

Titan Machinery Inc.  
Form 10-Q  
December 07, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2015

Commission File No. 001-33866

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

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

No. 45-0357838  
(IRS Employer  
Identification No.)

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

Registrant's telephone number (701) 356-0130

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

YES  NO

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of November 30, 2015 was: Common Stock, \$0.00001 par value, 21,574,233 shares.

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 QUARTERLY REPORT ON FORM 10-Q

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## PART I. — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TITAN MACHINERY INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

|                                                                                                                                                                                          | October 31,<br>2015<br>(Unaudited) | January 31,<br>2015 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------------------|
| Assets                                                                                                                                                                                   |                                    |                     |
| Current Assets                                                                                                                                                                           |                                    |                     |
| Cash                                                                                                                                                                                     | \$78,409                           | \$127,528           |
| Receivables (net of allowance of \$4,101 and \$4,218 as of October 31, 2015 and January 31, 2015, respectively)                                                                          | 69,390                             | 76,382              |
| Inventories                                                                                                                                                                              | 813,840                            | 879,440             |
| Prepaid expenses and other                                                                                                                                                               | 7,300                              | 10,634              |
| Income taxes receivable                                                                                                                                                                  | 2,888                              | 166                 |
| Deferred income taxes                                                                                                                                                                    | 18,487                             | 19,025              |
| Assets held for sale                                                                                                                                                                     | 11,776                             | 15,312              |
| Total current assets                                                                                                                                                                     | 1,002,090                          | 1,128,487           |
| Intangibles and Other Assets                                                                                                                                                             |                                    |                     |
| Intangible assets, net of accumulated amortization                                                                                                                                       | 5,189                              | 5,458               |
| Other                                                                                                                                                                                    | 7,610                              | 7,122               |
| Total intangibles and other assets                                                                                                                                                       | 12,799                             | 12,580              |
| Property and Equipment, net of accumulated depreciation                                                                                                                                  | 178,781                            | 208,680             |
| Total Assets                                                                                                                                                                             | \$1,193,670                        | \$1,349,747         |
| Liabilities and Stockholders' Equity                                                                                                                                                     |                                    |                     |
| Current Liabilities                                                                                                                                                                      |                                    |                     |
| Accounts payable                                                                                                                                                                         | \$23,185                           | \$17,659            |
| Floorplan payable                                                                                                                                                                        | 546,586                            | 627,249             |
| Current maturities of long-term debt                                                                                                                                                     | 1,419                              | 7,749               |
| Customer deposits                                                                                                                                                                        | 11,650                             | 35,090              |
| Accrued expenses                                                                                                                                                                         | 28,024                             | 35,496              |
| Income taxes payable                                                                                                                                                                     | —                                  | 3,529               |
| Liabilities held for sale                                                                                                                                                                | 2,855                              | 2,835               |
| Total current liabilities                                                                                                                                                                | 613,719                            | 729,607             |
| Long-Term Liabilities                                                                                                                                                                    |                                    |                     |
| Senior convertible notes                                                                                                                                                                 | 135,096                            | 132,350             |
| Long-term debt, less current maturities                                                                                                                                                  | 28,625                             | 67,123              |
| Deferred income taxes                                                                                                                                                                    | 39,313                             | 38,996              |
| Other long-term liabilities                                                                                                                                                              | 3,083                              | 3,312               |
| Total long-term liabilities                                                                                                                                                              | 206,117                            | 241,781             |
| Commitments and Contingencies                                                                                                                                                            |                                    |                     |
| Stockholders' Equity                                                                                                                                                                     |                                    |                     |
| Common stock, par value \$.00001 per share, 45,000 shares authorized; 21,576 shares issued and outstanding at October 31, 2015; 21,406 shares issued and outstanding at January 31, 2015 | —                                  | —                   |

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|                                                 |             |             |   |
|-------------------------------------------------|-------------|-------------|---|
| Additional paid-in-capital                      | 242,149     | 240,180     |   |
| Retained earnings                               | 134,576     | 137,418     |   |
| Accumulated other comprehensive loss            | (3,705      | ) (1,099    | ) |
| Total Titan Machinery Inc. stockholders' equity | 373,020     | 376,499     |   |
| Noncontrolling interest                         | 814         | 1,860       |   |
| Total stockholders' equity                      | 373,834     | 378,359     |   |
| Total Liabilities and Stockholders' Equity      | \$1,193,670 | \$1,349,747 |   |
| See Notes to Consolidated Financial Statements  |             |             |   |

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## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

|                                                                            | Three Months Ended October 31, |           | Nine Months Ended October 31, |             |
|----------------------------------------------------------------------------|--------------------------------|-----------|-------------------------------|-------------|
|                                                                            | 2015                           | 2014      | 2015                          | 2014        |
| Revenue                                                                    |                                |           |                               |             |
| Equipment                                                                  | \$215,692                      | \$343,482 | \$681,691                     | \$1,008,614 |
| Parts                                                                      | 73,838                         | 80,692    | 197,439                       | 219,597     |
| Service                                                                    | 34,116                         | 42,410    | 99,860                        | 117,941     |
| Rental and other                                                           | 21,329                         | 26,557    | 53,371                        | 63,442      |
| Total Revenue                                                              | 344,975                        | 493,141   | 1,032,361                     | 1,409,594   |
| Cost of Revenue                                                            |                                |           |                               |             |
| Equipment                                                                  | 198,095                        | 317,702   | 628,280                       | 926,863     |
| Parts                                                                      | 51,673                         | 56,402    | 138,626                       | 154,146     |
| Service                                                                    | 12,449                         | 15,037    | 36,136                        | 42,969      |
| Rental and other                                                           | 15,617                         | 19,309    | 39,674                        | 45,333      |
| Total Cost of Revenue                                                      | 277,834                        | 408,450   | 842,716                       | 1,169,311   |
| Gross Profit                                                               | 67,141                         | 84,691    | 189,645                       | 240,283     |
| Operating Expenses                                                         | 53,484                         | 69,459    | 165,979                       | 208,406     |
| Impairment and Realignment Costs                                           | 22                             | —         | 1,519                         | 2,952       |
| Income from Operations                                                     | 13,635                         | 15,232    | 22,147                        | 28,925      |
| Other Income (Expense)                                                     |                                |           |                               |             |
| Interest income and other income (expense)                                 | 722                            | (489)     | (565)                         | (4,095)     |
| Floorplan interest expense                                                 | (4,602)                        | (5,444)   | (13,945)                      | (15,345)    |
| Other interest expense                                                     | (4,041)                        | (3,586)   | (11,228)                      | (10,586)    |
| Income (Loss) Before Income Taxes                                          | 5,714                          | 5,713     | (3,591)                       | (1,101)     |
| Provision for (Benefit from) Income Taxes                                  | 2,231                          | 3,400     | (354)                         | 4,254       |
| Net Income (Loss) Including Noncontrolling Interest                        | \$3,483                        | \$2,313   | \$(3,237)                     | \$(5,355)   |
| Less: Net Income (Loss) Attributable to Noncontrolling Interest            | 27                             | (157)     | (395)                         | (662)       |
| Net Income (Loss) Attributable to Titan Machinery Inc.                     | \$3,456                        | \$2,470   | \$(2,842)                     | \$(4,693)   |
| Net (Income) Loss Allocated to Participating Securities - Note 1           | (72)                           | (49)      | 53                            | 80          |
| Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders | \$3,384                        | \$2,421   | \$(2,789)                     | \$(4,613)   |
| Earnings (Loss) per Share - Note 1                                         |                                |           |                               |             |
| Earnings (Loss) per Share - Basic                                          | \$0.16                         | \$0.12    | \$(0.13)                      | \$(0.22)    |
| Earnings (Loss) per Share - Diluted                                        | \$0.16                         | \$0.11    | \$(0.13)                      | \$(0.22)    |
| Weighted Average Common Shares - Basic                                     | 21,129                         | 20,994    | 21,093                        | 20,977      |
| Weighted Average Common Shares - Diluted                                   | 21,218                         | 21,102    | 21,093                        | 20,977      |

See Notes to Consolidated Financial Statements

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## TITAN MACHINERY INC.

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

(in thousands)

|                                                                                                                                                                                                                                                                                                                                            | Three Months Ended October 31, |         | Nine Months Ended October 31, |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|---------|-------------------------------|-----------|
|                                                                                                                                                                                                                                                                                                                                            | 2015                           | 2014    | 2015                          | 2014      |
| Net Income (Loss) Including Noncontrolling Interest                                                                                                                                                                                                                                                                                        | \$3,483                        | \$2,313 | \$(3,237)                     | \$(5,355) |
| Other Comprehensive Income (Loss)                                                                                                                                                                                                                                                                                                          |                                |         |                               |           |
| Foreign currency translation adjustments                                                                                                                                                                                                                                                                                                   | (100)                          | (3,351) | (3,829)                       | (3,505)   |
| Unrealized gain on net investment hedge derivative instruments, net of tax expense of \$5 and \$945 for the three months ended October 31, 2015 and 2014, respectively, and \$133 and \$975 for the nine months ended October 31, 2015 and 2014, respectively                                                                              | 7                              | 1,418   | 200                           | 1,464     |
| Unrealized loss on interest rate swap cash flow hedge derivative instrument, net of tax benefit of \$321 and \$442 for the three months ended October 31, 2015 and 2014, respectively, and \$290 and \$474 for the nine months ended October 31, 2015 and 2014, respectively                                                               | (482)                          | (664)   | (436)                         | (710)     |
| Unrealized gain on foreign currency contract cash flow hedge derivative instruments, net of tax expense of \$29 for the nine months ended October 31, 2014                                                                                                                                                                                 | —                              | —       | —                             | 44        |
| Reclassification of loss on interest rate swap cash flow hedge derivative instruments included in net income (loss), net of tax benefit of \$213 and \$60 for the three months ended October 31, 2015 and October 31, 2014, respectively, and \$532 and \$60 for the nine months ended October 31, 2015 and October 31, 2014, respectively | 320                            | 90      | 798                           | 90        |
| Reclassification of loss on foreign currency contract cash flow hedge derivative instruments included in net income (loss), net of tax benefit of \$2 and \$15 for the three months ended October 31, 2015 and October 31, 2014, respectively, and \$7 and \$29 for the nine months ended October 31, 2015 and 2014, respectively          | 2                              | 23      | 10                            | 43        |
| Total Other Comprehensive Income (Loss)                                                                                                                                                                                                                                                                                                    | (253)                          | (2,484) | (3,257)                       | (2,574)   |
| Comprehensive Income (Loss)                                                                                                                                                                                                                                                                                                                | 3,230                          | (171)   | (6,494)                       | (7,929)   |
| Comprehensive Income (Loss) Attributable to Noncontrolling Interest                                                                                                                                                                                                                                                                        | (13)                           | (484)   | (1,046)                       | (1,002)   |
| Comprehensive Income (Loss) Attributable To Titan Machinery Inc.                                                                                                                                                                                                                                                                           | \$3,243                        | \$313   | \$(5,448)                     | \$(6,927) |

See Notes to Consolidated Financial Statements

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## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands)

|                                                                                                                                     | Common Stock       |                            | Retained Earnings | Accumulated Other Comprehensive Income (Loss) |                                                 |                                                            |                                                                         |           | Total Titan Machinery Inc. Stockholders' Equity | Noncontrolling Interest | Total Stockholders' Equity |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------------|-------------------|-----------------------------------------------|-------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------------|-----------|-------------------------------------------------|-------------------------|----------------------------|
|                                                                                                                                     | Shares Outstanding | Additional Paid-in Capital |                   | Foreign Currency Translation Adjustments      | Unrealized Gains (Losses) on Investments Hedges | Unrealized (Losses) on Interest Rate Swap Cash Flow Hedges | Unrealized Gains (Losses) on Foreign Currency Contract Cash Flow Hedges | Total     |                                                 |                         |                            |
| Balance, January 31, 2014                                                                                                           | 21,261             | \$—\$238,857               | \$169,575         | \$1,541                                       | \$(339 )                                        | \$(737 )                                                   | \$(126)                                                                 | \$339     | \$408,771                                       | \$2,571                 | \$411,342                  |
| Common stock issued on grant of restricted stock (net of forfeitures), exercise of stock options, and tax benefits of equity awards | 150                | —(50 )                     | —                 | —                                             | —                                               | —                                                          | —                                                                       | —         | (50 )                                           | —                       | (50 )                      |
| Stock-based compensation expense                                                                                                    | —                  | —1,752                     | —                 | —                                             | —                                               | —                                                          | —                                                                       | —         | 1,752                                           | —                       | 1,752                      |
| Other Comprehensive loss:                                                                                                           | —                  | —(502 )                    | —                 | —                                             | —                                               | —                                                          | —                                                                       | —         | (502 )                                          | 420                     | (82 )                      |
| Net loss                                                                                                                            | —                  | —                          | (4,693 )          | —                                             | —                                               | —                                                          | —                                                                       | —         | (4,693 )                                        | (662 )                  | (5,355 )                   |
| Other comprehensive income (loss)                                                                                                   | —                  | —                          | —                 | (3,165 )                                      | 1,464                                           | (620 )                                                     | 87                                                                      | (2,234 )  | (2,234 )                                        | (340 )                  | (2,574 )                   |
| Total comprehensive loss                                                                                                            | —                  | —                          | —                 | —                                             | —                                               | —                                                          | —                                                                       | —         | (6,927 )                                        | (1,002 )                | (7,929 )                   |
| Balance, October 31, 2014                                                                                                           | 21,411             | \$—\$240,057               | \$164,882         | \$(1,624)                                     | \$1,125                                         | \$(1,357)                                                  | \$(39 )                                                                 | \$(1,895) | \$403,044                                       | \$1,989                 | \$405,033                  |
| Balance, January 31, 2015                                                                                                           | 21,406             | \$—\$240,180               | \$137,418         | \$(1,632)                                     | \$2,510                                         | \$(1,940)                                                  | \$(37 )                                                                 | \$(1,099) | \$376,499                                       | \$1,860                 | \$378,359                  |
|                                                                                                                                     | 170                | —170                       | —                 | —                                             | —                                               | —                                                          | —                                                                       | —         | 170                                             | —                       | 170                        |



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|                                                                                                                                     |        |            |           |           |         |           |         |           |           |          |           |  |
|-------------------------------------------------------------------------------------------------------------------------------------|--------|------------|-----------|-----------|---------|-----------|---------|-----------|-----------|----------|-----------|--|
| Common stock issued on grant of restricted stock (net of forfeitures), exercise of stock options, and tax benefits of equity awards |        |            |           |           |         |           |         |           |           |          |           |  |
| Stock-based compensation expense                                                                                                    | —      | —1,799     | —         | —         | —       | —         | —       | —         | 1,799     | —        | 1,799     |  |
| Comprehensive loss:                                                                                                                 |        |            |           |           |         |           |         |           |           |          |           |  |
| Net loss                                                                                                                            | —      | —          | (2,842 )  | —         | —       | —         | —       | —         | (2,842 )  | (395 )   | (3,237 )  |  |
| Other comprehensive income (loss)                                                                                                   | —      | —          | —         | (3,178 )  | 200     | 362       | 10      | (2,606 )  | (2,606 )  | (651 )   | (3,257 )  |  |
| Total comprehensive loss                                                                                                            | —      | —          | —         | —         | —       | —         | —       | —         | (5,448 )  | (1,046 ) | (6,494 )  |  |
| Balance, October 31, 2015                                                                                                           | 21,576 | \$—242,149 | \$134,576 | \$(4,810) | \$2,710 | \$(1,578) | \$(27 ) | \$(3,705) | \$373,020 | \$814    | \$373,833 |  |

See Notes to Consolidated Financial Statements

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TITAN MACHINERY INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(in thousands)

|                                                                                                                             | Nine Months Ended October |            |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------------|------------|
|                                                                                                                             | 31,                       |            |
|                                                                                                                             | 2015                      | 2014       |
| Operating Activities                                                                                                        |                           |            |
| Net loss including noncontrolling interest                                                                                  | \$(3,237                  | ) \$(5,355 |
| Adjustments to reconcile net loss including noncontrolling interest to net cash provided by (used for) operating activities |                           |            |
| Depreciation and amortization                                                                                               | 21,588                    | 23,915     |
| Impairment                                                                                                                  | 193                       | 268        |
| Deferred income taxes                                                                                                       | 474                       | 241        |
| Stock-based compensation expense                                                                                            | 1,799                     | 1,752      |
| Noncash interest expense                                                                                                    | 5,286                     | 3,501      |
| Unrealized foreign currency loss on loans to international subsidiaries                                                     | 778                       | 2,676      |
| Other, net                                                                                                                  | (649                      | ) (109     |
| Changes in assets and liabilities                                                                                           |                           |            |
| Receivables, prepaid expenses and other assets                                                                              | 9,828                     | (4,981     |
| Inventories                                                                                                                 | 72,437                    | (2,448     |
| Manufacturer floorplan payable                                                                                              | 124,305                   | (68,489    |
| Accounts payable, customer deposits, accrued expenses and other long-term liabilities                                       | (27,845                   | ) (31,734  |
| Income taxes                                                                                                                | (6,196                    | ) (1,792   |
| Net Cash Provided by (Used for) Operating Activities                                                                        | 198,761                   | (82,555    |
| Investing Activities                                                                                                        |                           |            |
| Rental fleet purchases                                                                                                      | (292                      | ) (502     |
| Property and equipment purchases (excluding rental fleet)                                                                   | (5,713                    | ) (12,139  |
| Proceeds from sale of property and equipment                                                                                | 5,135                     | 13,133     |
| Purchase of equipment dealerships, net of cash purchased                                                                    | —                         | (584       |
| Proceeds upon settlement of net investment hedge derivative instruments                                                     | 337                       | 3,359      |
| Payments upon settlement of net investment hedge derivative instruments                                                     | (23                       | ) (915     |
| Other, net                                                                                                                  | 196                       | 104        |
| Net Cash Provided by (Used for) Investing Activities                                                                        | (360                      | ) 2,456    |
| Financing Activities                                                                                                        |                           |            |
| Net change in non-manufacturer floorplan payable                                                                            | (201,320                  | ) 83,232   |
| Proceeds from long-term debt borrowings                                                                                     | 59,088                    | 49,874     |
| Principal payments on long-term debt                                                                                        | (101,465                  | ) (16,153  |
| Payment of debt issuance costs                                                                                              | (3,381                    | ) (251     |
| Other, net                                                                                                                  | 143                       | (132       |
| Net Cash Provided by (Used for) Financing Activities                                                                        | (246,935                  | ) 116,570  |
| Effect of Exchange Rate Changes on Cash                                                                                     | (585                      | ) (491     |
| Net Change in Cash                                                                                                          | (49,119                   | ) 35,980   |
| Cash at Beginning of Period                                                                                                 | 127,528                   | 74,242     |
| Cash at End of Period                                                                                                       | \$78,409                  | \$110,222  |
| Supplemental Disclosures of Cash Flow Information                                                                           |                           |            |
| Cash paid during the period                                                                                                 |                           |            |
| Income taxes, net of refunds                                                                                                | \$5,283                   | \$5,799    |
| Interest                                                                                                                    | \$18,492                  | \$20,998   |
| Supplemental Disclosures of Noncash Investing and Financing Activities                                                      |                           |            |

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|                                                                                                   |          |           |
|---------------------------------------------------------------------------------------------------|----------|-----------|
| Net property and equipment financed with long-term debt, accounts payable and accrued liabilities | \$747    | \$4,462   |
| Long-term debt extinguished upon sale of property and equipment                                   | \$3,315  | \$—       |
| Net transfer of assets to (from) property and equipment from (to) inventories                     | \$(5,743 | ) \$9,815 |

See Notes to Consolidated Financial Statements

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

NOTE 1—BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the “Company”) are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company’s Agriculture, Construction and International customers. Therefore, operating results for the nine-month period ended October 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2016. The information contained in the balance sheet as of January 31, 2015 was derived from the audited financial statements for the Company for the year then ended. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Form 10-K for the fiscal year ended January 31, 2015 as filed with the SEC.

Nature of Business

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

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, particularly related to realization of inventory, initial valuation and impairment of intangible assets, collectability of receivables, and income taxes.

Principles of Consolidation

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

Earnings (Loss) Per Share (“EPS”)

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

Diluted EPS were computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of income (loss) to participating securities by the weighted-average shares of common stock outstanding after adjusting for potential dilution related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted EPS. There were approximately 89,000 and 104,000 stock options outstanding that were excluded from the computation of diluted EPS for the three months ended October 31, 2015 and 2014, respectively, because they were anti-dilutive. There were approximately 191,000 and 219,000 stock options outstanding that were excluded from the computation of diluted EPS for the nine months ended October 31, 2015 and 2014, respectively, because they were anti-dilutive. None of the approximately 3,474,000 shares underlying the Company’s senior convertible notes were included in the computation of diluted EPS because the Company’s

average stock price was less than the conversion price of \$43.17.

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

|                                                                 | Three Months Ended October 31,        |         | Nine Months Ended October 31,         |            |
|-----------------------------------------------------------------|---------------------------------------|---------|---------------------------------------|------------|
|                                                                 | 2015                                  | 2014    | 2015                                  | 2014       |
|                                                                 | (in thousands, except per share data) |         | (in thousands, except per share data) |            |
| Basic Weighted-Average Common Shares Outstanding                | 21,129                                | 20,994  | 21,093                                | 20,977     |
| Plus: Incremental Shares From Assumed Exercise of Stock Options | 89                                    | 108     | —                                     | —          |
| Diluted Weighted-Average Common Shares Outstanding              | 21,218                                | 21,102  | 21,093                                | 20,977     |
| Earnings (Loss) per Share - Basic                               | \$ 0.16                               | \$ 0.12 | \$ (0.13 )                            | \$ (0.22 ) |
| Earnings (Loss) per Share - Diluted                             | \$ 0.16                               | \$ 0.11 | \$ (0.13 )                            | \$ (0.22 ) |

## Recent Accounting Guidance

In May 2014 and August 2015, the FASB issued authoritative guidance on accounting for revenue recognition, codified in ASC 606, Revenue from Contracts with Customers. This guidance supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Company will adopt this guidance on February 1, 2018, and will employ one of the two retrospective application methods. The Company has not determined the potential effects adoption of this standard will have on the consolidated financial statements.

In August 2014, the FASB issued authoritative guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures, codified in ASC 205-40, Going Concern. The guidance provides a definition of the term substantial doubt, requires an evaluation every reporting period including interim periods, provides principles for considering the mitigating effect of management's plans, requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, requires an express statement and other disclosures when substantial doubt is not alleviated, and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The Company will adopt this guidance for the year-ended January 31, 2017, and it will apply to each interim and annual period thereafter. Its adoption is not expected to have a material effect on the Company's consolidated financial statements.

In April 2015, the FASB amended authoritative guidance on debt issuance costs, codified in ASC 835-30, Imputation of Interest. The amended guidance changes the balance sheet presentation of debt issuance costs to be a direct deduction from the related debt liability rather than an asset. This guidance is effective for the Company on February 1, 2016, with early adoption permitted. As of October 31, 2015, the Company had debt issuance costs associated with its senior convertible notes and lines of credit that are classified as noncurrent other assets, which upon adoption will be classified as a reduction from the respective liability balances. Its adoption will not have any impact on the Company's consolidated statements of operations.

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

In September 2015, the FASB amended authoritative guidance on adjustments to provisional estimates used in accounting for business combinations, codified in ASC 805, Business Combinations. The amended guidance requires

an acquirer to recognize, in the reporting period in which the adjustment amounts are determined, adjustments to provisional amounts and the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amended guidance also requires presentation of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date, either separately on the face of the income statement or disclosed in the notes. This guidance is effective for the Company on February 1, 2016, with early adoption permitted. Its adoption will not have any impact on the Company's consolidated statements of operations.

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In November 2015, the FASB amended authoritative guidance on the balance sheet classification of deferred taxes, codified in ASC 740, Income Taxes. The amended guidance requires that all deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. This guidance is effective for the Company on February 1, 2017, with early adoption permitted. As of October 31, 2015, the Company had deferred taxes that are classified as current assets and noncurrent liabilities, which upon adoption will be presented as a net amount and classified as noncurrent in its consolidated balance sheets. Its adoption will not have any impact on the Company's consolidated statements of operations.

## NOTE 2—INVENTORIES

|                       | October 31,<br>2015 | January 31,<br>2015 |
|-----------------------|---------------------|---------------------|
|                       | (in thousands)      |                     |
| New equipment         | \$420,523           | \$442,984           |
| Used equipment        | 289,336             | 318,308             |
| Parts and attachments | 90,861              | 107,893             |
| Work in process       | 13,120              | 10,255              |
|                       | \$813,840           | \$879,440           |

## NOTE 3—PROPERTY AND EQUIPMENT

|                                             | October 31,<br>2015 | January 31,<br>2015 |
|---------------------------------------------|---------------------|---------------------|
|                                             | (in thousands)      |                     |
| Rental fleet equipment                      | \$137,749           | \$148,198           |
| Machinery and equipment                     | 23,899              | 24,071              |
| Vehicles                                    | 36,927              | 43,435              |
| Furniture and fixtures                      | 38,766              | 39,421              |
| Land, buildings, and leasehold improvements | 55,745              | 57,630              |
|                                             | 293,086             | 312,755             |
| Less accumulated depreciation               | (114,305            | ) (104,075          |
|                                             | \$178,781           | \$208,680           |

## NOTE 4—LINES OF CREDIT / FLOORPLAN PAYABLE

## Floorplan Lines of Credit

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

On October 28, 2015, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Facility") with a group of banks led by Wells Fargo Bank, National Association ("Wells Fargo"), that amended and restated the Company's \$362.5 million credit facility dated March 30, 2012. The Credit Facility provides for a secured credit facility in an amount up to \$350.0 million, consisting of a \$275.0 million floorplan facility (the "Floorplan Line") and a \$75.0 million revolving credit facility (the "Working Capital Revolver Line"), and changed the interest rates and financial covenants, amongst other things. The amounts available under the Credit Facility are subject to base calculations and reduced by outstanding standby letters of credit. The Credit Facility has a variable interest rate on



outstanding balances, has a 0.25% to 0.375% non-usage fee on the average monthly unused amount (replacing the previous non-usage fee of 0.3% to 0.4%), and requires monthly payments of accrued interest. The Company elects at the time of any advance to choose a Base Rate Loan or a LIBOR Rate Loan. The LIBOR Rate is for the duration of one month, two month, or three month LIBOR rate at the time of the

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loan, as chosen by the Company. The Base Rate is the greatest of (a) the Federal Funds Rate plus 0.5%, (b) the one month LIBOR Rate plus 1%, and (c) the prime rate of interest announced, from time to time, within Wells Fargo. The applicable margin rate is determined based on excess availability under the Credit Facility and ranges from 0.75% to 1.5% for Base Rate Loans and 1.75% to 2.50% for LIBOR Rate Loans, and replaces the previous interest rate of LIBOR plus an applicable margin of 1.5% to 3.125%.

The Credit Facility is secured by all our assets and requires the Company to maintain a fixed charge coverage ratio (the "FCCR") of at least 1.1 if adjusted excess availability plus eligible cash collateral is less than 15% of the total amount of the credit facility. The Credit Agreement does not obligate the Company to maintain other financial covenants, removing the previous financial covenants related to minimum consolidated pre-tax income, minimum consolidated fixed charge coverage ratio, and a maximum consolidated net leverage ratio. The Credit Facility also includes various non-financial covenants, including, under certain conditions, restricting the Company's ability to make certain cash payments, including for cash dividends and stock repurchases, restricting the Company's ability to issue equity instruments, restricting the Company's ability to complete acquisitions or divestitures, and limiting the Company's ability to incur new indebtedness. The Credit Facility matures on the earlier of October 28, 2020 or the date that is six months prior to maturity of the Company's existing senior convertible notes unless on such date certain financial covenant tests are met as described in the Credit Agreement. As a result of this amendment, the Company wrote-off \$1.0 million of capitalized debt issuance costs in October 2015.

The Floorplan Line under the Credit Facility is used to finance equipment inventory purchases. Amounts outstanding are recorded as floorplan payable, within current liabilities on the consolidated balance sheets, as the Company intends to repay amounts borrowed within one year.

The Working Capital Revolver Line under the Credit Facility is used to finance rental fleet equipment and for general working capital requirements of the Company. Amounts outstanding are recorded as long-term debt, within long-term liabilities on the consolidated balance sheets, as the Company does not have the intention or obligation to repay amounts borrowed within one year.

Effective September 1, 2015, the Company amended its credit facility with Agricredit Acceptance LLC. The amendment reduced the available lines of credit from \$200.0 million to \$172.0 million and changed the interest rate on outstanding balances from three-month LIBOR plus an applicable margin of 4.75% to 5.25% to one-month LIBOR plus an applicable margin of 4.86% to 5.36%, amongst other things.

As of October 31, 2015, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling approximately \$1.0 billion, which includes the aforementioned \$275.0 million Floorplan Line with Wells Fargo, a \$450.0 million credit facility with CNH Industrial Capital, a \$172.0 million credit facility with Agricredit Acceptance LLC and the U.S. dollar equivalent of \$116.1 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$531.3 million of the total floorplan payable balance of \$546.6 million outstanding as of October 31, 2015 and \$594.1 million of the total floorplan payable balance of \$627.2 million outstanding as of January 31, 2015; the remaining outstanding balances relate to equipment inventory financing from manufacturers and non-manufacturer lenders other than the aforementioned lines of credit. As of October 31, 2015, the interest-bearing U.S. floorplan payables carried various interest rates primarily ranging from 2.44% to 5.05%, and the foreign floorplan payables carried various interest rates primarily ranging from 1.87% to 12.00%. The Company was not subject to the FCCR covenant under the Wells Fargo Credit Facility as of October 31, 2015.

**Working Capital Revolver Line**

As of October 31, 2015, the Company had a \$75 million Working Capital Revolver Line under the Credit Facility with Wells Fargo. The Company had \$14.7 million and \$18.7 million outstanding on this Working Capital Revolver Line as of October 31, 2015 and January 31, 2015, respectively.

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## NOTE 5—SENIOR CONVERTIBLE NOTES

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

|                                                                                | October 31,<br>2015                                        | January 31,<br>2015 |
|--------------------------------------------------------------------------------|------------------------------------------------------------|---------------------|
|                                                                                | (in thousands except conversion rate and conversion price) |                     |
| Principal value                                                                | \$ 150,000                                                 | \$ 150,000          |
| Unamortized debt discount                                                      | (14,904                                                    | ) (17,650           |
| Carrying value of senior convertible notes                                     | \$ 135,096                                                 | \$ 132,350          |
| Carrying value of equity component, net of deferred taxes                      | \$ 15,546                                                  | \$ 15,546           |
| Conversion rate (shares of common stock per \$1,000 principal amount of notes) | 23.1626                                                    |                     |
| Conversion price (per share of common stock)                                   | \$43.17                                                    |                     |

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

|                                   | Three Months Ended October 31, |          | Nine Months Ended October 31, |          |
|-----------------------------------|--------------------------------|----------|-------------------------------|----------|
|                                   | 2015                           | 2014     | 2015                          | 2014     |
|                                   | (in thousands)                 |          | (in thousands)                |          |
| Cash Interest Expense             |                                |          |                               |          |
| Coupon interest expense           | \$ 1,406                       | \$ 1,406 | \$ 4,219                      | \$ 4,219 |
| Noncash Interest Expense          |                                |          |                               |          |
| Amortization of debt discount     | 925                            | 864      | 2,745                         | 2,563    |
| Amortization of transaction costs | 138                            | 135      | 412                           | 402      |
|                                   | \$ 2,469                       | \$ 2,405 | \$ 7,376                      | \$ 7,184 |

The Senior Convertible Notes mature on May 1, 2019, unless earlier purchased by the Company, redeemed or converted. As of October 31, 2015, the unamortized debt discount will be amortized over a remaining period of approximately 3.5 years. As of October 31, 2015 and January 31, 2015, 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 7.0% for each of the statements of operations periods presented.

## NOTE 6—DERIVATIVE INSTRUMENTS

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

## Net Investment Hedges

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

## Cash Flow Hedges

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

The Company may, from time to time, hedge foreign currency exchange rate risk arising from inventory purchases denominated in Canadian dollars through the use of foreign currency forward contracts. The maximum length of time over



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which the Company hedges its exposure to the variability in future cash flows associated with the Canadian dollar purchasing is less than 12 months.

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

Derivative Instruments Not Designated as Hedging Instruments

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

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

|                                                    | Notional Amount as of: |                     |
|----------------------------------------------------|------------------------|---------------------|
|                                                    | October 31,<br>2015    | January 31,<br>2015 |
|                                                    | (in thousands)         |                     |
| Net investment hedge:                              |                        |                     |
| Foreign currency contracts                         | \$—                    | \$14,223            |
| Cash flow hedges:                                  |                        |                     |
| Interest rate swap                                 | 100,000                | 100,000             |
| Foreign currency contracts                         | —                      | —                   |
| Derivatives not designated as hedging instruments: |                        |                     |
| Foreign currency contracts                         | 19,090                 | 30,030              |

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

|                                                    | Fair Value as of:   |                     | Balance Sheet Location |
|----------------------------------------------------|---------------------|---------------------|------------------------|
|                                                    | October 31,<br>2015 | January 31,<br>2015 |                        |
|                                                    | (in thousands)      |                     |                        |
| Liability Derivatives:                             |                     |                     |                        |
| Derivatives designated as hedging instruments:     |                     |                     |                        |
| Net investment hedges:                             |                     |                     |                        |
| Foreign currency contracts                         | \$—                 | \$19                | Accrued expenses       |
| Cash flow hedges:                                  |                     |                     |                        |
| Interest rate swap                                 | 2,662               | 3,233               | Accrued expenses       |
| Derivatives not designated as hedging instruments: |                     |                     |                        |
| Foreign currency contracts                         | 76                  | 17                  | Accrued expenses       |
| Total Liability Derivatives                        | \$2,738             | \$3,269             |                        |

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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 nine months ended October 31, 2015 and 2014, respectively.

|                                                    | Three Months Ended October 31,<br>2015 |                  | 2014     |                  | Nine Months Ended October 31,<br>2015 |                  | 2014     |                  | Statements of Operations<br>Classification                              |
|----------------------------------------------------|----------------------------------------|------------------|----------|------------------|---------------------------------------|------------------|----------|------------------|-------------------------------------------------------------------------|
|                                                    | OCI<br>(in thousands)                  | Income<br>(Loss) | OCI      | Income<br>(Loss) | OCI<br>(in thousands)                 | Income<br>(Loss) | OCI      | Income<br>(Loss) |                                                                         |
| Derivatives Designated as Hedging Instruments:     |                                        |                  |          |                  |                                       |                  |          |                  |                                                                         |
| Net investment hedges:                             |                                        |                  |          |                  |                                       |                  |          |                  |                                                                         |
| Foreign currency contracts                         | \$ 12                                  | \$—              | \$2,363  | \$—              | \$ 333                                | \$—              | \$2,439  | \$—              | N/A                                                                     |
| Cash flow hedges:                                  |                                        |                  |          |                  |                                       |                  |          |                  |                                                                         |
| Interest rate swap (a)                             | (803 )                                 | (446 )           | (1,106 ) | (150 )           | (727 )                                | (1,330 )         | (1,184 ) | (150 )           | Floorplan interest expense / Interest income and other income (expense) |
| Foreign currency contracts                         | —                                      | (4 )             | —        | (37 )            | —                                     | (17 )            | 73       | (72 )            | Cost of revenue - equipment                                             |
| Derivatives Not Designated as Hedging Instruments: |                                        |                  |          |                  |                                       |                  |          |                  |                                                                         |
| Foreign currency contracts                         | —                                      | (54 )            | —        | 2,436            | —                                     | 751              | —        | 2,582            | Interest income and other income (expense)                              |
| Total Derivatives                                  | \$(791)                                | \$(504)          | \$1,257  | \$2,249          | \$(394)                               | \$(596 )         | \$1,328  | \$2,360          |                                                                         |

(a) Included in the Income (Loss) amounts under the Company's interest rate swap is hedge ineffectiveness gain of \$0.1 million for the three months ended October 31, 2015. There was no hedge ineffectiveness for the nine months ended October 31, 2015 or for the three and nine months ended October 31, 2014. This amount was recorded in interest income and other income (expense) in the consolidated statements of operations. The remaining amounts for the three and nine months ended October 31, 2015 are reclassification amounts from accumulated other comprehensive income and are recorded in floorplan interest expense in the consolidated statements of operations. No components of the Company's net investment or cash flow hedging instruments were excluded from the assessment of hedge ineffectiveness.

As of October 31, 2015, the Company had \$2.6 million in pre-tax net unrealized losses associated with its interest rate swap cash flow hedging instrument recorded in accumulated other comprehensive income. The Company expects that \$0.7 million of pre-tax unrealized losses associated with its interest rate swap will be reclassified into income over the next 12 months.

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

The liabilities which are measured at fair value on a recurring basis as of October 31, 2015 and January 31, 2015 are as follows:

|                             | October 31, 2015          |         |         |         | January 31, 2015          |         |         |         |
|-----------------------------|---------------------------|---------|---------|---------|---------------------------|---------|---------|---------|
|                             | Level 1<br>(in thousands) | Level 2 | Level 3 | Total   | Level 1<br>(in thousands) | Level 2 | Level 3 | Total   |
| Financial Liabilities       |                           |         |         |         |                           |         |         |         |
| Interest rate swap          | \$—                       | \$2,662 | \$—     | \$2,662 | \$—                       | \$3,233 | \$—     | \$3,233 |
| Foreign currency contracts  | —                         | 76      | —       | 76      | —                         | 36      | —       | 36      |
| Total Financial Liabilities | \$—                       | \$2,738 | \$—     | \$2,738 | \$—                       | \$3,269 | \$—     | \$3,269 |

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



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The Company also has financial instruments that are not recorded at fair value in its consolidated financial statements. The carrying amount of cash, receivables, payables, short-term debt and other current liabilities approximates fair value because of the short maturity and/or frequent repricing of those instruments, which are Level 2 fair value inputs. Based upon current borrowing rates with similar maturities, which are Level 2 fair value inputs, the carrying value of long-term debt approximates the fair value as of October 31, 2015 and January 31, 2015, respectively. The following table provides details on the Senior Convertible Notes as of October 31, 2015 and January 31, 2015. The difference between the face value and the carrying value of these notes is the result of the allocation between the debt and equity components. Fair value of the Senior Convertible Notes was estimated based on Level 2 fair value inputs.

|                          | October 31, 2015                          |                   |            | January 31, 2015                          |                   |            |
|--------------------------|-------------------------------------------|-------------------|------------|-------------------------------------------|-------------------|------------|
|                          | Estimated<br>Fair Value<br>(in thousands) | Carrying<br>Value | Face Value | Estimated<br>Fair Value<br>(in thousands) | Carrying<br>Value | Face Value |
| Senior convertible notes | \$115,772                                 | \$135,096         | \$150,000  | \$111,273                                 | \$132,350         | \$150,000  |

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

The Company has three reportable segments: Agriculture, Construction and International. During the three months ended April 30, 2015, the Company made changes to its internal financial reporting, primarily related to the elimination of transactions within a segment. Previously, the segment results were reported at gross amounts with eliminations reported separately to reconcile to consolidated financial results. During the three months ended April 30, 2015, the Company began reporting these eliminations within the segments to which they relate. The financial information as of January 31, 2015 and for the three and nine months ended October 31, 2014 have been reclassified for comparability with the current year presentation.

Revenue between segments is immaterial. The Company retains various unallocated income/(expense) items and assets at the general corporate level, which the Company refers to as “Shared Resources” in the table below. Shared Resources assets primarily consist of cash, deferred tax assets and property and equipment.

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

|                                           | Three Months Ended October 31, |           | Nine Months Ended October 31, |             |
|-------------------------------------------|--------------------------------|-----------|-------------------------------|-------------|
|                                           | 2015<br>(in thousands)         | 2014      | 2015<br>(in thousands)        | 2014        |
| Revenue                                   |                                |           |                               |             |
| Agriculture                               | \$211,302                      | \$341,547 | \$660,606                     | \$991,649   |
| Construction                              | 87,023                         | 98,246    | 249,601                       | 291,758     |
| International                             | 46,650                         | 53,348    | 122,154                       | 126,187     |
| Total                                     | \$344,975                      | \$493,141 | \$1,032,361                   | \$1,409,594 |
| Income (Loss) Before Income Taxes         |                                |           |                               |             |
| Agriculture                               | \$4,219                        | \$6,134   | \$693                         | \$16,133    |
| Construction                              | 1,413                          | 15        | (3,089)                       | (6,346)     |
| International                             | 351                            | (1,407)   | (3,074)                       | (11,688)    |
| Segment income (loss) before income taxes | 5,983                          | 4,742     | (5,470)                       | (1,901)     |
| Shared Resources                          | (269)                          | ) 971     | 1,879                         | 800         |
| Income (Loss) Before Income Taxes         | \$5,714                        | \$5,713   | \$(3,591)                     | \$(1,101)   |



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|                  | October 31,<br>2015<br>(in thousands) | January 31,<br>2015 |
|------------------|---------------------------------------|---------------------|
| Total Assets     |                                       |                     |
| Agriculture      | \$607,823                             | \$734,894           |
| Construction     | 327,466                               | 393,573             |
| International    | 128,244                               | 152,587             |
| Segment assets   | 1,063,533                             | 1,281,054           |
| Shared Resources | 130,137                               | 68,693              |
| Total            | \$1,193,670                           | \$1,349,747         |

**NOTE 9—STORE CLOSINGS AND REALIGNMENT COSTS**

To better align the Company's cost structure and re-balance staffing levels with the evolving needs of the business, in March 2015, the Company approved a realignment plan that reduced its headcount by approximately 14%, which included headcount reductions at stores in each of its operating segments and its Shared Resource Center, as well as from the closing of three Agriculture stores and one Construction store. The Company's remaining stores in each of the respective areas assumed the distribution rights for the CNH Industrial brand previously held by the closed stores. The Company estimates the total cost of these activities to be approximately \$2.0 million, comprised of an accrual for the net present value of remaining lease obligations, employee severance costs, impairment of certain fixed assets and costs associated with relocation of assets from the closed stores. The Company recognized approximately \$0.1 million in realignment costs primarily in its International segment in its fourth quarter ended January 31, 2015, and recognized \$1.5 million in the nine months ended October 31, 2015.

To better align its Construction business in certain markets, in April 2014, the Company reduced its Construction-related headcount by approximately 12% primarily through the closing of seven underperforming Construction stores, staff reductions at other dealerships and reductions in support staff at its Shared Resource Center. The Company also closed one Agriculture store. The Company's remaining stores in each of the respective areas assumed the majority of the distribution rights for the CNH Industrial brand previously held by the closed stores. The majority of the assets of the closed stores were redeployed to other store locations. Certain inventory items which are not sold by any of our remaining stores were sold at auction. The inventory markdown attributable to such items are included in the exit cost summary below. The Company incurred \$3.4 million in exit costs in the nine months ended October 31, 2014. No additional amounts are expected to be incurred related to the closing of these stores, exclusive of any changes in lease termination accrual assumptions.

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The following summarizes the exit costs associated with the aforementioned store closings and realignment activities:

|                                                               | Three Months Ended                    |      | Nine Months Ended                     |         | Income Statement Classification  |
|---------------------------------------------------------------|---------------------------------------|------|---------------------------------------|---------|----------------------------------|
|                                                               | October 31,<br>2015<br>(in thousands) | 2014 | October 31,<br>2015<br>(in thousands) | 2014    |                                  |
| <b>Construction Segment</b>                                   |                                       |      |                                       |         |                                  |
| Lease termination costs                                       | \$(38 )                               | \$—  | \$223                                 | \$1,511 | Impairment and Realignment Costs |
| Employee severance costs                                      | (15 )                                 | —    | 225                                   | 451     | Impairment and Realignment Costs |
| Impairment of fixed assets, net of gains on asset disposition | —                                     | —    | 10                                    | (60 )   | Impairment and Realignment Costs |
| Asset relocation and other closing costs                      | (34 )                                 | —    | 34                                    | 362     | Impairment and Realignment Costs |
|                                                               | \$(87 )                               | \$—  | \$492                                 | \$2,264 |                                  |
| <b>Agriculture Segment</b>                                    |                                       |      |                                       |         |                                  |
| Lease termination costs                                       | \$46                                  | \$—  | \$137                                 | \$148   | Impairment and Realignment Costs |
| Employee severance costs                                      | 29                                    | —    | 362                                   | 71      | Impairment and Realignment Costs |
| Impairment of fixed assets, net of gains on asset disposition | 10                                    | —    | 106                                   | 85      | Impairment and Realignment Costs |
| Asset relocation and other closing costs                      | (5 )                                  | —    | 88                                    | 84      | Impairment and Realignment Costs |
| Inventory cost adjustments                                    | —                                     | —    | —                                     | 471     | Equipment Cost of Sales          |
|                                                               | \$80                                  | \$—  | \$693                                 | \$859   |                                  |
| <b>Shared Resource Center</b>                                 |                                       |      |                                       |         |                                  |
| Lease termination costs                                       | \$(12 )                               | \$—  | \$37                                  | \$—     | Impairment and Realignment Costs |
| Employee severance costs                                      | —                                     | —    | 187                                   | 300     | Impairment and Realignment Costs |
| Impairment of fixed assets, net of gains on asset disposition | 41                                    | —    | 110                                   | —       | Impairment and Realignment Costs |
|                                                               | \$29                                  | \$—  | \$334                                 | \$300   |                                  |
| <b>Total</b>                                                  |                                       |      |                                       |         |                                  |
| Lease termination costs                                       | \$(4 )                                | \$—  | \$397                                 | \$1,659 | Impairment and Realignment Costs |
| Employee severance costs                                      | 14                                    | —    | 774                                   | 822     | Impairment and Realignment Costs |
| Impairment of fixed assets, net of gains on asset disposition | 51                                    | —    | 226                                   | 25      | Impairment and Realignment Costs |
| Asset relocation and other closing costs                      | (39 )                                 | —    | 122                                   | 446     | Impairment and Realignment Costs |
| Inventory cost adjustments                                    | —                                     | —    | —                                     | 471     | Equipment Cost of Sales          |
|                                                               | \$22                                  | \$—  | \$1,519                               | \$3,423 | —                                |

A reconciliation of the beginning and ending exit cost liability balance, which is included in accrued expenses in the consolidated balance sheets, follows:

Amount  
(in thousands)

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|                                            |         |   |
|--------------------------------------------|---------|---|
| Balance, January 31, 2015                  | \$1,706 |   |
| Exit costs incurred and charged to expense |         |   |
| Lease termination costs                    | 397     |   |
| Employee severance costs                   | 774     |   |
| Exit costs paid                            |         |   |
| Lease termination costs                    | (555    | ) |
| Employee severance costs                   | (774    | ) |
| Balance, October 31, 2015                  | \$1,548 |   |

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## NOTE 10—HELD FOR SALE

The assets and liabilities which are held for sale are presented in the following table:

|                                             | October 31,<br>2015<br>(in thousands) | January 31,<br>2015 |
|---------------------------------------------|---------------------------------------|---------------------|
| <b>Assets Held for Sale</b>                 |                                       |                     |
| Receivables                                 | \$54                                  | \$147               |
| Inventories                                 |                                       |                     |
| New equipment                               | 3,523                                 | 6,269               |
| Used equipment                              | 2,541                                 | 3,973               |
| Parts and attachments                       | 450                                   | 920                 |
| Work in process                             | 37                                    | 65                  |
| Total inventories                           | 6,551                                 | 11,227              |
| Property and equipment                      |                                       |                     |
| Machinery and equipment                     | 39                                    | 114                 |
| Vehicles                                    | 75                                    | 155                 |
| Furniture and fixtures                      | 21                                    | 57                  |
| Land, buildings, and leasehold improvements | 5,036                                 | 3,612               |
| Total property and equipment                | 5,171                                 | 3,938               |
|                                             | <b>\$11,776</b>                       | <b>\$15,312</b>     |
| <b>Liabilities Held for Sale</b>            |                                       |                     |
| Accounts payable                            | \$58                                  | \$151               |
| Floorplan payable                           | 2,796                                 | 1,771               |
| Customer deposits                           | 1                                     | 913                 |
|                                             | <b>\$2,855</b>                        | <b>\$2,835</b>      |

## NOTE 11—INCOME TAXES

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

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

|         | Three Months Ended October<br>31,<br>2015 |         | Nine Months Ended October<br>31,<br>2015 |           |
|---------|-------------------------------------------|---------|------------------------------------------|-----------|
|         | 2014                                      | 2014    | 2014                                     | 2014      |
|         | (in thousands)                            |         | (in thousands)                           |           |
| U.S.    | \$5,363                                   | \$7,097 | \$(521)                                  | \$10,696  |
| Foreign | 351                                       | (1,384) | (3,070)                                  | (11,797)  |
| Total   | \$5,714                                   | \$5,713 | \$(3,591)                                | \$(1,101) |

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

|                                                            | Three Months Ended October |         | Nine Months Ended October |            |
|------------------------------------------------------------|----------------------------|---------|---------------------------|------------|
|                                                            | 31,<br>2015                | 2014    | 31,<br>2015               | 2014       |
| U.S. statutory rate                                        | 35.0                       | % 35.0  | % (35.0)                  | )% (35.0)  |
| Foreign statutory rates                                    | (0.2)                      | )% 9.9  | % 22.4                    | % 233.5    |
| State taxes on income net of federal tax benefit           | 4.2                        | % 4.9   | % (4.2)                   | )% (4.9)   |
| Change in valuation allowance                              | (11.1)                     | )% 8.5  | % 27.8                    | % 458.5    |
| Tax effect of Ukrainian hryvnia devaluation <sup>(a)</sup> | 6.4                        | % (6.5) | )% (13.3)                 | )% (296.4) |
| All other, net                                             | 4.7                        | % 7.7   | % (7.6)                   | )% 30.7    |
|                                                            | 39.0                       | % 59.5  | % (9.9)                   | )% 386.4   |

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes included in Item 1 of Part I of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2015.

**Realignment Costs**

To better align our cost structure and re-balance staffing levels with the evolving needs of the business, in March 2015, we approved a realignment plan that reduced our headcount by approximately 14%, which included headcount reductions at stores in each of our operating segments and our Shared Resource Center, as well as from the closing of three Agriculture stores and one Construction store. Our remaining stores in each of the respective areas assumed the distribution rights for the CNH Industrial brand previously held by the closed stores. The Company estimates the total cost of these realignment activities to be approximately \$2.0 million, comprised of an accrual for the net present value of remaining lease obligations, employee severance costs, impairment of certain fixed assets and costs associated with relocation of assets from the closed stores. We recognized \$1.5 million in realignment costs during the nine months ended October 31, 2015.

To better align our Construction business in certain markets, in April 2014, we reduced our Construction-related headcount by approximately 12% primarily through the closing of seven underperforming Construction stores, staff reductions at other dealerships and reductions in support staff at our Shared Resource Center. We also closed one Agriculture store. Our remaining stores in each of the respective areas assumed the majority of the distribution rights for the CNH Industrial brand previously held by the stores which have closed. We recognized \$3.4 million in exit costs during the nine months ended October 31, 2014.

See also the Non-GAAP Financial Measures section below for the impact of these costs on non-GAAP Diluted EPS.

**Foreign Currency Remeasurement Losses**

In February of 2014, the National Bank of Ukraine terminated the currency peg of the Ukrainian hryvnia ("UAH") to the USD; subsequent to the decoupling and as a result of the economic and political conditions present in the country, the UAH experienced significant devaluation from the date the currency peg was terminated through July 2015, and has continued to experience more modest volatility through October 2015. We recognized foreign currency remeasurement losses resulting from a devaluation of the UAH totaling \$0.2 million and \$0.5 million for the three months ended October 31, 2015 and October 31, 2014, respectively, and \$2.3 million and \$4.9 million for the nine months ended October 31, 2015 and October 31, 2014, respectively. These losses are included in interest income and other income (expense) in our consolidated statements of operations. See also the Non-GAAP Financial Measures section below for impact of these costs on non-GAAP Diluted EPS.

**Segment Reporting**

During the three months ended April 30, 2015, the Company made changes to its internal financial reporting, primarily related to the elimination of transactions within a segment. Previously, the segment results were reported at gross amounts with eliminations reported separately to reconcile to consolidated financial results. During the three months ended April 30, 2015, the Company began reporting these eliminations within the segments to which they relate. The financial information for the three and nine months ended October 31, 2014 have been reclassified for comparability with the current year presentation.

**Critical Accounting Policies and Estimates**

There have been no material changes in our Critical Accounting Policies and Estimates, as disclosed in our Annual Report on Form 10-K for the year ended January 31, 2015.

**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

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segment, we have four principal sources of revenue: new and used equipment sales, parts sales, service, and equipment rental and other activities.

The agriculture industry has been experiencing challenging conditions such as decreases in agricultural commodity prices and projected net farm income, which, among other things, have a negative effect on customer sentiment and our customers' ability to secure financing for their equipment purchases. Changes in actual or anticipated net farm income generally have a direct correlation with agricultural equipment purchases by farmers. In November 2015, the U.S. Department of Agriculture ("USDA") published its projections of a 38.2% decrease in net farm income from calendar year 2014 to 2015. The commodity price of corn and soybeans, which are the predominant crops in our Agriculture store footprint, decreased significantly during the three and nine months ended October 31, 2014, and have remained relatively stable at the lower prices during the three and nine months ended October 31, 2015. These industry conditions have negatively impacted our customer demand, resulting in decreased same-store sales and equipment revenue and an oversupply of equipment inventory in the agriculture industry in fiscal 2016.

Certain of our Construction stores, particularly those in the northern and western parts of our footprint, are impacted by the oil industry. The significant decrease in oil prices, which began in the third quarter of fiscal 2015 and have remained low throughout fiscal 2016, has caused a decrease in oil production and infrastructure activity in these areas. In addition, the aforementioned agriculture industry conditions have also led to a reduction of purchases of Construction equipment by customers in the agriculture industry, negatively affecting certain of our Construction stores. These factors have reduced demand for equipment purchases, equipment rentals, and service work and parts and have caused an oversupply of equipment inventory and rental fleet in these areas.

Our net income attributable to Titan Machinery Inc. common stockholders was \$3.4 million, or \$0.16 per diluted share, for the three months ended October 31, 2015, compared to \$2.4 million, or \$0.11 per diluted share, for the three months ended October 31, 2014. Our non-GAAP diluted earnings per share was \$0.20 for the three months ended October 31, 2015, compared to non-GAAP diluted earnings per share of \$0.14 for the three months ended October 31, 2014. See the Non-GAAP Financial Measures section below for a reconciliation between the GAAP and non-GAAP measures. Significant factors impacting the quarterly comparisons were:

- Revenue decreased 30.0% for the third quarter of fiscal 2016, as compared to the third quarter last year, mainly driven by a decrease in Agriculture same-store sales, which primarily resulted from a decrease in equipment revenue;
- Total gross profit margin increased to 19.5% for the third quarter of fiscal 2016, as compared to 17.2% for the third quarter of fiscal 2015, primarily caused by a change in gross profit mix to our higher-margin parts business and increase in gross profit margin on equipment;
- Operating expenses decreased 23.0% for the third quarter of fiscal 2016, as compared to the third quarter last year, primarily due to our realignment plan implemented in the first quarter of fiscal 2016 which decreased our headcount by 14% and generated additional cost savings from the closing of four stores during the quarter.

Results of Operations

The results shown below include the operating results of any acquisitions made during these periods. The period-to-period comparisons included below are not necessarily indicative of future results. Segment information is provided later in this discussion and analysis of our results of operations.

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



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

|                     | Three Months Ended October |           | Nine Months Ended October |             |   |
|---------------------|----------------------------|-----------|---------------------------|-------------|---|
|                     | 31,<br>2015                | 2014      | 31,<br>2015               | 2014        |   |
|                     | (dollars in thousands)     |           | (dollars in thousands)    |             |   |
| Equipment           |                            |           |                           |             |   |
| Revenue             | \$215,692                  | \$343,482 | \$681,691                 | \$1,008,614 |   |
| Cost of revenue     | 198,095                    | 317,702   | 628,280                   | 926,863     |   |
| Gross profit        | \$17,597                   | \$25,780  | \$53,411                  | \$81,751    |   |
| Gross profit margin | 8.2                        | % 7.5     | % 7.8                     | % 8.1       | % |
| Parts               |                            |           |                           |             |   |
| Revenue             | \$73,838                   | \$80,692  | \$197,439                 | \$219,597   |   |
| Cost of revenue     | 51,673                     | 56,402    | 138,626                   | 154,146     |   |
| Gross profit        | \$22,165                   | \$24,290  | \$58,813                  | \$65,451    |   |
| Gross profit margin | 30.0                       | % 30.1    | % 29.8                    | % 29.8      | % |
| Service             |                            |           |                           |             |   |
| Revenue             | \$34,116                   | \$42,410  | \$99,860                  | \$117,941   |   |
| Cost of revenue     | 12,449                     | 15,037    | 36,136                    | 42,969      |   |
| Gross profit        | \$21,667                   | \$27,373  | \$63,724                  | \$74,972    |   |
| Gross profit margin | 63.5                       | % 64.5    | % 63.8                    | % 63.6      | % |
| Rental and other    |                            |           |                           |             |   |
| Revenue             | \$21,329                   | \$26,557  | \$53,371                  | \$63,442    |   |
| Cost of revenue     | 15,617                     | 19,309    | 39,674                    | 45,333      |   |
| Gross profit        | \$5,712                    | \$7,248   | \$13,697                  | \$18,109    |   |
| Gross profit margin | 26.8                       | % 27.3    | % 25.7                    | % 28.5      | % |

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

|                                                                 | Three Months Ended October |         | Nine Months Ended October |         |    |
|-----------------------------------------------------------------|----------------------------|---------|---------------------------|---------|----|
|                                                                 | 31,<br>2015                | 2014    | 31,<br>2015               | 2014    |    |
| Revenue                                                         |                            |         |                           |         |    |
| Equipment                                                       | 62.5                       | % 69.6  | % 66.0                    | % 71.5  | %  |
| Parts                                                           | 21.4                       | % 16.4  | % 19.1                    | % 15.6  | %  |
| Service                                                         | 9.9                        | % 8.6   | % 9.7                     | % 8.4   | %  |
| Rental and other                                                | 6.2                        | % 5.4   | % 5.2                     | % 4.5   | %  |
| Total Revenue                                                   | 100.0                      | % 100.0 | % 100.0                   | % 100.0 | %  |
| Total Cost of Revenue                                           | 80.5                       | % 82.8  | % 81.6                    | % 83.0  | %  |
| Gross Profit Margin                                             | 19.5                       | % 17.2  | % 18.4                    | % 17.0  | %  |
| Operating Expenses                                              | 15.5                       | % 14.1  | % 16.2                    | % 14.7  | %  |
| Impairment and Realignment Costs                                | —                          | % —     | % 0.1                     | % 0.2   | %  |
| Income from Operations                                          | 4.0                        | % 3.1   | % 2.1                     | % 2.1   | %  |
| Other Income (Expense)                                          | (2.3)                      | )% (1.9 | )% (2.4                   | )% (2.2 | )% |
| Income (Loss) Before Income Taxes                               | 1.7                        | % 1.2   | % (0.3                    | )% (0.1 | )% |
| Provision for (Benefit from) Income Taxes                       | 0.7                        | % 0.7   | % —                       | % 0.3   | %  |
| Net Income (Loss) Including Noncontrolling Interest             | 1.0                        | % 0.5   | % (0.3                    | )% (0.4 | )% |
| Less: Net Income (Loss) Attributable to Noncontrolling Interest | —                          | % —     | % —                       | % (0.1  | )% |
| Net Income (Loss) Attributable to Titan Machinery Inc.          | 1.0                        | % 0.5   | % (0.3                    | )% (0.3 | )% |



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Three Months Ended October 31, 2015 Compared to Three Months Ended October 31, 2014

## Consolidated Results

## Revenue

|                  | Three Months Ended October 31, |           |             | Percent |    |
|------------------|--------------------------------|-----------|-------------|---------|----|
|                  | 2015                           | 2014      | (Decrease)  | Change  |    |
|                  | (dollars in thousands)         |           |             |         |    |
| Equipment        | \$215,692                      | \$343,482 | \$(127,790) | (37.2)  | )% |
| Parts            | 73,838                         | 80,692    | (6,854)     | (8.5)   | )% |
| Service          | 34,116                         | 42,410    | (8,294)     | (19.6)  | )% |
| Rental and other | 21,329                         | 26,557    | (5,228)     | (19.7)  | )% |
| Total Revenue    | \$344,975                      | \$493,141 | \$(148,166) | (30.0)  | )% |

The decrease in revenue for the third quarter of fiscal 2016 was primarily due to a decrease in same-store sales of 29.0% over the comparable prior year period. This decrease was mainly driven by a decrease in Agriculture same-store sales of 37.4%, which primarily resulted from a decrease in equipment revenue, as well as a decrease in Construction same-store sales of 8.3%, in the third quarter of fiscal 2016. These decreases in same-store sales were primarily the result of the challenging industry conditions facing our Agriculture and Construction segments discussed in the Overview section above. Service revenue was also negatively impacted by these industry conditions in the current year as warranty and pre-delivery work has decreased as a result of lower equipment sales. Favorable harvest conditions, which generally result in fewer repairs, were present in the third quarter of fiscal 2016 and contributed to lower service revenue in our Agriculture stores than in the same period of the prior year. The Construction industry conditions, as well as a decrease in the size of our rental fleet, led to lower rental and other revenue, particularly in our Construction stores in oil production areas.

## Gross Profit

|                           | Three Months Ended October 31, |          |                         | Percent  |    |
|---------------------------|--------------------------------|----------|-------------------------|----------|----|
|                           | 2015                           | 2014     | Increase/<br>(Decrease) | Change   |    |
|                           | (dollars in thousands)         |          |                         |          |    |
| Gross Profit              |                                |          |                         |          |    |
| Equipment                 | \$17,597                       | \$25,780 | \$(8,183)               | (31.7)   | )% |
| Parts                     | 22,165                         | 24,290   | (2,125)                 | (8.7)    | )% |
| Service                   | 21,667                         | 27,373   | (5,706)                 | (20.8)   | )% |
| Rental and other          | 5,712                          | 7,248    | (1,536)                 | (21.2)   | )% |
| Total Gross Profit        | \$67,141                       | \$84,691 | \$(17,550)              | (20.7)   | )% |
| Gross Profit Margin       |                                |          |                         |          |    |
| Equipment                 | 8.2                            | % 7.5    | % 0.7                   | % 9.3    | %  |
| Parts                     | 30.0                           | % 30.1   | % (0.1)                 | % (0.3)  | )% |
| Service                   | 63.5                           | % 64.5   | % (1.0)                 | % (1.6)  | )% |
| Rental and other          | 26.8                           | % 27.3   | % (0.5)                 | % (1.8)  | )% |
| Total Gross Profit Margin | 19.5                           | % 17.2   | % 2.3                   | % 13.4   | %  |
| Gross Profit Mix          |                                |          |                         |          |    |
| Equipment                 | 26.2                           | % 30.4   | % (4.2)                 | % (13.8) | )% |
| Parts                     | 33.0                           | % 28.7   | % 4.3                   | % 15.0   | %  |
| Service                   | 32.3                           | % 32.3   | % —                     | % —      | %  |
| Rental and other          | 8.5                            | % 8.6    | % (0.1)                 | % (1.2)  | )% |
| Total Gross Profit Mix    | 100.0                          | % 100.0  | % —                     | % —      | %  |

The \$17.6 million decrease in gross profit for the third quarter of fiscal 2016, as compared to the same period last year, was primarily due to a decrease in revenue. The increase in total gross profit margin from 17.2% for the third quarter of fiscal 2015 to 19.5% for the third quarter of fiscal 2016 was mainly due to a change in gross profit mix to our higher-margin parts

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business and an increase in gross profit margin on equipment. Commodity prices fell significantly in the third quarter of fiscal 2015, causing pricing pressures in the Agriculture segment which negatively impacted our equipment gross profit margin for that period. The Agriculture segment did not experience as much pricing pressure in the third quarter of fiscal 2016, as there was less volatility in the commodity prices during that period.

Our company-wide absorption for the third quarter of fiscal 2016 was 86.6% compared to 82.5% during the same period last year. The increase is primarily the result of a reduction of our fixed operating costs from savings associated with our realignment plan implemented in the first quarter of fiscal 2016, but partially offset by a decrease in parts and service gross profit.

## Operating Expenses

|                                               | Three Months Ended October 31, |          | Increase/<br>(Decrease) | Percent |   |
|-----------------------------------------------|--------------------------------|----------|-------------------------|---------|---|
|                                               | 2015                           | 2014     |                         | Change  |   |
|                                               | (dollars in thousands)         |          |                         |         |   |
| Operating Expenses                            | \$53,484                       | \$69,459 | \$(15,975)              | (23.0)  | % |
| Operating Expenses as a Percentage of Revenue | 15.5                           | % 14.1   | % 1.4                   | % 9.9   | % |

The \$16.0 million decrease in operating expenses, as compared to the same period last year, was primarily the result of our realignment plan implemented in the first quarter of fiscal 2016 in which we reduced our headcount by 14% and generated additional cost savings associated with the closing of four stores in the quarter. The increase in operating expenses as a percentage of total revenue was primarily due to the decrease in total revenue in the third quarter of fiscal 2016, as compared to the third quarter of fiscal 2015, which negatively affected our ability to leverage our fixed operating costs.

## Impairment and Realignment Costs

|                                  | Three Months Ended October 31, |      | Increase | Percent |   |
|----------------------------------|--------------------------------|------|----------|---------|---|
|                                  | 2015                           | 2014 |          | Change  |   |
|                                  | (dollars in thousands)         |      |          |         |   |
| Impairment and Realignment Costs | \$22                           | \$—  | \$22     | 100.0   | % |

The realignment costs recognized in the third quarter of fiscal 2016 arose as the result of our store realignment plans and associated exit costs, including accruals for lease terminations and remaining lease obligations, employee severance costs, the impairment of certain fixed assets, and the costs associated with relocating certain assets of our closed stores. See Note 9 to our consolidated financial statements for further details on our store realignment plans and associated exit costs, and the Non-GAAP Financial Measures section below for impact of these amounts on non-GAAP Diluted EPS.

## Other Income (Expense)

|                                            | Three Months Ended October 31, |         | Increase/<br>(Decrease) | Percent |   |
|--------------------------------------------|--------------------------------|---------|-------------------------|---------|---|
|                                            | 2015                           | 2014    |                         | Change  |   |
|                                            | (dollars in thousands)         |         |                         |         |   |
| Interest income and other income (expense) | \$722                          | \$(489) | \$1,211                 | 247.6   | % |
| Floorplan interest expense                 | (4,602)                        | (5,444) | (842)                   | (15.5)  | % |
| Other interest expense                     | (4,041)                        | (3,586) | 455                     | 12.7    | % |

The improvement in interest income and other income (expense) is primarily due to a decrease in foreign currency remeasurement losses in Ukraine, resulting from changes in the valuation of the Ukrainian hryvnia, and an increase in other income in the third quarter of fiscal 2016, as compared to the third quarter of fiscal 2015. See the Non-GAAP Financial Measures section below for impact of the Ukraine foreign currency remeasurement losses on non-GAAP Diluted EPS. The decrease in floorplan interest expense for the third quarter of fiscal 2016, as compared to the third quarter of fiscal 2015, was primarily due to a decrease in our average interest-bearing inventory in the third quarter of fiscal 2016. The increase in other interest expense is primarily the result of a \$1.0 million write-off of capitalized debt issuance costs related to amending our Wells Fargo credit facility, and partially offset by decreased interest expense

resulting from lower long-term debt balances in the third quarter of fiscal 2016 as compared to the same period last year.

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## Provision for Income Taxes

|                            | Three Months Ended     |         |            | Percent  |
|----------------------------|------------------------|---------|------------|----------|
|                            | October 31,            |         |            |          |
|                            | 2015                   | 2014    | Decrease   | Change   |
|                            | (dollars in thousands) |         |            |          |
| Provision for Income Taxes | \$2,231                | \$3,400 | \$(1,169 ) | (34.4 )% |

Our effective tax rate was 39.0% for the third quarter of fiscal 2016 and 59.5% for the same period last year. The difference in our effective tax rate is primarily due to the change in the foreign income (loss) before income taxes from a loss position for the third quarter of fiscal 2015 to an income position for the third quarter of fiscal 2016. In addition, as the majority of our foreign operations have full valuation allowances on deferred tax assets including net operating losses, they do not recognize any income tax expense or benefit. See Note 11 to our consolidated financial statements for further details on our effective tax rate and the components of income (loss) before income taxes.

## Segment Results

Certain financial information for our Agriculture, Construction and International business segments is set forth below. "Shared Resources" in the table below refers to the various unallocated income/(expense) items that we have retained at the general corporate level. Revenue between segments is immaterial.

|                                           | Three Months Ended October |           | Increase/    | Percent   |
|-------------------------------------------|----------------------------|-----------|--------------|-----------|
|                                           | 31,                        |           |              |           |
|                                           | 2015                       | 2014      | (Decrease)   | Change    |
|                                           | (dollars in thousands)     |           |              |           |
| Revenue                                   |                            |           |              |           |
| Agriculture                               | \$211,302                  | \$341,547 | \$(130,245 ) | (38.1 )%  |
| Construction                              | 87,023                     | 98,246    | (11,223 )    | (11.4 )%  |
| International                             | 46,650                     | 53,348    | (6,698 )     | (12.6 )%  |
| Total                                     | \$344,975                  | \$493,141 | \$(148,166 ) | (30.0 )%  |
| Income (Loss) Before Income Taxes         |                            |           |              |           |
| Agriculture                               | \$4,219                    | \$6,134   | \$(1,915 )   | (31.2 )%  |
| Construction                              | 1,413                      | 15        | 1,398        | *N/M      |
| International                             | 351                        | (1,407 )  | 1,758        | 124.9 %   |
| Segment income (loss) before income taxes | 5,983                      | 4,742     | 1,241        | 26.2 %    |
| Shared Resources                          | (269 )                     | 971       | (1,240 )     | (127.7 )% |
| Income (Loss) Before Income Taxes         | \$5,714                    | \$5,713   | \$1          | — %       |

\*N/M = Not Meaningful

## Agriculture

Agriculture segment revenue for the third quarter of fiscal 2016 decreased 38.1% compared to the same period last year. The revenue decrease was due to a same-store sales decrease of 37.4% over the third quarter of fiscal 2015, which was primarily caused by a decrease in equipment revenue, largely resulting from the challenging industry conditions discussed in the Overview section above.

Agriculture segment income before income taxes for the third quarter of fiscal 2016 decreased \$1.9 million compared to the same period last year. The decline in segment income is primarily due to the aforementioned decrease in equipment revenue, but partially offset by decreases in operating expenses and floorplan interest expense. The decrease in operating expenses is the result of the cost savings associated with our realignment plan implemented in the first quarter of fiscal 2016, and the decrease in floorplan interest expense is the result of decrease in our average interest-bearing inventory in the third quarter of fiscal 2016.

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## Construction

Construction segment revenue for the third quarter of fiscal 2016 decreased 11.4% compared to the same period last year. The revenue decrease was due to a same-store sales decrease of 8.3% over the third quarter of fiscal 2015. The decrease in Construction same-store sales was experienced across all lines of our business and was largely due to the challenging industry conditions discussed in the Overview section above.

Our Construction segment income before income taxes was \$1.4 million for the third quarter of fiscal 2016 compared to segment income before income taxes of \$0.0 million for the third quarter of fiscal 2015. The increase in segment income before income taxes was primarily due to a decrease in operating expenses, and partially offset by the aforementioned decrease in segment revenue. The decrease in operating expenses reflects costs savings associated with our realignment plan implemented in the first quarter of fiscal 2016. The dollar utilization of our rental fleet decreased from 33.6% in the third quarter of fiscal 2015 to 29.6% in the third quarter of fiscal 2016, primarily resulting from the challenging industry conditions discussed in the Overview section above.

## International

International segment revenue for the third quarter of fiscal 2016 decreased 12.6% compared to the same period last year. Our International revenue was negatively impacted by Euro to U.S. Dollar exchange rate differences and by the aforementioned reduction in commodity prices.

Our International segment income before income taxes was \$0.4 million for the third quarter of fiscal 2016 compared to segment loss before income taxes of \$1.4 million for the same period last year. The improvement in segment income was the result of lower operating expenses, lower foreign currency remeasurement losses in Ukraine, and lower floorplan interest expense, but partially offset by the aforementioned decrease in revenue. The reduction in operating expenses was the result of the cost saving initiatives implemented in late fiscal 2015. In addition, operating expenses also benefited from the impact of the changing foreign currency exchange rates. Floorplan interest expense decreased in the third quarter of fiscal 2016 compared to the same period last year due to a reduction in interest-bearing floorplan payables resulting from a reduction in our inventory levels and lower interest rates. The impact of changing Euro to U.S. Dollar exchange rates did not have a material impact on our International segment income (loss) before income taxes as the negative impact on segment revenue was offset by the positive impact on segment expenses.

## Shared Resources/Eliminations

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

Nine Months Ended October 31, 2015 Compared to Nine Months Ended October 31, 2014

## Consolidated Results

## Revenue

|                  | Nine Months Ended October 31, |             |             | Percent Change |
|------------------|-------------------------------|-------------|-------------|----------------|
|                  | 2015                          | 2014        | (Decrease)  |                |
|                  | (dollars in thousands)        |             |             |                |
| Equipment        | \$681,691                     | \$1,008,614 | \$(326,923) | (32.4)%        |
| Parts            | 197,439                       | 219,597     | (22,158)    | (10.1)%        |
| Service          | 99,860                        | 117,941     | (18,081)    | (15.3)%        |
| Rental and other | 53,371                        | 63,442      | (10,071)    | (15.9)%        |
| Total Revenue    | \$1,032,361                   | \$1,409,594 | \$(377,233) | (26.8)%        |

The decrease in revenue for the first nine months of fiscal 2016 was primarily due to a decrease in same-store sales of 25.1% over the comparable prior year period and the closing of eight stores during the quarter ended April 30, 2014 and four stores during the quarter ended April 30, 2015. The same-store sales decrease was mainly driven by a decrease in Agriculture same-store sales of 32.1%, which primarily resulted from a decrease in equipment revenue, as well as a decrease in Construction same-store sales of 10.8%, in the first nine months of fiscal 2016. These decreases in same-store sales were primarily the result of the challenging industry conditions facing our Agriculture and



Construction segments discussed in the Overview section above. The Construction results were also affected by the strong revenue growth realized during the first nine

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months of fiscal 2015 in which we achieved a same-store sale increase of 20.3% over the first nine months of fiscal 2014. Service revenue was also negatively impacted by these industry conditions in the current year as warranty and pre-delivery work has decreased as a result of lower equipment sales. Favorable harvest conditions, which generally result in fewer repairs, were present in the first nine months of fiscal 2016 and contributed to lower service revenue in our Agriculture stores than in the same period of the prior year. The Construction industry conditions, as well as a decrease in the size of our rental fleet, led to lower rental and other revenue, particularly in our Construction stores in oil production areas.

## Gross Profit

|                           | Nine Months Ended October<br>31,<br>2015 |   | 2014      |   | Increase/<br>(Decrease) | Percent<br>Change |         |
|---------------------------|------------------------------------------|---|-----------|---|-------------------------|-------------------|---------|
|                           | (dollars in thousands)                   |   |           |   |                         |                   |         |
| Gross Profit              |                                          |   |           |   |                         |                   |         |
| Equipment                 | \$53,411                                 |   | \$81,751  |   | \$(28,340)              | )                 | (34.7)% |
| Parts                     | 58,813                                   |   | 65,451    |   | (6,638)                 | )                 | (10.1)% |
| Service                   | 63,724                                   |   | 74,972    |   | (11,248)                | )                 | (15.0)% |
| Rental and other          | 13,697                                   |   | 18,109    |   | (4,412)                 | )                 | (24.4)% |
| Total Gross Profit        | \$189,645                                |   | \$240,283 |   | \$(50,638)              | )                 | (21.1)% |
| Gross Profit Margin       |                                          |   |           |   |                         |                   |         |
| Equipment                 | 7.8                                      | % | 8.1       | % | (0.3)                   | )%                | (3.7)%  |
| Parts                     | 29.8                                     | % | 29.8      | % | —                       | %                 | —%      |
| Service                   | 63.8                                     | % | 63.6      | % | 0.2                     | %                 | 0.3%    |
| Rental and other          | 25.7                                     | % | 28.5      | % | (2.8)                   | )%                | (9.8)%  |
| Total Gross Profit Margin | 18.4                                     | % | 17.0      | % | 1.4                     | %                 | 8.2%    |
| Gross Profit Mix          |                                          |   |           |   |                         |                   |         |
| Equipment                 | 28.2                                     | % | 34.0      | % | (5.8)                   | )%                | (17.2)% |
| Parts                     | 31.0                                     | % | 27.3      | % | 3.7                     | %                 | 13.5%   |
| Service                   | 33.6                                     | % | 31.2      | % | 2.4                     | %                 | 7.7%    |
| Rental and other          | 7.2                                      | % | 7.5       | % | (0.3)                   | )%                | (4.0)%  |
| Total Gross Profit Mix    | 100.0                                    | % | 100.0     | % | —                       | %                 | —%      |

The \$50.6 million decrease in gross profit for the first nine months of fiscal 2016, as compared to the same period last year, was primarily due to lower equipment and service revenue. Total gross profit margin of 18.4% for the first nine months of fiscal 2016 increased from the first nine months of fiscal 2015, mainly due to a change in gross profit mix to our higher-margin parts and service businesses.

Our company-wide absorption for the first nine months of fiscal 2016 was 79.2% compared to 75.2% during the same period last year. The increase is primarily the result of a reduction of our fixed operating costs from savings associated with our realignment plan implemented in the first quarter of fiscal 2016, but partially offset by a decrease in parts and service gross profit.

## Operating Expenses

|                                               | Nine Months Ended October<br>31,<br>2015 |   | 2014      |   | Increase/<br>(Decrease) | Percent<br>Change |         |
|-----------------------------------------------|------------------------------------------|---|-----------|---|-------------------------|-------------------|---------|
|                                               | (dollars in thousands)                   |   |           |   |                         |                   |         |
| Operating Expenses                            | \$165,979                                |   | \$208,406 |   | \$(42,427)              | )                 | (20.4)% |
| Operating Expenses as a Percentage of Revenue | 16.2                                     | % | 14.7      | % | 1.5                     | %                 | 10.2%   |

The \$42.4 million decrease in operating expenses, as compared to the same period last year, was primarily the result of our realignment plan implemented in the first quarter of fiscal 2016 in which we reduced our headcount by 14% and generated additional cost savings associated with the closing of four stores in the quarter. In addition, our

operating expenses were positively impacted by the cost savings realized as a result of our realignment plan implemented in the first quarter of fiscal 2015. Commission expense for the first nine months of fiscal 2016 decreased relative to the same period last year due to the decrease in equipment gross profit. The increase in operating expenses as a percentage of total revenue was primarily due to the

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decrease in total revenue in the first nine months of fiscal 2016, as compared to the same period last year, which negatively affected our ability to leverage our fixed operating costs.

## Realignment Costs

|                                  | Nine Months Ended October |         |            | Percent |
|----------------------------------|---------------------------|---------|------------|---------|
|                                  | 31,<br>2015               | 2014    | (Decrease) |         |
|                                  | (dollars in thousands)    |         |            |         |
| Impairment and Realignment Costs | \$1,519                   | \$2,952 | \$(1,433)  | (48.5)% |

The realignment costs recognized in each of the first nine months of fiscal 2016 and fiscal 2015 arise as a result of our store realignment plans and associated exit costs, including accruals for lease terminations and remaining lease obligations, employee severance costs, the impairment of certain fixed assets, and the costs associated with relocating certain assets of our closed stores. See Note 9 to our consolidated financial statements for further details on our store realignment plans and associated exit costs, and the Non-GAAP Financial Measures section below for impact of these amounts on non-GAAP Diluted EPS.

## Other Income (Expense)

|                                            | Nine Months Ended October |           |         | Increase/<br>(Decrease) | Percent |
|--------------------------------------------|---------------------------|-----------|---------|-------------------------|---------|
|                                            | 31,<br>2015               | 2014      |         |                         |         |
|                                            | (dollars in thousands)    |           |         |                         |         |
| Interest income and other income (expense) | \$(565)                   | \$(4,095) | \$3,530 | 86.2                    | %       |
| Floorplan interest expense                 | (13,945)                  | (15,345)  | (1,400) | (9.1)                   | %       |
| Other interest expense                     | (11,228)                  | (10,586)  | 642     | 6.1                     | %       |

The improvement in interest income and other income (expense) is primarily due to a decrease in foreign currency remeasurement losses in Ukraine, resulting from changes in the valuation of the Ukrainian hryvnia, which totaled \$2.3 million and \$4.9 million for the nine months of fiscal 2016 and 2015, respectively. See the Non-GAAP Financial Measures section below for impact of the Ukraine foreign currency remeasurement losses on non-GAAP Diluted EPS. The decrease in floorplan interest expense for the first nine months of fiscal 2016, as compared to the same period last year, was primarily due to a decrease in our average interest-bearing inventory in the first nine months of fiscal 2016, but offset by higher interest rates, primarily due to the additional interest cost associated with our interest rate swap instrument. The increase in other interest expense is primarily the result of a \$1.6 million write-off of capitalized debt issuance costs related to amending our Wells Fargo credit facility, and partially offset by decreased interest expense resulting from lower long-term debt balances in the first nine months of fiscal 2016 as compared to the same period last year.

## Provision for (Benefit from) Income Taxes

|                                           | Nine Months Ended October |         |           | Percent |        |
|-------------------------------------------|---------------------------|---------|-----------|---------|--------|
|                                           | 31,<br>2015               | 2014    | Increase  |         | Change |
|                                           | (dollars in thousands)    |         |           |         |        |
| Provision for (Benefit from) Income Taxes | \$(354)                   | \$4,254 | \$(4,608) | (108.3) | %      |

Our effective tax rate was (9.9)% for the first nine months of fiscal 2016 and 386.4% for the same period last year. The difference in our effective tax rate is primarily due to the change in the domestic income (loss) before income taxes from an income position for the first nine months of fiscal 2015 to a loss position for the first nine months of fiscal 2016, and a decrease in the foreign loss before income taxes from the first nine months of fiscal 2015 to the first nine months of fiscal 2016. In addition, as the majority of our foreign operations have full valuation allowances on deferred tax assets including net operating losses, they do not recognize any income tax expense or benefit. See Note 11 to our consolidated financial statements for further details on our effective tax rate and the components of income (loss) before income taxes.

Segment Results

Certain financial information for our Agriculture, Construction and International business segments is set forth below. “Shared Resources” in the table below refers to the various unallocated income/(expense) items that we have retained at the general corporate level. Revenue between segments is immaterial.

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|                                           | Nine Months Ended October |             | Increase/<br>(Decrease) | Percent<br>Change |    |
|-------------------------------------------|---------------------------|-------------|-------------------------|-------------------|----|
|                                           | 2015                      | 2014        |                         |                   |    |
|                                           | (dollars in thousands)    |             |                         |                   |    |
| Revenue                                   |                           |             |                         |                   |    |
| Agriculture                               | \$660,606                 | \$991,649   | \$(331,043)             | (33.4)            | )% |
| Construction                              | 249,601                   | 291,758     | (42,157)                | (14.4)            | )% |
| International                             | 122,154                   | 126,187     | (4,033)                 | (3.2)             | )% |
| Total                                     | \$1,032,361               | \$1,409,594 | \$(377,233)             | (26.8)            | )% |
| Income (Loss) Before Income Taxes         |                           |             |                         |                   |    |
| Agriculture                               | \$693                     | \$16,133    | \$(15,440)              | (95.7)            | )% |
| Construction                              | (3,089)                   | (6,346)     | 3,257                   | 51.3              | )% |
| International                             | (3,074)                   | (11,688)    | 8,614                   | 73.7              | )% |
| Segment income (loss) before income taxes | (5,470)                   | (1,901)     | (3,569)                 | (187.7)           | )% |
| Shared Resources                          | 1,879                     | 800         | 1,079                   | 134.9             | )% |
| Income (Loss) Before Income Taxes         | \$(3,591)                 | \$(1,101)   | \$(2,490)               | (226.2)           | )% |

## Agriculture

Agriculture segment revenue for the first nine months of fiscal 2016 decreased 33.4% compared to the same period last year. The revenue decrease was due to an Agriculture same-store sales decrease of 32.1% compared to the same period last year, which was primarily caused by a decrease in equipment revenue, largely resulting from the challenging industry conditions discussed in the Overview section above.

Agriculture segment income before income taxes was \$0.7 million for the first nine months of fiscal 2016 compared to \$16.1 million over the first nine months of fiscal 2015. The decline in segment income is primarily due to the aforementioned decrease in equipment revenue, but partially offset by a decrease in operating expenses. The decrease in operating expenses is the result of the cost savings associated with our realignment plan implemented in the first quarter of fiscal 2016 and lower commission expense resulting from the decrease in equipment gross profit.

## Construction

Construction segment revenue for the first nine months of fiscal 2016 decreased 14.4% compared to the same period last year. The revenue decrease was due to a same-store sales decrease of 10.8% over the first nine months of fiscal 2015, and due to the impact of our store closings. The decrease in Construction same-store sales was experienced across all lines of our business and was largely due to the challenging industry conditions discussed in the Overview section above, as well as the strong revenue growth realized during the first nine months of fiscal 2015 in which we achieved a same-store sale increase of 20.3% over the first nine months of fiscal 2014.

Our Construction segment loss before income taxes was \$3.1 million for the first nine months of fiscal 2016 compared to \$6.3 million for the first nine months of fiscal 2015. This improvement was primarily due to the decrease in operating expenses and realignment costs, but partially offset by an increase in floorplan interest expense due to an increase in the average interest-bearing inventory and the aforementioned reduction in revenue, as compared to the first nine months of fiscal 2015. The decrease in operating expenses reflects costs savings associated with our realignment plan implemented in the first quarter of fiscal 2016. The dollar utilization of our rental fleet decreased, from 28.7% in the first nine months of fiscal 2015 to 24.8% in the first nine months of fiscal 2016, primarily resulting from the challenging industry conditions discussed in the Overview section above.

## International

International segment revenue for the first nine months of fiscal 2016 decreased 3.2% compared to the same period last year, due to a same-store sales decrease of 3.2%. Our International revenue was negatively impacted by the aforementioned foreign currency exchange rate differences and the reduction in commodity prices.

Our International segment loss before income taxes was \$3.1 million for the first nine months of fiscal 2016 compared to \$11.7 million for the same period last year. The reduction in segment loss before income taxes was the result of lower operating expenses, lower foreign currency remeasurement losses in Ukraine and lower floorplan interest

expense. The reduction in operating expenses for the first nine months of fiscal 2016, as compared to the same period in the prior year, was

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the result of the cost saving initiatives implemented in late fiscal 2015 and the impact of changing foreign currency exchange rates. Floorplan interest expense decreased in the first nine months of fiscal 2016 compared to the same period last year due to a reduction in interest-bearing floorplan payables resulting from a reduction in our inventory levels and lower interest rates. The impact of changing Euro to U.S. Dollar exchange rates did not have a material impact on our International segment income (loss) before income taxes as the negative impact on segment revenue was offset by the positive impact on segment expenses.

**Shared Resources/Eliminations**

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

**Non-GAAP Financial Measures**

To supplement our earnings (loss) per share - diluted (“Diluted EPS”) presented on a GAAP basis, we use non-GAAP Diluted EPS, which excludes the impact of the write-off of debt issuance costs, costs associated with our realignment/store closings and foreign currency remeasurement losses in Ukraine resulting from a devaluation of the Ukrainian hryvnia. We believe that the presentation of non-GAAP Diluted EPS is relevant and useful to our management and investors because it provides a measurement of earnings on activities we consider to occur in the ordinary course of our business. Non-GAAP Diluted EPS should be evaluated in addition to, and not considered a substitute for, or superior to, the GAAP measure of Diluted EPS. In addition, other companies may calculate non-GAAP Diluted EPS in a different manner, which may hinder comparability with other companies.

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

|                                                                                   | Three Months Ended October 31,                |         | Nine Months Ended October 31, |           |
|-----------------------------------------------------------------------------------|-----------------------------------------------|---------|-------------------------------|-----------|
|                                                                                   | 2015                                          | 2014    | 2015                          | 2014      |
|                                                                                   | (dollars in thousands, except per share data) |         |                               |           |
| <b>Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders</b> |                                               |         |                               |           |
| Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders        | \$3,384                                       | \$2,421 | \$(2,789)                     | \$(4,613) |
| <b>Non-GAAP Adjustments</b>                                                       |                                               |         |                               |           |
| Debt Issuance Cost Write-Off                                                      | 599                                           | —       | 917                           | —         |
| Realignment / Store Closing Costs                                                 | 13                                            | —       | 894                           | 2,035     |
| Ukraine Remeasurement                                                             | 181                                           | 508     | 2,245                         | 4,840     |
| Total Non-GAAP Adjustments                                                        | 793                                           | 508     | 4,056                         | 6,875     |
| Adjusted Net Income Attributable to Titan Machinery Inc. Common Stockholders      | \$4,177                                       | \$2,929 | \$1,267                       | \$2,262   |
| <b>Earnings (Loss) per Share - Diluted</b>                                        |                                               |         |                               |           |
| Earnings (Loss) per Share - Diluted                                               | \$0.16                                        | \$0.11  | \$(0.13)                      | \$(0.22)  |
| <b>Non-GAAP Adjustments</b>                                                       |                                               |         |                               |           |
| Debt Issuance Cost Write-Off                                                      | 0.03                                          | —       | 0.04                          | —         |
| Realignment / Store Closing Costs                                                 | —                                             | —       | 0.04                          | 0.10      |
| Ukraine Remeasurement                                                             | 0.01                                          | 0.03    | 0.11                          | 0.23      |
| Total Non-GAAP Adjustments                                                        | 0.04                                          | 0.03    | 0.19                          | 0.33      |
| Adjusted Earnings per Share - Diluted                                             | \$0.20                                        | \$0.14  | \$0.06                        | \$0.11    |

**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

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obligations and other commitments and contingencies, and meet any seasonal operating requirements for the foreseeable future, provided, however, that our borrowing capacity under our credit agreements is dependent on compliance with various covenants as further described in the "Risk Factors" section of our Annual Report on Form 10-K and on this Quarterly Report on Form 10-Q.

Equipment Inventory and Floorplan Payable Credit Facilities

As of October 31, 2015, the Company had discretionary floorplan payable lines of credit for equipment purchases totaling approximately \$1.0 billion, which included a \$275.0 million Floorplan Payable Line with Wells Fargo, a \$450.0 million credit facility with CNH Industrial Capital, a \$172.0 million credit facility with Agrifac and the U.S. dollar equivalent of \$116.1 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately \$531.3 million of the total floorplan payable balance of \$546.6 million outstanding as of October 31, 2015.

Our equipment inventory turnover was 1.3 for the four quarters ended October 31, 2015 compared to 1.5 for the four quarters ended October 31, 2014. While our equipment inventories, including amounts classified as held for sale, decreased 23.3% from October 31, 2014 to October 31, 2015, the decrease in turnover was the result of the lower equipment sales in the four-quarter period ended October 31, 2015. Our equity in equipment inventory, which reflects the portion of our equipment inventory balance that is not financed by floorplan payables, increased to 23.7% as of October 31, 2015 from 18.7% as of January 31, 2015.

Adequacy of Capital Resources

Our primary uses of cash have been to fund our strategic acquisitions and fund our operating activities, including the purchase of inventory, meeting our debt service requirements, providing working capital, making payments due under building space operating leases and manufacturer floorplan payables. Based on our current operational performance, we believe our cash flow from operations, available cash and available borrowings under our existing credit facilities will adequately provide our liquidity needs for, at a minimum, the next 12 months. Our main financing arrangements, in which we had discretionary floorplan lines of credit totaling approximately \$1.0 billion as of October 31, 2015, are described in Note 4 of the notes to our consolidated financial statements. As of October 31, 2015, we are in compliance with the financial covenants under these agreements. If anticipated operating results create the likelihood of a future covenant violation, we would work with our lenders on an appropriate modification or amendment to our financing arrangements.

Cash Flow

Cash Flow Provided By Or Used For Operating Activities

Net cash provided by operating activities was \$198.8 million for the nine months ended October 31, 2015, compared to net cash used for operating activities of \$82.6 million for the nine months ended October 31, 2014. Net cash provided by operating activities for the nine months ended October 31, 2015 was primarily attributable to a changing mix of manufacturer versus non-manufacturer floorplan financing in which we increased our outstanding borrowings under our manufacturer financing facilities and used the proceeds from such borrowings to decrease our outstanding borrowings under our non-manufacturer facilities, and reduction in our inventories. Net cash used for operating activities for the nine months ended October 31, 2014 was primarily attributable to decreases in our manufacturer floorplan payable and accounts payable, customer deposits, accrued expenses and other long-term liabilities.

We evaluate our cash flow from operating activities net of all floorplan activity and maintaining a constant level of equity in our equipment inventory. Taking these adjustments into account, our non-GAAP cash flow provided by operating activities was \$32.9 million and cash flow used for operating activities was \$15.1 million for the nine months ended October 31, 2015 and 2014, respectively. This increase over the prior year is due to reductions in our inventory balances. For reconciliation of this non-GAAP financial measure, please see the Non-GAAP Cash Flow Reconciliation below.

Cash Flow Used For Investing Activities

Net cash used for investing activities was \$0.4 million for the nine months ended October 31, 2015, compared to net cash provided by investing activities of \$2.5 million for the nine months ended October 31, 2014. Cash used for investing activities was primarily for the purchase of property and equipment, net of any proceeds from the sale of property and equipment.

Cash Flow Provided By Or Used For Financing Activities

Net cash used for financing activities was \$246.9 million for the nine months ended October 31, 2015 compared to net cash provided by financing activities of \$116.6 million for the nine months ended October 31, 2014. For the nine months ended

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October 31, 2015, net cash used for financing activities primarily resulted from the aforementioned change in financing mix in which we increased our outstanding borrowings under our manufacturer financing facilities and decreased our amount outstanding under our non-manufacturer facilities, as well as payments exceeding proceeds on our long-term debt of \$42.4 million. For the nine months ended October 31, 2014, net cash provided by financing activities primarily consisted of an increase in non-manufacturer floorplan payables, which increased as a result of reductions in manufacturer floorplan payable balances, and proceeds exceeding payments on our long-term debt.

**Non-GAAP Cash Flow Reconciliation**

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

GAAP categorizes non-manufacturer floorplan payable as financing activities in the consolidated statements of cash flows.

Our non-GAAP cash flow provided by (used for) operating activities is also impacted by the change in our equity in equipment inventory, which reflects the portion of our equipment inventory balance that is not financed by floorplan payables. Equity in equipment inventory increased to 23.7% as of October 31, 2015 from 18.7% as of January 31, 2015, and decreased to 18.4% as of October 31, 2014 from 20.1% as of January 31, 2014. We analyze our cash flow provided by (used for) operating activities by assuming a constant level of equipment inventory financing throughout each respective fiscal year. The adjustment eliminates the impact of this fluctuation of equity in our equipment inventory, and is equal to the difference between our actual level of equity in equipment inventory at each period end presented on the consolidated statements of cash flows, compared to the actual level of equity in equipment inventory at the beginning of the fiscal year.

Non-GAAP cash flow provided by (used for) operating activities is a non-GAAP financial measure which is adjusted for non-manufacturer floorplan payable and changes in the level of equity in equipment inventory. We believe that the presentation of non-GAAP cash flow provided by (used for) operating activities is relevant and useful to our investors because it provides information on activities we consider normal operations of our business, regardless of financing source and level of financing for our equipment inventory. The following table reconciles net cash provided by (used for) operating activities, a GAAP measure, to non-GAAP cash flow provided by (used for) operating activities, and net cash provided by (used for) financing activities, a GAAP measure, to non-GAAP cash flow provided by (used for) financing activities.

|                                                        | Net Cash Provided by (Used for) Operating Activities |                                    | Net Cash Provided by (Used for) Financing Activities |                                    |
|--------------------------------------------------------|------------------------------------------------------|------------------------------------|------------------------------------------------------|------------------------------------|
|                                                        | Nine Months Ended October 31, 2015                   | Nine Months Ended October 31, 2014 | Nine Months Ended October 31, 2015                   | Nine Months Ended October 31, 2014 |
|                                                        | (in thousands)                                       |                                    | (in thousands)                                       |                                    |
| Cash Flow, As Reported                                 | \$198,761                                            | \$(82,555)                         | \$(246,935)                                          | \$116,570                          |
| Adjustment for Non-Manufacturer Floorplan Net Payments | (201,320)                                            | 83,232                             | 201,320                                              | (83,232)                           |
| Adjustment for Constant Equity in Equipment Inventory  | 35,452                                               | (15,752)                           | —                                                    | —                                  |
| Non-GAAP Cash Flow                                     | \$32,893                                             | \$(15,075)                         | \$(45,615)                                           | \$33,338                           |

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

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

As of October 31, 2015, 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.

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PRIVATE SECURITIES LITIGATION REFORM ACT

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Such “forward-looking” information is included in this Quarterly Report on Form 10-Q, including in “Management’s Discussion And Analysis Of Financial Condition And Results Of Operations,” as well as in our Annual Report on Form 10-K for the year ended January 31, 2015, and in other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company).

Forward-looking statements include all statements based on future expectations and specifically include, among other things, all statements relating to our expectations regarding exchange rate and interest rate impact, the impact of farm income levels on our customers' demand for agricultural equipment and services, the impact of oil prices on market demand for equipment and services, the general market conditions of the agricultural and construction industries, equipment inventory levels, estimated realignment costs and savings, and our primary liquidity sources and adequacy of our capital resources. Any statements that are not based upon historical facts, including the outcome of events that have not yet occurred and our expectations for future performance, are forward-looking statements. The words “potential,” “believe,” “estimate,” “expect,” “intend,” “may,” “could,” “will,” “plan,” “anticipate,” and similar words and expressions are intended to identify forward-looking statements. Such statements are based upon the current beliefs and expectations of our management. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, adverse market conditions in the agricultural and construction equipment industries, and those matters identified and discussed under the section titled “Risk Factors” in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Interest Rate Risk**

Exposure to changes in interest rates results from borrowing activities used to fund operations. For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant. We have both fixed and floating rate financing. Some of our floating rate credit facilities contain minimum rates of interest to be charged. Based upon our interest-bearing balances and interest rates as of October 31, 2015, 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 \$3.3 million. Conversely, a one percentage point decrease in interest rates for the next 12-month period would result in an increase to pre-tax earnings and cash flow of approximately \$3.3 million. At October 31, 2015, we had total floorplan payables of variable rate floorplan payable of \$546.6 million, of which approximately \$310.8 million was interest-bearing, \$135.8 million was non-interest bearing and \$100.0 million was effectively fixed rate due to our interest rate swap instrument. At October 31, 2015, we also had variable notes payable and long-term debt of \$14.7 million, and fixed rate notes payable and long-term debt of \$15.3 million.

**Foreign Currency Exchange Rate Risk**

Our foreign currency exposures arise as the result of our foreign operations. We are exposed to transactional foreign currency exchange rate risk through our foreign entities' holding assets and liabilities denominated in currencies other than their functional currency. In addition, the Company is exposed to foreign currency transaction risk as the result of certain intercompany financing transactions. The Company attempts to manage its transactional foreign currency exchange rate risk through the use of derivative financial instruments, primarily foreign exchange forward contracts, or through natural hedging instruments. Based upon balances and exchange rates as of October 31, 2015, 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 October 31, 2015, our Ukrainian subsidiary had \$0.3 million of net monetary assets denominated in Ukrainian hryvnia (UAH). We have attempted to minimize our net monetary asset position through reducing overall asset levels in Ukraine and through borrowing in UAH which serves as a natural hedging instrument offsetting our net UAH denominated assets. At certain times, currency and payment controls imposed by the National Bank of Ukraine have limited our ability to manage our net monetary asset position. The UAH devalued significantly during the six month period ended July 31, 2015, but stabilized during the third quarter of fiscal 2016. Continued and significant devaluation of the UAH could have a material impact on our results of operations and cash flows.

In addition to transactional foreign currency exchange rate risk, we are also exposed to translational foreign currency exchange rate risk as we translate the results of operations and assets and liabilities of our foreign operations from their functional currency to the U.S. dollar. As a result, our results of operations, cash flows and net investment in our foreign operations may be adversely impacted by fluctuating foreign currency exchange rates. We believe that a hypothetical 10% increase or decrease in all applicable foreign exchange rates, holding all other variables constant, would not have a material impact on our results of operations or cash flows.

**ITEM 4. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures. After evaluating the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act") as of the end of the period covered by this Quarterly Report, the Company's Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are effective.

(b) Changes in internal controls. There has not been any change in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during its most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial

reporting.

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PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, including the important information in “Private Securities Litigation Reform Act,” you should carefully consider the “Risk Factors” discussed in our Form 10-K for the year ended January 31, 2015 as filed with the Securities and Exchange Commission. Those factors, if they were to occur, could cause our actual results to differ materially from those expressed in our forward-looking statements in this report, and materially adversely affect our financial condition or future results. Although we are not aware of any other factors, aside from those discussed below and in our Form 10-K for the year ended January 31, 2015, that we currently anticipate will cause our forward-looking statements to differ materially from our future actual results, or materially affect the Company’s financial condition or future results, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial might materially adversely affect our actual business, financial condition and/or operating results.

The credit agreements governing our indebtedness restrict our ability to engage in certain corporate and financial transactions, and require us to satisfy financial covenants.

The credit agreements governing our indebtedness contain certain covenants that, among other things, restrict our ability to:

- incur more debt;
- make investments;
- create liens;
- merge or consolidate;
- transfer and sell assets;
- pay dividends or repurchase stock;
- issue equity instruments.

Our credit facilities with CNH Industrial Capital and AgriCredit require us to satisfy a net leverage ratio and fixed charge coverage ratio on an ongoing basis, measured at the end of each fiscal quarter. Under our Wells Fargo Credit Facility, in the event that excess availability plus eligible cash collateral is less than 15% of the total facility of \$350.0 million, the Company is required to maintain a fixed charge coverage ratio (“FCCR”) of at least 1.1. Our ability to borrow under these credit agreements depends upon compliance with the financial covenants.

Our failure to satisfy any covenant, absent a waiver or amendment, would cause us to be in default under our credit facilities and would enable our lenders to accelerate payment of the outstanding indebtedness. Moreover, an event of default accompanied by a demand for accelerated payment under any of our credit facilities would also constitute a default under our Senior Convertible Notes. Each of our credit agreements include cross-default provisions which state that certain types of defaults under any other indebtedness agreement will also constitute a default under that credit agreement. If an event of default occurred, and the lender demanded accelerated payment, we may not be able to satisfy such a pay-off request, whether through internal funds or a new financing.

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

We did not have any unregistered sales of equity securities during the fiscal quarter ended October 31, 2015.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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SIGNATURES

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

Dated: December 7, 2015

TITAN MACHINERY INC.

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

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EXHIBIT INDEX  
TITAN MACHINERY INC.  
FORM 10-Q

| No.  | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1 | Second Amended and Restated Credit Agreement, dated as of October 28, 2015, by and among the registrant, as Borrower, the financial institutions party thereto, as lenders, Wells Fargo Bank, National Association (“Wells Fargo”), as Administrative Agent, Wells Fargo, Bank of America, N.A. (“Bank of America”), PNC Bank, National Association (“PNC”) and Regions Bank (“Regions”), as Joint Lead Arrangers and Joint Book Runners, Bank of America as Syndication Agent, and PNC and Regions, as Co-Documentation Agents (incorporated herein by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed with the Commission on November 2, 2015). |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 101  | Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended October 31, 2015, 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.                                                                                                                                                                                                                                                                                |

+ Management compensatory plan or arrangement