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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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

For the quarterly period ended July 31, 2008

Commission File No. 000-1409171

**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.)

**4876 Rocking Horse Circle  
Fargo, ND 58104-6049**

(Address of Principal Executive Offices)

Registrant's telephone number (701) 356-0130

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if smaller reporting company)

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 September 1, 2008 was: Common Stock, \$0.00001 par value, 17,639,722 shares.

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

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**PART I. – FINANCIAL INFORMATION**

**ITEM 1.            FINANCIAL STATEMENTS**

**TITAN MACHINERY INC.  
CONSOLIDATED BALANCE SHEETS**

	<b>July 31, 2008 (Unaudited)</b>	<b>January 31, 2008</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 86,986,230	\$ 42,802,505
Receivables, net	30,990,211	22,061,275
Inventories	183,170,750	145,766,866
Prepaid expenses	377,570	215,312
Income taxes receivable	649,822	1,074,216
Deferred income taxes	1,174,000	1,027,000
Total current assets	303,348,583	212,947,174
<b>INTANGIBLES AND OTHER ASSETS</b>		
Parts inventory in excess of amounts expected to be sold currently	1,899,000	1,480,000
Goodwill	8,998,264	8,271,133
Intangible assets, net of accumulated amortization	226,051	337,242
Other	377,321	311,581
	11,500,636	10,399,956
PROPERTY AND EQUIPMENT, net of accumulated depreciation	23,161,056	16,022,336
	<u>\$ 338,010,275</u>	<u>\$ 239,369,466</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		

Accounts payable	\$ 13,118,133	\$ 9,244,064
Floorplan notes payable	118,148,218	105,847,648
Current maturities of long-term debt	1,556,920	5,653,840
Customer deposits	29,347,882	19,309,533
Accrued expenses	6,376,984	6,137,842
Total current liabilities	168,548,137	146,192,927
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, less current maturities	2,712,474	13,082,795
Deferred income taxes	2,662,000	1,865,000
Other long term liabilities	2,045,209	811,689
	7,419,683	15,759,484
<b>SUBORDINATED DEBENTURES</b>	—	1,300,000
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.00001 per share, authorized - 25,000,000 shares; issued and outstanding - 17,636,367 at July 31, 2008 and 13,440,654, at January 31, 2008	176	134
Additional paid-in-capital	137,385,435	58,179,695
Retained earnings	24,656,844	17,937,226
	162,042,455	76,117,055
	\$ 338,010,275	\$ 239,369,466

See Notes to Consolidated Financial Statements

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2008	2007	2008	2007
<b>REVENUE</b>				
Equipment	\$ 97,840,658	\$ 61,379,738	\$ 218,754,141	\$ 122,482,367
Parts	23,612,450	14,851,106	45,116,466	27,176,063
Service	10,787,741	7,647,462	19,731,969	13,040,797
Other, including trucking and rental	2,664,647	1,933,562	3,884,832	2,939,351
TOTAL REVENUE	134,905,496	85,811,868	287,487,408	165,638,578
<b>COST OF REVENUE</b>				
Equipment	86,986,321	55,643,074	194,904,237	110,532,663
Parts	16,689,276	10,866,465	32,482,985	20,016,144
Service	3,907,049	2,669,663	7,324,779	4,887,586
Other, including trucking and rental	1,894,049	1,290,608	2,747,256	2,041,358
TOTAL COST OF REVENUE	109,476,695	70,469,810	237,459,257	137,477,751
GROSS PROFIT	25,428,801	15,342,058	50,028,151	28,160,827
OPERATING EXPENSES	19,470,026	11,405,643	37,651,968	21,452,384
INCOME FROM OPERATIONS	5,958,775	3,936,415	12,376,183	6,708,443
<b>OTHER INCOME (EXPENSE)</b>				
Interest and other income	450,404	70,976	760,778	84,634
Floorplan interest expense	(577,877)	(952,023)	(1,299,466)	(1,831,354)
Subordinated debt interest expense	—	(469,874)	(20,917)	(878,992)
Interest expense other	(229,811)	(139,992)	(521,960)	(386,272)
INCOME BEFORE INCOME TAXES	5,601,491	2,445,502	11,294,618	3,696,459
PROVISION FOR INCOME TAXES	(2,269,000)	(989,000)	(4,575,000)	(1,467,663)
NET INCOME	\$ 3,332,491	\$ 1,456,502	\$ 6,719,618	\$ 2,228,796
<b>ADJUSTMENTS TO INCOME:</b>				
Amortization of syndication fees	—	(5,296)	—	(10,592)

Unpaid accumulated preferred dividends	—	(25,594)	—	(51,188)
<b>INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>	<b>\$ 3,332,491</b>	<b>\$ 1,425,612</b>	<b>\$ 6,719,618</b>	<b>\$ 2,167,016</b>
EARNINGS PER SHARE - BASIC	\$ 0.20	\$ 0.33	\$ 0.45	\$ 0.50
EARNINGS PER SHARE - DILUTED	\$ 0.19	\$ 0.22	\$ 0.43	\$ 0.34
WEIGHTED AVERAGE SHARES - BASIC	16,629,671	4,344,753	15,005,930	4,344,753
WEIGHTED AVERAGE SHARES - DILUTED	17,169,719	7,049,941	15,511,739	7,022,385

See Notes to Consolidated Financial Statements

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**TITAN MACHINERY INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)**

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In Capital	Earnings	
BALANCE, JANUARY 31, 2007	4,344,753	\$ 43	\$ 514,864	\$ 12,863,630	\$ 13,378,537
Common stock issued in initial public offering	5,442,395	55	41,793,588	—	41,793,643
Issuance of shares for stock acquisition	235,294	2	1,999,997	—	1,999,999
Issuance of shares for conversion of debt/conversion of redeemable securities/exercise of warrants	3,339,792	33	13,729,791	—	13,729,824
Stock based compensation expense	78,420	1	141,455	—	141,456
Unpaid accumulated dividends	—	—	—	(87,791)	(87,791)
Amortization of syndication fees	—	—	—	(51,311)	(51,311)
Net income	—	—	—	5,212,698	5,212,698
BALANCE, JANUARY 31, 2008	13,440,654	134	58,179,695	17,937,226	76,117,055
Common stock issued in follow-on offering	4,180,000	42	78,856,657	—	78,856,699
Common stock issued on exercise of stock options	15,713	—	40,004	—	40,004
Stock based compensation expense	—	—	309,079	—	309,079
Net income	—	—	—	6,719,618	6,719,618
BALANCE, JULY 31, 2008	17,636,367	\$ 176	\$ 137,385,435	\$ 24,656,844	\$ 162,042,455

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

	Six Months Ended July 31,	
	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 6,719,618	\$ 2,228,796
Adjustments to reconcile net income to net cash from operations		
Depreciation	1,762,282	1,042,241
Amortization	111,191	52,149
Gain on sale of equipment	(14,450)	(21,668)
Deferred income taxes	80,355	—
Net change in other assets	(65,740)	4,779
Stock based compensation expense	309,079	108,000
Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities		
Receivables	(7,674,260)	(402,438)
Inventories	(6,953,477)	(47,151)
Prepaid expenses	(162,258)	(58,276)
Floorplan notes payable	(1,744,716)	(673,097)
Accounts payable	3,528,481	1,016,070
Other long-term liabilities	1,233,520	—
Customer deposits	9,646,917	1,721,548

Accrued expenses	196,004	98,535
Income taxes	424,394	8,400
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>7,396,940</b>	<b>5,077,888</b>
<b>INVESTING ACTIVITIES</b>		
Property and equipment purchases	(3,689,567)	(4,087,337)
Net proceeds from sale of equipment	146,631	103,174
Purchase of equipment dealerships, net of cash purchased	(20,329,409)	(5,126,577)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(23,872,345)</b>	<b>(9,110,740)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from follow-on offering of common stock net of underwriting discount of \$4,389,000 and other direct costs of \$354,301	78,856,699	—
Net change in non-manufacturer floor plan payable	(1,985,140)	(4,606,468)
Proceeds from long-term debt borrowings and subordinated debentures	564,567	4,062,755
Principal payments on long-term debt and subordinated debentures	(16,817,000)	(1,728,045)
Other	40,004	(45,268)
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>60,659,130</b>	<b>(2,317,026)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>44,183,725</b>	<b>(6,349,878)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>42,802,505</b>	<b>7,572,000</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 86,986,230</b>	<b>\$ 1,222,122</b>

See Notes to Consolidated Financial Statements

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	<b>Six Months Ended July 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period		
Income taxes, net of refunds	\$ 4,070,000	\$ 1,476,063
Interest	1,927,245	3,101,046
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Dividends on preferred redeemable stock charged to retained earnings	\$ —	\$ 51,188
Acquisition of equipment dealership assets in exchange for cash and assumption of liabilities including purchase accounting adjustments on prior acquisitions		
Accounts receivable	\$ (1,254,676)	\$ (112,788)
Inventories	(18,199,975)	(8,107,415)
Property and equipment	(5,343,616)	(772,685)
Goodwill	(727,131)	(2,500,000)
Accounts payable	345,588	1,385,932
Floorplan notes payable	3,360,994	3,148,704
Customer deposits	391,432	—
Accrued expenses	43,138	831,675
Income taxes payable	241,915	—
Long term debt	485,192	1,000,000
Deferred income taxes, net	327,730	—
Cash paid for dealerships	\$ (20,329,409)	\$ (5,126,577)

See Notes to Consolidated Financial Statements

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## NOTE 1 - BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation*

The unaudited financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission 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 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. Operating results for the six month period ended July 31, 2008 are not necessarily indicative of the results that may be expected for the year ended January 31, 2009. The information contained in the balance sheet as of January 31, 2008 was derived from the Company's audited financial statements for the year then ended.

### *Nature of Business*

Titan Machinery Inc. (the "Company") is engaged in the retail sale, service and rental of agricultural and industrial machinery through stores in North Dakota, South Dakota, Minnesota, Nebraska and Iowa.

### *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Transportation Solutions, LLC. All significant accounts, transactions and profits between the consolidated companies have been eliminated in consolidation.

### *Recently Issued Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS 157"). This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is the year beginning February 1, 2008 for the Company. The Company adopted SFAS 157 effective February 1, 2008. The adoption of SFAS 157 for financial assets and liabilities held by the Company did not have a material effect on the Company's financial statements or notes thereto.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 ("FSP FAS 157-2"), which permits a one year deferral of the application of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company will adopt SFAS 157 for non-financial assets and non-financial liabilities on February 1, 2009 and does not expect the provisions to have a material effect on its results of operations, financial position or cash flows.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose

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different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has elected not to apply the fair value option to the specified financial assets and liabilities, and accordingly, the adoption of SFAS No. 159 had no financial statement impact.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R provides additional guidance on improving the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is in the process of evaluating the effect that the adoption of this standard will have on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS 160 applies to all entities that prepare consolidated financial statements and have an outstanding noncontrolling interest in one or more subsidiaries. SFAS 160 amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is in the process of evaluating the effect that the adoption of this standard will have on the Company's financial statements.

On December 21, 2007 the SEC staff issued Staff Accounting Bulletin No. 110 ("SAB 110"), which, effective January 1, 2008, amends and replaces SAB 107, Share-Based Payment. SAB 110 expresses the views of the SEC staff regarding the use of a "simplified" method in developing the expected life assumption in accordance with FASB Statement No. 123(R), Share-Based Payment. The use of the "simplified" method, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the "simplified" method in certain situations. The SEC staff does not expect the "simplified" method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The Company plans to track and capture employee exercise behavior in the future as a basis for our valuation

assumptions. The Company currently uses simplified estimates due to the limited number of options exercised.

### Earnings Per Share

Basic earnings per share were computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding during the respective periods. Accumulated preferred dividends and amortization of syndication fees were subtracted from net income to arrive at income available to common stockholders. Nonvested restricted stock is excluded from the calculation of basic weighted-average shares outstanding.

Diluted earnings per share were computed by dividing income available to common stockholders plus assumed conversions by the weighted-average common shares outstanding after adjusting for potential dilution related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted earnings per share.

The components of basic earnings per share are as follows:

Basic - Earnings Per Share	Three Months Ended July 31,		Six Months Ended July 31,	
	2008	2007	2008	2007
Net Income	\$ 3,332,491	\$ 1,456,502	\$ 6,719,618	\$ 2,228,796
Less: Amortization of syndication fees	—	(5,296)	—	(10,592)
Less: Preferred stock dividends - unpaid	—	(25,594)	—	(51,188)
Income available to common stockholders	\$ 3,332,491	\$ 1,425,612	\$ 6,719,618	\$ 2,167,016
Basic weighted-average shares outstanding	16,629,671	4,344,753	15,005,930	4,344,753
Basic – Earnings Per Share	\$ 0.20	\$ 0.33	\$ 0.45	\$ 0.50

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The components of diluted earnings per share are as follows:

Diluted - Earnings Per Share	Three Months Ended July 31,		Six Months Ended July 31,	
	2008	2007	2008	2007
Income available to common stockholders	\$ 3,332,491	\$ 1,425,612	\$ 6,719,618	\$ 2,167,016
Plus: Income impact of assumed conversions				
Amortization of syndication fees	—	5,296	—	10,592
Preferred stock dividends - unpaid	—	25,594	—	51,188
Interest on convertible debentures, net of tax effect	—	80,581	—	161,162
Income available to common stockholders plus assumed conversions	\$ 3,332,491	\$ 1,537,083	\$ 6,719,618	\$ 2,389,958
Diluted weighted-average shares outstanding:				
Basic weighted-average shares outstanding	16,629,671	4,344,753	15,005,930	4,344,753
Plus: Incremental shares from assumed conversions				
Convertible debentures	—	2,006,667	—	2,006,667
Convertible preferred shares	—	466,673	—	466,673
Restricted Stock	85,452	11,487	85,128	11,487
Warrants	115,699	168,443	113,018	145,540
Options	338,897	51,918	307,663	47,265
Diluted weighted-average shares outstanding	17,169,719	7,049,941	15,511,739	7,022,385
Diluted - EPS	\$ 0.19	\$ 0.22	\$ 0.43	\$ 0.34

### NOTE 2 - INVENTORIES

	July 31, 2008	January 31, 2008
New equipment	\$ 109,940,953	\$ 78,409,999
Used equipment	42,641,642	44,478,010
Parts, tires and attachments	27,515,918	20,462,680
Work in process	3,072,237	2,416,177
	<u>\$ 183,170,750</u>	<u>\$ 145,766,866</u>

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

### NOTE 3 - LINE OF CREDIT

The Company entered into a new line of credit agreement with Bremer Bank National Association ("Bremer") on August 28, 2008. The agreement provides for available borrowings of \$25,000,000 and carries a variable interest rate of prime minus .25%, and has a maturity date of August 1, 2009.



This agreement replaces the previous line of \$12,000,000 which existed on July 31, 2008. Similar to the previous line of credit, the new agreement contains certain financial covenants which impose minimum levels of current ratio, debt service coverage, and inventory turnover ratio and a maximum level of debt to tangible net worth ratio. The line is secured by substantially all assets of the Company. The personal guarantee by our Chief

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Executive Officer is no longer required under the new agreement. The Company had no amount outstanding on the Bremer line of credit at July 31, 2008 and January 31, 2008.

**NOTE 4 - LONG TERM DEBT**

	July 31, 2008	January 31, 2008
Variable rate notes payable to CNH Capital America LLC (CNH), variable rates at prime plus 0.3% - 1.6%, varying monthly installment payments maturing August 2012, secured by rental fleet equipment.	\$ 1,520,079	\$ 1,952,440
Non-interest bearing notes to CNH, in varying monthly installments, various maturity dates through February 2010, secured by parts	649,173	1,162,146
Non-interest bearing note to CNH, monthly payments of \$27,147 maturing October 2009, secured by parts, variable interest rate at prime plus 1.6% rate beginning November 2008	407,200	570,080
Fixed rate notes payable to Ford Motor Credit and GMAC, (5.99% to 9.85%), due in monthly installments including interest and various maturity dates through December 2012, secured by vehicles	472,027	291,428
Fixed rate note to Avoca Implement and Greenfield Implement 10.0%, monthly payments of \$18,920, matures January 2011, secured by equipment	681,869	759,080
Fixed rate note to Textron Financial, 7.09%, monthly payments of \$4,969, matures January 2018, secured by a company asset	539,046	549,583
Notes paid in full during six month period ended July 31, 2008	—	13,451,878
	4,269,394	18,736,635
Less current maturities	(1,556,920)	(5,653,840)
	<u>\$ 2,712,474</u>	<u>\$ 13,082,795</u>

Additionally, under covenants of the above notes payable with CNH Capital America LLC and a CNH Capital America LLC floorplan agreement, the Company has agreed, among other things, to maintain various financial ratio levels and to submit certain financial information.

As of July 31, 2008, the Company was in compliance with all of the above covenants.

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Long-term debt maturities are as follows:

12 Months Ending July 31,	Amount
2009	\$ 1,556,920
2010	864,085
2011	737,115
2012	348,773
2013	351,318
Thereafter	411,183
	<u>\$ 4,269,394</u>

**NOTE 5 - FLOORPLAN NOTES PAYABLE**

Floorplan notes payable with a bank and manufacturers carry various interest rates ranging from 1.35 to 10.35% and are secured by substantially all assets of the Company. Repayment terms vary by individual notes, but generally payments are made from sales proceeds or rental revenue from the related inventories. The Bremer floorplan note payable, with a balance of \$138,849 at July 31, 2008, was secured by the personal guarantee of the Company's Chief Executive Officer. The balance of the Bremer floorplan note payable was paid off in August 2008, and the floorplan component of the loan facility with Bremer Bank, including the personal guarantee, has been terminated.

**NOTE 6 - SUBORDINATED DEBENTURES**

During the first quarter of the current fiscal year the Company repaid all \$1,300,000 subordinated debentures that were outstanding as of January 31, 2008.



## NOTE 7 - STOCK WARRANTS, STOCK OPTIONS AND RESTRICTED STOCK

### *Common Stock Warrants*

In April 2003, the Company issued stock warrants to Cherry Tree Securities, LLC, whose chairman is a director of the Company, for 11,917 shares of common stock at an exercise price of \$3.00 per share. The warrants terminate on April 7, 2013. In August 2004, the Company issued an additional 6,071 stock warrants to Cherry Tree Securities at an exercise price of \$3.50 per share. These warrants terminate on July 1, 2014.

In addition, the Company issued stock warrants in April 2005 to an outside party for 115,650 shares of common stock at an exercise price of \$3.50 per share. These warrants expire on April 7, 2013.

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The following is a summary of outstanding stock purchase warrants as of July 31, 2008:

Issue Date	Number	Exercise Price	Fair Value Assigned	Purpose of Issuance
April 2003	11,917	\$ 3.00	\$ 11,200	Facilitate preferred stock issuance
August 2004	6,071	\$ 3.50	\$ 6,600	Facilitate preferred stock issuance
April 2005	115,650	\$ 3.50	\$ 126,000	Subordinated debt financing transaction
	<u>133,638</u>			

Outstanding stock warrants are valued using the Black-Scholes option pricing model. Assumptions used to value the warrants are similar to those used in valuing the stock options as described below. Warrants issued in conjunction with a debt offering are valued and classified as Additional Paid-In Capital per Accounting Principles Board No. 14 *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*.

### *Stock Award Plans*

The Company implemented the 2005 Equity Incentive Plan, a stock-based compensation plan (the "Plan"), during the year ended January 31, 2006. In August 2007, the Plan was amended to increase the number of shares available under the Plan from 500,000 to 1,000,000 shares. The purpose of the Plan is to provide incentive compensation to participants for services that have been or will be performed for continuing as employees or members of the Board of Directors of the Company. Under the Plan, the Company may grant incentive stock options, non-qualified stock options and restricted stock for up to 1,000,000 shares of common stock under all forms of awards. The Company accounts for stock options and restricted stock using the fair value method under SFAS 123(R). Shares issued for stock-based awards may be either authorized but unissued shares, or shares of treasury stock acquired in the open market.

Compensation cost charged to operations under the equity incentive plan was \$309,079 for the six months ended July 31, 2008 and \$108,000 for the six months ended July 31, 2007. The income tax benefit recognized from all stock based compensation arrangements was \$123,600 for the six months ended July 31, 2008 and \$42,100 for the six months ended July 31, 2007.

### *Stock Options*

The Company grants stock options as part of its long-term incentive compensation to employees and members of the Board of Directors of the Company. Stock options vest over a period of four to six years for employees and immediately for members of the Board of Directors and have contractual terms of five to ten years.

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The following table summarizes stock option activity for the six months ended July 31, 2008:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 31, 2008	483,252	\$ 7.43	
Granted	85,000	21.58	
Exercised	(6,667)	6.00	
Forfeited	(16,665)	7.50	
Outstanding at July 31, 2008	<u>544,920</u>	\$ 9.65	\$ 9,682,641
Options exercisable at July 31, 2008	<u>65,753</u>	\$ 4.89	\$ 1,481,681

The aggregate intrinsic value of stock options exercised was \$151,669 for the six months ended July 31, 2008. There were no options exercised for the six months ended July 31, 2007.

The fair value of each stock option granted is estimated using the Black-Scholes pricing model. The following assumptions were made in estimating

fair value:

Assumption	For the Six Months Ended July 31,	
	2008	2007
Dividend Yield	0%	0%
Risk-free interest rate	3.2 - 3.6%	4.9%
Expected life of options	6.75 - 8 years	10 years
Expected volatility	34 - 37%	22%

Prior to the Company's initial public offering the expected volatility was based upon management's best estimate of the value of the shares based upon the Company's internal market. Due to the limited historical stock price data available since our initial public offering, the Company currently estimates its volatility using a blended rate based on quoted market prices of our stock and other similar companies determined by Company management. The expected life of options is estimated consistent with the "simplified" method identified in SAB 107, the use of which was extended by SAB 110. The simplified method calculates the expected term as the average of the vesting and contractual terms of the award. The risk-free interest rate assumption is based on observed interest rates appropriate for the term of the options. The Company uses historical data to estimate pre-vesting option forfeitures and records share-based compensation expense only for those awards that are expected to vest. The Company recognizes the fair value of stock options as compensation expense ratably over the vesting period of the award.

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The following is a summary of information related to options outstanding and exercisable at July 31, 2008:

Range of Exercise Prices	Options Outstanding				Options Exercisable		
	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price		Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 4.00-4.50	124,920	7.9	\$ 4.46		55,752	7.8	\$ 4.42
7.50-9.35	335,000	7.9	8.56		10,001	9.0	7.50
16.40-21.21	65,000	9.7	20.47		—	—	—
23.52-26.84	20,000	9.9	25.18		—	—	—
	<u>544,920</u>	<u>8.2</u>	<u>9.65</u>		<u>65,753</u>	<u>8.0</u>	<u>4.89</u>

As of July 31, 2008, there was \$1,695,000 of unrecognized compensation cost on non-vested stock options that is expected to be recognized over a weighted-average period of 4.4 years.

## *Restricted Stock*

The Company grants restricted shares of common stock in addition to stock options as part of its long-term incentive compensation to employees and members of the Board of Directors of the Company. The fair value of restricted stock awards is determined based on the closing market price of our stock on the business day prior to the date of grant. Restricted stock awards vest over a period of three to six years for employees and over one year for members of the Board of Directors.

The following table summarizes restricted stock activity for the six months ended July 31, 2008:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at January 31, 2008	76,506	\$ 7.86	3.22
Granted	10,178	17.53	
Forfeited	(1,132)	9.76	
Issued	(100)	8.50	
Outstanding at July 31, 2008	<u>85,452</u>	<u>8.98</u>	<u>2.50</u>

The Company recognizes compensation expense ratably over the vesting period of the restricted stock. The weighted average grant date fair value of restricted stock granted was \$17.53. There was no restricted stock granted during the six months ended July 31, 2007. As of July 31, 2008, there was \$486,000 of unrecognized compensation cost on non-vested stock options that is expected to be recognized over a weighted-average period of 2.5 years.

## **NOTE 8 - BUSINESS COMBINATIONS**

The Company continued to implement its strategy of consolidating dealerships in desired market areas. Below is a summary of the acquisitions completed for the six months ended July 31, 2008. In certain of its business combination transactions the Company recognizes goodwill. Factors contributing to the recognition of goodwill include an evaluation of enterprise value,

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historical financial performance, estimated industry potential within the market and the market territory relationship to other existing and future planned Company locations. Pro forma results are not presented as the acquisitions are not considered material, individually or in aggregate, to the Company. The results of operations of the acquired entities disclosed below have been included in the Company's consolidated results of operations since each of the respective dates of acquisition.

#### *Ceres Equipment*

On February 1, 2008, the Company acquired certain assets of Ceres Equipment, Inc. The Dealership is located in Roseau, Minnesota and is contiguous to existing markets. The acquisition increases the Company's market share in the northwest area of Minnesota. The total cash purchase price for the dealership was \$3,940,380. The Company expects the allocation of the purchase price to be finalized during the fiscal year ending January 31, 2009.

#### *Quad County Implement*

On May 1, 2008, the Company acquired 100% of the outstanding stock of Quad County Implement, Inc. The Dealership is located in Blairstown, Iowa and is contiguous to existing markets. The acquisition increases the Company's market share in central Iowa. The total cash purchase price for the dealership was \$2,000,000. The Company expects the allocation of the purchase price to be finalized within one year of the acquisition date.

#### *Mid-Land Equipment Company*

On May 28, 2008, the Company acquired certain assets of Mid-Land Equipment Company, L.C. The acquired entity consisted of six construction equipment stores located in Des Moines, Davenport, Clear Lake and Cedar Rapids, Iowa, and Omaha and Lincoln, Nebraska. These stores are contiguous to existing markets in South Dakota and overlay the existing agricultural locations in Iowa. The total cash purchase price for the dealership was \$14,389,029. The Company expects the allocation of the purchase price to be finalized within one year of the acquisition date.

The allocation of the purchase price in the above business combinations is presented in the following table:

	<b>Ceres Equipment</b>	<b>Quad County Implement</b>	<b>Mid-Land Equipment Company</b>	<b>Prior Acquisition Purchase Adjustments</b>	<b>Total</b>
Receivables	\$ —	\$ 336,043	\$ 918,633	\$ —	\$ 1,254,676
Inventories	3,407,622	4,771,936	10,086,937	(66,520)	18,199,975
Deferred income taxes	—	—	—	26,275	26,275
Property and equipment	472,600	516,725	4,354,291	—	5,343,616
Goodwill	233,178	194,632	259,076	40,245	727,131
	<u>\$ 4,113,400</u>	<u>\$ 5,819,336</u>	<u>\$ 15,618,937</u>	<u>\$ —</u>	<u>\$ 25,551,673</u>
Accounts payable	\$ —	\$ 263,607	\$ 81,981	\$ —	\$ 345,588
Floorplan notes payable	—	2,213,067	1,147,927	—	3,360,994
Customer deposits	173,020	218,412	—	—	391,432
Accrued expenses	—	43,138	—	—	43,138
Income taxes payable	—	241,915	—	—	241,915
Long-term debt	—	485,192	—	—	485,192
Deferred income taxes	—	354,005	—	—	354,005
	<u>\$ 173,020</u>	<u>\$ 3,819,336</u>	<u>\$ 1,229,908</u>	<u>\$ —</u>	<u>\$ 5,222,264</u>
Consideration given	<u>\$ 3,940,380</u>	<u>\$ 2,000,000</u>	<u>\$ 14,389,029</u>	<u>\$ —</u>	<u>\$ 20,329,409</u>

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Of the total goodwill of \$727,131 recorded in the acquisition transactions during the six months ended July 31, 2008, \$492,254 is expected to be deductible for tax purposes.

#### **NOTE 9 - SUBSEQUENT EVENTS**

On September 12, 2008, the Company acquired the assets of Wolf's Farm Equipment for approximately \$0.6 million. The dealership is located in Kintyre, North Dakota. The acquisition expands the Company's presence in central North Dakota.

On September 11, 2008, the Company entered into a Purchase Agreement to acquire the assets of Pioneer Garage, Inc., with three agricultural equipment dealerships. We expect the closing date to be in October 2008. The dealerships are located in Highmore, Pierre, and Miller, South Dakota. The acquisition expands the Company's presence in market areas contiguous to existing dealerships.

#### **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 consolidated financial statements and related notes included in Item 1 of Part 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2008.

## Critical Accounting Policies

There have been no material changes in our Critical Accounting Policies, as disclosed in our Annual Report on Form 10-K for the year ended January 31, 2008.

## Overview

We own and operate one of the largest networks of full service agricultural and construction equipment stores in North America. We are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. We sell and rent agricultural and construction equipment, sell parts, and service the equipment operating in the areas surrounding our stores.

Our net income was \$3.3 million, or \$0.19 per diluted share, in the quarter ended July 31, 2008, compared to \$1.5 million, or \$0.22 per diluted share, in the quarter ended July 31, 2007. Significant factors impacting the quarter were:

- Strong revenue growth due to acquisitions and same-store sales;
- Increase in gross profits primarily due to increased revenues;
- Increase in operating expenses primarily due to acquisitions and increased revenues; and
- Significantly higher diluted weighted average shares resulting from our two offerings, which negatively impacts earnings per share comparisons to the prior year.

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## Results of Operations

Comparative financial data for each of our four sources of revenue are expressed below. The results for these periods include the operating results of the acquisitions made during these periods. The period-to-period comparisons included below are not necessarily indicative of future results (dollars in thousands):

	Three Months Ended July 31,			Six Months Ended July 31,		
	2008	2007	Percent Change	2008	2007	Percent Change
<b>Equipment</b>						
Revenue	\$ 97,840	\$ 61,380	59.4	\$ 218,754	\$ 122,483	78.6
Cost of revenue	86,986	55,643	56.3	194,904	110,533	76.3
Gross profit	\$ 10,854	\$ 5,737	89.2	\$ 23,850	\$ 11,950	99.6
<b>Parts</b>						
Revenue	\$ 23,612	\$ 14,851	59.0	\$ 45,116	\$ 27,176	66.0
Cost of revenue	16,689	10,866	53.6	32,483	20,016	62.3
Gross profit	\$ 6,923	\$ 3,985	73.7	\$ 12,633	\$ 7,160	76.4
<b>Service</b>						
Revenue	\$ 10,788	\$ 7,647	41.1	\$ 19,732	\$ 13,041	51.3
Cost of revenue	3,907	2,670	46.3	7,325	4,888	49.9
Gross profit	\$ 6,881	\$ 4,977	38.2	\$ 12,407	\$ 8,153	52.2
<b>Other, including trucking and rental</b>						
Revenue	\$ 2,665	\$ 1,934	37.8	\$ 3,885	\$ 2,939	32.2
Cost of revenue	1,894	1,291	46.8	2,747	2,041	34.6
Gross profit	\$ 771	\$ 643	19.9	\$ 1,138	\$ 898	26.7

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

	<u>Three Months Ended July 31,</u>		<u>Six Months Ended July 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>(unaudited)</u>		<u>(unaudited)</u>	
Revenue				
Equipment	72.5%	71.5%	76.1%	73.9%
Parts	17.5%	17.3%	15.7%	16.4%

Service	8.0%	8.9%	6.8%	7.9%
Other, including trucking and rental	2.0%	2.3%	1.4%	1.8%
Total revenue	100%	100%	100%	100%
Cost of Revenue				
Equipment	64.5%	64.8%	67.8%	66.7%
Parts	12.4%	12.7%	11.3%	12.1%
Service	2.9%	3.1%	2.5%	3.0%
Other, including trucking and rental	1.4%	1.5%	1.0%	1.2%
Total cost of revenue	81.2%	82.1%	82.6%	83.0%
Gross profit	18.8%	17.9%	17.4%	17.0%
Operating expenses	14.4%	13.3%	13.1%	12.9%
Income from operations	4.4%	4.6%	4.3%	4.1%

Three Months Ended July 31, 2008 Compared to Three Months Ended July 31, 2007

#### Revenue

	Three months ended July 31, 2008	Three months ended July 31, 2007	Increase	Percent change
(dollars in thousands)				
Total revenue	\$ 134,905	\$ 85,812	\$ 49,093	57.2%
Equipment	\$ 97,840	\$ 61,380	\$ 36,460	59.4%
Parts	\$ 23,612	\$ 14,851	\$ 8,761	59.0%
Service	\$ 10,788	\$ 7,647	\$ 3,141	41.1%
Other, including trucking and rental	\$ 2,665	\$ 1,934	\$ 731	37.8%

The increase in revenue for the three months ended July 31, 2008 was due to acquisitions contributing to current period revenue and same-store sales growth. Acquisitions contributed \$35.4 million in total revenue, or 72.1% of the total revenue increase, while same-store sales growth contributed \$13.7 million, or 27.9% of the increase. Same-store sales increased 15.9% over the same period of the prior year, which is indicative of the strong market for our products, particularly in the area of equipment sales. We believe equipment sales were strong in the three months ended July 31, 2008 due to the growth in global demand for agricultural commodities and the positive impact this commodity demand has had on farm income. We anticipate favorable market conditions will continue for fiscal 2009, assuming normal harvest weather conditions.

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#### Cost of Revenue

	Three months ended July 31, 2008	Three months ended July 31, 2007	Increase	Percent change
(dollars in thousands)				
Total cost of revenue	\$ 109,476	\$ 70,470	\$ 39,006	55.4%
Equipment	\$ 86,986	\$ 55,643	\$ 31,343	56.3%
Parts	\$ 16,689	\$ 10,866	\$ 5,823	53.6%
Service	\$ 3,907	\$ 2,670	\$ 1,237	46.3%
Other, including trucking and rental	\$ 1,894	\$ 1,291	\$ 603	46.7%

The increase in cost of revenue for the three months ended July 31, 2008 was primarily due to increased revenue. Acquisitions contributed \$28.6 million in total cost of revenue, or 73.3% of the increase, while same-store sales growth contributed \$10.4 million, or 26.7% of the increase. As a percentage of revenue, cost of revenue was 81.2%, compared to 82.1% for the second quarter of fiscal 2008.

#### Gross Profit

	Three months ended July 31, 2008	Three months ended July 31, 2007	Increase	Percent change
(dollars in thousands)				
Total gross profit	\$ 25,429	\$ 15,342	\$ 10,087	65.7%
Equipment	\$ 10,854	\$ 5,737	\$ 5,117	89.2%
Parts	\$ 6,923	\$ 3,985	\$ 2,938	73.7%
Service	\$ 6,881	\$ 4,977	\$ 1,904	38.3%
Other, including trucking and rental	\$ 771	\$ 643	\$ 128	19.9%

The \$10.1 million increase in gross profit for the three months ended July 31, 2008 was primarily due to increased revenue. Acquisitions contributed \$6.8 million to the gross profit comparison for the three months ending July 31, 2008, which was 67.3% of the increase in total gross profit, while increases in same-store sale gross profits provided the remaining \$3.3 million, or 32.7%, of the gross profit improvement. Gross profit margins were 18.8% for the second quarter of fiscal 2009, compared to 17.9% for the second quarter of fiscal 2008. The current strong market for our

products, particularly equipment, has resulted in improved margins compared to the prior year.

#### Operating Expenses

	Three months ended July 31, 2008	Three months ended July 31, 2007	Increase	Percent change
	(dollars in thousands)			
Operating expenses	\$ 19,470	\$ 11,406	\$ 8,064	70.7%

The \$8.1 million increase in operating expenses was primarily due to the additional costs associated with acquisitions such as compensation, rent and depreciation. Other costs contributing to higher operating expenses were increased sales commission expenses (resulting from increased gross profits), and, to a lesser extent, additional costs associated with being a public company, such as increased legal and accounting costs related to regulatory compliance, particularly Sarbanes-Oxley compliance. As a percentage of total revenue, operating expenses increased to 14.4% for the second quarter of fiscal 2009 from 13.3% for the second quarter of fiscal 2008. This increase was partially caused by higher commission expenses, which are paid based on gross profits. Since our current quarter's equipment margins were notably stronger than the prior year, commission expense as a percent of sales increased. Also contributing to the percentage increase is current quarter Sarbanes-Oxley compliance costs.

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#### Other Income (Expense)

	Three months ended July 31, 2008	Three months ended July 31, 2007	Increase/ (Decrease)	Percent change
	(dollars in thousands)			
Interest and other income	\$ 450	\$ 71	\$ 379	533.8%
Floorplan interest	\$ (578)	\$ (952)	\$ (374)	(39.3)%
Interest expense	\$ (230)	\$ (610)	\$ (380)	(62.3)%

Interest and other income increased in the current quarter due to the higher level of cash and cash equivalents in the current three month period compared to the prior year three month period. The decrease in floorplan interest of \$0.4 million was due to lower borrowing rates compared to the prior year quarter. The decrease in interest expense was primarily due to lower debt levels resulting from the retirement of all subordinated debentures as well as the early extinguishment of a portion of our long-term debt. This debt reduction will continue to result in lower interest expense throughout fiscal 2009 compared to that of fiscal year 2008.

#### Provision for Income Taxes

	Three months ended July 31, 2008	Three months ended July 31, 2007	Increase	Percent change
	(dollars in thousands)			
Provision for income taxes	\$ 2,269	\$ 989	\$ 1,280	129.4%

The effective tax rate increased slightly to 40.5% for the three months ended July 31, 2008 from 40.4% for the three months ended July 31, 2007.

#### Six Months Ended July 31, 2008 Compared to Six Months Ended July 31, 2007

#### Revenue

	Six months ended July 31, 2008	Six months ended July 31, 2007	Increase	Percent change
	(dollars in thousands)			
Total revenue	\$ 287,487	\$ 165,639	\$ 121,848	73.6%
Equipment	\$ 218,754	\$ 122,483	\$ 96,271	78.6%
Parts	\$ 45,116	\$ 27,176	\$ 17,940	66.0%
Service	\$ 19,732	\$ 13,041	\$ 6,691	51.3%
Other, including trucking and rental	\$ 3,885	\$ 2,939	\$ 946	32.2%

The increase in revenue for the six months ended July 31, 2008 was due to acquisitions contributing to current period revenue and same-store sales growth. Acquisitions contributed \$80.3 million in total revenue, or 65.9% of the increase, while same-store sales growth contributed \$41.6 million, or 34.1% of the increase. Same-store sales increased 26.5% over the prior year, which is indicative of the strong market for our products, particularly in the area of equipment sales. We believe equipment sales were strong in the six months ended July 31, 2008 due to the growth in global demand for agricultural commodities and the positive impact this commodity demand has had on farm income. We anticipate favorable market conditions will continue for fiscal 2009, assuming normal harvest weather conditions.

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#### Cost of Revenue

Six months ended	Six months ended	Percent
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	July 31, 2008	July 31, 2007	Increase	change
	(dollars in thousands)			
Total cost of revenue	\$ 237,459	\$ 137,478	\$ 99,981	72.7%
Equipment	\$ 194,904	\$ 110,533	\$ 84,371	76.3%
Parts	\$ 32,483	\$ 20,016	\$ 12,467	62.3%
Service	\$ 7,324	\$ 4,888	\$ 2,437	49.9%
Other, including trucking and rental	\$ 2,747	\$ 2,041	\$ 706	34.6%

The increase in cost of revenue for the six months ended July 31, 2008 was primarily due to increased revenue. Acquisitions contributed \$66.0 million in total cost of revenue, or 66.0% of the increase, while same-store sales growth contributed \$34.0 million, or 34.0% of the increase. As a percentage of revenue, cost of revenue was 82.6% for the second quarter of fiscal 2009, compared to 83.0% for the second quarter of fiscal 2008.

#### Gross Profit

	Six months ended July 31, 2008	Six months ended July 31, 2007	Increase	Percent change
	(dollars in thousands)			
Total gross profit	\$ 50,028	\$ 28,161	\$ 21,867	77.6%
Equipment	\$ 23,850	\$ 11,950	\$ 11,900	99.6%
Parts	\$ 12,633	\$ 7,160	\$ 5,473	76.4%
Service	\$ 12,407	\$ 8,153	\$ 4,254	52.2%
Other, including trucking and rental	\$ 1,138	\$ 898	\$ 240	26.7%

The \$21.9 million increase in gross profit for the six months ended July 31, 2008 was primarily due to increased revenue. Acquisitions contributed \$14.4 million to the gross profit comparison for the six months ending July 31, 2008, which was 66.2% of the total increase in gross profit, while increases in same-store sale gross profits provided the remaining \$7.5 million, or 33.8%, of the gross profit improvement. Gross profit margins were 17.4% for the six months ended July 31, 2008, compared to 17.0% in the prior six month period. The current strong market for our products, particularly equipment, has resulted in improved margins compared to the prior year. The higher equipment margins more than offset the sales mix shift from higher margin revenue (parts and service) to lower margin equipment revenue.

#### Operating Expenses

	Six months ended July 31, 2008	Six months ended July 31, 2007	Increase	Percent change
	(dollars in thousands)			
Operating expenses	\$ 37,652	\$ 21,452	\$ 16,200	75.5%

The increase in operating expenses was primarily due to the additional costs associated with acquisitions such as compensation, rent and depreciation. Other costs contributing to higher operating expenses were increased sales commission expenses (resulting from increased gross profits), and to a lesser extent additional costs associated with being a public company, such as increased legal and accounting costs related to regulatory compliance, particularly Sarbanes-Oxley compliance. As a percentage of total revenue, operating expenses remained relatively constant at 13.1% for the first six months of fiscal 2009 compared to 12.9% for the first six months of fiscal 2008.

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#### Other Income (Expense)

	Six months ended July 31, 2008	Six months ended July 31, 2007	Increase/ (Decrease)	Percent change
	(dollars in thousands)			
Interest and other income	\$ 761	\$ 85	\$ 676	795.3%
Floorplan interest	\$ (1,299)	\$ (1,831)	\$ (532)	(29.1)%
Interest expense	\$ (543)	\$ (1,265)	\$ (722)	(57.1)%

Interest and other income increased \$0.7 million for the six months ended July 31, 2008 due to the higher level of cash and cash equivalents in the current six month period compared to the prior year six month period. The decrease in floorplan interest of \$0.5 million was due to lower borrowing rates compared to the prior year six month period. The decrease in interest expense of \$0.7 million was primarily due to lower debt levels resulting from the retirement of all subordinated debentures as well as the early extinguishment of a portion of our long-term debt. This debt reduction will continue to result in lower interest expense throughout fiscal 2009 compared to that of fiscal year 2008.

#### Provision for Income Taxes

	Six months ended July 31, 2008	Six months ended July 31, 2007	Increase	Percent change
	(dollars in thousands)			
Provision for income taxes	\$ 4,575	\$ 1,468	\$ 3,107	211.6%

The effective tax rate increased to 40.5% for the six months ended July 31, 2008 from 39.7% for the six months ended July 31, 2007. The increase in the effective tax rate from the prior year primarily reflects the changing mix of sales originating in states with higher tax rates. The mix change is primarily impacted by current and prior year acquisitions.



## **Liquidity and Capital Resources**

### *Cash Flow from Operating Activities*

For the six months ended July 31, 2008, our cash flow provided by operating activities was \$7.4 million. Our cash flows from operations were primarily the result of our reported net income of \$6.7 million, an increase in accounts payable of \$3.5 million, an increase in customer deposits of \$9.6 million and an add-back of non-cash depreciation and amortization of \$1.9 million. This amount was principally offset by an increase in receivables of \$7.7 million and an increase in inventories of \$7.0 million. The large increase in customer deposits and receivables is representative of our growth through acquisitions and strong fiscal 2009 second quarter sales activity.

For the six months ended July 31, 2007, our cash flow provided by operating activities was \$5.1 million. Our cash flows from operations were primarily the result of our reported net income of \$2.2 million, an increase in customer deposits of \$1.7 million, an increase in accounts payable of \$1.0 million and an add back of non-cash depreciation and amortization of \$1.1 million. This amount was principally offset by a receivables increase of \$0.4 million and a floorplan notes payable decrease of \$0.7 million.

### *Cash Flow from Investing Activities*

For the six months ended July 31, 2008, cash used for investing activities was \$23.9 million. Our cash used for investing activities primarily consisted of equipment dealership purchases of \$20.3 million and purchases of property and equipment for \$3.7 million. The second quarter \$14.4 million purchase of the assets of Mid-Land Equipment Company was the most significant cash acquisition for the current year. Due to our higher cash levels resulting from our public offering proceeds, the Company has been assuming fewer liabilities in recent acquisitions, which therefore have required higher cash payments at the time of acquisition.

For the six months ended July 31, 2007, cash used for investing activities was \$9.1 million. Our cash used for investing activities related to purchases of equipment dealerships (net of cash purchased) was \$5.1 million and purchases of property and equipment was \$4.1 million.

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### *Cash Flow from Financing Activities*

For the six months ended July 31, 2008, cash provided from financing activities was \$60.7 million. Cash provided by financing activities was primarily the result of \$78.9 million in net proceeds from our second quarter follow-on offering. Partially offsetting these proceeds were principal payments on long-term debt and subordinated debentures of \$16.8 million.

For the six months ended July 31, 2007, cash used for financing activities was primarily the result of a decrease in the net change in non-manufacturer floorplan payables of \$4.6 million, proceeds from long-term debt borrowings and subordinated debentures of \$4.1 million and principal payments on long term debt of \$1.7 million.

## **Sources of Liquidity**

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

## **Adequacy of Capital Resources**

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

Based on our current operational performance, we believe our cash flow from operations, the proceeds from our public offerings, available cash and available borrowings under the existing credit facilities will adequately provide our liquidity needs for, at a minimum, the next 12 months.

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

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance 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 rental equipment under operating leases.

## **PRIVATE SECURITIES LITIGATION REFORM ACT**

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Such “forward-looking” information is included in this Quarterly Report on Form 10-Q, including the MD&A section, as well as in our Annual Report on Form 10-K for the year ended January 31, 2008 that was filed with the Securities and Exchange Commission, 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 (i) our beliefs that our market share is growing, (ii) our beliefs with respect to market conditions, including our belief that favorable market conditions will continue for fiscal 2009, and (iii) our expectations and beliefs with respect to the uses 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 equipment industries, and those matters identified and discussed in our Annual Report on Form 10-K under the section titled “Risk Factors”.

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

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

Based upon balances and interest rates as of July 31, 2008, 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 \$367,000. 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 \$367,000. At July 31, 2008, we had variable rate floorplan notes payable of \$118.1 million, of which approximately \$35.2 million was interest-bearing, variable notes payable and long-term debt of \$1.5 million, and fixed rate notes payable and long-term debt of \$2.7 million.

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

**ITEM 4. CONTROLS AND PROCEDURES**

- (a) *Evaluation of disclosure controls and procedures.* After evaluating the effectiveness of the Company’s disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (“the Exchange Act”) as of the end of the period covered by this quarterly report, our 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 are effective to ensure that information that is required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities Exchange Commission. Our chief executive officer and chief financial officer, with the participation of the Company’s management, have also concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures.

Based on evaluations occurring prior to the end of the period covered by this quarterly report, our chief executive officer and chief financial officer concluded that certain internal control deficiencies existed. In light of these deficiencies, management took the actions, as discussed below, prior to and during the first and second quarter to address such deficiencies.

- (b) *Changes in internal controls.* There has not been any change in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) as promulgated by the Securities and Exchange Commission under the Act) 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. During the second quarter of fiscal 2009, the Company continued to implement the actions identified in its Form 10-Q for the Company’s third quarter of fiscal 2008 relating to remediating past control deficiencies.

**PART II. - - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

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**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, 2008 as filed with the United States 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 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.

There have been no material changes to the risk factors described in our Form 10-K.

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

On December 11, 2007, we closed the initial public offering ("IPO") of our common stock, pursuant to which we sold 5,442,395 shares of our common stock and selling stockholders sold 1,457,605 shares. We filed a Registration Statement on Form S-1 in connection with the IPO (SEC File No. 333-145526) that was declared effective on December 6, 2007, as well as a Registration Statement on Form S-1 relating to an increase in the proposed maximum aggregate offering price (SEC File No. 333-147859). We received net proceeds, after expenses, from the IPO of approximately \$41.8 million. Offering expenses related to the IPO included an underwriting discount of approximately \$3.2 million and other offering expenses of approximately \$1.2 million. During the six-month period ended July 31, 2008, we used \$1.3 million of the net proceeds from the IPO to repay subordinated debt held by former owners of acquired dealerships, \$5.5 million to repay term debt held primarily by CNH Capital and former owners of acquired dealerships, \$9.4 million to repay fixed rate long-term debt from Bremer Bank, \$3.9 million to acquire certain assets of Ceres Equipment, Inc., \$14.4 million to acquire certain assets of Mid-Land Equipment Company, and \$2.0 million to acquire the outstanding stock of Quad County Implement. We intend to use the remaining proceeds from the IPO to fund potential acquisitions of CNH agricultural and construction equipment dealerships and for general corporate purposes, including working capital needs.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The stockholders of the Company voted on one item, the election of two Class I directors, at the Annual Meeting of Stockholders held on June 3, 2008:

Proxies for the Annual Meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934. There was no solicitation in opposition to management's nominees, and the stockholders elected the following persons as directors of the Company to serve until the 2011 Annual Meeting:

Nominee	Votes For	Votes Withheld
Tony Christianson	11,906,252	206,387
James Irwin	11,975,817	136,822

The following individuals will continue to serve as directors of the Company: David Meyer, Peter Christianson, Gordon Paul Anderson, John Bode, and James Williams.

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## ITEM 5. OTHER INFORMATION

On September 9, 2008, our Compensation Committee approved the Titan Machinery Inc. Executive Bonus Plan. Under the Executive Bonus Plan, our Chief Executive Officer and President-Chief Financial Officer may earn a potential bonus of up to 200% of his or her base salary in a fiscal year and each other executive officer may earn a potential bonus of up to 70% of his or her base salary depending on such person's position. The Plan provides that 40% of the eligible bonus for our named executive officers is based upon achievement of Titan's annual pre-tax net income goal, 20% is based on achievement of Titan's annual total sales goal and 20% is based on Titan's annual return on assets goal. The remaining 20% of the eligible bonus is based upon achievement of personal position-specific goals approved by the Compensation Committee after consultation with the named executive officers. The personal position-specific goals for the named executive officers may relate to share performance, respective department personnel development, execution of strategies related to acquisitions, real estate, financing and investments, internal and external reporting or implementation of unique position-specific projects that may vary annually. The annual bonuses will be paid 100% in cash.

A copy of the Executive Bonus Plan has been filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q.

## ITEM 6. EXHIBITS

- (a) Exhibits - See Exhibit Index on page following signatures

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 15, 2008

**TITAN MACHINERY INC.**

By /s/ Peter J. Christianson  
Peter J. Christianson

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EXHIBIT INDEX  
TITAN MACHINERY INC.  
FORM 10-Q

Exhibit No.	Description
**10.1	Loan Agreement, dated August 28, 2008, between Bremer Bank, N.A. and the registrant
**10.2	Titan Machinery Inc. Executive Bonus Plan
**31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*\*Filed herewith

EX-10.1 2 a08-23457\_1ex10d1.htm EX-10.1

**Exhibit 10.1**

LOAN AGREEMENT

THIS LOAN AGREEMENT is made as of August 28, 2008, between **TITAN MACHINERY INC.**, a Delaware corporation with its principal offices located in Fargo, North Dakota, and **BREMER BANK, N.A.**, a national banking association with offices located in Lisbon, North Dakota.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth below, the Bank and the Borrower agree as follows:

ARTICLE I - DEFINITIONS

Section 1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

- (a) The terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular.
- (b) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP.

“Advance” means an advance by the Bank to the Borrower pursuant to Section 2.1.

“Agreement” means this Loan Agreement together with all amendments, modifications and restatements thereof.

“Bank” means Bremer Bank, N.A., its successors or assigns.

“Borrower” means Titan Machinery Inc.

“Borrowing Base Certificate” means a writing, in the form of Exhibit “A” attached hereto, completed and signed by the Borrower as contemplated by this Agreement.

“Collateral Documents” means the security agreement, financing statement, pledges, intercreditor agreements, landlord disclaimer and consent agreements and all other collateral documents referred to in Section 3.1 and Section 8.20.

“Cost of Goods Sold” shall have the meaning assigned to it in accordance with GAAP.

“Current Assets” shall mean the aggregate amount of the Borrower’s assets properly shown as current assets on its balance sheet, determined in accordance with GAAP, minus the following: receivables and other amounts due from any shareholder, director, officer or employee of the

Borrower, and receivables and other amounts due from any other related or affiliated Person of the Borrower.

“Current Liabilities” shall mean the aggregate amount of the Borrower’s liabilities properly shown as current liabilities on its balance sheet, determined in accordance with GAAP.

“Debt” shall mean the aggregate amount of the Borrower’s items properly shown as liabilities on its balance sheet, determined in accordance

with GAAP, less any liabilities that constitute Subordinated Debt.

“Eligible Equipment” means the dollar value of all equipment (including vehicles) of the Borrower accounted for at the lower of net book value as determined in accordance with GAAP or the appraised value of such equipment as determined by Steffes Auction Company or such other auction company selected by the Bank pursuant to an appraisal on terms and conditions satisfactory to the Bank. Without limiting the discretion of the Bank to consider any item of equipment not to be Eligible Equipment, and by way of example only of types of equipment that the Bank will consider not to be Eligible Equipment, notwithstanding any earlier classification of eligibility, the following shall not be considered Eligible Equipment (i) any equipment which is not located on the Premises of the Borrower; (ii) any equipment which is obsolete or not useable in the normal course of the Borrower’s operations; and (iii) any equipment in which the Bank does not have a perfected security interest constituting a first lien.

“Eligible Equipment Inventory” means the dollar value of New Equipment Inventory and Used Equipment Inventory of the Borrower in which the Bank holds a first perfected security interest accounted for at the lower of cost or fair market value computed on a first-in-first-out basis in accordance with GAAP, which New Equipment Inventory and Used Equipment Inventory has been paid for by the Borrower in full and provided, further, that Eligible Equipment Inventory, shall not, in any event, include:

- (a) inventory which is (i) in-transit; or (ii) not located on the Borrower’s Premises or in another location approved by the Bank in writing; or (iii) not subject to an effective financing statement filed by the Bank to perfect a first security interest in such inventory; or (iv) on consignment to or from any other Person or subject to any bailment; or (v) subject to any lien in favor of any Person other than the Bank;
- (b) raw materials and work in process;
- (c) supplies, packaging and parts inventory;
- (d) inventory that is damaged, obsolete or not currently saleable in the normal course of the Borrower’s operations;

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- (e) inventory that the Borrower has returned, has attempted to return, is in the process of returning or intends to return to the vendor thereof; and
- (f) inventory otherwise deemed ineligible by the Bank in its sole discretion.

“Eligible Parts Inventory” means the dollar value of the parts inventory of the Borrower in which the Bank holds a perfected first security interest accounted for at the lower of cost or fair market value computed on a first-in-first-out basis in accordance with GAAP. Without limiting the discretion of the Bank to consider any parts not to be Eligible Parts Inventory, and by way of example only, Eligible Parts Inventory shall not, in any event, include:

- (a) parts inventory which are (i) in-transit; or (ii) not located on the Borrower’s Premises or in another location approved by the Bank in writing; or (iii) not subject to an effective financing statement filed by the Bank to perfect a security interest in such inventory; or (iv) on consignment to or from any other Person or subject to any bailment.
- (b) parts inventory that is damaged, obsolete or not currently saleable in the normal course of the Borrower’s operations;
- (c) parts inventory that the Borrower has returned, has attempted to return, is in the process of returning or intends to return to the vendor thereof; and
- (d) parts inventory otherwise deemed ineligible by the Bank in its sole discretion.

“Eligible Receivables” means only such accounts receivable of the Borrower as the Bank, in its sole discretion, shall deem eligible. Without limiting the discretion of the Bank to consider any account receivable not to be an Eligible Receivable, and by way of example only of types of accounts receivable that the Bank will consider not to be Eligible Receivables, notwithstanding any earlier classification of eligibility, the following accounts receivable shall not be considered Eligible Receivables: (i) any account receivable which is not paid in full within 90 days after it is created; (ii) any account receivable as to which any warranty is breached; (iii) any account receivable as to which the account debtor or other obligor disputes liability or makes any claim; (iv) any account receivable owed by any officer, director or shareholder of the Borrower or any of their relatives or any Person wholly or partly owned or controlled directly or indirectly by any of them or any of their relatives; (v) any account receivable owed by any Person as to whom a petition in bankruptcy or other application for relief is filed under any bankruptcy, reorganization, receivership, moratorium, insolvency or similar law; (vi) any account receivable owed by any Person who makes an assignment for the benefit of creditors, becomes insolvent, fails, suspends business, or goes out of business; (vii) any account receivable owed by the United States government or any agency of the United States government or any account owned by a Native American Sovereign Nation; (viii) any account receivable owed by any Person if 10% or more in amount of accounts receivable owed by such Person to the Borrower are considered ineligible; (ix) consignment receivables; (x) bonded

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receivables; (xi) any account receivable constituting a retainage; (xii) any account receivable for goods which have not been shipped or work which has not been fully performed; (xiii) any account receivable owed by any Person outside the United States of America; (xiv) any account receivable owed by any Person with whose creditworthiness the Bank becomes dissatisfied; (xv) any intercompany account receivable; and (xvi) any account receivable in which the Bank does not have a perfected security interest constituting a first lien.

In the event the Borrower owes any amount to any Person that owes an account receivable to the Borrower, such amount owed by the

Borrower shall be deducted from that portion of the account receivable which would otherwise qualify as an Eligible Receivable and only the difference thereof shall be considered an Eligible Receivable. No account receivable which does not qualify as an Eligible Receivable shall be considered an Eligible Receivable unless the Bank, upon the written request of the Borrower, states in writing that such account receivable is to be considered an Eligible Receivable.

“Environmental Laws” means all federal, state, local and foreign laws, statutes, codes, ordinances, regulations, requirements, rules and common law relating in any way to any hazardous or toxic materials or the protection of the environment.

“Event of Default” has the meaning specified in Section 7.1.

“GAAP” means the generally accepted accounting principles in the United States in effect from time to time including, but not limited to, Financial Accounting Standards Board (FASB) Standards and Interpretations, Accounting Principals Board (APB) Opinions and Interpretations, and certain other accounting principles which have substantial authoritative support.

“Letter of Credit” means any one or more irrevocable letters of credit which may be issued by the Bank for the account of the Borrower. (Nothing in this Agreement shall be construed as a commitment by the Bank to issue any letters of credit for the account of the Borrower.)

“Letter of Credit Amount” means the sum of (i) the aggregate amount available for drawing under any issued and outstanding Letter of Credit, and (ii) amounts drawn under any Letter of Credit for which the Bank has not been reimbursed.

“L/C Application” means an application and agreement for letters of credit in the Bank’s then current standard form.

“Net Worth” shall mean the aggregate amount of the Borrower’s items properly shown as assets on its balance sheet minus the aggregate amount of the Borrower’s items properly shown as liabilities on its balance sheet, determined in accordance with GAAP, plus Subordinated Debt.

“New Equipment Inventory” means new whole goods inventory held for sale by the Borrower in the ordinary course of the Borrower’s business which new equipment inventory (i) is ready for sale

to customers of the Borrower; (ii) meets all standards imposed by any governmental agency; (iii) is located on the Premises of the Borrower; (iv) is not obsolete; (v) is not on consignment to or from any other Person or been sold or otherwise delivered, transferred or conveyed to any other Person or is subject to any bailment or lease; (vi) is subject to a perfected security interest constituting a first lien in favor of the Bank; (vii) does not have more than fifty (50) hours of use; and (viii) is not Used Equipment Inventory.

“Note” means the promissory note described in Section 2.1, together with any subsequent renewals, modifications, extensions and substitutions thereof.

“Obligations” means each and every debt, liability and obligation of every type and description which the Borrower may now or at any time hereafter owe to the Bank including, without limitation, the indebtedness arising under this Agreement, the Note and the L/C Applications.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, cooperative or other business entity, unincorporated organization, or government or any agency or political subdivision thereof.

“Premises” means the equipment dealerships operated by the Borrower in Lisbon, Lidgerwood, Kulm, Wishek, Jamestown, LaMoure, Wahpeton, Casselton, Bismarck, West Fargo, Mandan, Grand Forks and Fargo, North Dakota; Watertown, Aberdeen, Sioux Falls, Rapid City, Huron and Redfield, South Dakota; Pipestone, Graceville, Marshall, Fergus Falls, Elbow Lake, Roseau, Crookston, Ada and Moorhead, Minnesota; Waverly, Kingsley, Le Mars, Cherokee, Anthon, Dike, Des Moines, Blain, Blirstown, Cedar Rapids, Grundy Center, Davenport, Avoca, Greenfield, Clear Lake and Sioux City, Iowa; and Omaha and Lincoln, Nebraska.

“Subordinated Debt” shall mean Debt that is expressly subordinated to the Bank in a writing acceptable to the Bank.

“Tangible Net Worth” shall mean Net Worth minus the aggregate amount of the Borrower’s items properly shown as the following types of assets on its balance sheet determined in accordance with GAAP; (i) goodwill, patents, non-competes, copyrights, mailing lists, trade names, trademarks, servicing rights, organizational and franchise costs, bond underwriting costs, and other like assets properly classified as intangible; (ii) leasehold improvements; (iii) receivables, loans and other amount due from any shareholder, director, officer or employee of the Borrower, and receivables, loans and other amounts due from any other related or affiliated Person of the Borrower; and (iv) investments or other interests in non-public companies, cooperatives, entities or partnerships.

“Total Loan Value” means (i) seventy-five percent (75%) of the Borrower’s Eligible Receivables; plus (ii) fifty percent (50%) of the Borrower’s Eligible Equipment less an amount equal to the unpaid balance of any obligations owing any Person supplying or financing the purchase of or having a lien or security interest in any equipment, other than the Bank; plus (iii) fifty percent (50%) of the Borrower’s Eligible Equipment Inventory less an amount equal to the unpaid balance

of any obligations owing the person supplying or financing the purchase of any equipment inventory or having a lien or security interest in any equipment inventory, other than the Bank; plus (iv) the Borrower’s Eligible Parts Inventory less an amount equal to the unpaid balance of any obligations owing any Person supplying or financing the purchase of any parts inventory or having a lien or security interest in any parts inventory, other than the Bank, all multiplied by fifty percent (50%); less (v) the Letter of Credit Amount all as determined by the Borrower in accordance with GAAP,

consistently applied and as reflected by and determined in accordance with the Borrowing Base Certificate.

"Used Equipment Inventory" means all used whole goods inventory held for sale or rent by the Borrower in the ordinary course of the Borrower's business which used equipment inventory (i) is ready for sale to customers of the Borrower; (ii) meets all standards imposed by any governmental agency; (iii) is located on the Premises of the Borrower; (iv) is not obsolete; (v) is not on consignment to or from any other Person or been sold or otherwise delivered, transferred or conveyed to any other Person or is subject to any bailment or lease; (vi) is subject to a perfected security interest constituting a first lien in favor of the Bank; and (vii) is not New Equipment Inventory.

## ARTICLE II - AMOUNT AND TERMS OF LOANS

Section 2.1 Revolving Loan. Subject to the terms and conditions of this Agreement, the Bank may, in its discretion, make Advances to the Borrower under this Section from time to time from the date hereof in the aggregate amount not to exceed at any one time outstanding the sum of Twenty-five Million Dollars (\$25,000,000). Within the limits set forth in this Section, the Borrower may borrow, prepay and re-borrow under this Section. The obligation to repay the Advances made pursuant to this Section shall be evidenced by a promissory note payable to the Bank and containing the terms relating to the repayment, interest rate and other matters as set forth in Schedule 2.1 attached to and made a part of this Agreement ("Note").

Section 2.1.1 Purpose of Advances. The purpose for the first Advance under Section 2.1 is to replace, but not satisfy, an existing obligation of the Borrower to the Bank dated August 7, 2007, in the original principal amount of \$12,000,000. Subsequent Advances under Section 2.1 shall be used solely for the short term working capital requirements of the Borrower.

Section 2.1.2 Making Advances. Each Advance under the Note shall be made on written, oral, electronic or telephonic request from any Person purporting to be authorized to request Advances on behalf of the Borrower or in such other manner as the Bank and the Borrower may from time to time agree; which notice or request shall specify the date of the requested Advance and the amount thereof. Upon the Borrower's fulfillment of the applicable conditions set forth in Article III, the Bank may disburse the amount of the requested Advance by crediting the same to the Borrower's demand deposit account maintained with the Bank or in such other manner as the Bank and the Borrower may from

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time to time agree. Any request for an Advance, whether written, oral, electronic or telephonic, shall be deemed to be a representation that the statements set forth in Section 3.2 are correct. Any Advance request pursuant to Section 2.1 shall be made at least one bank business day prior to the date of the desired Advance and shall be made by Kevin Harrison or David J. Meyer or Ted Christianson or Peter Christianson on behalf of the Borrower. Notwithstanding the immediately foregoing sentence, in the absence of bad faith on the part of the Bank, the Borrower shall be obligated to repay all Advances notwithstanding the fact that the Person requesting the same was not in fact authorized to do so.

Section 2.1.3 Discretionary Advances. The Borrower understands and agrees that notwithstanding that conditions to Advances and various covenants and Events of Default are set forth herein as would be common to a loan agreement in which the lender made a commitment to lend, the Bank may, in its sole discretion and for any reason whatsoever, refuse to make Advances pursuant to Section 2.1 even though the Borrower may be in perfect compliance with this Agreement.

Section 2.1.4 Loan Advance Formula. The Borrower's ability to request Advances pursuant to Section 2.1 shall be limited in the aggregate principal amount at any one time outstanding, to the lesser of: (a) \$25,000,000; or (b) the Total Loan Value. Notwithstanding anything to the contrary in this Agreement or under the terms of the Note, if at any time the aggregate principal amount outstanding under the Note exceeds the lesser of (a) \$25,000,000 or (b) the Total Loan Value, the Borrower shall immediately repay to the Bank the amount of the excess which payment shall be applied to the Note.

Section 2.1.5 Clean Up. Notwithstanding anything to the contrary contained in this Agreement or the Note, the Borrower agrees that for a period of fifteen (15) consecutive days during the term of the Note, there shall be no outstanding balance owing the Bank under the Note.

Section 2.1.6 Non-Usage Fee. The Borrower shall pay the Bank a non-usage fee ("Non-Usage Fee") at an annual rate equal to .50% applied to the average monthly unused amount of the Note, as determined by the Bank in its reasonable discretion, payable monthly on the 1<sup>st</sup> day of each month, in arrears. Any Non-Usage Fee remaining unpaid at the time the Note is due and payable in full shall be due and payable on that date.

Section 2.2 Letters of Credit. The Bank may in its sole discretion, issue for the Borrower's account, from the date hereof to and including July 31, 2009 or until an Event of Default occurs, whichever occurs first, one or more irrevocable standby letters of credit (each a "Letter of Credit") to be used to secure payment to supplier(s) of the Borrower in connection with the Borrower's purchase of inventory from such suppliers. The Bank shall have no obligation to issue any Letter of Credit to the extent its face amount would exceed, when combined with the face amount of other issued Letters of Credit, the sum of \$1,000,000 or, when combined with Advances made under Section 2.1 would exceed the Total Loan Value. Each Letter of Credit, if any, shall be issued

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pursuant to a separate L/C Application entered into by the Borrower and the Bank for the benefit of the issuer, completed in a manner satisfactory to the Bank. The terms and conditions set forth in each such L/C Application shall supplement the terms and conditions hereof, but if the terms of any such L/C Application and the terms of this Agreement are inconsistent, the terms of this Agreement shall control. No Letter of Credit shall be issued with an expiry date later than July 31, 2009.



Section 2.2.1 Payment of Amounts drawn under Letters of Credit; Obligation of Reimbursement. The Borrower shall reimburse the Bank for all draws under any Letter of Credit in accordance with the applicable L/C Application as follows:

- (a) The Borrower hereby agrees to pay the Bank on the day a draft is honored under any Letter of Credit a sum equal to all amounts drawn under such Letter of Credit plus any and all reasonable charges and expenses that the Bank may pay or incur relative to such draw and the applicable L/C Application, plus interest on all such amounts, charges and expenses as set forth below (the Borrower's obligation to pay all such amounts is herein referred to as the "Obligation of Reimbursement").
- (b) Whenever a draft is submitted under a Letter of Credit, the Bank shall make an Advance under Section 2.1 in the amount of the Obligation of Reimbursement and shall apply the proceeds of such Advance thereto. Such Advance shall be repayable in accordance with and be treated in all other respects as an Advance under Section 2.1.
- (c) If a draft is submitted under a Letter of Credit when the Borrower is unable, because an Event of Default then exists or for any other reason, to obtain an Advance to pay the Obligation of Reimbursement, the Borrower shall pay to the Bank on demand and in immediately available funds, the amount of the Obligation of Reimbursement together with interest, accrued from the date of the draft until payment in full. Notwithstanding the Borrower's inability to obtain an Advance for any reason, the Bank is irrevocably authorized, in its sole discretion, to make an Advance in an amount sufficient to discharge the Obligation of Reimbursement and all accrued but unpaid interest thereon.
- (d) The Borrower's obligation to repay any Advance made under this Section 2.2, shall be evidenced by the Note.

Section 2.2.2 Discretionary Advances. The Bank may at any time and for any reason refuse to make an Advance or to issue a Letter of Credit for the Borrower's account whether the Borrower is or is not in compliance with this agreement. The Bank need not show that an adverse change has occurred in the Borrower's condition, financial or otherwise, in order to refuse to issue any Letter of Credit.

Section 2.3 Payment. All payments of principal and interest under this Agreement or the Note shall be made to the Bank in immediately available funds. The Borrower agrees that the amount shown on the books and records of the Bank as being the aggregate amount of Advances outstanding under the Note shall be prima facie evidence of the principal amount of the Note then outstanding. The Borrower hereby authorizes the Bank, if and to the extent payment is not promptly made pursuant hereto, to charge against the Borrower's account with the Bank an amount equal to the accrued interest and principle from time to time due and payable to the Bank under the Note.

Section 2.4 Payment on Non-Business Days. Whenever any payment to be made hereunder or under the Note shall be stated to be due on a Saturday, Sunday or a holiday for banks under the laws of the State of North Dakota, or the United States, such payment may be made on the next succeeding bank business day, and such extension of time shall in such case be included in the computation of payment of interest on the Note.

Section 2.5 Late Fees. The Borrower agrees to pay to the Bank a late payment service charge in an amount equal to five percent (5%) of any installment of principal or interest (excluding any final installment) not received by the Bank with respect to the Note within ten (10) days of the date due but in no event shall such late payment service charge exceed the maximum amount allowed by law. Acceptance by the Bank of any late fee shall not constitute a waiver of any Event of Default.

### ARTICLE III - CONDITIONS OF LENDING

Section 3.1 Conditions Precedent to Initial Advance. The willingness of the Bank to consider making the Advances under Article II (including the initial Advance) is subject to the condition precedent that the Bank shall have received on or before the day of such Advance all of the following, each dated (unless otherwise indicated) such day, in form and substance satisfactory to the Bank:

- (a) The Note duly executed.
- (b) A certified copy of the resolutions of the Borrower authorizing the execution, delivery and performance of this Agreement, the Note, Collateral Documents and other matters contemplated hereby.
- (c) Copies of the articles of incorporation and bylaws of the Borrower certified by its secretary as being true and correct.
- (d) Evidence that the Borrower is in good standing with the office of the Delaware Secretary of State, North Dakota Secretary of State, Minnesota Secretary of State, South Dakota Secretary of State, Nebraska Secretary of State and Iowa Secretary of State.

- (e) Intercreditor agreements executed by Case LLC, Case Credit Corporation, New Holland Credit Company, LLC, New Holland North America, Inc., GE Commercial Distribution Finance Corporation and such other third party creditors of the Borrower as the Bank deems necessary, in form and content satisfactory to the Bank.
- (f) A security agreement duly executed and related financing statement, together with any such other documentation required by the Bank, whereby to secure the Obligations of the Borrower to the Bank, the Borrower grants the Bank a perfected security interest in all of the Borrower's inventory, equipment, fixtures, contract rights, accounts and other rights to payment, deposit accounts and

general intangibles whether now owned or hereafter acquired and wherever located and the products and proceeds thereof all as more specifically set forth in the security agreement.

- (g) Evidence that the security interest granted by the security agreement referred to in (f) above is subject only to the prior liens, if any, contemplated by the intercreditor agreements referred to in (e) above and the purchase money liens contemplated by Section 6.2 (f).
- (h) A certificate of insurance evidencing a policy or policies of insurance covering the Borrower's operations and property as required by Section 5.7 of this Agreement, such policy to insure against all risks and names the Bank as mortgagee/lender loss payee on all property policies which insures the property of the Borrower subject to the Collateral Documents.
- (i) A signed copy of an opinion of counsel for the Borrower addressed to the Bank and its participants in form and substance acceptable to the Bank.
- (j) A completed Borrowing Base Certificate.
- (k) Copies of all leases of real property under which the Borrower is a tenant, together with a Landlord's Disclaimer and Consent in favor of the Bank, in form and content acceptable to the Bank, from the landlord of each such lease properly executed on behalf of such landlord.
- (l) Any and all other agreements, documents, instruments and powers as the Bank may require or deem necessary, in its sole discretion, to carry into effect the purposes of the documents described in this Section 3.1 and this Agreement.

Section 3.2 Conditions Precedent to Advance. The willingness of the Bank to consider making each Advance (including the initial Advance) under Article II is subject to the further conditions precedent that on the date of such Advance.

- (a) The representations and warranties contained in Article IV are correct on and as of the date of such Advance as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.
- (b) No event has occurred and is continuing, or would result from such Advance, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

#### ARTICLE IV - REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to consider making the Advances described in this Agreement, the Borrower hereby represents, warrants and certifies to the Bank as follows:

Section 4.1 Existence and Power. The Borrower is a Delaware corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and is duly licensed or qualified to transact business in all jurisdictions, where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary. The Borrower's chief executive office is located in Fargo, North Dakota. The Borrower has all requisite power and authority to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under this Agreement, the Note and the Collateral Documents.

Section 4.2 Authorization of Borrowing; No Conflict as to Law or Agreements. The execution, delivery and performance by the Borrower of this Agreement, the Note and the Collateral Documents, has been duly authorized by all necessary corporate action and does and will not (i) require any consent or approval of the shareholders of the Borrower, or any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect having applicability to the Borrower or of the articles of incorporation or bylaws of the Borrower, (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement, lease or instrument to which the Borrower is a party or by which its properties may be bound or affected, or (iv) result in or require the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest, or other charge or encumbrance of any nature (other than under the Collateral Documents) upon or with respect to any of the properties now owned or hereafter acquired by the Borrower.

Section 4.3 Financial Condition. The Borrower has furnished the Bank with an audited financial statement as of January 31, 2008. The financial statement fairly represents the financial

condition of the Borrower on the date thereof, and was prepared in accordance with GAAP. There has been no material adverse change in the business, properties or condition (financial or otherwise) of the Borrower since the date of the financial statement.

Section 4.4 Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened or affecting the Borrower or the properties of the Borrower before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which, if determined adversely, would have a material adverse affect on the financial condition, properties or operations of the Borrower.

Section 4.5 Taxes. The Borrower has filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by them to the extent such taxes have become due.

Section 4.6 Titles and Liens. The Borrower has good title to each of the properties and assets reflected in the latest financial statement referred to in Section 4.3 free and clear of all mortgages, security interests, liens and encumbrances except for mortgages, security interests and liens disclosed on such financial statement.

Section 4.7 Legal Agreements. This Agreement constitutes, and the Note, and the Collateral Documents, when executed and delivered hereunder, will constitute the legal, valid and binding obligations of the Borrower (or the maker thereof), enforceable against it in accordance with their respective terms, except as enforcement may be limited by the application of bankruptcy and other laws effecting creditors' rights generally.

Section 4.8 Default. The Borrower is not in default of a material provision under any material agreement, instrument, decree or order to which it is a party or by which its properties are bound or affected.

Section 4.9 Pension Plans. The Borrower has not established or maintained, or made any contributions to, any employee benefit plan which is subject to Part 3 of Subtitle B of Title 1 of ERISA or, if such a plan has been so established, maintained or contributed to, such plan did not have any "accumulated funding deficiency" (as that term is defined in Section 302 of ERISA) as of the date hereof, and, without limiting the generality of the foregoing, the Borrower has not incurred any material liability to the Pension Benefit Guaranty Corporation with respect to any such plan.

Section 4.10 Environmental Matters.

- (a) The Borrower is not in violation of any Environmental Laws; and
- (b) No disposal or release of any hazardous or toxic material has occurred on, from or under any property owned, operated or controlled by the Borrower,

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except as may have occurred in accordance with all applicable Environmental Laws; and

- (c) There has been no treatment, manufacturing, refining, handling or storage of any hazardous or toxic material at any property owned, operated or controlled by the Borrower, except as may have occurred in accordance with all applicable Environmental Laws; and
- (d) No litigation, investigation or administrative action has been commenced or is pending or threatened, nor has any settlement been reached with any public or private party or parties, or any order issued, relating in any way to any alleged or actual presence, disposal or release of any hazardous or toxic material or any violation of any Environmental Laws with respect to any property owned, operated or controlled by the Borrower; and
- (e) The Borrower and all tenants of the Borrower have filed all notices and permit applications required to be filed under the Environmental Laws with respect to their businesses, property and operations; and
- (f) Except as set forth in Schedule 4.10 (f), the Borrower has no known contingent liability with respect to its business, property or operations as now or previously owned, operated, controlled or conducted by the Borrower in connection with any hazardous or toxic material or any Environmental Laws.

Section 4.11 Use of Loans. The Borrower is not engaged, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carry margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Advance hereunder will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing any such margin stock.

Section 4.12 Licenses, Franchises, Etc. The Borrower possesses adequate licenses, permits, franchises, patents, copyrights, trade marks and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted.

Section 4.13 Consents. No consent, approval, order or authorization of, or registration, declaration or filing with, or notice to, any governmental authority or any third party is required in connection with the execution and delivery of this Agreement, the Note, Collateral Documents, or any other agreements or instruments mentioned in this Agreement to which the Borrower is a party, or in connection with the carrying out or performance of any of the transactions required or contemplated hereby or thereby or, if required, such consent, approval, order or authorization has been obtained or such registration, declaration or filing has been accomplished or such notice has been given prior to the date hereof.

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Each of the representations and warranties made in this Article IV shall be deemed to be repeated and reaffirmed on and as of the date any Advance is made by the Bank to the Borrower pursuant to Article II hereof and as of the date any Letter of Credit is issued pursuant to Article II hereof.

## ARTICLE V - AFFIRMATIVE COVENANTS

So long as Obligations to the Bank shall remain unpaid, the Borrower will comply with the following requirements unless the Bank shall otherwise consent in writing, all in form and substance acceptable to the Bank:

Section 5.1 Financial Statements, Litigation, Etc.

- (a) The Borrower will deliver to the Bank, as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, a copy of the audit report of the Borrower with the unqualified opinion of independent certified public accountants selected by the Borrower and acceptable to the Bank, all in reasonable detail and all prepared in accordance with GAAP.
- (b) The Borrower will deliver to the Bank within 30 days after the end of each calendar month, a balance sheet of the Borrower as of the end of such month, a related statement of earnings and retained earnings for such period and for the year to date, and an accounts receivable aging report and accounts payable report, in reasonable detail and stating in comparative form the figures for the corresponding date and period of the previous year, all prepared in accordance with GAAP.
- (c) As soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, the Borrower shall deliver to the Bank copies of the federal and state tax returns (including all forms and supporting schedules) filed by the Borrower for such year.
- (d) Immediately after the commencement thereof, the Borrower shall provide the Bank with notice in writing of all litigation affecting the Borrower of the type described in Section 4.4 or which seek a monetary recovery against the Borrower in excess of \$50,000.
- (e) Immediately upon the occurrence thereof, the Borrower shall give the Bank notice of the occurrence of any Event of Default under this Agreement or any event of which the Borrower has knowledge and which, with the passage of time, or giving of notice or both, would constitute an Event of Default under this Agreement.

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- (f) Immediately upon the occurrence thereof, the Borrower shall give the Bank notice of any material adverse change in the operations, business, properties, assets or conditions, financial or otherwise, of the Borrower, which could adversely and materially affect the Borrower's ability to perform its obligations under this Agreement, the Note or the Collateral Documents.
- (g) The Borrower will deliver to the Bank within 30 days after the end of each calendar month, and as often as the Bank may request, a completed Borrowing Base Certificate.
- (h) The Borrower will deliver to the Bank at such times as the Bank may request, the most current Dealer Statement from Case and New Holland detailing which items of the Borrower's inventory are subject to floor plan financing from Case and New Holland as well as comparable documentation from GE Commercial Distribution Finance Corporation.
- (i) The Borrower will deliver to the Bank at such times as the Bank may request, a monthly inventory report and new inventory orders report of the Borrower.
- (j) Concurrently with the delivery of the audit report referred to in (a) above, a certificate by the CEO of the Borrower (i) certifying as to whether there exists an Event of Default on the date of such certificate or if an Event of Default then exists specifying the details thereof and the action which the Borrower has taken or proposes to take with respect thereto, (ii) setting forth in reasonable detail calculations demonstrating compliance with the financial covenants set forth in this Agreement, and (iii) stating whether any change in GAAP or the application thereof has occurred since the date of the Borrower's most recent previously delivered audited financial statements and, if any changes occurred, specifying the effect of such change on the financial statements accompanying such certificate.
- (k) Concurrently with the delivery of the audit report referred to in (a) above, a certificate of the accounting firm reported on such financial statements stating whether it obtained any knowledge during the course of its examination of such financial statements of the occurrence of an Event of Default, (which certificate may be limited to the extent required by accounting rules and guidelines).
- (l) The Borrower shall deliver such other information respecting the financial condition and results of operations of the Borrower as the Bank may from time to time request.

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**Section 5.2 Books and Records; Inspection and Examination.** The Borrower will keep accurate books of record and account in which true and complete entries will be made in accordance with GAAP consistently applied and, upon request of the Bank, will give any representative of the Bank access to, and permit such representative to examine, copy or make extracts from, any and all books, records and documents in its possession, to inspect any of its properties and to discuss its affairs, finances and accounts with any of its principal officers, all at such times during normal business hours and as often as the Bank may reasonably request. In addition, the Borrower agrees to permit the Bank or its agents or representatives, at the Borrower's expense, to conduct periodic collateral audits of the Borrower's business and inventories, such audits to be conducted not less often than once each calendar quarter should the Bank so desire.

**Section 5.3 Compliance with Laws.** The Borrower will comply with the requirements of applicable laws and regulations, the noncompliance with which would materially and adversely affect its business or its financial condition.

**Section 5.4 Payment of Taxes and Other Claims.** The Borrower will pay or discharge all taxes, assessments and governmental charges levied or imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto and all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon any properties of the Borrower provided, that the Borrower shall not be required to pay any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 5.5 Maintenance of Properties. The Borrower will keep and maintain all of its properties necessary or useful in its business in good condition, repair and working order; provided, however, that nothing in this Section shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in its judgment, desirable in the conduct of its business and not disadvantageous in any material respect to the Bank as holder of the Note.

Section 5.6 Preservation of Existence. The Borrower will preserve and maintain its corporate existence and all of its rights, privileges and franchises; provided, however, that the Borrower shall not be required to preserve any of its rights, privileges and franchises if the Borrower shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Borrower and that the loss thereof is not disadvantageous in any material respect to the Bank as the holder of the Note.

Section 5.7 Insurance. The Borrower shall (i) keep all of its properties adequately insured at all times with responsible insurance carriers against loss or damage by fire and other hazards, (ii) maintain adequate insurance at all times with responsible insurance carriers against liability on account of damage to persons or property, and (iii) maintain adequate insurance covering such other risks as the Bank may reasonably request. For purposes of this Section, insurance shall be deemed adequate if the same is not less extensive in coverage and amount as is customarily maintained by

other entities engaged in the same or similar business. All insurance policies shall name the Bank as loss payee or beneficiary and shall otherwise be acceptable to the Bank. The Borrower shall provide the Bank with a detailed list of the insurance in effect, setting forth the names of the insurance companies, the amounts and rights of insurance, the dates of expiration, and the properties and risks covered thereby. Acceptance of the insurance policies referred to above shall not bar the Bank from requiring additional insurance which it deems reasonably necessary. The policies of insurance referred to herein shall contain an agreement of the insurer to give not less than thirty (30) days advance written notice to the Bank in the event of cancellation of such policy or change affecting the coverage thereunder. All such insurance companies shall be licensed to transact business in the State where the insured property is located. In the event the Borrower fails to pay any premium on any such insurance, the Bank may do so, and the Borrower shall reimburse the Bank for any such payment on demand.

Section 5.8 Environment. The Borrower shall remain in compliance with the provisions of all Environmental Laws and shall notify the Bank immediately of any notice of any hazardous discharge or other environmental complaint received from any governmental agency or any other Person and shall immediately contain or remove the same in compliance with all applicable laws and promptly pay any fine or penalty assessed in connection therewith. The Borrower hereby agrees to defend, indemnify, and hold the Bank harmless from and against any and all claims, damages, judgments, penalties, costs, and expenses (including attorney fees and court costs now or hereafter arising from the enforcement of this Section) arising directly or indirectly from the activities of the Borrower, its predecessors in interest, or third parties arising directly or indirectly from any violation of any Environmental Laws. This indemnity shall survive termination of this Agreement.

#### ARTICLE VI - NEGATIVE COVENANTS

So long as the Obligations of the Borrower to the Bank remain unpaid, the Borrower agrees that, without the prior written consent of the Bank:

Section 6.1 Indebtedness. The Borrower will not incur, create, assume or permit to exist any indebtedness or liability on account of deposits or advances or any indebtedness for borrowed money, or any other indebtedness or liability evidenced by notes, bonds, debentures, installment sale contracts or similar obligations except the following:

- (a) Pledges or deposits held by the Borrower under federal and state laws relating to the payroll of the Borrower.
- (b) The obligations to the Bank under the Note.
- (c) The indebtedness and obligations described in the financial statement referred to in Section 4.3 of this Agreement.

(d) Purchase money obligations incurred by the Borrower for new inventory purchased by the Borrower in the ordinary course of the operation of the business of the Borrower.

Section 6.2 Liens. The Borrower will not create, incur, assume or suffer to exist any mortgage, deed of trust, pledge, lien, security interest, or other charge or encumbrance of any nature on any of its assets, now owned or hereafter acquired or assign or otherwise convey any right to receive income excluding, however, from the operation of the foregoing:

- (a) Liens for taxes or assessments or other governmental charges to the extent not required to be paid by Section 5.4.
- (b) Materialmen's, merchants', carriers', workmen's, repairmen's or other like liens arising in the ordinary course of business to the extent not required to be paid by Section 5.4.
- (c) Pledges or deposits to secure obligations under workmen's compensation laws, unemployment insurance and social security laws, or to secure the performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases or to secure statutory obligations or surety or appeal bonds, or to secure indemnity, performance or other similar bonds in the ordinary course of business.
- (d) Zoning restrictions, easements, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such property in the operation of the Borrower's business or the value of such property for the purpose of such business.

(e) Security interest and liens granted to the Bank under the Collateral Documents.

(f) Purchase money security interests for new inventory purchased by the Borrower from its suppliers in the ordinary course of the operation of the business of the Borrower.

(g) The security interests, mortgages and liens that are reflected on the financial statement of the Borrower referred to in Section 4.3 of this Agreement.

Section 6.3 Conduct of Business. The Borrower will not enter into or engage in any business which is not presently conducted by the Borrower.

Section 6.4 Sale of Assets. The Borrower will not sell, lease, assign, transfer or otherwise dispose of any of its assets (whether in one transaction or in a series of transactions) to any Person other than in the ordinary course of business.

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Section 6.5 Sale and Leaseback. The Borrower will not enter into any arrangement, directly or indirectly, with any other Person whereby it shall sell or transfer any real or personal property, whether now owned or hereafter acquired, and then or thereafter rent or lease as lessee such property or any part thereof or any other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

Section 6.6 Consolidation/Merger. The Borrower will not consolidate with or merge into any Person or permit any other Person to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger), any assets of any Person.

Section 6.7 Guaranties. With the exception of its guaranty of certain obligations of the Meyer Family Limited Partnership owing the Bank, the Borrower will not assume, guarantee, endorse or otherwise become liable for the obligation of any Person except by endorsement of negotiable instruments for deposit or collection in the ordinary course of business, nor sell any notes or accounts receivable with recourse.

Section 6.8 Current Ratio. As measured at the end of each fiscal quarter of the Borrower, the Borrower shall not allow its ratio of Current Assets to Current Liabilities to be less than 1.20 to 1.00.

Section 6.9 Debt to Tangible Net Worth. As measured at the end of each fiscal year of the Borrower, the Debt of the Borrower shall not exceed the Tangible Net Worth of the Borrower by a ratio greater than 3.50 to 1.00.

Section 6.10 Debt Service Coverage Ratio. As measured at the end of each fiscal quarter of the Borrower, the Borrower shall not allow its debt service coverage ratio to be less than 1.20 to 1.00 on a rolling twelve month basis. Debt service coverage ratio shall be defined as the ratio computed when the sum of (i) net operating income; plus (ii) depreciation and amortization expense; plus (iii) interest expense is divided by the sum of (i) current maturities of long term debt; plus (ii) interest expense for interest actually paid.

Section 6.11 Distributions. Upon the occurrence of an Event of Default, the Borrower shall not make any distributions to the shareholders of the Borrower whether in cash, assets or in obligations of the Borrower; or pay or remit any salary, loan, rent, bonus, consultant fee or other form of compensation to the shareholders of the Borrower or allocate or otherwise set apart any sum for the payment of any dividend or distribution on, or for the purchase or redemption of any shareholder interests; or make any other distribution to the shareholders of the Borrower.

Section 6.12 Subsidiaries. The Borrower has no subsidiaries [Persons in which the Borrower owns or controls, directly or indirectly, 50% or more of the voting ownership interest of such Person ("Subsidiaries")] or affiliates and shall not create or permit to exist any Subsidiaries of the Borrower.

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Section 6.13 Fiscal Year. The Borrower shall not change its fiscal year.

Section 6.14 Organizational Documents .. The Borrower shall not amend, modify, replace or restate its articles of incorporation or bylaws.

Section 6.15 Acquisitions. The Borrower shall not acquire, in whole or in part, any stock or other ownership interest in any Person nor shall it acquire in any transaction or series of transactions all or a substantial part of any of the assets of any Person.

Section 6.16 New Equipment Inventory Turnover. As measured at the end of each fiscal quarter of the Borrower, the Borrower shall not allow its ratio of (i) the Cost of Goods Sold of new equipment inventory to (ii) the dollar value of the Borrower's new equipment inventory, accounted for at the lower of cost or fair market value computed on a first-in first-out basis to be less than 2.00 to 1.00 on a rolling twelve month basis.

Section 6.17 Used Equipment Inventory Turnover. As measured at the end of each fiscal quarter of the Borrower, the Borrower shall not allow its ratio of (i) the Cost of Goods Sold of Used Equipment Inventory to (ii) the dollar value of the Borrower's Used Equipment Inventory, accounted for at the lower of cost or fair market value computed on a first-in first-out basis to be less than 2.00 to 1.00 on a rolling twelve month basis.

Section 6.18 Parts Inventory Turnover. As measured at the end of each fiscal quarter of the Borrower, the Borrower shall not allow its ratio of (i) the Cost of Goods Sold of parts inventory to (ii) the dollar value of the Borrower's parts inventory, accounted for at the lower of cost or fair market value computed on a first-in first-out basis to be less than 1.50 to 1.00 on a rolling twelve month basis.

## ARTICLE VII - EVENTS OF DEFAULT, RIGHTS AND REMEDIES

Section 7.1 Event of Default. “Event of Default,” wherever used herein, means any one of the following events:

- (a) Failure to make any payment, when due, of the principal or interest of the Note.
- (b) Any representation or warranty made by the Borrower in this Agreement or by the Borrower in any certificate, instrument or statement contemplated by or made or delivered pursuant to or in connection with this Agreement, shall prove to have been incorrect in any material respect when made.
- (c) Default in the performance, or breach, of any covenant or agreement of the Borrower in this Agreement or by the Borrower or any maker of any covenant or agreement in the Collateral Documents, Note or any other agreement with

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the Bank (other than a covenant or agreement a default in whose performance or whose breach is elsewhere in this Section specifically dealt with).

- (d) The Borrower shall voluntarily file, or have filed against them involuntarily, a petition for liquidation, reorganization, adjustment of debt or similar relief under the federal Bankruptcy Code or any present or future state or other federal bankruptcy or insolvency law, or a receiver, trustee, or similar officer shall be appointed for it or for all or a substantial part of their property.
- (e) The rendering against the Borrower of a final judgment, decree or order for the payment of money and the continuance of such judgment, decree or order unsatisfied and in effect for any period of 30 consecutive days without a stay of execution.
- (f) A default under any bond, debenture, note or other evidence of indebtedness of the Borrower (including to the Bank) or under any indenture or other instrument under which any such evidence of indebtedness has been issued or by which it is governed and the expiration of the applicable period of grace, if any, specified in such evidence of indebtedness, indenture or other instrument.
- (g) The Collateral Documents shall, at any time after their execution and delivery and for any reason, cease (i) to create a valid and perfected first priority lien/security interest (unless otherwise provided for in this Agreement) in and to the property purported to be subject to such Collateral Documents; or (ii) to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by the maker of such Collateral Documents, or the maker shall deny it has any further liability or obligation under the Collateral Documents.
- (h) If the Borrower shall dissolve or cease to be a validly existing corporation under the laws of the State of Delaware or cease to be authorized to do business in the State(s) of North Dakota, South Dakota, Nebraska, Iowa, Minnesota or any other jurisdiction in which it is required to be authorized to do business.
- (i) In the event the Borrower is in default of its Master Dealer Agreements with Case or New Holland.
- (j) In the event the Master Dealer Agreements of the Borrower with Case or New Holland are cancelled or terminated for any reason.

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- (k) In the event the Borrower is no longer authorized, for any reason, to be a Case or New Holland dealer for any of its dealerships located at the Premises (or any dealership locations subsequently acquired) provided that the combined gross revenue from the dealerships that are no longer authorized to be Case or New Holland dealers equals or exceeds, in the aggregate, twenty-five percent (25%) or more of the gross revenue of the Borrower as set forth in the audited financial statement referred to in Section 4.3.

Section 7.2 Rights and Remedies. Immediately upon the occurrence of an Event of Default or at any time thereafter until such Event of Default is cured to the written satisfaction of the Bank, the Bank may exercise any one or more of the following rights and remedies:

- (a) The Bank may, without notice to the Borrower, declare all Obligations then outstanding, all interest accrued and unpaid thereon, and all other amounts payable under this Agreement to be forthwith due and payable, whereupon such Obligations, all such accrued but unpaid interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower.
- (b) The Bank may, without notice to the Borrower, and without further action, set-off and apply any and all money owing by the Bank to the Borrower to the payment of the Obligations, then outstanding, including interest accrued thereon, and of all other sums then owing by the Borrower.
- (c) The Bank may exercise and enforce the rights and remedies available to it under the Note, Collateral Documents, or any other agreement or by law.

## ARTICLE VIII - MISCELLANEOUS

Section 8.1 No Obligation To Renew. The Borrower understands and expressly agrees that the Bank is under no obligation to renew or extend this Agreement, or the Note, or provide any other or additional financing. The Bank's decision with respect to any renewals, extensions or additional financing will be a separate, independent decision and may involve factors other than, or in addition to, the Borrower's creditworthiness or



prior relationship with the Bank.

Section 8.2 No Waiver; Cumulative Remedies. No failure or delay on the part of the Bank in exercising any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

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Section 8.3 Amendments. No amendment, modification, termination or waiver of any provision of this Agreement, the Collateral Documents, the Note, or any other document contemplated by this Agreement, or consent by the Bank to any departure therefrom shall be effective unless the same shall be in writing and signed by the Bank and then such waiver or consent shall be effective only in the specific instance and for the specific purpose which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

Section 8.4 Addresses for Notices. Except as otherwise expressly provided herein, all notices, requests, demands and other communications provided for hereunder shall be in writing and mailed or delivered to the applicable party at its address indicated below:

If to the Borrower:

Titan Machinery Inc.  
ATTN: David J. Meyer  
PO Box 10818  
Fargo, ND 58106-0818

If to the Bank:

Bremer Bank, N.A.  
ATTN: Wes Well  
PO Box 273  
Lisbon, ND 58054-0273

or, as to each party, at such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this section. All such notices, requests, demands and other communications shall, when mailed, be effective when deposited in the mails, addressed as aforesaid, except that notices or requests to the Bank pursuant to any of the provisions of Article II shall not be effective until received by the Bank.

Section 8.5 Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts, when taken together, shall constitute but one and the same instrument.

Section 8.6 Binding Effect, Assignment. This Agreement shall be binding upon and inure to the benefit of the Borrower, and the Bank, and its respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Bank.

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Section 8.7 Governing Law. The loan to the Borrower as evidenced by this Agreement was negotiated and made within the State of North Dakota and, accordingly, shall be governed by, and construed in accordance with, the laws of the State of North Dakota.

Section 8.8 Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

Section 8.9 Further Assurances. The Borrower agrees to do such further acts and things and execute and deliver such agreements, powers and instruments as the Bank may reasonably require or deem necessary to carry into effect the purposes of this Agreement.

Section 8.10 Conflicting Provisions. This Agreement shall control with respect to any of its provisions that conflict or are inconsistent with the Note, Collateral Documents, and any other such documents executed in connection with this Agreement, but to the extent not conflicting or inconsistent, the Note, Collateral Documents, and any other such documents executed in connection with this Agreement, shall be in full force and effect.

Section 8.11 Relationship. The Bank is acting in its sole capacity as a lending institution with respect to the Borrower and there is no partnership or agency relationship created. The Bank assumes no fiduciary duty and no conditions or suggestions of action or inaction shall be deemed to constitute participation by the Bank in the business of the Borrower.

Section 8.12 Ramification of Provisions. The Borrower has reviewed this Agreement, the Note, Collateral Documents, and any other such documents executed in connection with this Agreement, and has had the opportunity to consult with its attorneys regarding the ramifications and effect of this Agreement, the Note, Collateral Documents, and other such documents executed in connection with this Agreement.

Section 8.13 Entire Agreement. This Agreement constitutes the entire agreement between the parties and shall not in any way be modified, varied or amended unless in writing signed by the parties.

Section 8.14 Headings. Such headings used in this Agreement are for the convenience of reference only and shall not affect the construction of this Agreement.

Section 8.15 Jurisdiction/Venue. The Borrower consents to jurisdiction as to all issues concerning or relating to this Agreement, the Note and the Collateral Documents with the federal or state district courts designated for Ransom County, North Dakota.

Section 8.16 Expenses. The Borrower shall, on demand by the Bank, reimburse the Bank for any and all costs and expenses, including without limitation reasonable attorneys' fees, paid or incurred by either the Bank in connection with (i) the preparation of this Agreement, the Note, the

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Collateral Documents, and any other document or agreement related hereto or thereto, and the transactions contemplated hereby, which amount shall be paid prior to the making of any Advance hereunder; (ii) the negotiation of any amendments, modifications or extensions to or any of the foregoing documents, instruments or agreements and the preparation of any and all documents necessary or desirable to effect such amendments, modifications or extensions; and (iii) the enforcement by the Bank during the term hereof or thereafter of any of the rights or remedies of the Bank under any of the foregoing documents, instruments or agreements or under applicable law, whether or not suit is filed with respect thereto.

Section 8.17 Adequate Financing. The Borrower warrants and represents that the extensions of credit provided for under the terms and conditions of this Agreement constitute adequate and sufficient financing by the Bank.

Section 8.18 Participation/Assignments. The Bank shall have the right, but not the obligation, to assign all or a portion of the indebtedness evidenced by the Note or grant participation in all or a portion of the indebtedness evidenced by the Note to other Persons and shall have the right to disclose any and all information, financial or otherwise, regarding the Borrower to such potential participants and assignees.

Section 8.19 Interest Limitation. All agreements between the Bank and the Borrower are expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity or prepayment of the obligations of the Borrower owing the Bank, shall the amount of interest paid or agreed to be paid to Bank for the use, forbearance, loaning or retention of the obligations of the Borrower owing the Bank exceed the maximum permissible interest rate under applicable law. If, from any circumstances whatsoever, fulfillment of any provisions of any of the Note or Collateral Documents shall involve transcending the limit of validity prescribed by law, then the obligation to be fulfilled shall automatically be reduced to the limit of such validity. If, from any circumstances, the Bank should ever receive as interest an amount which would exceed the highest lawful interest rate, such amount which would be in excess of such highest lawful interest rate shall be applied to reduction of the principal balance evidenced by the Note and not to the payment of interest. This provision shall control every other provision of the Note and Collateral Documents between the Bank and the Borrower and shall be binding upon and available to any subsequent holder of the Note.

Section 8.20 Prior Documentation. The Borrower shall be bound by and shall continue to comply with all documents previously executed and delivered to the Bank including, but not limited to, security agreements, financing statements and subordination agreements except to the extent that this Agreement is inconsistent or conflicting with any such previous agreements or documents. This Agreement shall replace that certain loan agreement among the Bank and the Borrower dated August 7, 2007, as amended.

Section 8.21 Waiver of Jury. In the interest of expediting any disputes that might arise between the parties to this Agreement, the parties hereby waive their respective rights to a trial by

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jury of any dispute or claim concerning this Agreement, the Note, the Collateral Documents and any other documents or agreements contemplated by or executed in connection with this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

BREMER BANK, N.A.

By /s/ Wes Well  
Wes Well  
President

TITAN MACHINERY INC.

By /s/ David J. Meyer  
David J. Meyer  
Its CEO and Chairman

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PROMISSORY NOTE  
(Note)

\$25,000,000

Lisbon, North Dakota  
August 28, 2008

For value received, the undersigned, **TITAN MACHINERY INC.**, a Delaware corporation ("Borrower"), promises to pay to the order of **BREMER BANK, NATIONAL ASSOCIATION**, a national banking association, ("Bank") at its office in Lisbon, North Dakota or such other place as the holder hereof may from time to time in writing designate, in lawful money of the United States of America, the principal sum of Twenty-five Million Dollars (\$25,000,000), or, if less, the aggregate unpaid principal amount of all Advances made by the Bank to the undersigned pursuant to Section 2.1 of that certain Loan Agreement between the Borrower and the Bank dated August 28, 2008, (together with all amendments, modifications and restatements thereof the "Agreement"), and remaining unpaid at maturity, together with interest on all principal amounts hereunder remaining unpaid from time to time from the date of the initial Advance hereunder at an annual rate (computed on a 365/360 basis; that is by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding) equal to the Index Rate less .25 percentage points. As used herein, the Index Rate means the rate of interest announced as the Bremer Financial Reference Rate which rate is subject to change from time to time. The Index Rate is not necessarily the lowest rate charged by the Bank on its loans and is set by the Bank in its sole discretion. The Borrower understands that the Bank may make loans based on other rates as well. If the Index Rate becomes unavailable during the term of this Note, the Bank may designate a substitute Index Rate. The Bank will advise the Borrower of the current Index Rate upon the Borrower's written request. The Index Rate change will not occur more than once daily. The Index Rate as of the date of this Note is equal to 5% resulting in an initial rate of interest under this Note of 4.75%. Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

The entire principal balance, and any unpaid accrued interest, of this Note shall be due and payable in full on August 1, 2009, unless payment in full is demanded earlier under the Agreement. Accrued interest on this Note shall be paid monthly commencing September 1, 2008, and continuing on the same day of each month thereafter until this Note is paid in full.

This Note is the Note referred to in the Agreement and the holders hereof are entitled to all of the benefits provided for in the Agreement, to which Agreement reference is hereby made for a statement of the terms and conditions under which this indebtedness was incurred and is to be repaid and under which provisions of the due date of this Note may be accelerated. Payment of this Note is secured by the Collateral Documents referred to in the Agreement. The provisions of the Agreement are incorporated by reference herein with the same force and effect as though fully set forth herein. The terms used in this Note shall have the same definitions as provided for in the Agreement.

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Schedule 2.1

This Note shall be subject to a late payment service charge as set forth in the Agreement.

This Note shall be subject to the Non-Usage Fee as set forth in the Agreement.

All payments on this Note shall be first applied to the payment of any costs of collection and attorneys' fees that may be due hereon (as allowed by law), then to the payment of accrued interest and finally to the payment of principal.

This Note is issued and shall be governed by the laws of the State of North Dakota. All makers, endorsers, sureties, guarantors, and other accommodation parties hereby waive presentment for payment, protest and notice of non-payment; and a consent without affecting their liability hereunder, to any and all extensions, renewals, substitutions, and alterations of any of the terms of this Note and to release of, or failure by the Bank to exercise any rights against, any party liable for or any property securing payment thereof.

The Borrower hereby waives the right to any jury trial in any action, proceeding or counterclaim brought by either the Bank or the Borrower against the other.

TITAN MACHINERY INC.

By /s/ David J. Meyer  
David J. Meyer  
Its CEO and Chairman

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EX-10.2 3 a08-23457\_1ex10d2.htm EX-10.2

**Exhibit 10.2**

**TITAN MACHINERY INC.**  
**Description of Executive Bonus Plan**

Titan Machinery Inc.'s Executive Bonus Plan (the "Plan") is designed to reward executive officers for achievement of performance relating to Titan's goals and achievement of personal goals annually set by the Compensation Committee.

Our Chief Executive Officer and President-Chief Financial Officer may earn a potential bonus of up to 200% of his or her base salary in a fiscal year and each other named executive officer may earn a potential bonus of up to 70% of his or her base salary depending on such person's position. The Plan provides that 40% of the eligible bonus for our named executive officers is based upon achievement of Titan's annual pre-tax net income goal, 20% is based on achievement of Titan's annual total sales goal and 20% is based on Titan's annual return on assets goal. The remaining 20% of the eligible bonus is based upon achievement of personal position-specific goals approved by the Compensation Committee after consultation with the

named executive officers. The personal position-specific goals for the named executive officers may relate to respective department personnel development, execution of strategies related to acquisitions, real estate, financing and investments, internal and external reporting, or implementation of unique position-specific projects that may vary annually.

The annual bonus will be paid 100% in cash.

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EX-31.1 4 a08-23457\_1ex31d1.htm EX-31.1

**EXHIBIT 31.1**

**CERTIFICATION  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT**

I, David J. Meyer, Chief Executive Officer of Titan Machinery Inc., certify that:

1. I have reviewed this report on Form 10-Q of Titan Machinery Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 15, 2008

/s/ David J. Meyer  
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David J. Meyer  
Chief Executive Officer

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EX-31.2 5 a08-23457\_1ex31d2.htm EX-31.2

**EXHIBIT 31.2**

**CERTIFICATION  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Peter J. Christianson, Chief Financial Officer of Titan Machinery Inc., certify that:

1. I have reviewed this report on Form 10-Q of Titan Machinery Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in

Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 15, 2008

/s/ Peter J. Christianson

Peter J. Christianson  
Chief Financial Officer

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EX-32.1 6 a08-23457\_1ex32d1.htm EX-32.1

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Titan Machinery Inc. (the "Company") on Form 10-Q for the quarter ended July 31, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, David J. Meyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 15, 2008

/s/ David J. Meyer

David J. Meyer  
Chief Executive Officer

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EX-32.2 7 a08-23457\_1ex32d2.htm EX-32.2

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Titan Machinery Inc. (the "Company") on Form 10-Q for the quarter ended July 31, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Peter J. Christianson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 15, 2008

/s/ Peter J. Christianson

Peter J. Christianson  
Chief Financial Officer

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