forma basis reflecting the Company's repayment in full of its outstanding senior convertible notes) in an amount that is greater than 20% of the maximum credit amount under the facility, are met on February 1, 2019. If both financial tests are not satisfied on February 1, 2019, the Wells Fargo Credit Agreement will immediately mature and all amounts outstanding become immediately due and payable in full. The Company anticipates, based on our current modeling projections, that these financial tests will be satisfied on February 1, 2019.

Our equipment inventory turnover was 1.7 for the four quarters ended July 31, 2018 compared to 1.6 for the four quarters ended July 31, 2017. The improvement in our equipment inventory turnover was driven by a decrease in our average equipment inventory and an increase in equipment sales volume over the four quarter period ended July 31, 2018 as compared to the four quarter period ended July 31, 2017. Our equity in equipment inventory, which reflects the portion of our equipment inventory balance that is not financed by floorplan payables, decreased to 22.8% as of July 31, 2018 from 38.2% as of January 31, 2018. The decrease in our equity in equipment inventory is primarily due to increased equipment inventory levels as well as using our floorplan lines to reduce long-term debt, including our senior convertible notes.

Senior Convertible Notes

The Company's senior convertible notes mature on May 1, 2019, unless purchased earlier by the Company, redeemed or converted. The outstanding principal balance of senior convertible notes as of July 31, 2018 was \$45.6 million. The Company expects to have sufficient available cash and sufficient available borrowing capacity under its various floorplan payable and other credit facilities to satisfy the principal balance of our senior convertible notes on the May 1, 2019 maturity date.

Adequacy of Capital Resources

Our primary uses of cash have been to fund our operating activities, including the purchase of inventories and providing for other working capital needs, meeting our debt service requirements, making payments due under our various leasing arrangements, funding capital expenditures, including rental fleet assets, and, from time to time, opportunistically repurchasing our outstanding senior convertible notes. Based on our current operational performance, we believe our cash flow from operations, available cash and available borrowing capacity under our

existing credit facilities will adequately provide our liquidity needs for, at a minimum, the next 12 months. Our main financing arrangements, under which we had discretionary floorplan lines of credit totaling approximately \$611.8 million as of July 31, 2018, are described in Note 6 of the notes to our consolidated financial statements. As of July 31, 2018, we were in compliance with the financial covenants under our credit agreements, and we were not subject to the fixed charge coverage ratio covenant under the Wells Fargo Credit Agreement as

Table of Contents

our adjusted excess availability plus eligible cash collateral (as defined therein) was not less than 15% of the total amount of the credit facility as of July 31, 2018. While not expected to occur, 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 (Used For) Operating Activities

Net cash used for operating activities was \$14.1 million for the first six months of fiscal 2019, compared to net cash provided by operating activities of \$66.9 million for the first six months of fiscal 2018. Net cash used for operating activities for the first six months of fiscal 2019 was primarily the result of cash used for seasonal stocking of inventory, net of manufacturer floorplan payable financing, and cash used for other working capital needs. Net cash provided by operating activities for the first six months of fiscal 2018 was primarily attributable to a changing mix of manufacturer versus non-manufacturer floorplan financing.

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 adjusted cash flow used for operating activities was \$36.5 million and \$19.3 million for the first six months of fiscal 2019 and fiscal 2018. The additional adjusted cash flow used for operating activities for the first six months of fiscal 2019 is primarily the result of a higher stocking of new equipment inventories in the first six months of fiscal 2019 as compared to the first six months of fiscal 2018. See the Adjusted Cash Flow Reconciliation below for a reconciliation of adjusted cash flow used for operating activities to the GAAP measure of cash flow used for operating activities.

Cash Flow Used For Investing Activities

Net cash used for investing activities was \$5.3 million for the first six months of fiscal 2019, compared to \$15.4 million for the first six months of fiscal 2018. Cash used for investing activities was primarily for the purchase of rental fleet and property and equipment, net of any proceeds from the sale of property and equipment.

Cash Flow Provided By (Used For) Financing Activities

Net cash provided by financing activities was \$15.7 million for the first six months of fiscal 2019 compared to net cash used for financing activities of \$47.6 million for the first six months of fiscal 2018. For the first six months of fiscal 2019, net cash provided by financing activities was the result of increased non-manufacturer floorplan payables, the proceeds of which were partially used to repurchase \$20.0 million face value of our senior convertible notes using \$20.0 million in cash and to repay all amounts outstanding under our working capital line under our Wells Fargo Credit Agreement. For the first six months of fiscal 2018, net cash used for financing activities was the result of paying down our non-manufacturer floorplan payables, increased borrowings under our working capital line under our Wells Fargo Credit Agreement and the \$19.3 million of cash used to repurchase senior convertible notes. We may, from time to time, continue to repurchase our senior convertible notes depending on prevailing market conditions, our available liquidity and other factors. These repurchases may be material to our consolidated financial statements.

Adjusted 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. GAAP requires the cash flows associated with non-manufacturer floorplan payables to be recognized as financing cash flows in the consolidated statement of cash flows. We consider equipment inventory financing with both manufacturers and other sources to be part of the normal operations of our business. We also evaluate our cash flow from operating activities by assuming a constant level of equity in our equipment inventory. Our equity in our equipment inventory reflects the portion of our equipment inventory balance that is not financed by floorplan payables. Our adjustment to maintain a constant level of equity in our equipment inventory is equal to the difference between our actual level of equity in equipment inventory at each period-end as presented in the consolidated balance sheets compared to the actual level of equity in equipment inventory at the beginning of the fiscal year. We refer to this measure of cash flow as Adjusted Cash Flow.

Our equity in equipment inventory decreased to 22.8% as of July 31, 2018 from 38.2% as of January 31, 2018, and decreased to 30.1% as of July 31, 2017 from 41.1% as of January 31, 2017.

Adjusted Cash Flow is a non-GAAP financial measure. We believe that the presentation of Adjusted Cash Flow is relevant and useful to our investors because it provides information on activities we consider to be the normal

operation of our business, regardless of financing source and level of financing for our equipment inventory. The following table reconciles net

34

Table of Contents

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

| | Net Cash Provided by (Used for) Operating Activities Six Months Ended July 31, 2018 (in thousands) | | Net Cash Provided by (Used for) Financing Activities Six Months Ended July 31, 2017 (in thousands) | |
|--|--|------------|--|------------|
| Cash Flow, As Reported | \$(14,087) | \$66,877 | \$15,717 | \$(47,574) |
| Adjustment for Non-Manufacturer Floorplan Net Payments | 50,422 | (38,030) | (50,422) | 38,030 |
| Adjustment for Constant Equity in Equipment Inventory | (72,833) | (48,157) | — | — |
| Adjusted Cash Flow | \$(36,498) | \$(19,310) | \$(34,705) | \$(9,544) |

Certain Information Concerning Off-Balance Sheet Arrangements

As of July 31, 2018, 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. Forward-looking statements are contained 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, 2018, and in other materials filed or to be filed by the Company with the Securities and Exchange Commission (and included in oral statements or other written statements made or to be made by the Company).

Forward-looking statements are statements based on future expectations and specifically include, among other things, all statements relating to our expectations regarding exchange rate and interest rate impact on our business, 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, 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. 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.

Table of Contents

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 July 31, 2018, 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 \$2.0 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 \$2.0 million. At July 31, 2018, we had floorplan payables of \$365.6 million, of which approximately \$196.5 million was variable-rate floorplan payable and \$169.2 million was non-interest bearing. In addition, at July 31, 2018, we had total long-term debt, including our senior convertible notes, of \$68.8 million, all of which was fixed rate debt.

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 a 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 July 31, 2018, 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 July 31, 2018, our Ukrainian subsidiary had \$5.2 million of net monetary assets denominated in Ukrainian hryvnia ("UAH"). We have attempted to minimize our net monetary asset position in Ukraine 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. While the UAH remained relatively stable in fiscal 2018 and thus far in fiscal 2019, an escalation of political tensions or economic instability could lead to further, significant UAH devaluations which 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.

Table of Contents

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this 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 fiscal year ended January 31, 2018, 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On September 5, 2018, the Company entered into an employment agreement with its Chief Operating Officer, Bryan J. Knutson. Under the terms of the agreement, Mr. Knutson will receive a base salary as determined on an annual basis by the Compensation Committee of the Board of Directors (which is currently \$350,000). Mr. Knutson is also eligible for an annual incentive bonus award opportunity pursuant to terms and conditions established by the Compensation Committee and based upon a percentage of his base salary (for the current year, he is eligible to earn an annual incentive bonus award ranging from 0% to 150% of his base salary, with a target of 75% of base salary). Mr. Knutson is also eligible to receive a restricted stock award each fiscal year, the number of shares covered by the award and the risks of forfeiture of which are determined by the Compensation Committee. Mr. Knutson is also entitled to participate in the Company’s employee benefit plans and paid time off policy on the same basis as other full-time employees. The term of Mr. Knutson’s employment agreement is through January 31, 2021, which end date is automatically extended by one year on each February 1st.

The employment agreement with Mr. Knutson contains a restrictive covenant prohibiting him from owning, operating or being employed by competing agricultural or construction equipment stores during his employment with us and for 24 months following termination of his employment. The agreement is terminable by either us or Mr. Knutson at any time upon 60 days written notice for any reason, or immediately by us for cause. If Mr. Knutson is terminated by us without cause prior to the expiration of the term or if Mr. Knutson resigns for good reason, we are obligated to pay severance in an amount equal to the sum of his annual base salary then in effect, plus the average annual incentive bonus paid in the three years preceding the termination. The severance payment would be made in 12 equal monthly installments. If such termination occurs, we would also be required to allow Mr. Knutson to continue to participate in our group medical and dental plans for a period of 12 months and the Company will contribute to the monthly premiums for such medical and dental insurances at the same rate as was made as of the date of termination. If such termination occurs, Mr. Knutson’s non-vested stock options and restricted equity awards that vest with the passage of time will not be forfeited and will be earned under the normal vesting schedule. In order to receive the severance and continued benefits, Mr. Knutson will be required to sign a release of claims against us, fulfill his non-competition obligations, cooperate with transitioning his duties and execute a non-disparagement agreement with

us.

37

Table of Contents

If Mr. Knutson's employment is terminated within 12 months following a change in control (as defined in the employment agreement) by him for good reason or by us without cause, we are obligated to pay severance in an amount equal to two times the sum of Mr. Knutson's annual base salary then in effect, plus the average annual incentive bonus paid in the three years preceding the change in control. The severance payment would be made in 24 equal monthly installments. If such termination occurs, we would also be required to allow Mr. Knutson to continue to participate in our group medical and dental plans for a period of 24 months and the Company will contribute to the monthly premiums for such medical and dental insurances at the same rate as was made as of the date of termination. If such termination occurs, Mr. Knutson's non-vested stock options and restricted equity awards shall become fully vested. In order to receive the severance and continued benefits, Mr. Knutson will be required to sign a release of claims against us, fulfill his non-competition obligations, cooperate with transitioning his duties and execute a non-disparagement agreement with us.

The above description of the employment agreement with Mr. Knutson is qualified in its entirety by reference to the complete text of such employment agreement, which employment agreement is attached as exhibit 10.1 to this 10-Q and incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibits - See "Exhibit Index" on page immediately prior to signatures.

Table of Contents

EXHIBIT INDEX
TITAN MACHINERY INC.
FORM 10-Q

No. Description

10.1 Employment Agreement dated September 5, 2018, between Bryan J. Knutson and the registrant.

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 July 31, 2018, 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.

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: September 6, 2018

TITAN MACHINERY INC.

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