

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2019

Commission File No. 001-33866

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

Registrant's telephone number (701) 356-0130

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 par value per share	TITN	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of May 31, 2019, 22,183,799 shares of Common Stock, \$0.00001 par value, of the registrant were outstanding.

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 (UNAUDITED)
(in thousands, except per share data)**

	April 30, 2019	January 31, 2019
Assets		
Current Assets		
Cash	\$ 63,331	\$ 56,745
Receivables, net of allowance for doubtful accounts	85,853	77,500
Inventories	568,262	491,091
Prepaid expenses and other	12,229	15,556
Total current assets	729,675	640,892
Noncurrent Assets		
Property and equipment, net of accumulated depreciation	144,794	138,950
Operating lease assets	97,404	—
Deferred income taxes	3,091	3,010
Goodwill	1,631	1,161
Intangible assets, net of accumulated amortization	7,343	7,247
Other	1,168	1,178
Total noncurrent assets	255,431	151,546
Total Assets	\$ 985,106	\$ 792,438
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 26,039	\$ 16,607
Floorplan payable	374,271	273,756
Senior convertible notes	45,644	45,249
Current maturities of long-term debt	2,628	2,067
Current operating lease liabilities	12,137	—
Deferred revenue	35,394	46,409
Accrued expenses and other	30,091	36,364
Total current liabilities	526,204	420,452
Long-Term Liabilities		
Long-term debt, less current maturities	23,871	20,676
Operating lease liabilities	95,375	—
Deferred income taxes	4,341	4,955
Other long-term liabilities	6,573	11,044
Total long-term liabilities	130,160	36,675
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value \$.00001 per share, 45,000 shares authorized; 22,184 shares issued and outstanding at April 30, 2019; 22,218 shares issued and outstanding at January 31, 2019	—	—
Additional paid-in-capital	248,534	248,423
Retained earnings	83,319	89,228
Accumulated other comprehensive loss	(3,111)	(2,340)
Total stockholders' equity	328,742	335,311
Total Liabilities and Stockholders' Equity	\$ 985,106	\$ 792,438

See Notes to Consolidated Financial Statements

TITAN MACHINERY INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended April 30,	
	2019	2018
Revenue		
Equipment	\$ 193,956	\$ 167,770
Parts	51,938	46,863
Service	22,831	20,036
Rental and other	9,567	9,045
Total Revenue	278,292	243,714
Cost of Revenue		
Equipment	173,154	149,223
Parts	36,814	33,238
Service	7,483	6,866
Rental and other	6,941	6,829
Total Cost of Revenue	224,392	196,156
Gross Profit	53,900	47,558
Operating Expenses	52,555	46,727
Impairment of Long-Lived Assets	135	—
Income from Operations	1,210	831
Other Income (Expense)		
Interest income and other income (expense)	794	385
Floorplan interest expense	(877)	(1,350)
Other interest expense	(1,642)	(2,031)
Loss Before Income Taxes	(515)	(2,165)
Benefit from Income Taxes	(70)	(551)
Net Loss	\$ (445)	\$ (1,614)
Earnings (Loss) per Share:		
Basic	\$ (0.02)	\$ (0.07)
Diluted	\$ (0.02)	\$ (0.07)
Weighted Average Common Shares:		
Basic	21,872	21,734
Diluted	21,872	21,734

See Notes to Consolidated Financial Statements

TITAN MACHINERY INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(in thousands)

	Three Months Ended April 30,	
	2019	2018
Net Loss	\$ (445)	\$ (1,614)
Other Comprehensive Income (Loss)		
Foreign currency translation adjustments	(771)	1,301
Comprehensive Loss	<u>\$ (1,216)</u>	<u>\$ (313)</u>

See Notes to Consolidated Financial Statements

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

	Common Stock		Additional	Retained	Accumulated Other	Total
	Shares	Amount	Paid-In	Earnings	Comprehensive	Stockholders'
	Outstanding		Capital		Income (Loss)	Equity
BALANCE, January 31, 2018	22,102	\$ —	\$ 246,509	\$ 77,046	\$ (1,700)	\$ 321,855
Common stock issued on grant of restricted stock and exercise of stock options, net of restricted stock forfeitures and restricted stock withheld for employee withholding tax	(22)	—	(598)	—	—	(598)
Stock-based compensation expense	—	—	540	—	—	540
Net loss	—	—	—	(1,614)	—	(1,614)
Other comprehensive income	—	—	—	—	1,301	1,301
BALANCE, April 30, 2018	22,080	\$ —	\$ 246,451	\$ 75,432	\$ (399)	\$ 321,484

	Common Stock		Additional	Retained	Accumulated Other	Total
	Shares	Amount	Paid-In	Earnings	Comprehensive	Stockholders'
	Outstanding		Capital		Income (Loss)	Equity
BALANCE, January 31, 2019	22,218	\$ —	\$ 248,423	\$ 89,228	\$ (2,340)	\$ 335,311
Cumulative-effect adjustment of adopting ASC 842, <i>Leases</i>	—	—	—	(5,464)	—	(5,464)
Common stock issued on grant of restricted stock and exercise of stock options, net of restricted stock forfeitures and restricted stock withheld for employee withholding tax	(34)	—	(492)	—	—	(492)
Stock-based compensation expense	—	—	603	—	—	603
Net loss	—	—	—	(445)	—	(445)
Other comprehensive loss	—	—	—	—	(771)	(771)
BALANCE, April 30, 2019	22,184	\$ —	\$ 248,534	\$ 83,319	\$ (3,111)	\$ 328,742

See Notes to Consolidated Financial Statements

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

	Three Months Ended April 30,	
	2019	2018
Operating Activities		
Net loss	\$ (445)	\$ (1,614)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities		
Depreciation and amortization	6,064	5,526
Impairment	135	—
Deferred income taxes	(316)	(804)
Stock-based compensation expense	603	540
Noncash interest expense	401	729
Noncash lease expense	3,062	—
Other, net	11	342
Changes in assets and liabilities		
Receivables, prepaid expenses and other assets	(5,593)	(3,803)
Inventories	(78,254)	(42,351)
Manufacturer floorplan payable	89,599	24,653
Accounts payable, deferred revenue, accrued expenses and other and other long-term liabilities	(9,289)	(10,244)
Operating lease liabilities	(3,126)	—
Net Cash Provided by (Used for) Operating Activities	2,852	(27,026)
Investing Activities		
Rental fleet purchases	(3,886)	(2,121)
Property and equipment purchases (excluding rental fleet)	(1,604)	(692)
Proceeds from sale of property and equipment	416	411
Acquisition consideration, net of cash acquired	(2,972)	—
Other, net	8	(184)
Net Cash Used for Investing Activities	(8,038)	(2,586)
Financing Activities		
Net change in non-manufacturer floorplan payable	12,772	47,376
Proceeds from long-term debt borrowings	373	6
Principal payments on long-term debt and finance leases	(878)	(13,425)
Other, net	(492)	(607)
Net Cash Provided by Financing Activities	11,775	33,350
Effect of Exchange Rate Changes on Cash	(3)	120
Net Change in Cash	6,586	3,858
Cash at Beginning of Period	56,745	53,396
Cash at End of Period	\$ 63,331	\$ 57,254
Supplemental Disclosures of Cash Flow Information		
Cash paid (received) during the period		
Income taxes, net of refunds	\$ 517	\$ 906
Interest	\$ 1,712	\$ 1,954
Supplemental Disclosures of Noncash Investing and Financing Activities		
Net property and equipment financed with long-term debt, finance leases, accounts payable and accrued liabilities	\$ 5,861	\$ 836
Net transfer of assets to (from) property and equipment from (to) inventories	\$ (371)	\$ 1,853

See Notes to Consolidated Financial Statements

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

NOTE 1 - BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the "Company") are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company's Agriculture, Construction and International customers. Therefore, operating results for the three-month period ended April 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2020. The information contained in the consolidated balance sheet as of January 31, 2019 was derived from the audited consolidated financial statements for the Company for the fiscal year then ended. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2019 as filed with the SEC.

Nature of Business

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

Estimates

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

Principles of Consolidation

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

Reclassifications

Concurrent with the adoption of new lease accounting guidance, the Company elected to reclassify finance lease liabilities in the accompanying consolidated balance sheet as of January 31, 2019 to maintain consistency and comparability between periods presented. The amounts reclassified included \$1.3 million from current maturities of long-term debt to accrued expenses and other and \$5.1 million from long-term debt, less current maturities to other long-term liabilities. These reclassifications had no impact on total current liabilities, total long-term liabilities or total liabilities and stockholders' equity within the consolidated balance sheets.

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

Recently Adopted Accounting Guidance

In February 2016, the Financial Accounting Standards Board ("FASB") issued a new leasing standard applicable for lessees and lessors and codified in Accounting Standards Codification 842, *Leases*, ("ASC 842") to increase transparency and comparability among organizations. Most prominent among the changes in the standard is the recognition on the balance sheet by a lessee of right-of-use assets and lease liabilities for most leases. The standard also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from lease activities. This guidance is effective for reporting periods beginning after December 15, 2018.

The Company adopted the leasing guidance on February 1, 2019 using a prospective transition method at the adoption date and recognized a cumulative-effect adjustment to the opening balance of retained earnings as a result of adoption. Under this method of adoption, prior period amounts are not adjusted and will continue to be reported under accounting standards in effect for those periods. The Company elected the package of practical expedients afforded under the guidance, which applies to leases that commenced prior to adoption and permits an entity not to: 1) reassess whether existing or expired contracts are or contain a lease, 2) reassess the lease classification, and 3) reassess any initial direct costs for any existing leases. The Company did not elect the use of the hindsight practical expedient to determine the lease term, but rather included the lease term as defined under former leasing guidance to capitalize the right-of-use asset and lease liability upon adoption. The Company identified new, and updated existing, internal controls and processes to ensure compliance with the new standard, but such modifications were not deemed to be material to our overall system of internal controls.

Adoption of the new standard for leasing transactions in which the Company is the lessee had a material impact on our consolidated balance sheet but did not have an impact on our consolidated statement of operations or cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while the accounting for financing leases remained substantially unchanged. We recognized a cumulative-effect adjustment to retained earnings as of February 1, 2019 of \$5.5 million primarily resulting from impairment of operating lease right-of-use assets present on the date of adoption, net of the deferred tax impact. The adoption of the new standard for leasing transactions in which the Company is the lessor did not impact our consolidated balance sheet, statement of operations or cash flows. The Company has included the additional disclosures required under ASC 842 in Note 13.

Adoption of ASC 842 impacted our consolidated balance sheet as of February 1, 2019 as follows:

	January 31, 2019 As Reported	ASC 842 Adjustment on February 1, 2019	February 1, 2019 As Adjusted
	(in thousands)		
Assets			
Operating lease assets	\$ —	\$ 100,469 (a)	\$ 100,469
Liabilities and Stockholders' Equity			
Current maturities of long-term debt	3,340	(1,273) (b)	2,067
Current operating lease liabilities	—	12,266 (c)	12,266
Accrued expenses and other	35,091	972 (d)	36,063
Long-term debt, less current maturities	25,812	(5,136) (b)	20,676
Operating lease liabilities	—	98,250 (c)	98,250
Deferred income taxes	4,955	(374) (e)	4,581
Other long-term liabilities	5,908	1,228 (f)	7,136
Retained earnings	89,228	(5,464) (g)	83,764

(a) Capitalization of operating lease assets, net of straight-line rent accrued liabilities, cease-use liabilities, and right-of-use asset impairment present on the date of adoption.

(b) As described above under *Reclassifications*, concurrent with the adoption of ASC 842, the Company elected to reclassify current maturities of finance lease liabilities from Current maturities of long-term debt to Accrued expenses and other and the long-term portion of finance lease liabilities from Long-term debt, less current maturities to Other long-term liabilities in the accompanying consolidated balance sheet as of January 31, 2019 to maintain consistency and comparability between periods presented.

(c) Recognition of operating lease liabilities.

(d) As described in (b) above, includes the reclassification of current maturities of finance lease liabilities, net of the reclassification of the current portion of cease-use liabilities to Operating lease assets as part of the adoption of ASC 842.

(e) Deferred tax impact of adoption, primarily resulting from operating lease right-of-use asset impairment recognized upon adoption, net of the valuation allowance recognized for such deferred tax assets.

(f) As described in (b) above, includes the reclassification of finance lease liabilities, net of the ASC 842 adoption impact of reclassifying straight-line rent accrued liabilities and cease-use liabilities, and the cumulative-effect adjustment recognized in retained earnings for gains deferred on previous sale-leaseback transactions.

(g) Cumulative-effect adjustment of \$6.6 million for operating lease right-of-use asset impairment present on the date of adoption net of the adjustment for deferred gains on previous sale-leaseback transactions of \$0.7 million and the deferred tax impact of these adjustments, net of the valuation allowance recognized on such deferred tax assets.

NOTE 2 - EARNINGS PER SHARE

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

	Three Months Ended April 30,	
	2019	2018
	(in thousands, except per share data)	
Numerator:		
Net loss	\$ (445)	\$ (1,614)
Allocation to participating securities	—	26
Net loss attributable to Titan Machinery Inc. common stockholders	<u>\$ (445)</u>	<u>\$ (1,588)</u>
Denominator:		
Basic weighted-average common shares outstanding	21,872	21,734
Plus: incremental shares from assumed exercises of stock options and vesting of restricted stock units	—	—
Diluted weighted-average common shares outstanding	<u>21,872</u>	<u>21,734</u>
Earnings (Loss) Per Share:		
Basic	<u>\$ (0.02)</u>	<u>\$ (0.07)</u>
Diluted	<u>\$ (0.02)</u>	<u>\$ (0.07)</u>
Anti-dilutive shares excluded from diluted weighted-average common shares outstanding:		
Stock options and restricted stock units	8	58
Shares underlying senior convertible notes	1,057	1,520

NOTE 3 - REVENUE

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

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

	Three Months Ended April 30, 2019			
	Agriculture	Construction	International	Total
	(in thousands)			
Equipment	\$ 107,864	\$ 43,046	\$ 43,046	\$ 193,956
Parts	29,976	12,704	9,258	51,938
Service	14,985	6,521	1,325	22,831
Other	618	593	22	1,233
Revenue from contracts with customers	<u>153,443</u>	<u>62,864</u>	<u>53,651</u>	<u>269,958</u>
Rental	332	7,879	123	8,334
Total revenues	<u>\$ 153,775</u>	<u>\$ 70,743</u>	<u>\$ 53,774</u>	<u>\$ 278,292</u>

	Three Months Ended April 30, 2018			
	Agriculture	Construction	International	Total
	(in thousands)			
Equipment	\$ 98,112	\$ 36,038	\$ 33,620	\$ 167,770
Parts	29,232	11,473	6,158	46,863
Service	13,840	5,516	680	20,036
Other	544	712	33	1,289
Revenue from contracts with customers	141,728	53,739	40,491	235,958
Rental	226	7,305	225	7,756
Total revenues	\$ 141,954	\$ 61,044	\$ 40,716	\$ 243,714

Unbilled Receivables and Deferred Revenue

Unbilled receivables amounted to \$16.0 million and \$11.2 million as of April 30, 2019 and January 31, 2019. The increase in unbilled receivables is primarily the result of a seasonal increase in the volume of our service transactions in which we recognize revenue as our work is performed and prior to customer invoicing.

Deferred revenue from contracts with customers amounted to \$33.8 million and \$44.9 million as of April 30, 2019 and January 31, 2019. Our deferred revenue most often increases in the fourth quarter of each fiscal year due to a higher level of customer down payments or prepayments and longer time periods between customer payment and delivery of the equipment asset, and the related recognition of equipment revenue, prior to its seasonal use. During the three months ended April 30, 2019 and 2018, the Company recognized \$30.5 million and \$17.2 million, respectively, of revenue that was included in the deferred revenue balance as of January 31, 2019 and January 31, 2018, respectively. No material amount of revenue was recognized during the three months ended April 30, 2019 and 2018 from performance obligations satisfied in previous periods.

The Company has elected as a practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of service of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. The contracts for which the practical expedient has been applied include (i) equipment revenue transactions, which do not have a stated contractual term, but are short-term in nature, and (ii) service revenue transactions, which also do not have a stated contractual term but are generally completed within 30 days and for such contracts we recognize revenue over time at the amount to which we have the right to invoice for services completed to date.

NOTE 4 - RECEIVABLES

	April 30, 2019	January 31, 2019
	(in thousands)	
Trade and unbilled receivables from contracts with customers		
Trade receivables due from customers	\$ 39,030	\$ 38,827
Trade receivables due from finance companies	20,165	10,265
Unbilled receivables	15,950	11,222
Trade and unbilled receivables from rental contracts		
Trade receivables	6,124	6,386
Unbilled receivables	894	828
Other receivables		
Due from manufacturers	6,930	12,950
Other	580	550
Total receivables	89,673	81,028
Less allowance for doubtful accounts	(3,820)	(3,528)
Receivables, net of allowance for doubtful accounts	\$ 85,853	\$ 77,500

The Company recognized impairment losses on receivables arising from sales contracts with customers of \$0.3 million and \$0.2 million for the three months ended April 30, 2019 and 2018, and recognized impairment losses on receivables arising from rental contracts of \$0.1 million and \$0.04 million for the three months ended April 30, 2019 and 2018.

NOTE 5 - INVENTORIES

	April 30, 2019	January 31, 2019
	(in thousands)	
New equipment	\$ 352,395	\$ 258,081
Used equipment	137,449	158,951
Parts and attachments	76,327	72,760
Work in process	2,091	1,299
	<u>\$ 568,262</u>	<u>\$ 491,091</u>

NOTE 6 - PROPERTY AND EQUIPMENT

	April 30, 2019	January 31, 2019
	(in thousands)	
Rental fleet equipment	\$ 113,704	\$ 111,164
Machinery and equipment	21,780	21,646
Vehicles	46,850	42,330
Furniture and fixtures	40,434	40,645
Land, buildings, and leasehold improvements	63,326	63,091
	<u>286,094</u>	<u>278,876</u>
Less accumulated depreciation	<u>(141,300)</u>	<u>(139,926)</u>
	<u>\$ 144,794</u>	<u>\$ 138,950</u>

During the three months ended April 30, 2019, the Company, as the result of a current period operating loss combined with historical losses and anticipated future operating losses of a store location, recognized within its Construction segment a long-lived asset impairment charge of \$0.1 million.

In March 2019, the Company completed an assessment of its Enterprise Resource Planning ("ERP") application and concluded that the Company will begin the process to prepare for conversion to a new ERP application during the fiscal year ending January 31, 2020, with an anticipated implementation of the new ERP application during the first-half of the fiscal year ending January 31, 2021. Beginning in March 2019, the Company prospectively adjusted the useful life of its current ERP application such that it will be fully amortized upon its estimated replacement date. The net book value of \$8.7 million of the ERP application will be amortized on a straight-line basis over the estimated remaining period of use. For the three months ended April 30, 2019, the Company recognized an additional \$0.9 million of amortization expense, which decreased operating income accordingly, increased net loss by approximately \$0.7 million and increased the reported basic and diluted loss per share by approximately \$0.04.

NOTE 7 - FLOORPLAN PAYABLE/LINES OF CREDIT

As of April 30, 2019, the Company had floorplan lines of credit totaling \$640.0 million, which is primarily comprised of three significant floorplan lines of credit: (i) a \$400.0 million credit facility with CNH Industrial, (ii) a \$140.0 million line of credit with a group of banks led by Wells Fargo Bank, National Association (the "Wells Fargo Credit Agreement"), and (iii) a \$45.0 million credit facility with DLL Finance LLC.

As of April 30, 2019 and January 31, 2019, the Company's outstanding balances of floorplan payables and lines of credit consisted of the following:

	April 30, 2019	January 31, 2019
	(in thousands)	
CNH Industrial	\$ 219,106	\$ 120,319
Wells Fargo Credit Agreement (floorplan payable line)	57,000	49,100
DLL Finance	29,350	13,432
Other outstanding balances with manufacturers and non-manufacturers	68,815	90,905
	<u>\$ 374,271</u>	<u>\$ 273,756</u>

As of April 30, 2019, the interest-bearing U.S. floorplan payables carried various interest rates ranging from 4.50% to 6.11%, compared to a range of 4.77% to 6.30% as of January 31, 2019. As of April 30, 2019, foreign floorplan payables carried various interest rates primarily ranging from 0.94% to 8.48%, compared to a range of 0.94% to 8.51% as of January 31, 2019. As of April 30, 2019 and January 31, 2019, \$232.0 million and \$151.7 million of outstanding floorplan payable were non-interest bearing. As of April 30, 2019, the Company had a compensating balance arrangement under one of its foreign floorplan credit facilities, which requires a minimum cash deposit to be maintained with the lender in the amount of \$5.0 million for the term of the credit facility.

Wells Fargo Credit Agreement

The maturity date of the Wells Fargo Credit Agreement was contingent upon the results of a maturity test that was performed on February 1, 2019, a date that was three months prior to the scheduled maturity date of the Company's outstanding senior convertible notes. Pursuant to this test, the maturity date for the Wells Fargo Credit Agreement would be October 28, 2020 so long as (i) the Company's fixed charge coverage ratio for the 12 month period ended December 31, 2018 was at least 1.10 to 1.00 and (ii) a liquidity test, requiring that the Company have unrestricted cash on hand plus excess borrowing availability under the Wells Fargo Credit Agreement (on a pro-forma basis reflecting the Company's repayment in full of its outstanding senior convertible notes) in an amount that is greater than 20% of maximum credit amount under the facility, was met on February 1, 2019. If both financial tests were not satisfied on February 1, 2019, the Wells Fargo Credit Agreement would immediately mature and all amounts outstanding would become immediately due and payable in full. The Company satisfied the maturity test requirements on February 1, 2019, and therefore the maturity date of the Wells Fargo Credit Agreement is October 28, 2020. The amount that the Company was able to borrow under the Wells Fargo Credit Agreement was temporarily reduced by the amount of outstanding senior convertible notes from the February 1, 2019 maturity testing date through May 1, 2019, the maturity date of the senior convertible notes.

NOTE 8 - DEFERRED REVENUE

	April 30, 2019	January 31, 2019
	(in thousands)	
Deferred revenue from contracts with customers	\$ 33,817	\$ 44,893
Deferred revenue from rental and other contracts	1,577	1,516
	<u>\$ 35,394</u>	<u>\$ 46,409</u>

NOTE 9 - SENIOR CONVERTIBLE NOTES

The Company's 3.75% senior convertible notes consist of the following:

	April 30, 2019	January 31, 2019
	(in thousands except conversion rate and conversion price)	
Principal value	\$ 45,644	\$ 45,644
Unamortized debt discount	—	(350)
Unamortized debt issuance costs	—	(45)
Carrying value of senior convertible notes	<u>\$ 45,644</u>	<u>\$ 45,249</u>
Carrying value of equity component, net of deferred taxes	\$ 14,923	\$ 14,923
Conversion rate (shares of common stock per \$1,000 principal amount of notes)	23.1626	
Conversion price (per share of common stock)	\$ 43.17	

The Company recognized interest expense associated with its senior convertible notes as follows:

	Three Months Ended April 30,	
	2019	2018
	(in thousands)	
Cash Interest Expense		
Coupon interest expense	\$ 421	\$ 605
Noncash Interest Expense		
Amortization of debt discount	350	469
Amortization of transaction costs	45	64
	<u>\$ 816</u>	<u>\$ 1,138</u>

The effective interest rate of the liability component was equal to 7.3% for each of the consolidated statements of operations periods presented. The senior convertible notes matured on May 1, 2019. The Company repaid the outstanding principal balance in full on the maturity date.

NOTE 10 - LONG TERM DEBT

The following is a summary of long-term debt as of April 30, 2019 and January 31, 2019:

	April 30, 2019	January 31, 2019
	(in thousands)	
Sale-leaseback financing obligations, interest rates ranging from 3.4% to 10.3% with various maturity dates through December 2030	\$ 18,709	\$ 19,010
Equipment financing loan, payable in monthly installments over a 72-month term for each funded tranche, bearing interest at 3.89%, secured by vehicle assets	4,292	—
Real estate mortgage bearing interest at 2.09%, payable in monthly installments, maturing on June 30, 2026, secured by real estate assets	2,837	2,978
Other long-term debt primarily bearing interest at three-month EURIBOR plus 2.6%, payable in quarterly installments, maturing on January 31, 2021	661	755
	<u>26,499</u>	<u>22,743</u>
Less current maturities	<u>(2,628)</u>	<u>(2,067)</u>
	<u>\$ 23,871</u>	<u>\$ 20,676</u>

NOTE 11 - DERIVATIVE INSTRUMENTS

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

The Company uses foreign currency forward contracts to hedge the effects of fluctuations in exchange rates on outstanding intercompany loans. The Company does not formally designate and document such derivative instruments as hedging instruments; however, the instruments are an effective economic hedge of the underlying foreign currency exposure. Both the gain or loss on the derivative instrument and the offsetting gain or loss on the underlying intercompany loan are recognized in earnings immediately, thereby eliminating or reducing the impact of foreign currency exchange rate fluctuations on net income. The Company's foreign currency forward contracts generally have three-month maturities, maturing on the last day of each fiscal quarter. The notional value of outstanding foreign currency contracts as of April 30, 2019 and January 31, 2019 was \$13.1 million and \$14.1 million.

As of April 30, 2019 and January 31, 2019, the fair value of the Company's outstanding derivative instruments was not material. Derivative instruments recognized as assets are recorded in prepaid expenses and other in the consolidated balance sheets, and derivative instruments recognized as liabilities are recorded in accrued expenses and other in the consolidated balance sheets.

The following table sets forth the gains and losses recognized in income (loss) from the the Company's derivative instruments for the three months ended April 30, 2019 and 2018. Gains and losses are recognized in interest income and other income (expense) in the consolidated statements of operations:

	Three Months Ended April 30,	
	2019	2018
	(in thousands)	
Foreign currency contracts	\$ 202	\$ 534

NOTE 12 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of the changes in accumulated other comprehensive income (loss), by component, for the periods ended April 30, 2019 and April 30, 2018:

	Foreign Currency Translation Adjustment	Net Investment Hedging Gain	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, January 31, 2019	\$ (5,051)	\$ 2,711	\$ (2,340)
Other comprehensive loss	(771)	—	(771)
Balance, April 30, 2019	<u>\$ (5,822)</u>	<u>\$ 2,711</u>	<u>\$ (3,111)</u>

	Foreign Currency Translation Adjustment	Net Investment Hedging Gain	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, January 31, 2018	\$ (4,411)	\$ 2,711	\$ (1,700)
Other comprehensive income	1,301	—	1,301
Balance, April 30, 2018	<u>\$ (3,110)</u>	<u>\$ 2,711</u>	<u>\$ (399)</u>

NOTE 13 - LEASES

As Lessee

The Company, as lessee, leases certain of its dealership locations, office space, equipment and vehicles under operating and financing classified leasing arrangements. The Company has elected to not record leases with a lease term at commencement of 12 months or less on the consolidated balance sheet; such leases are expensed on a straight-line basis over the lease term. Many real estate lease agreements require the Company to pay the real estate taxes on the properties during the lease term and require that the Company maintain property insurance on each of the leased premises. Such payments are deemed to be variable lease payments as the amounts may change during the term of the lease. Certain leases include renewal options that can extend the lease term for periods of one to ten years. Most real estate leases grant the Company a right of first refusal or other options to purchase the real estate, generally at fair market value, either during the lease term or at its conclusion. In most cases, the Company has not included these renewal and purchase options within the measurement of the right-of-use asset and lease liability. Most often the Company cannot readily determine the interest rate implicit in the lease and thus applies its incremental borrowing rate to capitalize the right-of-use asset and lease liability. We estimate our incremental borrowing rate by incorporating considerations of lease term, asset class and lease currency and geographical market. Our lease agreements do not contain any material non-lease components, residual value guarantees or material restrictive covenants.

The Company subleases a small number of real estate assets to third-parties, primarily dealership locations for which we have ceased operations. All sublease arrangements are classified as operating leases.

The components of lease expense were as follows:

Classification		Three Months Ended April 30, 2019
		(in thousands)
Finance lease cost:		
Amortization of leased assets	Operating expenses	\$ 376
Interest on lease liabilities	Other interest expense	139
Operating lease cost	Operating expenses & rental and other cost of revenue	4,816
Short-term lease cost	Operating expenses	80
Variable lease cost	Operating expenses	620
Sublease income	Interest income and other income (expense)	(168)
		<u>\$ 5,863</u>

Right-of-use lease assets and lease liabilities consist of the following:

Classification		April 30, 2019
		(in thousands)
Assets		
Operating lease assets	Operating lease assets	\$ 97,404
Finance lease assets ^(a)	Property and equipment, net of accumulated depreciation	6,470
Total leased assets		<u>\$ 103,874</u>
Liabilities		
Current		
Operating	Current operating lease liabilities	\$ 12,137
Finance	Accrued expenses and other	1,544
Noncurrent		
Operating	Operating lease liabilities	95,375
Finance	Other long-term liabilities	4,725
Total lease liabilities		<u>\$ 113,781</u>

^(a) Finance lease assets are recorded net of accumulated amortization of \$0.5 million as of April 30, 2019.

Maturities of lease liabilities as of April 30, 2019 are as follows:

Fiscal Year Ended January 31,	Operating Leases	Finance Leases	Total
	(in thousands)		
2020	\$ 13,824	\$ 1,533	\$ 15,357
2021	17,275	1,927	19,202
2022	16,500	1,607	18,107
2023	15,538	1,015	16,553
2024	14,667	353	15,020
2025	13,546	309	13,855
Thereafter	46,910	1,392	48,302
Total lease payments	138,260	8,136	146,396
Less: Interest	30,748	1,867	32,615
Present value of lease liabilities	<u>\$ 107,512</u>	<u>\$ 6,269</u>	<u>\$ 113,781</u>

The weighted-average lease term and discount rate as of April 30, 2019 are as follows:

	April 30, 2019
Weighted-average remaining lease term (years):	
Operating leases	8.6
Financing leases	5.2
Weighted-average discount rate:	
Operating leases	6.1%
Financing leases	9.8%

Other lease information is as follows:

	Three Months Ended April 30, 2019
	(in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 4,752
Operating cash flows from finance leases	139
Financing cash flows from finance leases	403
Operating lease assets obtained in exchange for new operating lease liabilities	253
Finance lease assets obtained in exchange for new finance lease liabilities	410

Minimum lease payments under operating and capital leases as determined under prior leasing guidance and as of January 31, 2019 were as follows:

	Operating Leases	Capital Leases
	(in thousands)	
Fiscal year ended January 31,		
2020	\$ 20,117	\$ 1,933
2021	18,786	1,831
2022	17,994	1,524
2023	17,117	882
2024	16,143	342
Thereafter	68,409	1,701
Total lease payments	\$ 158,566	8,213
Less: Interest		1,804
Present value of capital lease liabilities		\$ 6,409

As Lessor

The Company rents equipment to customers, primarily in the Construction segment, on a short-term basis. Our rental arrangements generally do not include minimum, noncancellable periods as the lessee is entitled to cancel the arrangement at any time. Most often, our rental arrangements extend for periods ranging from a few days to a few months. We maintain a fleet of dedicated rental assets within our Construction segment and, within all segments, may also provide short-term rentals of certain equipment inventory assets. Certain rental arrangements may include rent-to-purchase options whereby customers are given a period of time to exercise an option to purchase the related equipment at an established price with any rental payments paid applied to reduce the purchase price.

All of the Company's leasing arrangements as lessor are classified as operating leases. Rental revenue is recognized on a straight-line basis over the rental period. Rental revenue includes amounts charged for loss and damage insurance on rented equipment. In most cases, our rental arrangements include non-lease components, including delivery and pick-up services. The Company accounts for these non-lease components separate from the rental arrangement and recognizes the revenue associated with these components when the service is performed. The Company has elected to exclude from rental revenue all sales, value

added and other taxes collected from our customers concurrent with our rental activities. Rental billings most often occur on a monthly basis and may be billed in advance or in arrears, thus creating unbilled rental receivables or deferred rental revenue amounts. The Company manages the residual value risk of its rented assets by (i) monitoring the quality, aging and anticipated retail market value of our rental fleet assets to determine the optimal period to remove an asset from the rental fleet, (ii) maintaining the quality of our assets through on-site parts and service support and (iii) requiring physical damage insurance of our lessee customers. We primarily dispose of our rental assets through the sale of the asset by our retail sales force.

Revenue generated from leasing activities is disclosed, by segment, in Note 3. The following is the balance of our dedicated rental fleet assets of our Construction segment as of April 30, 2019 and January 31, 2019:

	April 30, 2019	January 31, 2019
	(in thousands)	
Rental fleet equipment	\$ 113,704	\$ 111,164
Less accumulated depreciation	50,066	50,399
	<u>\$ 63,638</u>	<u>\$ 60,765</u>

NOTE 14 - FAIR VALUE MEASUREMENTS

As of April 30, 2019 and January 31, 2019, the fair value of the Company's foreign currency contracts, which are either assets or liabilities measured at fair value on a recurring basis, was not material. These foreign currency contracts were valued using a discounted cash flow analysis, an income approach, utilizing readily observable market data as inputs, which is classified as a Level 2 fair value measurement.

The Company also valued certain long-lived assets at fair value on a non-recurring basis as of April 30, 2019 and January 31, 2019 as part of its long-lived asset impairment testing. The estimated fair value of such assets as of April 30, 2019 and January 31, 2019 was \$0.2 million and \$0.9 million. Fair value was estimated through an income approach incorporating both observable and unobservable inputs, and are deemed to be Level 3 fair value inputs. The most significant unobservable inputs include forecasted net cash generated from the use of the assets and the discount rate applied to such cash flows to arrive at a fair value estimate.

The Company also has financial instruments that are not recorded at fair value in the consolidated balance sheets, including cash, receivables, payables, long-term debt and senior convertible notes. The carrying amounts of these financial instruments approximated their fair values as of April 30, 2019 and January 31, 2019. Fair value of these financial instruments was estimated based on Level 2 fair value inputs.

NOTE 15 - INCOME TAXES

Our effective tax rate was 13.6% for the three months ended April 30, 2019 compared to an effective tax rate of 25.5% for the three months ended April 30, 2018. Our effective tax rate differs from the domestic federal statutory tax rate due to changes in mix of domestic and foreign income or losses and the impact of the recognition of valuation allowances on our U.S. federal, state and certain of our foreign deferred tax assets, including net operating losses.

NOTE 16 - BUSINESS COMBINATIONS

Fiscal 2020

On January 1, 2019, the Company, through its German subsidiary, acquired certain assets of ESB Agrartechnik GmbH ("ESB"). ESB is a full-service agriculture equipment dealership in Eastern Germany. Our acquisition of ESB further expands our presence in the German market. The transaction was accounted for as a business combination. The total consideration transferred for the acquired business was \$3.0 million paid in cash. The business assets acquired consisted of \$1.5 million in inventory, \$0.8 million of other tangible assets, and \$0.7 million of intangible assets, which included \$0.5 million of goodwill that will be assigned to the International segment and is expected to be deductible for income tax purposes. The recognition of goodwill arose primarily from the acquisition of an assembled workforce. Acquisition-related transaction costs were not material. This acquisition was recognized in the fiscal year ending January 31, 2020 as the acquisition occurred within our International segment in which all entities maintain a calendar year reporting period.

Fiscal 2019

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

The AGRAM acquisition has been accounted for under the acquisition method of accounting, which requires the Company to estimate the acquisition date fair value of the assets acquired and liabilities assumed. The fair value of the consideration paid exceeded the estimated fair value of the assets acquired and liabilities assumed, which resulted in the recognition of \$0.9 million of goodwill. The recognition of goodwill arose from the acquisition of an assembled workforce and anticipated synergies within our International segment. The entire goodwill amount was assigned to the International segment and is not expected to be deductible for income tax purposes. The Company recognized a customer relationship intangible asset in the amount of \$0.1 million, which will be amortized over a three-year period, and recognized a distribution rights intangible asset in the amount of \$1.8 million that is an indefinite-lived intangible asset not subject to amortization. The Company estimated the fair value of the customer relationship and distribution rights intangible assets using a multi-period excess earnings model, an income approach. All acquisition-related costs, which amounted to \$0.2 million, have been expensed as incurred and recognized as operating expenses in the consolidated statement of operations.

The allocation of the purchase price to the assets acquired and liabilities assumed was as follows:

(in thousands)

Assets acquired:	
Cash	\$ 3,857
Receivables	5,340
Inventories	21,725
Prepaid expenses and other	887
Property and equipment	3,512
Intangible assets	1,944
Goodwill	924
Other	61
	\$ 38,250
Liabilities assumed:	
Accounts payable	1,553
Floorplan payable	13,820
Deferred revenue	85
Accrued expenses and other	1,279
Long-term debt	1,725
Deferred income taxes	632
	\$ 19,094
Net assets acquired	\$ 19,156

NOTE 17 - CONTINGENCIES

On October 11, 2017, the Romania Competition Council ("RCC") initiated an administrative investigation of the Romanian Association of Manufacturers and Importers of Agricultural Machinery ("APIMAR") and all its members, including Titan Machinery Romania. The RCC's investigation involves whether the APIMAR members engaged in anti-competitive practices in their sales of agricultural machinery not involving European Union ("EU") subvention funding programs, by referring to the published sales prices governing EU subvention funded transactions, which prices are mandatorily disclosed to and published by AFIR, a Romanian government agency that oversees the EU subvention funding programs in Romania. The investigation is in a preliminary stage and the Company is currently unable to predict its outcome or reasonably estimate any potential loss that may result from the investigation.

The Company is also engaged in other legal proceedings incidental to the normal course of business. Due to their nature, such legal proceedings involve inherent uncertainties, including but not limited to, court rulings, negotiations between affected parties and governmental intervention. Based upon the information available to the Company and discussions with legal counsel, it is the Company's opinion that the outcome of these various legal actions and claims will not have a material impact on the financial position, results of operations or cash flows. These matters, however, are subject to many uncertainties, and the outcome of any matter is not predictable with assurance.

NOTE 18 - SEGMENT INFORMATION

The Company has three reportable segments: Agriculture, Construction and International. Revenue between segments is immaterial. The Company retains various unallocated income/(expense) items and assets at the general corporate level, which the Company refers to as "Shared Resources" in the table below. Shared Resources assets primarily consist of cash and property and equipment.

Certain financial information for each of the Company's business segments is set forth below. All revenue amounts for the three months ended April 30, 2018 shown below are presented on an as corrected basis following the correction of an immaterial error identified in previously issued financial statements. Refer to Note 19 for additional details.

	Three Months Ended April 30,	
	2019	2018
	(in thousands)	
Revenue		
Agriculture	\$ 153,775	\$ 141,954
Construction	70,743	61,044
International	53,774	40,716
Total	<u>\$ 278,292</u>	<u>\$ 243,714</u>
Income (Loss) Before Income Taxes		
Agriculture	\$ 1,876	\$ 1,323
Construction	(2,222)	(2,897)
International	216	(87)
Segment income (loss) before income taxes	<u>(130)</u>	<u>(1,661)</u>
Shared Resources	(385)	(504)
Total	<u>\$ (515)</u>	<u>\$ (2,165)</u>

	April 30, 2019	January 31, 2019
	(in thousands)	
Total Assets		
Agriculture	\$ 408,102	\$ 316,224
Construction	280,342	227,261
International	208,848	170,187
Segment assets	<u>897,292</u>	<u>713,672</u>
Shared Resources	87,814	78,766
Total	<u>\$ 985,106</u>	<u>\$ 792,438</u>

NOTE 19 - IMMATERIAL RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2019, the Company identified an immaterial error within its financial statements, including in the results for the quarterly period ended April 30, 2018. The identified error was the result of incorrectly eliminating certain internal parts and service transactions. The adjustments to correct for this error reduce total revenue and cost of revenue by less than 1.0% and impact the amounts of previously reported equipment, parts, service and rental and other revenue and cost of revenue amounts, but have no impact on total gross profit, operating or net income, earnings per share, or the consolidated balance sheets or statements of cash flows. Management of the Company has evaluated all relevant quantitative and qualitative factors and has concluded that the error is

not material to the results of operations for the previously reported quarterly period. The Company has restated its accompanying statement of operations to correct for this immaterial error for the three months ended April 30, 2018.

Included below is a summary of the previously reported amounts of revenue and cost of revenue, the impact of correcting for this immaterial error, and the as-corrected amounts for the three month period ended April 30, 2018:

	Three Months Ended April 30, 2018		
	As Previously Reported	Corrections	As Corrected
	(dollars in thousands)		
Revenue			
Equipment	\$ 156,904	\$ 10,866	\$ 167,770
Parts	51,535	(4,672)	46,863
Service	27,356	(7,320)	20,036
Rental and other	9,883	(838)	9,045
Total Revenue	245,678	(1,964)	243,714
Cost of Revenue			
Equipment	141,767	7,456	149,223
Parts	36,658	(3,420)	33,238
Service	11,201	(4,335)	6,866
Rental and other	8,494	(1,665)	6,829
Total Cost of Revenue	198,120	(1,964)	196,156
Gross Profit	\$ 47,558	\$ —	\$ 47,558

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes included in Item 1 of Part I of this Quarterly Report, and the audited consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended January 31, 2019.

Overview

We own and operate a network of full service agricultural and construction equipment stores in the United States and Europe. Based upon information provided to us by CNH Industrial N.V. or its U.S. subsidiary CNH Industrial America, LLC, we are the largest retail dealer of Case IH Agriculture equipment in the world, the largest retail dealer of Case Construction equipment in North America and a major retail dealer of New Holland Agriculture and New Holland Construction equipment in the U.S. We operate our business through three reportable segments, Agriculture, Construction and International. Within each segment, we have four principal sources of revenue: new and used equipment sales, parts sales, service, and equipment rental and other activities.

The agriculture industry is experiencing low agriculture commodity prices and net farm income. Based on U.S. Department of Agriculture ("USDA") publications, the most recent estimate of net farm income for calendar year 2018 decreased an estimated 16.0% as compared to calendar year 2017 and is approximately 15.0% below the average for the five-year period ending December 31, 2018. Lower net farm income over this five-year period has led to reduced demand for equipment purchases, service work and parts, negatively impacting same-store sales, equipment revenue and equipment gross profit margin, and has caused an oversupply of equipment inventory in our geographic footprint. In addition, these agriculture industry conditions have also led to a reduction of purchases of construction equipment by customers in the agriculture industry, negatively impacting certain of our Construction stores. Based on its March 2019 report, the USDA projected net farm income for calendar year 2019 to increase 10.0% as compared to calendar year 2018.

Our net loss was \$0.4 million, or \$0.02 per diluted share, for the first quarter of fiscal 2020, compared to a net loss of \$1.6 million, or \$0.07 per diluted share, for the first quarter of fiscal 2019. Our adjusted diluted earnings per share was \$0.02 for the first quarter of fiscal 2020, compared to an adjusted diluted loss per share of \$0.07 for the first quarter of fiscal 2019. See the Non-GAAP Financial Measures section below for a reconciliation of adjusted diluted earnings per share to diluted earnings per share, the most comparable GAAP measure. Significant factors impacting the quarterly comparisons were:

- Revenue increased 14.2% in the first quarter of fiscal 2020, as compared to the first quarter last year. This increase in revenue was the result of increases from each of our four principal sources of business, equipment, parts, service and rental and other, and across each of our three operating segments, Agriculture, Construction and International. Our AGRAM acquisition in the third quarter of fiscal 2019 also contributed to the revenue increase in the first quarter of fiscal 2020 as compared to the first quarter last year.
- Gross profit margin for the first quarter of fiscal 2020 of 19.4% is consistent with the 19.5% gross profit margin for the first quarter of fiscal 2019. A slight decrease in equipment gross profit margin in the first quarter of fiscal 2020, as compared to the first quarter last year, was substantially offset by increased service and rental and other gross profit margins.
- Operating expenses increased \$5.8 million, or 12.5%, in the first quarter of fiscal 2020, as compared to the first quarter last year. Operating expenses as a percentage of revenue decreased from 19.2% in the first quarter of fiscal 2019 to 18.9% in the first quarter of fiscal 2020. The increase in operating expenses is primarily the result of our AGRAM acquisition in the third quarter of fiscal 2019, incremental costs associated with our ERP transition, and increased variable expenses associated with higher levels of equipment sales.
- Floorplan and other interest expense decreased a combined 25.5% in the first quarter of fiscal 2020, as compared to the first quarter last year, primarily due to a decrease in our level of interest-bearing inventory in the first quarter of fiscal 2020 and our repurchase of \$20.0 million face value of our senior convertible notes in the second quarter of fiscal 2019.

AGRAM Acquisition

On July 2, 2018, we continued our strategy of acquiring dealerships in desired market areas with our acquisition of two commonly-controlled companies, AGRAM Landtechnikvertrieb GmbH and AGRAM Landtechnik Rollwitz GmbH (collectively "AGRAM"). AGRAM consists of four Case IH agriculture dealership locations in the following cities of

Germany; Altranft, Burkau, Gutzkow, and Rollowitz. Total cash consideration paid in the acquisition was \$19.2 million, which the Company financed through available cash resources and capacity under our existing floorplan payable and other credit facilities. The four AGRAM dealerships are included within our International segment.

ERP Transition

In March 2019, the Company completed an assessment of its Enterprise Resource Planning ("ERP") application and concluded that the Company will begin the process to prepare for conversion to a new ERP application during the fiscal year ending January 31, 2020, with an anticipated implementation of the new ERP application during the first-half of the fiscal year ending January 31, 2021. The new ERP application is expected to provide the latest data-driven and mobile-enabled sales and support tools to improve employee efficiency and deliver an enhanced customer experience. Beginning in March 2019, we prospectively adjusted the useful life of our current ERP application such that it will be fully amortized upon its estimated replacement date.

In the first quarter of fiscal 2020, we recognized \$0.9 million of additional amortization expense of our current ERP application. In addition, we recognized \$0.1 million of expense for other ERP transition costs. We expect to recognize for the remainder of fiscal 2020 incremental ERP transition costs, which includes the incremental amortization of our current ERP application and external costs associated with implementing the new ERP application, of approximately \$6.0 million.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended January 31, 2019. Other than the adoption of the lease accounting guidance described in Note 1, Business Activity and Significant Accounting Policies, and Note 13, Leases, to our consolidated financial statements in this Quarterly Report on Form 10-Q, there have been no other changes in our critical accounting policies since January 31, 2019.

Results of Operations

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

All revenue and cost of revenue amounts for quarter ended April 30, 2018 are presented on an as corrected basis after correcting for an immaterial error identified during the year ended January 31, 2019 in these previously issued financial statements. The correction of this immaterial error reduced total revenue and cost of revenue by less than 1.0% and impacted the amounts of previously reported equipment, parts, service and rental and other revenue and cost of revenue, but had no impact on total gross profit, operating or net income, or earnings per-share. See Note 19 to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information.

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

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

	Three Months Ended April 30,	
	2019	2018
	(dollars in thousands)	
Equipment		
Revenue	\$ 193,956	\$ 167,770
Cost of revenue	173,154	149,223
Gross profit	\$ 20,802	\$ 18,547
Gross profit margin	10.7%	11.1%
Parts		
Revenue	\$ 51,938	\$ 46,863
Cost of revenue	36,814	33,238
Gross profit	\$ 15,124	\$ 13,625
Gross profit margin	29.1%	29.1%
Service		
Revenue	\$ 22,831	\$ 20,036
Cost of revenue	7,483	6,866
Gross profit	\$ 15,348	\$ 13,170
Gross profit margin	67.2%	65.7%
Rental and other		
Revenue	\$ 9,567	\$ 9,045
Cost of revenue	6,941	6,829
Gross profit	\$ 2,626	\$ 2,216
Gross profit margin	27.4%	24.5%

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

	Three Months Ended April 30,	
	2019	2018
Revenue		
Equipment	69.7 %	68.8 %
Parts	18.7 %	19.2 %
Service	8.2 %	8.2 %
Rental and other	3.4 %	3.7 %
Total Revenue	100.0 %	100.0 %
Total Cost of Revenue	80.6 %	80.5 %
Gross Profit Margin	19.4 %	19.5 %
Operating Expenses	18.9 %	19.2 %
Impairment of Intangible and Long-Lived Assets	— %	— %
Income from Operations	0.4 %	0.3 %
Other Income (Expense)	(0.6)%	(1.2)%
Loss Before Income Taxes	(0.2)%	(0.9)%
Benefit from Income Taxes	— %	(0.2)%
Net Loss	(0.2)%	(0.7)%

Three Months Ended April 30, 2019 Compared to Three Months Ended April 30, 2018

Consolidated Results

Revenue

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2019	2018		
	(dollars in thousands)			
Equipment	\$ 193,956	\$ 167,770	\$ 26,186	15.6%
Parts	51,938	46,863	5,075	10.8%
Service	22,831	20,036	2,795	13.9%
Rental and other	9,567	9,045	522	5.8%
Total Revenue	<u>\$ 278,292</u>	<u>\$ 243,714</u>	<u>\$ 34,578</u>	<u>14.2%</u>

The increase in revenue for the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019 was the result of increased revenue from all revenue sources and across all segments. Same-store sales increased 11.1% primarily as a result of an increase in equipment revenue but also positively impacted by parts and service revenue increases. Revenue was also positively impacted by our AGRAM acquisition completed in the third quarter of fiscal 2019.

Gross Profit

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2019	2018		
	(dollars in thousands)			
Gross Profit				
Equipment	\$ 20,802	\$ 18,547	\$ 2,255	12.2 %
Parts	15,124	13,625	1,499	11.0 %
Service	15,348	13,170	2,178	16.5 %
Rental and other	2,626	2,216	410	18.5 %
Total Gross Profit	<u>\$ 53,900</u>	<u>\$ 47,558</u>	<u>\$ 6,342</u>	<u>13.3 %</u>
Gross Profit Margin				
Equipment	10.7%	11.1%	(0.4)%	(3.6)%
Parts	29.1%	29.1%	— %	— %
Service	67.2%	65.7%	1.5 %	2.3 %
Rental and other	27.4%	24.5%	2.9 %	11.8 %
Total Gross Profit Margin	<u>19.4%</u>	<u>19.5%</u>	<u>(0.1)%</u>	<u>(0.5)%</u>
Gross Profit Mix				
Equipment	38.6%	39.0%	(0.4)%	(1.0)%
Parts	28.1%	28.6%	(0.5)%	(1.7)%
Service	28.5%	27.7%	0.8 %	2.9 %
Rental and other	<u>4.8%</u>	<u>4.7%</u>	<u>0.1 %</u>	<u>2.1 %</u>
Total Gross Profit Mix	<u>100.0%</u>	<u>100.0%</u>		

Gross profit for the first quarter of fiscal 2020 increased 13.3% as compared to the same period last year. Gross profit margin remained relatively consistent at 19.4% for the first quarter of fiscal 2020 compared to 19.5% for the first quarter of fiscal 2019. The increase in gross profit was the result of increased revenue.

Our company-wide absorption rate increased to 67.8% for the first quarter of fiscal 2020 compared to 66.3% during the same period last year as the increase in gross profit from parts and service in the first quarter of fiscal 2020 exceeded the increase in operating expenses during the period.

Operating Expenses

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2019	2018		
	(dollars in thousands)			
Operating Expenses	\$ 52,555	\$ 46,727	\$ 5,828	(12.5)%
Operating Expenses as a Percentage of Revenue	18.9%	19.2%	(0.3)%	1.6 %

Our operating expenses in the first quarter of fiscal 2020 increased \$5.8 million as compared to the first quarter of fiscal 2019 as a result of increased International segment operating expenses resulting from our AGRAM acquisition, incurrence of ERP transitions, and increased variable expenses associated with higher levels of equipment revenue. Operating expenses as a percentage of revenue decreased to 18.9% in the first quarter of fiscal 2020 from 19.2% in the first quarter of fiscal 2019. The decrease in operating expenses as a percentage of total revenue was primarily due to the increase in total revenue in the first quarter of fiscal 2020, as compared to the first quarter of fiscal 2019, which positively affected our ability to leverage our fixed operating costs.

Impairment Charges

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2019	2018		
	(dollars in thousands)			
Impairment of Long-Lived Assets	\$ 135	\$ —	\$ 135	n/a

We recognized \$0.1 million of impairment charges on certain long-lived assets in the first quarter of fiscal 2020. No impairment charges were recognized in the first quarter of fiscal 2019.

Other Income (Expense)

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2019	2018		
	(dollars in thousands)			
Interest income and other income (expense)	\$ 794	\$ 385	\$ 409	106.2%
Floorplan interest expense	(877)	(1,350)	(473)	35.0%
Other interest expense	(1,642)	(2,031)	(389)	19.2%

Floorplan interest expense decreased in the first quarter of fiscal 2020 as compared to the first quarter of fiscal 2019 primarily as a result of lower levels of interest-bearing inventory in the first quarter of fiscal 2020. The decrease in other interest expense in the first quarter of fiscal 2020, as compared to the first quarter of fiscal 2019, is primarily the result of decreased interest expense on our senior convertible notes in the first quarter of fiscal 2020 following our repurchase of \$20.0 million face value of our senior convertible notes in the second quarter of fiscal 2019.

Provision for Income Taxes

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2019	2018		
	(dollars in thousands)			
Provision for Income Taxes	\$ (70)	\$ (551)	\$ 481	87.3%

Our effective tax rate was 13.6% for the first quarter of fiscal 2020 and 25.5% for the first quarter of fiscal 2019. Our effective tax rate is impacted by the mix of income or losses in our domestic and international jurisdictions as well as the impact of recognizing valuation allowances on our deferred tax assets, including net operating losses.

Segment Results

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

	Three Months Ended April 30,		Increase/ (Decrease)	Percent Change
	2019	2018		
(dollars in thousands)				
Revenue				
Agriculture	\$ 153,775	\$ 141,954	\$ 11,821	8.3%
Construction	70,743	61,044	9,699	15.9%
International	53,774	40,716	13,058	32.1%
Total	\$ 278,292	\$ 243,714	\$ 34,578	14.2%
Income (Loss) Before Income Taxes				
Agriculture	\$ 1,876	\$ 1,323	\$ 553	41.8%
Construction	(2,222)	(2,897)	675	23.3%
International	216	(87)	303	n/m
Segment income (loss) before income taxes	(130)	(1,661)	1,531	92.2%
Shared Resources	(385)	(504)	119	23.6%
Total	\$ (515)	\$ (2,165)	\$ 1,650	76.2%

Agriculture

Agriculture segment revenue for the first quarter of fiscal 2020 increased 8.3% compared to the first quarter of fiscal 2019, all of which was due to a same-store sales increase. The revenue increase was the result of increased equipment revenue arising from customer replacement demand despite the aforementioned difficult industry conditions plus increases in parts and service revenues.

Agriculture segment income before income taxes was \$1.9 million for the first quarter of fiscal 2020 compared to \$1.3 million for the first quarter of fiscal 2019. The improvement in segment results was primarily the result of increased revenue but partially offset by increased operating expenses, including variable expenses associated with higher equipment revenues.

Construction

Construction segment revenue for the first quarter of fiscal 2020 increased 15.9% compared to the first quarter of fiscal 2019. The increase in revenue, all of which was due to a same-store sales increase, was the result of revenue increases from all sources of business, equipment, parts, service and rental and other.

Our Construction segment loss before income taxes was \$2.2 million for the first quarter of fiscal 2020 compared to a \$2.9 million loss before income taxes in the first quarter of fiscal 2019. The improvement in segment results was primarily due to increased revenue, but partially offset by increased operating expenses, including variable expenses associated with higher equipment revenues. The dollar utilization of our rental fleet increased from 18.3% in the first quarter of fiscal 2019 to 20.5% in the first quarter of fiscal 2020.

International

International segment revenue for the first quarter of fiscal 2020 increased 32.1% compared to the first quarter of fiscal 2019. The increase in segment revenue was the result of incremental revenue from our AGRAM acquisition completed in the third quarter of fiscal 2019 and a same-store sales increase of 13.6%. The increase in same-store sales was primarily the result of increased equipment and parts revenue.

Our International segment income before income taxes was \$0.2 million for the first quarter of fiscal 2020 compared a loss before income taxes of \$0.1 million for the same period last year. The improvement in segment results was primarily the result of increased revenue but partially offset by increased operating expenses arising from our AGRAM business following our acquisition in the third quarter of fiscal 2019.

Shared Resources/Eliminations

We incur centralized expenses/income at our general corporate level, which we refer to as "Shared Resources," and then allocate most of these net expenses to our segments. Since these allocations are set early in the year, and a portion is planned to be unallocated, unallocated balances may occur. Shared Resources loss before income taxes was \$0.4 million for the first quarter of fiscal 2020 compared to loss before income taxes of \$0.5 million for the same period last year.

Non-GAAP Financial Measures

To supplement net income (loss) and our diluted earnings (loss) per share ("Diluted EPS"), both GAAP measures, we present adjusted net income (loss) and adjusted Diluted EPS, both non-GAAP measures, which include adjustments for ERP transition costs, including accelerated amortization of our current ERP application and external implementation costs of our new ERP application, and impairment charges. We believe that the presentation of adjusted net income (loss) and adjusted Diluted EPS is relevant and useful to our management and investors because it provides a measurement of earnings on activities that we consider to occur in the ordinary course of our business. Adjusted net income (loss) and adjusted Diluted EPS should be evaluated in addition to, and not considered a substitute for, or superior to, the most comparable GAAP measure. In addition, other companies may calculate these non-GAAP measures in a different manner, which may hinder comparability of our adjusted results with those of other companies.

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

	Three Months Ended April 30,	
	2019	2018
	(dollars in thousands, except per share data)	
Adjusted Net Income (Loss)		
Net Income (Loss)	\$ (445)	\$ (1,614)
Adjustments		
ERP transition costs	1,016	—
Impairment charges	135	—
Total Pre-Tax Adjustments	1,151	—
Less: Tax Effect of Adjustments (1)	242	—
Total Adjustments	909	—
Adjusted Net Income (Loss)	\$ 464	\$ (1,614)
Adjusted Diluted EPS		
Diluted EPS	\$ (0.02)	\$ (0.07)
Adjustments (2)		
ERP transition costs	0.05	—
Impairment charges	—	—
Total Pre-Tax Adjustments	0.05	—
Less: Tax Effect of Adjustments (1)	0.01	—
Total Adjustments	0.04	—
Adjusted Diluted EPS	\$ 0.02	\$ (0.07)

(1) The tax effect of adjustments, all of which were U.S. related items, was calculated using a 21% tax rate. The rate was determined based on a 21% federal statutory rate and no impact for state taxes given our valuation allowance against state net operating loss carryforwards.

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

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity are cash reserves, cash generated from operations, and borrowings under our floorplan payable and other credit facilities. We expect these sources of liquidity to be sufficient to fund our working capital requirements, acquisitions, capital expenditures and other investments in our business, service our debt, pay our tax and lease obligations and other commitments and contingencies, and meet any seasonal operating requirements for the foreseeable future, provided, however, that our borrowing capacity, under our credit agreements, is dependent on compliance with various covenants as further described in the "Risk Factors" section of our Annual Report in Form 10-K.

Equipment Inventory and Floorplan Payable Credit Facilities

As of April 30, 2019, the Company had floorplan payable lines of credit for equipment purchases totaling \$640.0 million, which is primarily comprised of a \$400.0 million credit facility with CNH Industrial Capital, a \$140.0 million floorplan payable line under the Wells Fargo Credit Agreement, and a \$45.0 million credit facility with DLL Finance.

The maturity date of our Wells Fargo Credit Agreement was contingent upon the results of a maturity test that was performed on February 1, 2019. Pursuant to this test, the maturity date of the Wells Fargo Credit Agreement would be October 28, 2020 so long as (i) the Company's fixed charge coverage ratio for the 12 month period ended December 31, 2018 was at least 1.10 to 1.00 and (ii) a liquidity test, requiring that the Company have unrestricted cash on hand plus excess borrowing availability under the Wells Fargo Credit Agreement (on a pro-forma basis reflecting the Company's repayment in full of its outstanding Senior Convertible Notes) in an amount that is greater than 20% of maximum credit amount under the facility, was met on February 1, 2019. If both financial tests were not satisfied on February 1, 2019, the Wells Fargo Credit Agreement would immediately mature and all amounts outstanding would become immediately due and payable in full. The Company satisfied the maturity test requirements on February 1, 2019, and therefore the maturity date of the Wells Fargo Credit Agreement is October 28, 2020.

Our equipment inventory turnover increased slightly to 1.8 times for the four quarters ended April 30, 2019 compared to 1.7 times for the four quarters ended April 30, 2018. The increase in equipment sales volume over the four quarter period ended April 30, 2019 as compared to the four quarter period ended April 30, 2018 was largely offset by an increase in our average equipment inventory over these time periods. Our equity in equipment inventory, which reflects the portion of our equipment inventory balance that is not financed by floorplan payables, decreased to 23.6% as of April 30, 2019 from 34.4% as of January 31, 2019. The decrease in our equity in equipment inventory is primarily due to the seasonal stocking of new equipment inventories during the three months ended April 30, 2019 and the higher level of floorplan financing available on such inventories, and borrowing on our floorplan lines of credit in anticipation of repaying the outstanding balance of our senior convertible notes on May 1, 2019.

Senior Convertible Notes

The Company's senior convertible notes matured on May 1, 2019. The Company repaid the outstanding principal balance of \$45.6 million on the maturity date using available cash resources and available borrowing capacity under our various floorplan payable lines of credit.

Adequacy of Capital Resources

Our primary uses of cash have been to fund our operating activities, including the purchase of inventories and providing for other working capital needs, meeting our debt service requirements, making payments due under our various leasing arrangements, funding capital expenditures, including rental fleet assets, and repurchasing and repaying our outstanding senior convertible notes. Based on our current operational performance, we believe our cash flow from operations, available cash and available borrowing capacity under our existing credit facilities will adequately provide for our liquidity needs for, at a minimum, the next 12 months.

As of April 30, 2019, we were in compliance with the financial covenants under our credit agreements and we were not subject to the fixed charge coverage ratio covenant under the Wells Fargo Credit Agreement as our adjusted excess availability plus eligible cash collateral (as defined therein) was not less than 15% of the total amount of the credit facility as of April 30, 2019. While not expected to occur, if anticipated operating results create the likelihood of a future covenant violation, we would expect to work with our lenders on an appropriate modification or amendment to our financing arrangements.

Cash Flow

Cash Flow Provided By Operating Activities

Net cash provided by operating activities was \$2.9 million for the first three months of fiscal 2020, compared to net cash used for operating activities of \$27.0 million for the first three months of fiscal 2019. The change in net cash provided by or used for operating activities is primarily the result of seasonal inventory stocking and the mix of floorplan financing between manufacturer and non-manufacturer floorplan financing.

We evaluate our cash flow from operating activities net of all floorplan activity and maintaining a constant level of equity in our equipment inventory. Taking these adjustments into account, our adjusted cash flow used for operating activities was \$37.4 million for the first three months of fiscal 2020 compared to \$25.6 million for the first three months of fiscal 2019. The increase in adjusted cash flow used for operating activities for the first three months of fiscal 2020 is primarily the result of increased equipment inventory stock during the first three months of fiscal 2020 as compared to the same period last year. See the Adjusted Cash Flow Reconciliation below for a reconciliation of adjusted cash flow used for operating activities to the GAAP measure of cash flow used for operating activities.

Cash Flow Used For Investing Activities

Net cash used for investing activities was \$8.0 million for the first three months of fiscal 2020, compared to \$2.6 million for the first three months of fiscal 2019. The increase in cash used for investing activities was the result of cash used for our acquisition of ESB Agrartechnik and an increased level of property and equipment purchases, including rental fleet, for the first three months of fiscal 2020 compared to the same period last year.

Cash Flow Provided By Financing Activities

Net cash provided by financing activities was \$11.8 million for the first three months of fiscal 2020 compared to \$33.4 million for the first three months of fiscal 2019. For the first three months of fiscal 2020 and 2019, net cash provided by financing activities was the result of increased non-manufacturer floorplan payables associated with seasonal inventory stocking. During the first three months of fiscal 2019, we repaid all amounts outstanding under the working capital line of credit under our Wells Fargo Credit Agreement.

Adjusted Cash Flow Reconciliation

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

Our equity in equipment inventory decreased to 23.6% as of April 30, 2019 from 34.4% as of January 31, 2019, and decreased to 27.8% as of April 30, 2018 from 38.2% as of January 31, 2018.

Adjusted Cash Flow is a non-GAAP financial measure. We believe that the presentation of Adjusted Cash Flow is relevant and useful to our investors because it provides information on activities we consider to be the normal operation of our business, regardless of financing source and level of financing for our equipment inventory. The following table reconciles net cash provided by (used for) operating activities, a GAAP measure, to adjusted net cash provided by (used for) operating activities and net cash provided by (used for) financing activities, a GAAP measure, to adjusted net cash provided by (used for) financing activities.

	Net Cash Provided by (Used for) Operating Activities		Net Cash Provided by (Used for) Financing Activities	
	Three Months Ended	Three Months	Three Months	Three Months
	April 30, 2019	Ended April 30, 2018	Ended April 30, 2019	Ended April 30, 2018
	(in thousands)		(in thousands)	
Cash Flow, As Reported	\$ 2,852	\$ (27,026)	\$ 11,775	\$ 33,350
Adjustment for Non-Manufacturer Floorplan Net Payments	12,772	47,376	(12,772)	(47,376)
Adjustment for Constant Equity in Equipment Inventory	(52,996)	(45,998)	—	—
Adjusted Cash Flow	<u>\$ (37,372)</u>	<u>\$ (25,648)</u>	<u>\$ (997)</u>	<u>\$ (14,026)</u>

Certain Information Concerning Off-Balance Sheet Arrangements

As of April 30, 2019, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Forward-looking statements are contained in this Quarterly Report on Form 10-Q, including in "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as in our Annual Report on Form 10-K for the year ended January 31, 2019, and in other materials filed or to be filed by the Company with the Securities and Exchange Commission (and included in oral statements or other written statements made or to be made by the Company).

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Exposure to changes in interest rates results from borrowing activities used to fund operations. For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant. We have both fixed and floating rate financing. Some of our floating rate credit facilities contain minimum rates of interest to be charged. Based upon our interest-bearing balances and interest rates as of April 30, 2019, 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 \$1.4 million. Conversely, a one percentage point decrease in interest rates for the next 12-month period would result in an increase to pre-tax earnings and cash flow of approximately \$1.4 million. At April 30, 2019, we had floorplan payables of \$374.3 million, of which approximately \$142.3 million was variable-rate floorplan payable and \$232.0 million was non-interest bearing. In addition, at April 30, 2019, we had total long-term debt, including our senior convertible notes and finance lease obligations, of \$78.4 million, all of which was fixed rate debt.

Foreign Currency Exchange Rate Risk

Our foreign currency exposures arise as the result of our foreign operations. We are exposed to transactional foreign currency exchange rate risk through our foreign entities' holding assets and liabilities denominated in currencies other than their functional currency. In addition, the Company is exposed to foreign currency transaction risk as a result of certain intercompany financing transactions. The Company attempts to manage its transactional foreign currency exchange rate risk through the use of derivative financial instruments, primarily foreign exchange forward contracts, or through natural hedging instruments. Based upon balances and exchange rates as of April 30, 2019, holding other variables constant, we believe that a hypothetical 10% increase or decrease in all applicable foreign exchange rates would not have a material impact on our results of operations or cash flows. As of April 30, 2019, our Ukrainian subsidiary had \$4.3 million of net monetary assets denominated in Ukrainian hryvnia ("UAH"). We have attempted to minimize our net monetary asset position in Ukraine through reducing overall asset levels in Ukraine and through borrowing in UAH which serves as a natural hedging instrument offsetting our net UAH denominated assets. At certain times, currency and payment controls imposed by the National Bank of Ukraine have limited our ability to manage our net monetary asset position. While the UAH has recently remained relatively stable, an escalation of political tensions or economic instability could lead to significant UAH devaluations, which could have a material impact on our results of operations and cash flows.

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

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* After evaluating the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act") as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are effective.

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

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, including the important information in "Forward-Looking Statements," you should carefully consider the "Risk Factors" discussed in our Form 10-K for the fiscal year ended January 31, 2019, as filed with the Securities and Exchange Commission. Those factors, if they were to occur, could cause our actual results to differ materially from those expressed in our forward-looking statements in this report, and may materially adversely affect our financial condition or future results. Although we are not aware of any other factors, aside from those discussed in our Form 10-K, that we currently anticipate will cause our forward-looking statements to differ materially from our future actual results, or materially affect the Company's financial condition or future results, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX
TITAN MACHINERY INC.
FORM 10-Q

No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended April 30, 2019, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

SIGNATURES

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

Dated: June 6, 2019

TITAN MACHINERY INC.

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

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

I, David J. Meyer, certify that:

1. I have reviewed this Quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (or persons performing the equivalent functions):
 - (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: June 6, 2019

/s/ David J. Meyer

David J. Meyer

Board Chair and Chief Executive Officer

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

I, Mark Kalvoda, certify that:

1. I have reviewed this Quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (or persons performing the equivalent functions):
 - (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: June 6, 2019

/s/ Mark Kalvoda

Mark Kalvoda

Chief Financial Officer

**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 April 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, David J. Meyer, Board Chair and 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: June 6, 2019

/s/ David J. Meyer

David J. Meyer

Board Chair and Chief Executive Officer

**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 April 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Mark Kalvoda, 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: June 6, 2019

/s/ Mark Kalvoda

Mark Kalvoda

Chief Financial Officer