

Titan Machinery Inc.  
Form 10-Q  
September 10, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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

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

**Commission File No. 001-33866**

**TITAN MACHINERY INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**No. 45-0357838**  
(IRS Employer

Identification No.)

**644 East Beaton Drive**  
**West Fargo, ND 58078-2648**

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(Address of Principal Executive Offices)

Registrant's telephone number (701) 356-0130

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of August 31, 2012 was: Common Stock, \$0.00001 par value, 21,035,986 shares.

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**QUARTERLY REPORT ON FORM 10-Q**

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	<b>July 31, 2012 (Unaudited)</b>	<b>January 31, 2012</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 126,509	\$ 79,842
Receivables, net	66,203	82,518
Inventories	938,267	748,047
Prepaid expenses and other	2,972	2,108
Income taxes receivable		3,140
Deferred income taxes	5,147	5,370
Total current assets	1,139,098	921,025
<b>INTANGIBLES AND OTHER ASSETS</b>		
Noncurrent parts inventories	3,469	2,792
Goodwill	29,529	24,404
Intangible assets, net of accumulated amortization	12,631	10,793
Other	7,545	2,776
Total intangibles and other assets	53,174	40,765
PROPERTY AND EQUIPMENT, net of accumulated depreciation	182,534	126,282
<b>TOTAL ASSETS</b>	<b>\$ 1,374,806</b>	<b>\$ 1,088,072</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 31,024	\$ 28,424
Floorplan notes payable	707,459	552,428
Current maturities of long-term debt	4,600	4,755
Customer deposits	12,163	49,540
Accrued expenses	23,263	26,735
Income taxes payable	1,381	
Total current liabilities	779,890	661,882
<b>LONG-TERM LIABILITIES</b>		
Senior convertible notes	124,132	
Long-term debt, less current maturities	61,102	57,405

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Deferred income taxes	38,721	28,592
Other long-term liabilities	2,150	2,854
Total long-term liabilities	226,105	88,851

**STOCKHOLDERS EQUITY**

Common stock, par value \$.00001 per share; authorized - 45,000 shares, issued and outstanding - 21,031 at July 31, 2012 and authorized - 25,000 shares, issued and outstanding - 20,911 at January 31, 2012		
Additional paid-in-capital	235,336	218,156
Retained earnings	131,057	118,251
Accumulated other comprehensive loss	(894)	(70)
Total Titan Machinery Inc. stockholders equity	365,499	336,337
Noncontrolling interest	3,312	1,002
Total stockholders equity	368,811	337,339
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,374,806</b>	<b>\$ 1,088,072</b>

See Notes to Consolidated Financial Statements

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
<b>REVENUE</b>				
Equipment	\$ 306,170	\$ 225,283	\$ 628,698	\$ 474,512
Parts	57,895	49,292	116,739	91,202
Service	30,466	25,395	60,218	46,359
Rental and other	15,540	10,879	26,139	16,941
<b>TOTAL REVENUE</b>	<b>410,071</b>	<b>310,849</b>	<b>831,794</b>	<b>629,014</b>
<b>COST OF REVENUE</b>				
Equipment	279,284	204,430	571,369	427,731
Parts	40,357	34,426	81,010	64,146
Service	10,474	8,963	20,837	16,871
Rental and other	9,592	7,179	17,805	11,612
<b>TOTAL COST OF REVENUE</b>	<b>339,707</b>	<b>254,998</b>	<b>691,021</b>	<b>520,360</b>
<b>GROSS PROFIT</b>	<b>70,364</b>	<b>55,851</b>	<b>140,773</b>	<b>108,654</b>
<b>OPERATING EXPENSES</b>	<b>56,507</b>	<b>44,060</b>	<b>111,363</b>	<b>83,496</b>
<b>INCOME FROM OPERATIONS</b>	<b>13,857</b>	<b>11,791</b>	<b>29,410</b>	<b>25,158</b>
<b>OTHER INCOME (EXPENSE)</b>				
Interest and other income	119	267	607	552
Floorplan interest expense	(2,420)	(1,334)	(5,318)	(2,496)
Interest expense other	(2,774)	(341)	(3,567)	(616)
<b>INCOME BEFORE INCOME TAXES</b>	<b>8,782</b>	<b>10,383</b>	<b>21,132</b>	<b>22,598</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>(3,477)</b>	<b>(4,092)</b>	<b>(8,368)</b>	<b>(9,039)</b>
<b>NET INCOME INCLUDING NONCONTROLLING INTEREST</b>	<b>5,305</b>	<b>6,291</b>	<b>12,764</b>	<b>13,559</b>
<b>LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>				
	96		(42)	
<b>NET INCOME ATTRIBUTABLE TO TITAN MACHINERY INC.</b>	<b>\$ 5,209</b>	<b>\$ 6,291</b>	<b>\$ 12,806</b>	<b>\$ 13,559</b>
<b>EARNINGS PER SHARE - NOTE 1</b>				
<b>EARNINGS PER SHARE - BASIC</b>	<b>\$ 0.25</b>	<b>\$ 0.31</b>	<b>\$ 0.61</b>	<b>\$ 0.71</b>
<b>EARNINGS PER SHARE - DILUTED</b>	<b>\$ 0.25</b>	<b>\$ 0.30</b>	<b>\$ 0.60</b>	<b>\$ 0.69</b>
<b>WEIGHTED AVERAGE SHARES - BASIC</b>	<b>20,781</b>	<b>20,237</b>	<b>20,752</b>	<b>19,009</b>

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WEIGHTED AVERAGE SHARES - DILUTED	21,000	20,617	20,981	19,392
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See Notes to Consolidated Financial Statements



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**TITAN MACHINERY INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(in thousands)

	<b>Three Months Ended July 31,</b>		<b>Six Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
NET INCOME INCLUDING NONCONTROLLING INTEREST	\$ 5,305	\$ 6,291	\$ 12,764	\$ 13,559
<b>OTHER COMPREHENSIVE LOSS</b>				
Foreign currency translation adjustments	(1,185)		(936)	
<b>TOTAL OTHER COMPREHENSIVE LOSS</b>	<b>(1,185)</b>		<b>(936)</b>	
<b>COMPREHENSIVE INCOME</b>	<b>4,120</b>	<b>6,291</b>	<b>11,828</b>	<b>13,559</b>
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	<b>(83)</b>		<b>(154)</b>	
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO TITAN MACHINERY INC.</b>	<b>\$ 4,203</b>	<b>\$ 6,291</b>	<b>\$ 11,982</b>	<b>\$ 13,559</b>

See Notes to Consolidated Financial Statements

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

	Common Stock		Additional	Retained	Accumulated	Total Titan	Noncontrolling	Total
	Shares	Amount	Paid-In	Earnings	Other	Machinery Inc.	Interest	Stockholders'
	Outstanding		Capital		Comprehensive	Stockholders		Equity
					Loss	Equity		
BALANCE, JANUARY 31, 2012	20,911	\$	\$ 218,156	\$ 118,251	\$ (70)	\$ 336,337	\$ 1,002	\$ 337,339
Senior convertible notes offering			15,501			15,501		15,501
Common stock issued on grant of restricted stock, exercise of stock options and warrants, and tax benefits of equity awards	120		915			915		915
Issuance of subsidiary shares to noncontrolling interest holders							2,464	2,464
Stock-based compensation expense			764			764		764
Comprehensive income (loss):								
Net income (loss)				12,806		12,806	(42)	12,764
Other comprehensive loss					(824)	(824)	(112)	(936)
Total comprehensive income (loss)						11,982	(154)	11,828
BALANCE, JULY 31, 2012	21,031	\$	\$ 235,336	\$ 131,057	\$ (894)	\$ 365,499	\$ 3,312	\$ 368,811

See Notes to Consolidated Financial Statements

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

	<b>Six Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>OPERATING ACTIVITIES</b>		
Net income including noncontrolling interest	\$ 12,764	\$ 13,559
Adjustments to reconcile net income to net cash used for operating activities		
Depreciation and amortization	10,214	6,053
Deferred income taxes	14	148
Stock-based compensation expense	764	640
Noncash interest expense	1,279	125
Other, net	192	43
Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities		
Receivables, prepaid expenses and other assets	17,694	(5,325)
Inventories	(94,471)	(99,638)
Floorplan notes payable	(1,508)	3,718
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	(44,814)	5,979
Income taxes	4,524	(2,167)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>(93,348)</b>	<b>(76,865)</b>
<b>INVESTING ACTIVITIES</b>		
Rental fleet purchases	(16,512)	(824)
Property and equipment purchases (excluding rental fleet)	(7,722)	(7,700)
Net proceeds from sale of property and equipment	934	642
Purchase of equipment dealerships, net of cash acquired	(16,175)	(27,121)
Other, net	9	6
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(39,466)</b>	<b>(34,997)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from senior convertible notes offering, net of direct issuance costs of \$4,753	145,247	
Proceeds from follow-on offering of common stock, net of underwriting discount of \$4,166 and other direct costs of \$286		74,898
Net change in non-manufacturer floorplan notes payable	55,037	74,217
Proceeds from long-term debt borrowings	27,728	
Principal payments on long-term debt	(49,952)	(11,628)
Proceeds from sale of subsidiary shares to noncontrolling interest holders	2,464	
Other, net	(333)	457
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>180,191</b>	<b>137,944</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(710)</b>	
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>46,667</b>	<b>26,082</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>79,842</b>	<b>76,112</b>

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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	126,509	\$	102,194
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See Notes to Consolidated Financial Statements

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	<b>Six Months Ended July 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period		
Income taxes, net of refunds	\$ 3,479	\$ 10,883
Interest	\$ 6,324	\$ 2,850
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and equipment financed with long-term debt	\$ 25,785	\$ 2,434
Net transfer of assets to property and equipment from inventories	\$ 14,387	\$ 20,335
Net transfer of financing to long-term debt from floorplan notes payable	\$	\$ 1,696

See Notes to Consolidated Financial Statements

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**TITAN MACHINERY INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**NOTE 1 - BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America ( GAAP ) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the Company ) are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company s Agriculture and Construction customers. Therefore, operating results for the six-month period ended July 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2013. The information contained in the balance sheet as of January 31, 2012 was derived from the audited financial statements for the Company for the year then ended. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended January 31, 2012 as filed with the SEC.

*Nature of Business*

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

*Estimates*

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

*Principles of Consolidation*

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

*Fair Value of Financial Instruments*

The carrying amount of cash, receivables, payables, short-term debt and other current liabilities approximates fair value because of the short maturity and/or frequent repricing of those instruments. Based upon current borrowing rates with similar maturities of our long-term debt instruments, the carrying value of the long-term debt approximates the fair value as of July 31, 2012 and January 31, 2012. As of July 31, 2012, the fair value of our senior convertible notes was approximately \$147.8 million versus a carrying value of approximately \$124.1 million. Fair value of the senior convertible notes was estimated based on quoted market prices for these instruments.

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

*Earnings Per Share*

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

Diluted earnings per share were computed by dividing net income attributable to Titan Machinery Inc. after allocation of income to participating securities by the weighted-average shares of common stock outstanding after adjusting for potential dilution related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted earnings per share. There were 10,000 stock options outstanding that were excluded from the computation of diluted earnings per share for the three and six months ended July 31, 2012, respectively, because they were anti-dilutive. There were no stock options outstanding as of July 31, 2011 that were anti-dilutive.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
<b>Numerator</b>				
Net income attributable to Titan Machinery Inc.	\$ 5,209	\$ 6,291	\$ 12,806	\$ 13,559
Net income allocated to participating securities	(54)	(56)	(125)	(124)
Net income attributable to Titan Machinery Inc. common stockholders	\$ 5,155	\$ 6,235	\$ 12,681	\$ 13,435
<b>Denominator</b>				
Basic weighted-average common shares outstanding	20,781	20,237	20,752	19,009
Plus: Incremental shares from assumed conversions				
Warrants	19	30	24	30



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Stock options	200	350	205	353
Diluted weighted-average common shares outstanding	21,000	20,617	20,981	19,392
Earnings per share - basic	\$ 0.25	\$ 0.31	\$ 0.61	\$ 0.71
Earnings per share - diluted	\$ 0.25	\$ 0.30	\$ 0.60	\$ 0.69

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	July 31, 2012	January 31, 2012
	(in thousands)	
New equipment	\$ 626,404	\$ 445,513
Used equipment	211,861	219,849
Parts and attachments	91,429	76,073
Work in process	8,573	6,612
	\$ 938,267	\$ 748,047

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

**NOTE 3 - PROPERTY AND EQUIPMENT**

	July 31, 2012	January 31, 2012
	(in thousands)	
Rental fleet equipment	\$ 105,930	\$ 62,440
Machinery and equipment	19,073	17,562
Vehicles	31,290	28,277
Furniture and fixtures	23,357	19,097
Land, buildings, and leasehold improvements	47,576	34,705
	\$ 227,226	\$ 162,081
Less accumulated depreciation	(44,692)	(35,799)
	\$ 182,534	\$ 126,282

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

As of July 31, 2012, the Company had a \$75.0 million working capital line of credit under a credit agreement with a group of banks led by Wells Fargo Bank, National Association ( Wells Fargo ). The Company had \$41.3 million and \$33.9 million outstanding on its operating line of credit as of July 31, 2012 and January 31, 2012, respectively. Amounts outstanding are recorded as long-term debt, within long-term liabilities on the consolidated balance sheets, as the Company does not have the intention or obligation to repay amounts borrowed within one year.

*Floorplan Lines of Credit*

As of July 31, 2012, the Company had discretionary floorplan lines of credit for equipment purchases totaling approximately \$800.0 million with various lending institutions, including \$300.0 million under the aforementioned credit agreement with Wells Fargo, a \$350.0 million credit agreement with CNH Capital America LLC ( CNH Capital ) and a \$150.0 million credit agreement with Agricredit Acceptance LLC. Floorplan notes payable relating to these credit agreements totaled approximately \$614.7 million of the total floorplan notes payable balance of \$707.5 million outstanding as of July 31, 2012 and \$505.6 million of the total floorplan notes payable balance of \$552.4 million outstanding as of January 31, 2012. As of July 31, 2012, the Company had approximately \$162.0 million in available borrowings remaining under these lines of credit (net of standby letters of credit under the aforementioned Wells Fargo credit agreement and rental fleet financing and other acquisition-related financing arrangements under the CNH Capital credit agreement). These floorplan notes carried

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various interest rates primarily ranging from 2.25% to 7.25% as of July 31, 2012, subject to interest-free periods offered by CNH Capital. As of July 31, 2012, the Company was in compliance with all floorplan financial covenants.

**NOTE 5 - SENIOR CONVERTIBLE NOTES**

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

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

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

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

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

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- iv. Upon the occurrence of corporate transactions specified in the Indenture.
  
- v. At any time on and after February 1, 2019 until the close of business on the business day immediately preceding the maturity date.

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

The number of shares we may deliver upon conversion of the Convertible Notes will be subject to certain limitations, and we are subject to certain other obligations and restrictions related to such share caps, as described in the Indenture. On or after May 6, 2015, we may redeem for cash all or a portion of the Convertible Notes if the last reported sale price of our common stock has been at least 120% of the conversion price then in effect for at least 20 trading days (whether or not

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consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption.

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

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

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

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

Proceeds upon issuance of the Convertible Notes were as follows:

	April 24, 2012 (in thousands)
Principal value	\$ 150,000
Less: transaction costs	(4,753)
Net proceeds, senior convertible notes	\$ 145,247
<b>Amounts recognized at issuance:</b>	
Senior convertible notes, net	\$ 123,319
Additional paid-in capital	15,501
Transaction costs allocated to the liability component	(3,907)
Long-term deferred tax liability	10,334
Net proceeds, senior convertible notes	\$ 145,247



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

		<b>July 31, 2012 (in thousands except conversion rate and conversion price)</b>
Principal value	\$	150,000
Unamortized debt discount		(25,868)
Carrying value of senior convertible notes	\$	124,132
Carrying value of equity component, net of deferred taxes	\$	15,501
Conversion rate (shares of common stock per \$1,000 principal amount of notes)		23.1626
Conversion price (per share of common stock)	\$	43.17

As of July 31, 2012, the unamortized debt discount will be amortized over a seven-year period. The if-converted value as of July 31, 2012 does not exceed the principal balance of the Convertible Notes. For the period ended July 31, 2012, the Company recognized coupon interest expense of \$1.5 million, and non-cash interest expense of \$0.8 million related to the amortization of the debt discount and \$0.1 million related to the amortization of the liability-allocated transaction costs. The effective interest rate of the liability component for the period ended July 31, 2012 was equal to 7.00%.

### **NOTE 6 - BUSINESS COMBINATIONS**

The Company continued to implement its strategy of consolidating dealerships in desired market areas. Below is a summary of the acquisitions completed for the six months ended July 31, 2012. In certain of the business combination transactions the Company recognized goodwill. Factors contributing to the recognition of goodwill include an evaluation of future and historical financial performance, the value of the workforce acquired and proximity to other existing and future planned Company locations. Pro forma results are not presented as the acquisitions are not considered material, individually or in aggregate, to the Company. The results of operations have been included in the Company's consolidated results of operations since the date of each respective business combination.

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

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



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

On April 2, 2012, the Company acquired certain assets of East Helena Rental, LLC. The acquired entity consisted of one construction equipment rental store in Helena, Montana which is contiguous to the Company's existing locations in

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Missoula, Great Falls, Bozeman and Big Sky, Montana. The acquisition-date fair value of the total consideration transferred for the store was \$0.6 million.

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

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

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

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



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Revenue, income before income taxes and total assets at the segment level are reported before eliminations. The Company retains various unallocated income/(expense) items and assets at the general corporate level, which the Company refers to as Shared Resources in the table below. Shared Resources assets primarily consist of cash and property and equipment. Intersegment revenue is immaterial.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
<b>Revenue</b>				
Agriculture	\$ 336,495	\$ 266,353	\$ 696,630	\$ 553,331
Construction	95,268	59,821	176,876	103,960
Segment revenue	431,763	326,174	873,506	657,291
Eliminations	(21,692)	(15,325)	(41,712)	(28,277)
Total	\$ 410,071	\$ 310,849	\$ 831,794	\$ 629,014
<b>Income Before Income Taxes</b>				
Agriculture	\$ 10,573	\$ 10,937	\$ 24,911	\$ 23,896
Construction	628	576	248	1,228
Segment income before income taxes	11,201	11,513	25,159	25,124
Shared Resources	(1,751)	(887)	(2,503)	(2,014)
Eliminations	(668)	(243)	(1,524)	(512)
Income before income taxes	\$ 8,782	\$ 10,383	\$ 21,132	\$ 22,598

	July 31,	January 31,
	2012	2012
	(in thousands)	
<b>Total Assets</b>		
Agriculture	\$ 810,479	\$ 781,098
Construction	351,832	250,474
Segment assets	1,162,311	1,031,572
Shared Resources	215,208	57,882
Eliminations	(2,713)	(1,382)
Total	\$ 1,374,806	\$ 1,088,072

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes included in Item 1 of Part 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2012.

**Critical Accounting Policies**

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

**Overview**

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

Our net income attributable to Titan Machinery Inc. common stockholders was \$5.2 million, or \$0.25 per diluted share, for the three months ended July 31, 2012, compared to \$6.2 million, or \$0.30 per diluted share, for the three months ended July 31, 2011. Significant factors impacting the quarterly comparisons were:

- Increase in revenue due to acquisitions and same-store sales growth in both our Agriculture and Construction segments. The revenue increase in the Construction segment primarily resulted from a growing construction equipment market in the region in which we do business and growth in the rental business reflecting our initiative to expand this growth platform;
- Increase in total gross profit primarily due to increased revenue, partially offset by a decrease in equipment gross profit margin which was primarily due to competitive Agriculture and Construction equipment retail environments in the regions in which we operate and softening of Agriculture customer demand in the near-term as a result of regional drought conditions; and

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

Table of Contents**Results of Operations**

Comparative financial data for each of our four sources of revenue are expressed below. The results for these periods include the operating results of the acquisitions made during these periods. The period-to-period comparisons included below are not necessarily indicative of future results. Segment information is provided later in this discussion and analysis of our results of operations.

	Three Months Ended July 31, 2012		Percent Change	Six Months Ended July 31, 2012		Percent Change
	(dollars in thousands)			(dollars in thousands)		
<b>Equipment</b>						
Revenue	\$ 306,170	\$ 225,283	35.9%	\$ 628,698	\$ 474,512	32.5%
Cost of revenue	279,284	204,430	36.6%	571,369	427,731	33.6%
Gross profit	\$ 26,886	\$ 20,853	28.9%	\$ 57,329	\$ 46,781	22.5%
Gross profit margin	8.8%	9.3%	(0.5)%	9.1%	9.9%	(0.8)%
<b>Parts</b>						
Revenue	\$ 57,895	\$ 49,292	17.5%	\$ 116,739	\$ 91,202	28.0%
Cost of revenue	40,357	34,426	17.2%	81,010	64,146	26.3%
Gross profit	\$ 17,538	\$ 14,866	18.0%	\$ 35,729	\$ 27,056	32.1%
Gross profit margin	30.3%	30.2%	0.1%	30.6%	29.7%	0.9%
<b>Service</b>						
Revenue	\$ 30,466	\$ 25,395	20.0%	\$ 60,218	\$ 46,359	29.9%
Cost of revenue	10,474	8,963	16.9%	20,837	16,871	23.5%
Gross profit	\$ 19,992	\$ 16,432	21.7%	\$ 39,381	\$ 29,488	33.5%
Gross profit margin	65.6%	64.7%	0.9%	65.4%	63.6%	1.8%
<b>Rental and other</b>						
Revenue	\$ 15,540	\$ 10,879	42.8%	\$ 26,139	\$ 16,941	54.3%
Cost of revenue	9,592	7,179	33.6%	17,805	11,612	53.3%
Gross profit	\$ 5,948	\$ 3,700	60.8%	\$ 8,334	\$ 5,329	56.4%
Gross profit margin	38.3%	34.0%	4.3%	31.9%	31.5%	0.4%

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
Revenue				
Equipment	74.7%	72.5%	75.6%	75.4%
Parts	14.1%	15.9%	14.0%	14.5%
Service	7.4%	8.1%	7.2%	7.4%
Rental and other	3.8%	3.5%	3.2%	2.7%
Total revenue	100.0%	100.0%	100.0%	100.0%
Total cost of revenue	82.8%	82.0%	83.1%	82.7%
Gross profit	17.2%	18.0%	16.9%	17.3%
Operating expenses	13.8%	14.2%	13.4%	13.3%
Income from operations	3.4%	3.8%	3.5%	4.0%
Other income (expense)	(1.3)%	(0.5)%	(1.0)%	(0.4)%
Income before income taxes	2.1%	3.3%	2.5%	3.6%
Provision for income taxes	(0.8)%	(1.3)%	(1.0)%	(1.4)%
Net income including noncontrolling interest	1.3%	2.0%	1.5%	2.2%
Less: net income (loss) attributable to noncontrolling interest	0.0%	0.0%	0.0%	0.0%
Net income attributable to Titan Machinery Inc.	1.3%	2.0%	1.5%	2.2%

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

#### **Consolidated Results**

##### *Revenue*

	Three Months Ended July 31,		Increase	Percent Change
	2012	2011		
	(dollars in thousands)			
Equipment	\$ 306,170	\$ 225,283	\$ 80,887	35.9%
Parts	57,895	49,292	8,603	17.5%
Service	30,466	25,395	5,071	20.0%
Rental and other	15,540	10,879	4,661	42.8%
Total Revenue	\$ 410,071	\$ 310,849	\$ 99,222	31.9%

The increase in revenue for the second quarter of fiscal 2013, as compared to the same period last year, was due to acquisitions contributing \$55.5 million and same-store sales growth contributing \$43.7 million to current period revenue. This revenue growth was across all revenue sources and in both our Agriculture and Construction segments. The increase in the Construction segment primarily resulted from a growing construction market in the region in which we do business, and growth in the rental business in our Construction segment. The increase in our rental business reflects our initiative to expand this growth platform through strategic acquisitions, new store openings, and an increase in the size of our rental fleet.





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*Gross Profit*

	Three Months Ended July 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
<b>Gross Profit</b>				
Equipment	\$ 26,886	\$ 20,853	\$ 6,033	28.9%
Parts	17,538	14,866	2,672	18.0%
Service	19,992	16,432	3,560	21.7%
Rental and other	5,948	3,700	2,248	60.8%
<b>Total Gross Profit</b>	<b>\$ 70,364</b>	<b>\$ 55,851</b>	<b>\$ 14,513</b>	<b>26.0%</b>
<b>Gross Profit Margin</b>				
Equipment	8.8%	9.3%	(0.5)%	(5.4)%
Parts	30.3%	30.2%	0.1%	0.3%
Service	65.6%	64.7%	0.9%	1.4%
Rental and other	38.3%	34.0%	4.3%	12.6%
<b>Total Gross Profit Margin</b>	<b>17.2%</b>	<b>18.0%</b>	<b>(0.8)%</b>	<b>(4.4)%</b>
<b>Gross Profit Mix</b>				
Equipment	38.2%	37.3%	0.9%	2.4%
Parts	24.9%	26.6%	(1.7)%	(6.4)%
Service	28.4%	29.5%	(1.1)%	(3.7)%
Rental and other	8.5%	6.6%	1.9%	28.8%
<b>Total Gross Profit Mix</b>	<b>100.0%</b>	<b>100.0%</b>		

The \$14.5 million increase in gross profit for the second quarter of fiscal 2013, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed \$9.0 million to the increase in gross profit for the second quarter of fiscal 2013, while increases in same-store gross profit contributed the remaining \$5.5 million. The decrease in gross profit margin from 18.0% for the second quarter of fiscal 2012 to 17.2% for the second quarter of fiscal 2013 was primarily due to the change in the sales mix, in which our parts and service business contributed a smaller percentage of our total gross profit, and a decrease in equipment gross profit margin for the second quarter of fiscal 2013, as compared to the same period last year. The decrease in the gross profit margin on equipment was primarily due to competitive Agriculture and Construction equipment retail environments in the regions in which we operate. Agriculture customer demand has also softened in the near-term as a result of regional drought conditions. Due to these factors, we were able to maintain sales activity but experienced a compression in our overall equipment margins and in particular our used equipment margins.

*Operating Expenses*

	Three Months Ended July 31,		Increase/	Percent
	2012	2011	(Decrease)	Change
	(dollars in thousands)			
Operating expenses	\$ 56,507	\$ 44,060	\$ 12,447	28.3%
Operating expenses as a percentage of revenue	13.8%	14.2%	(0.4)%	(2.8)%

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The \$12.4 million increase in operating expenses for the second quarter of fiscal 2013, as compared to the same period last year, was primarily due to the additional costs associated with acquisitions such as compensation, rent, travel and depreciation. As a percentage of total revenue, operating expenses decreased to 13.8% for the second quarter of fiscal 2013 compared to 14.2% for the second quarter of fiscal 2012, primarily due to improved fixed operating cost leverage resulting from higher revenue.

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*Other Income (Expense)*

	Three Months Ended July 31,		Increase/ (Decrease)	Percent Change
	2012	2011		
	(dollars in thousands)			
Interest and other income	\$ 119	\$ 267	\$ (148)	(55.4)%
Floorplan interest expense	(2,420)	(1,334)	1,086	81.4%
Interest expense other	(2,774)	(341)	2,433	713.5%

The increase in floorplan interest expense of \$1.1 million and interest expense other of \$2.4 million, for the second quarter of fiscal 2013, as compared to the same period in the prior year, were primarily due to the increase in floorplan notes payable and long-term debt balances, including our Senior Convertible Notes issued in April 2012.

*Provision for Income Taxes*

	Three Months Ended July 31,		Decrease	Percent Change
	2012	2011		
	(dollars in thousands)			
Provision for income taxes	\$ 3,477	\$ 4,092	\$ (615)	(15.0)%

Our effective tax rate increased slightly from 39.4% for the second quarter of fiscal 2012 to 39.6% for the second quarter of fiscal 2013.

**Segment Results**

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

	Three Months Ended July 31,		Increase/ (Decrease)	Percent Change
	2012	2011		
	(dollars in thousands)			
<b>Revenue</b>				
Agriculture	\$ 336,495	\$ 266,353	\$ 70,142	26.3%
Construction	95,268	59,821	35,447	59.3%
Segment revenue	431,763	326,174	105,589	32.4%
Eliminations	(21,692)	(15,325)	(6,367)	(41.5)%
Total	\$ 410,071	\$ 310,849	\$ 99,222	31.9%
<b>Income Before Income Taxes</b>				
Agriculture	\$ 10,573	\$ 10,937	\$ (364)	(3.3)%

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Construction	628	576	52	9.0%
Segment income before income taxes	11,201	11,513	(312)	(2.7)%
Shared Resources	(1,751)	(887)	(864)	(97.4)%
Eliminations	(668)	(243)	(425)	(174.9)%
Income before income taxes	\$ 8,782	\$ 10,383	\$ (1,601)	(15.4)%

*Agriculture*

Agriculture segment revenue for the second quarter of fiscal 2013 increased 26.3% compared to the same period last year. The revenue increase was due to acquisitions and an Agriculture same-store sales increase of 11.0% over the second quarter of fiscal 2012.

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Agriculture segment income before income taxes for the second quarter of fiscal 2013 decreased 3.3% compared to the same period last year, primarily due to a lower gross profit margin on equipment and an increase in floorplan interest expense. The decrease in the gross profit margin on equipment is primarily due to increased equipment availability in the market resulting in a competitive equipment retail environment. Agriculture customer demand has also softened in the near-term as a result of regional drought conditions. The increase in floorplan interest expense resulted from an increase in floorplan notes payable balances, as compared to the prior year.

*Construction*

Construction segment revenue for the second quarter of fiscal 2013 increased 59.3% compared to the same period last year. The revenue increase was due to acquisitions and a Construction same-store sales increase of 33.0% over the second quarter of fiscal 2012. The same-store sales growth was positively impacted by a growing construction market in the region in which we do business and an increase in our rental business, reflecting our initiative to expand this growth platform through strategic acquisitions, new store openings, and an increase in the size of our rental fleet.

Our Construction segment income before income taxes for the second quarter of fiscal 2013 increased 9.0% compared to the same period last year, primarily due to higher revenue offset by a lower gross profit margin on equipment and an increase in floorplan interest expense and interest expense other. The decrease in the gross profit margin on equipment was primarily due to competitive markets in the regions in which we operate, particularly in some of the larger metro areas where some of our more recently acquired stores reside. The increase in floorplan interest expense and interest expense other resulted from an increase in floorplan notes payable balances and rental fleet long-term debt, respectively, as compared to the prior year.

*Shared Resources/Eliminations*

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

Eliminations remove any inter-company revenue or income before income taxes residing in our segment results.

*Six Months Ended July 31, 2012 Compared to Six Months Ended July 31, 2011*

**Consolidated Results**

*Revenue*

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	Six Months Ended July 31,			
	2012	2011	Increase	Percent Change
	(dollars in thousands)			
Equipment	\$ 628,698	\$ 474,512	\$ 154,186	32.5%
Parts	116,739	91,202	25,537	28.0%
Service	60,218	46,359	13,859	29.9%
Rental and other	26,139	16,941	9,198	54.3%
<b>Total Revenue</b>	<b>\$ 831,794</b>	<b>\$ 629,014</b>	<b>\$ 202,780</b>	<b>32.2%</b>

The increase in revenue for the six months ended July 31, 2012, as compared to the same period last year, was due to acquisitions contributing \$110.0 million and same-store sales growth contributing \$92.8 million to current six-month period revenue. This revenue growth was across all revenue sources and in both our Agriculture and Construction segments. The increase in the Construction segment primarily resulted from a growing construction market in the region in which we do business, and growth in the rental business in our Construction segment. The increase in our rental business reflects our initiative to expand this growth platform through strategic acquisitions, new store openings, and an increase in the size of our rental fleet.

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*Gross Profit*

	Six Months Ended July 31, 2012		2011 (dollars in thousands)		Increase/ (Decrease)	Percent Change
<b>Gross Profit</b>						
Equipment	\$	57,329	\$	46,781	\$ 10,548	22.5%
Parts		35,729		27,056	8,673	32.1%
Service		39,381		29,488	9,893	33.5%
Rental and other		8,334		5,329	3,005	56.4%
<b>Total Gross Profit</b>	<b>\$</b>	<b>140,773</b>	<b>\$</b>	<b>108,654</b>	<b>\$ 32,119</b>	<b>29.6%</b>
<b>Gross Profit Margin</b>						
Equipment		9.1%		9.9%	(0.8)%	(8.1)%
Parts		30.6%		29.7%	0.9%	3.0%
Service		65.4%		63.6%	1.8%	2.8%
Rental and other		31.9%		31.5%	0.4%	1.3%
<b>Total Gross Profit Margin</b>		<b>16.9%</b>		<b>17.3%</b>	<b>(0.4)%</b>	<b>(2.3)%</b>
<b>Gross Profit Mix</b>						
Equipment		40.7%		43.1%	(2.4)%	(5.6)%
Parts		25.4%		24.9%	0.5%	2.0%
Service		28.0%		27.1%	0.9%	3.3%
Rental and other		5.9%		4.9%	1.0%	20.4%
<b>Total Gross Profit Mix</b>		<b>100.0%</b>		<b>100.0%</b>		

The \$32.1 million increase in gross profit for the six months ended July 31, 2012, as compared to the same period last year, was primarily due to increased revenue. Acquisitions contributed \$18.2 million to the increase in gross profit for the six months ended July 31, 2012, while increases in same-store gross profit contributed the remaining \$13.9 million. The decrease in gross profit margin from 17.3% for the six months ended July 31, 2011 to 16.9% for the six months ended July 31, 2012, was primarily due to the decrease in gross profit margin on equipment, which was negatively impacted by competitive Agriculture and Construction equipment retail environments in the regions in which we operate. Agriculture customer demand has also softened in the near-term as a result of regional drought conditions. Due to these factors, we were able to maintain sales activity but experienced a compression in our overall equipment margins and in particular our used equipment margins.

*Operating Expenses*

	Six Months Ended July 31, 2012		2011 (dollars in thousands)		Increase	Percent Change
Operating expenses	\$	111,363	\$	83,496	\$ 27,867	33.4%
Operating expenses as a percentage of revenue		13.4%		13.3%	0.1%	0.8%

The \$27.9 million increase in operating expenses for the six months ended July 31, 2012, as compared to the same period last year, was primarily due to the additional costs associated with acquisitions such as compensation, rent, travel and depreciation. As a percentage of total



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revenue, operating expenses increased slightly to 13.4% for the six months ended July 31, 2012, compared to 13.3% for the same period in the prior year. Higher operating expenses related to our Construction segment, which comprised a larger portion of our business as compared to the same period last year, offset our ability to leverage fixed operating costs over higher revenues. Our Construction segment has higher operating expenses as a percentage of revenue compared to our Agriculture segment and includes additional operating expenses associated with the expansion of our rental business.

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#### *Other Income (Expense)*

	Six Months Ended July 31,		Increase	Percent Change
	2012	2011		
	(dollars in thousands)			
Interest and other income	\$ 607	\$ 552	\$ 55	10.0%
Floorplan interest expense	(5,318)	(2,496)	2,822	113.1%
Interest expense other	(3,567)	(616)	2,951	479.1%

The increase in floorplan interest expense of \$2.8 million and interest expense other of \$3.0 million for the six months ended July 31, 2012, as compared to the same period in the prior year, were primarily due to the increase in floorplan notes payable and long-term debt balances, including our Senior Convertible Notes issued in April 2012.

#### *Provision for Income Taxes*

	Six Months Ended July 31,		Decrease	Percent Change
	2012	2011		
	(dollars in thousands)			
Provision for income taxes	\$ 8,368	\$ 9,039	\$ (671)	(7.4)%

Our effective tax rate decreased from 40.0% for the six months ended July 31, 2011 to 39.6% for the six months ended July 31, 2012. The decrease in our effective tax rate from the comparable period in the prior year primarily reflects a decrease in the effect of permanent differences between financial and income tax reporting, such as incentive stock options and the effect of lower international statutory income tax rates.

### **Segment Results**

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

	Six Months Ended July 31,		Increase/ (Decrease)	Percent Change
	2012	2011		
	(dollars in thousands)			
<b>Revenue</b>				
Agriculture	\$ 696,630	\$ 553,331	\$ 143,299	25.9%
Construction	176,876	103,960	72,916	70.1%
Segment revenue	873,506	657,291	216,215	32.9%
Eliminations	(41,712)	(28,277)	(13,435)	(47.5)%
Total	\$ 831,794	\$ 629,014	\$ 202,780	32.2%

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**Income Before Income Taxes**

Agriculture	\$	24,911	\$	23,896	\$	1,015	4.2%
Construction		248		1,228		(980)	(79.8)%
Segment income before income taxes		25,159		25,124		35	0.1%
Shared Resources		(2,503)		(2,014)		(489)	(24.3)%
Eliminations		(1,524)		(512)		(1,012)	(197.7)%
Income before income taxes	\$	21,132	\$	22,598	\$	(1,466)	(6.5)%

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*Agriculture*

Agriculture segment revenue for the six months ended July 31, 2012 increased 25.9% compared to the same period last year. The revenue increase was due to acquisitions and an Agriculture same-store sales increase of 11.9%, as compared to the same period in the prior year.

Agriculture segment income before income taxes for the six months ended July 31, 2012 increased 4.2% compared to the same period last year, primarily due to higher Agriculture segment revenue. This increase was partially offset by a decrease in gross profit margin for equipment, which was negatively impacted by increased equipment availability in the market resulting in a competitive equipment retail environment and softening of Agriculture customer demand in the near-term as a result of regional drought conditions, and an increase in floorplan interest expense resulting from higher floorplan notes payable balances as compared to the same period in the prior year.

*Construction*

Construction segment revenue for the six months ended July 31, 2012 increased 70.1% compared to the same period last year. The revenue increase was due to acquisitions and a Construction same-store sales increase of 33.8% as compared to the same period in the prior year. The same-store sales growth was positively impacted by a growing construction equipment market in the region in which we do business and an increase in our rental business, reflecting our initiative to expand this growth platform through strategic acquisitions, new store openings, and an increase in the size of our rental fleet.

Our Construction segment earned segment income before income taxes of \$0.2 million for the six months ended July 31, 2012, compared to segment income before income taxes of \$1.2 million in the same period last year. This decrease was primarily due to a lower gross profit margin on equipment and an increase in floorplan interest expense and interest expense other. The decrease in the gross profit margin on equipment was primarily due to competitive markets in the regions in which we operate, particularly in some of the larger metro areas where some of our more recently acquired stores reside. The increase in floorplan interest expense and interest expense other resulted from an increase in floorplan notes payable balances and rental fleet long-term debt, respectively, as compared to the prior year.

*Shared Resources/Eliminations*

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

Eliminations remove any inter-company revenue or income before income taxes residing in our segment results.

**Liquidity and Capital Resources**

*Cash Flow from Operating Activities*

For the six months ended July 31, 2012, cash used for operating activities was \$93.3 million. Our cash used for operating activities was primarily the result of an increase in net cash for inventories of \$94.5 million and a net decrease in accounts payable, customer deposits, accrued expenses and other long-term liabilities of \$44.8 million. This amount was principally offset by our reported net income including noncontrolling interest of \$12.8 million, an add-back of non-cash depreciation and amortization of \$10.2 million and a net decrease in receivables, prepaid expenses and other assets of \$17.7 million. The increase in inventories primarily reflects new equipment stocking to support forecasted equipment sales. Given the increased new equipment supply in the agriculture industry, we have adjusted our strategy for new equipment inventory and expect this strategy to result in a decrease of new equipment inventory, excluding acquisitions, during the back half of fiscal 2013 after peaking in the third quarter of fiscal 2013. We evaluate our cash flow from operating activities net of all floorplan activity. Taking this adjustment into account, our non-GAAP cash flow used for operating activities was \$33.2 million and \$2.6 million for the six months ended July 31, 2012 and 2011, respectively. For reconciliation of this non-GAAP financial measure, please see the Non-GAAP Cash Flow Reconciliation below.

For the six months ended July 31, 2011, our cash used for operating activities was \$76.9 million. Our cash used for operating activities was primarily the result of our reported net income of \$13.6 million and an add-back of non-cash depreciation and amortization of \$6.1 million. This amount was principally offset by an increase in net cash for inventories of \$99.6 million. The increase in inventories primarily reflected new equipment stocking to support forecasted higher equipment sales in the second half of our prior fiscal year.

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*Cash Flow from Investing Activities*

For the six months ended July 31, 2012, cash used for investing activities was \$39.5 million. Our cash used for investing activities primarily consisted of purchases of equipment dealerships (net of cash purchased) of \$16.2 million, purchases of rental fleet of \$16.5 million and purchases of property and equipment (excluding rental fleet) of \$7.7 million.

For the six months ended July 31, 2011, cash used for investing activities was \$35.0 million. Our cash used for investing activities primarily consisted of purchases of equipment dealerships (net of cash purchased) of \$27.1 million and purchases of property and equipment (excluding rental fleet) of \$7.7 million.

*Cash Flow from Financing Activities*

For the six months ended July 31, 2012, cash provided by financing activities was \$180.2 million. Our cash provided by financing activities was primarily the result of proceeds from our Senior Convertible Notes offering of \$145.2 million and an increase in non-manufacturer floorplan notes payable of \$55.0 million, offset by and principal payments exceeding proceeds from long-term debt by \$22.2 million. We used the proceeds from our Senior Convertible Notes to reduce certain interest-bearing floorplan notes payable and long-term debt balances.

For the six months ended July 31, 2011, cash provided by financing activities was \$137.9 million. Our cash provided by financing activities was primarily the result of \$74.9 million in net proceeds from our May 2011 follow-on offering and an increase in non-manufacturer floorplan notes payable of \$74.2 million. This amount was principally offset by principal payments on our long-term debt of \$11.6 million.

*Non-GAAP Cash Flow Reconciliation*

We consider our cash flow from operating activities to include all equipment inventory financing activity regardless of whether we obtain the financing from a manufacturer or other source. We consider equipment inventory financing with both manufacturers and other sources to be part of the normal operations of our business and use the adjusted cash flow analysis in the evaluation of our equipment inventory and inventory flooring needs. Non-GAAP cash flow provided by (used for) operating activities is a non-GAAP financial measure which is adjusted for the following:

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

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

We believe that the presentation of non-GAAP cash flow provided by (used for) operating activities is relevant and useful to our investors because it provides information on activities we consider normal operations of our business, regardless of financing source. The following table reconciles net cash provided by (used for) operating activities, a GAAP measure, to non-GAAP cash flow provided by (used for) operating activities and net cash provided by (used for) financing activities, a GAAP measure, to non-GAAP cash flow provided by (used for) financing activities (in thousands):

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	As Reported	Adjustment (1)	Adjustment (2)		Non-GAAP Measures
	(in thousands)				
<b>Six months ended July 31, 2012</b>					
Net cash provided by (used for) operating activities	\$ (93,348)	\$ 55,037	\$ 5,066		\$ (33,245)
Net cash provided by (used for) financing activities	180,191	(55,037)	(5,066)		120,088
<b>Six months ended July 31, 2011</b>					
Net cash provided by (used for) operating activities	\$ (76,865)	\$ 74,217			\$ (2,648)
Net cash provided by (used for) financing activities	137,944	(74,217)			63,727

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

(2) - Impact of Convertible Notes

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

### **Sources of Liquidity**

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

### **Adequacy of Capital Resources**

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

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

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



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

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

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Such forward-looking information is included in this Quarterly Report on Form 10-Q, including in Management's Discussion And Analysis Of Financial Condition And Results Of Operations, as well as in our Annual Report on Form 10-K for the year ended January 31, 2012, and in other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company).

Forward-looking statements include all statements based on future expectations and specifically include, among other things, all statements relating to our expectations regarding the benefits of certain acquisitions, equipment inventory expectations, evaluation of the operating effectiveness of key internal controls, obligations under our Senior Convertible Notes and our primary liquidity sources and adequacy of our capital resources. Any statements that are not based upon historical facts, including the outcome of events that have not yet occurred and our expectations for future performance, are forward-looking statements. The words potential, believe, estimate, expect, intend, may, could, 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

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statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, adverse market conditions in the agricultural and construction equipment industries, the continuation of unfavorable conditions in the credit markets and those matters identified and discussed in our Annual Report on Form 10-K under the section titled Risk Factors.

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

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

Based upon balances and interest rates as of July 31, 2012, holding other variables constant, a one percentage point increase in interest rates for the next 12-month period would decrease pre-tax earnings and cash flow by approximately \$4.1 million. Conversely, a one percentage point decrease in interest rates for the next 12-month period would result in an increase to pre-tax earnings and cash flow of approximately \$4.1 million. At July 31, 2012, we had variable rate floorplan notes payable of \$707.5 million, of which approximately \$370.5 million was interest-bearing, variable notes payable and long-term debt of \$41.3 million, and fixed rate notes payable and long-term debt of \$23.7 million.

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

**ITEM 4. CONTROLS AND PROCEDURES**

(a) *Evaluation of disclosure controls and procedures.* After evaluating the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act) as of the end of the period covered by this Quarterly Report, 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.* The Company is in the process of converting to a new enterprise resource planning (ERP) system, which is being implemented in phases. During the fiscal quarter ended July 31, 2012, the Company went live on certain phases of the ERP system implementation, which included certain revenue recognition, parts inventory accounting and other store-level functions. The Company has taken the necessary steps to monitor and maintain appropriate internal controls during this period of change and will continue to evaluate the operating effectiveness of related key controls during subsequent periods.

Other than the implementation of the new ERP system discussed above, there has not been any change in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during its most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, including the important information in Private Securities Litigation Reform Act, you should carefully consider the Risk Factors discussed in our Form 10-K for the year ended January 31, 2012 and Form 10-Q for the quarter ended April 30, 2012 as filed with the Securities and Exchange Commission. Those factors, if they were to occur, could cause our actual results to differ materially from those expressed in our forward-looking statements in this report, and materially adversely affect our financial condition or future results. Although we are not aware of any other factors that we currently anticipate will cause our forward-looking statements to differ materially from our

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future actual results, or materially affect the Company's financial condition or future results, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial might materially adversely affect our actual business, financial condition and/or operating results.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

*Annual Compensation for Chief Financial Officer*

Effective May 15, 2012, the base salary for the Company's Chief Financial Officer was increased by \$30,000, from \$225,000 to \$255,000.

**ITEM 6. EXHIBITS**

Exhibits - See Exhibit Index on page following signatures



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**SIGNATURES**

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

Dated: September 10, 2012

**TITAN MACHINERY INC.**

By

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

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EXHIBIT INDEX

TITAN MACHINERY INC.

FORM 10-Q

<b>Exhibit No.</b>	<b>Description</b>
*3.1	Certificate of Incorporation of the Registrant, as amended
*@10.1	Compensation Arrangement for Chief Financial Officer
*31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**101	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended July 31, 2012, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

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@ Indicates management contract or compensatory plan or arrangement

\*Filed herewith

\*\* Furnished herewith