Titan Machinery Inc.
Form 10-Q
December 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2014

Commission File No. 001-33866

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	No. 45-0357838 (IRS Employer Identification No.)

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

Registrant's telephone number (701) 356-0130

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

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 x NO o

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

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

The number of shares outstanding of the registrant's common stock as of November 30, 2014 was: Common Stock, $0.00001 par value, 21,411,320 shares.

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PART I. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TITAN MACHINERY INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	October 31, 2014 (Unaudited)	January 31, 2014
Assets		
Current Assets		
Cash	$110,222	$74,242
Receivables, net	104,388	97,894
Inventories	1,062,123	1,075,978
Prepaid expenses and other	15,271	24,740
Income taxes receivable	2,327	851
Deferred income taxes	13,410	13,678
Total current assets	1,307,741	1,287,383
Intangibles and Other Assets		
Noncurrent parts inventories	4,958	5,098
Goodwill	24,742	24,751
Intangible assets, net of accumulated amortization	11,211	11,750
Other	7,173	7,666
Total intangibles and other assets	48,084	49,265
Property and Equipment, net of accumulated depreciation	216,947	228,000
Total Assets	$1,572,772	$1,564,648
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$26,680	$23,714
Floorplan payable	761,182	750,533
Current maturities of long-term debt	37,467	2,192
Customer deposits	20,893	61,286
Accrued expenses	38,507	36,968
Income taxes payable	48	344
Total current liabilities	884,777	875,037
Long-Term Liabilities		
Senior convertible notes	131,456	128,893
Long-term debt, less current maturities	100,712	95,532
Deferred income taxes	47,925	47,329
Other long-term liabilities	2,869	6,515
Total long-term liabilities	282,962	278,269
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value $.00001 per share, 45,000 shares authorized; 21,411 shares issued and outstanding at October 31, 2014; 21,261 shares issued and outstanding at January 31, 2014	—	—
Additional paid-in-capital	240,057	238,857

Retained earnings	164,882	169,575
Accumulated other comprehensive income (loss)	(1,895)	339
Total Titan Machinery Inc. stockholders' equity	403,044	408,771
Noncontrolling interest	1,989	2,571
Total stockholders' equity	405,033	411,342
Total Liabilities and Stockholders' Equity	$1,572,772	$1,564,648

See Notes to Consolidated Financial Statements

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Revenue				
Equipment	$343,482	$441,752	$1,008,614	$1,134,885
Parts	80,692	80,903	219,597	214,373
Service	42,410	40,646	117,941	112,516
Rental and other	26,557	24,660	63,442	56,041
Total Revenue	493,141	587,961	1,409,594	1,517,815
Cost of Revenue				
Equipment	317,702	406,867	926,863	1,039,773
Parts	56,402	55,419	154,146	148,152
Service	15,037	14,453	42,969	40,199
Rental and other	19,309	17,616	45,333	38,595
Total Cost of Revenue	408,450	494,355	1,169,311	1,266,719
Gross Profit	84,691	93,606	240,283	251,096
Operating Expenses	69,459	75,005	208,406	214,083
Realignment Costs	—	—	2,952	—
Income from Operations	15,232	18,601	28,925	37,013
Other Income (Expense)				
Interest income and other income (expense)	(489)	(260)	(4,095)	674
Floorplan interest expense	(5,444)	(4,779)	(15,345)	(11,944)
Other interest expense	(3,586)	(3,493)	(10,586)	(10,115)
Income (Loss) Before Income Taxes	5,713	10,069	(1,101)	15,628
Provision for Income Taxes	(3,400)	(4,311)	(4,254)	(6,506)
Net Income (Loss) Including Noncontrolling Interest	$2,313	$5,758	$(5,355)	$9,122
Less: Net Income (Loss) Attributable to Noncontrolling Interest	(157)	(67)	(662)	(122)
Net Income (Loss) Attributable to Titan Machinery Inc.	$2,470	$5,825	$(4,693)	$9,244
Earnings (Loss) per Share - Note 1				
Earnings (Loss) per Share - Basic	$0.12	$0.27	$(0.22)	$0.44
Earnings (Loss) per Share - Diluted	$0.11	$0.27	$(0.22)	$0.43
Weighted Average Common Shares - Basic	20,994	20,901	20,977	20,879
Weighted Average Common Shares - Diluted	21,102	21,031	20,977	21,029

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Net Income (Loss) Including Noncontrolling Interest	$2,313	$5,758	$(5,355)	$9,122
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	(3,351)	1,618	(3,505)	791
Unrealized gain (loss) on net investment hedge derivative instruments, net of tax expense (benefit) of $945 and ($177) for the three months ended October 31, 2014 and 2013, respectively, and $975 and $15 for the nine months ended October 31, 2014 and 2013, respectively	1,418	(266)	1,464	23
Unrealized loss on interest rate swap cash flow hedge derivative instrument, net of tax benefit of ($442) and ($519) for the three months ended October 31, 2014 and 2013, respectively, and (474) and ($519) for the nine months ended October 31, 2014 and 2013, respectively	(664)	(780)	(710)	(780)
Unrealized gain on foreign currency contract cash flow hedge derivative instruments, net of tax expense of $29 for the nine months ended October 31, 2014	—	—	44	—
Reclassification of loss on interest rate swap cash flow hedge derivative instruments included in net income (loss), net of tax benefit of $60 for the three months ended October 31, 2014 and $60 for the nine months ended October 31, 2014	90	—	90	—
Reclassification of loss on foreign currency contract cash flow hedge derivative instruments included in net income (loss), net of tax benefit of $15 for the three months ended October 31, 2014 and $29 for the nine months ended October 31, 2014	23	—	43	—
Total Other Comprehensive Income (Loss)	(2,484)	572	(2,574)	34
Comprehensive Income (Loss)	(171)	6,330	(7,929)	9,156
Comprehensive Income (Loss) Attributable to Noncontrolling Interest	(484)	345	(1,002)	92
Comprehensive Income (Loss) Attributable To Titan Machinery Inc.	$313	$5,985	$(6,927)	$9,064

See Notes to Consolidated Financial Statements

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

	Common Stock				Accumulated Other Comprehensive Income (Loss)							
	Shares Outstanding	Amount	Additional Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Net Investment Hedges	Unrealized Gains (Losses) on Interest Rate Swap Cash Flow Hedges	Unrealized Gains (Losses) on Foreign Currency Contract Cash Flow Hedges	Total	Total Titan Machinery Inc. Stockholders' Equity	Noncontrolling Interest	Total Stockho
Balance, January 31, 2013	21,092	$—	$236,521	$160,724	$(226)	$(509)	$—	$—	$(735)	$396,510	$3,409	$399,91
Common stock issued on grant of restricted stock (net of forfeitures), exercise of stock options and warrants, and tax benefits of equity awards	149	—	261	—	—	—	—	—	—	261	—	261
Other	22	—	(49)	—	—	—	—	—	—	(49)	(639)	(688
Stock-based compensation expense	—	—	1,598	—	—	—	—	—	—	1,598	—	1,598
Comprehensive income (loss):												
Net income (loss)	—	—	—	9,244	—	—	—	—	—	9,244	(122)	9,122
Other comprehensive income (loss)	—	—	—	—	577	23	(780)	—	(180)	(180)	214	34
Total comprehensive income	—	—	—	—	—	—	—	—	—	9,064	92	9,156
Balance, October 31, 2013	21,263	$—	$238,331	$169,968	$351	$(486)	$(780)	$—	$(915)	$407,384	$2,862	$410,24
Balance, January 31,	21,261	$—	$238,857	$169,575	$1,541	$(339)	$(737)	$(126)	$339	$408,771	$2,571	$411,34

2014												
Common stock issued on grant of restricted stock (net of forfeitures), exercise of stock options and warrants, and tax benefits of equity awards	150	—	(50)	—	—	—	—	—	—	(50)	—	(50
Stock-based compensation expense	—	—	1,752	—	—	—	—	—	—	1,752	—	1,752
Other	—	—	(502)	—	—	—	—	—	—	(502)	420	(82
Comprehensive income (loss):												
Net loss	—	—	—	(4,693)	—	—	—	—	—	(4,693)	(662)	(5,355
Other comprehensive income (loss)	—	—	—	—	(3,165)	1,464	(620)	87	(2,234)	(2,234)	(340)	(2,574
Total comprehensive loss	—	—	—	—	—	—	—	—	—	(6,927)	(1,002)	(7,929
Balance, October 31, 2014	21,411	$—	$240,057	$164,882	$(1,624)	$1,125	$(1,357)	$(39)	$(1,895)	$403,044	$1,989	$405,03

See Notes to Consolidated Financial Statements

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

	Nine Months Ended October 31,	
	2014	2013
Operating Activities		
Net income (loss) including noncontrolling interest	$(5,355)	$9,122
Adjustments to reconcile net income including noncontrolling interest to net cash used for operating activities		
Depreciation and amortization	23,915	23,148
Deferred income taxes	241	(231)
Stock-based compensation expense	1,752	1,598
Noncash interest expense	3,501	3,394
Unrealized foreign currency (gain) loss on loans to international subsidiaries	2,676	(666)
Other, net	159	(330)
Changes in assets and liabilities, net of purchase of equipment dealerships assets and assumption of liabilities		
Receivables, prepaid expenses and other assets	(4,981)	1,545
Inventories	(2,448)	(287,380)
Manufacturer floorplan payable	(68,489)	151,131
Accounts payable, customer deposits, accrued expenses and other long-term liabilities	(31,734)	(6,171)
Income taxes	(1,792)	(2,515)
Net Cash Used for Operating Activities	(82,555)	(107,355)
Investing Activities		
Rental fleet purchases	(502)	(783)
Property and equipment purchases (excluding rental fleet)	(12,139)	(15,792)
Net proceeds from sale of property and equipment	13,133	10,597
Purchase of equipment dealerships, net of cash purchased	(584)	(4,848)
Proceeds from net investment hedge derivative instruments	3,359	902
Settlement of net investment hedge derivative instruments	(915)	(981)
Other, net	104	(63)
Net Cash Provided by (Used for) Investing Activities	2,456	(10,968)
Financing Activities		
Net change in non-manufacturer floorplan payable	83,232	95,330
Proceeds from long-term debt borrowings	49,874	61,684
Principal payments on long-term debt	(16,153)	(49,450)
Other, net	(383)	(194)
Net Cash Provided by Financing Activities	116,570	107,370
Effect of Exchange Rate Changes on Cash	(491)	(39)
Net Change in Cash	35,980	(10,992)
Cash at Beginning of Period	74,242	124,360
Cash at End of Period	$110,222	$113,368
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period		
Income taxes, net of refunds	$5,799	$9,124
Interest	$20,998	$16,981
Supplemental Disclosures of Noncash Investing and Financing Activities		
	$4,462	$18,636

Net property and equipment financed with long-term debt, accounts payable and accrued liabilities		
Net transfer of assets to property and equipment from inventories	$9,815	$43,815

See Notes to Consolidated Financial Statements

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

NOTE 1—BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the "Company") are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company's Agriculture, Construction and International customers. Therefore, operating results for the nine-month period ended October 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2015. The information contained in the balance sheet as of January 31, 2014 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, 2014 as filed with the SEC.

Nature of Business

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

Estimates

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

Principles of Consolidation

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

Earnings (Loss) Per Share ("EPS")

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

Diluted EPS were computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of income (loss) to participating securities by the weighted-average shares of common stock outstanding after adjusting for potential dilution related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted EPS. There were approximately 104,000 and 99,000 stock options outstanding that were excluded from the computation of diluted EPS for the three months ended October 31, 2014 and 2013, respectively, because they were anti-dilutive. There were approximately 219,000 and 99,000 stock options outstanding that were excluded from the computation of diluted EPS for the nine months ended October 31, 2014 and 2013, respectively, because they were anti-dilutive. None of the approximately 3,474,000 shares underlying the Company’s senior convertible notes were included in the computation of diluted EPS because the Company’s average stock price was less than the conversion price of $43.17.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands, except per share data)		(in thousands, except per share data)	
Numerator				
Net Income (Loss) Attributable to Titan Machinery Inc.	$ 2,470	$ 5,825	$ (4,693)	$ 9,244
Net (Income) Loss Allocated to Participating Securities	(49)	(97)	80	(132)
Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders	$ 2,421	$ 5,728	$ (4,613)	$ 9,112
Denominator				
Basic Weighted-Average Common Shares Outstanding	20,994	20,901	20,977	20,879
Plus: Incremental Shares From Assumed Exercise of Stock Options	108	130	—	150
Diluted Weighted-Average Common Shares Outstanding	21,102	21,031	20,977	21,029
Earnings (Loss) per Share - Basic	$ 0.12	$ 0.27	$ (0.22)	$ 0.44
Earnings (Loss) per Share - Diluted	$ 0.11	$ 0.27	$ (0.22)	$ 0.43

Recent Accounting Guidance

In April 2014, the Financial Accounting Standards Board ("FASB") amended authoritative guidance on reporting discontinued operations and disclosures of disposals of components of an entity, codified in Accounting Standard Codification ("ASC") 205-20, Discontinued Operations and 360, Property, Plant, and Equipment. The amended guidance changed the criteria for reporting discontinued operations, to only include disposals that represent a strategic shift and have a major effect on the entity's operations and financial results. The amended guidance also requires entities to provide additional disclosure of disposals reported as discontinued operations, and for disposals that do not qualify for discontinued operations presentation. The Company will adopt this guidance on February 1, 2015. Its adoption is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued authoritative guidance on accounting for revenue recognition, codified in ASC 606, Revenue from Contracts with Customers. This guidance supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Company will adopt this guidance on February 1, 2017, using one of two retrospective application methods. The Company has not determined the potential effects on the consolidated financial statements.

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

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NOTE 2—INVENTORIES

	October 31, 2014	January 31, 2014
	(in thousands)	
New equipment	$623,604	$575,518
Used equipment	309,283	363,755
Parts and attachments	113,787	126,666
Work in process	15,449	10,039
	$1,062,123	$1,075,978

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

	October 31, 2014	January 31, 2014
	(in thousands)	
Rental fleet equipment	$151,199	$145,007
Machinery and equipment	24,867	23,382
Vehicles	43,879	44,200
Furniture and fixtures	39,033	35,860
Land, buildings, and leasehold improvements	58,235	60,470
	317,213	308,919
Less accumulated depreciation	(100,266)	(80,919)
	$216,947	$228,000

NOTE 4—LINES OF CREDIT / FLOORPLAN PAYABLE

Floorplan Lines of Credit

Floorplan payable balances reflect the amount owed for new equipment inventory purchased from a manufacturer and for used equipment inventory, which is primarily purchased through trade-in on equipment sales. Certain of the manufacturers from which the Company purchases new equipment inventory offer financing on these purchases, either offered directly from the manufacturer or through the manufacturers’ captive finance subsidiaries. CNH Industrial America LLC's captive finance subsidiary, CNH Industrial Capital America LLC ("CNH Industrial Capital"), also provides financing of used equipment inventory. The Company also has floorplan payable balances with non-manufacturer lenders for new and used equipment inventory. Changes in manufacturer floorplan payable are reported as operating cash flows and changes in non-manufacturer floorplan payable are reported as financing cash flows in the Company's consolidated statements of cash flows.

As of October 31, 2014, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling approximately $1.16 billion, which includes a $350.0 million Floorplan Payable Line with a group of banks led by Wells Fargo Bank, National Association ("Wells Fargo"), a $450.0 million credit facility with CNH Industrial Capital, a $225.0 million credit facility with Agricredit Acceptance LLC and the U.S. dollar equivalent of $135.0 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately $696.9 million of the total floorplan payable balance of $761.2 million outstanding as of October 31, 2014 and $692.8 million of the total floorplan payable balance of $750.5 million outstanding as of

January 31, 2014. As of October 31, 2014, the Company had approximately $411.7 million in available borrowings remaining under these lines of credit (net of adjustments based on borrowing base calculations and standby letters of credit under the Wells Fargo credit agreement, and rental fleet financing and other acquisition-related financing arrangements under the CNH Industrial Capital credit agreement). The U.S. floorplan payables carried various interest rates primarily ranging from 2.78% to 4.98%, and the foreign floorplan payables carried various interest rates primarily ranging from 1.59% to 10.50%, as of October 31, 2014.

Effective October 31, 2014, the Company amended its credit facility with Wells Fargo. The amendment, among other things, replaced the consolidated net income financial covenant with a minimum consolidated income before income taxes

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covenant, calculated as the income before income taxes for the last four quarters, adjusted for certain impairment charges, realignment charges, and foreign currency remeasurement losses resulting from a devaluation of the Ukrainian hryvnia. The minimum income before income tax covenant is $10.0 million for the four quarter period ended October 31, 2014, $5.0 million for the period ended January 31, 2015, $6.0 million for each of the two periods ended April 30, 2015 and July 31, 2015, $10.0 million for each of the two periods ended October 31, 2015 and January 31, 2016, and $15.0 million for each period thereafter. The amendment also modified certain borrowing base advance rates and changed the interest rate margin from 1.5% to 2.625% to 1.5% to 2.875% per annum.

Effective October 31, 2014, the Company also amended its credit facility with CNH Industrial Capital. The amendment, amongst other things, replaced the minimum debt service ratio financial covenant with a minimum fixed charge coverage ratio financial covenant of not less than 1.25:1.00, and added or modified related definitions.

Working Capital Line of Credit

As of October 31, 2014, the Company had a $112.5 million working capital line of credit under the credit facility with Wells Fargo. The Company had $75.6 million and $47.8 million outstanding on its working capital line of credit as of October 31, 2014 and January 31, 2014, respectively. Amounts outstanding are recorded as long-term debt, within long-term liabilities on the consolidated balance sheets, as the Company does not have an obligation to repay amounts borrowed within one year.

NOTE 5—SENIOR CONVERTIBLE NOTES

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

	October 31, 2014	January 31, 2014
	(in thousands except conversion rate and conversion price)	
Principal value	$150,000	$150,000
Unamortized debt discount	(18,544)	(21,107)
Carrying value of senior convertible notes	$131,456	$128,893
Carrying value of equity component, net of deferred taxes	$15,546	$15,546
Conversion rate (shares of common stock per $1,000 principal amount of notes)	23.1626	
Conversion price (per share of common stock)	$43.17	

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Cash Interest Expense				
Coupon interest expense	$1,406	$1,406	$4,219	$4,219
Noncash Interest Expense				
Amortization of debt discount	864	806	2,563	2,392
Amortization of transaction costs	135	131	402	391
	$2,405	$2,343	$7,184	$7,002

As of October 31, 2014, the unamortized debt discount will be amortized over a remaining period of approximately 4.5 years. As of October 31, 2014 and January 31, 2014, the if-converted value of the Senior Convertible Notes does not exceed the principal balance. The effective interest rate of the liability component was equal to 7.0% for each of the statements of operations periods presented.

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NOTE 6—DERIVATIVE INSTRUMENTS

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

Net Investment Hedges

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

Cash Flow Hedges

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

The Company may, from time to time, hedge foreign currency exchange rate risk arising from inventory purchases denominated in Canadian dollars through the use of foreign currency forward contracts. The maximum length of time over which the Company hedges its exposure to the variability in future cash flows associated with the Canadian dollar purchasing is less than 12 months.

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

Derivative Instruments Not Designated as Hedging Instruments

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

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

	Notional Amount as of:	
	October 31, 2014	January 31, 2014
	(in thousands)	
Net investment hedge:		
Foreign currency contracts	$23,473	$43,742

Cash flow hedges:		
Interest rate swap	100,000	100,000
Foreign currency contracts	—	4,754
Derivatives not designated as hedging instruments:		
Foreign currency contracts	32,812	44,775

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

	Fair Value as of:		Balance Sheet Location
	October 31, 2014	January 31, 2014	
	(in thousands)		
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Net investment hedges:			
Foreign currency contracts	$152	$157	Prepaid expenses and other
Derivatives not designated as hedging instruments:			
Foreign currency contracts	194	279	Prepaid expenses and other
Total Asset Derivatives	$346	$436	
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Cash flow hedges:			
Interest rate swap	$2,262	$1,227	Accrued expenses
Foreign currency contracts	—	211	Accrued expenses
Total Liability Derivatives	$2,262	$1,438	

The following table sets forth the gains and losses recognized in other comprehensive income (loss) ("OCI") and income (loss) related to the Company’s derivative instruments for the three and nine months ended October 31, 2014 and 2013, respectively. All amounts included in income (loss) in the table below from derivatives designated as hedging instruments relate to reclassifications from accumulated other comprehensive income.

	Three Months Ended October 31,				Nine Months Ended October 31,				
	2014		2013		2014		2013		
	OCI	Income (Loss)	OCI	Income (Loss)	OCI	Income (Loss)	OCI	Income (Loss)	Statements of Operations Classification
	(in thousands)				(in thousands)				
Dervatives Designated as Hedging Instruments:									
Net investment hedges:									
Foreign currency contracts	$2,363	$—	$(443)	$—	$2,439	$—	$38	$—	N/A
Cash flow hedges:									
Interest rate swap	(1,106)	(150)	(1,299)	—	(1,184)	(150)	(1,299)	—	Interest income and other income (expense)
Foreign currency contracts	—	(37)	—	—	73	(72)	—	—	Cost of revenue - equipment
Dervatives Not Designated as Hedging Instruments:									

Foreign currency contracts	—	2,436	—	(851)	—	2,582	—	(781)	Interest income and other income (expense)
Total Derivatives	$1,257	$2,249	$(1,742)	$(851)	$1,328	$2,360	$(1,261)	$(781)	

No components of the Company's net investment or cash flow hedging instruments were excluded from the assessment of hedge ineffectiveness.

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As of October 31, 2014, the Company had $2.4 million and $0.1 million in pre-tax net unrealized losses associated with its interest rate swap and foreign currency contract cash flow hedging instruments recorded in accumulated other comprehensive income, respectively. The Company expects that $1.7 million and $0.1 million of pre-tax unrealized losses associated with its interest rate swap and foreign currency contracts, respectively, will be reclassified into net income over the next 12 months.

NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS

The assets and liabilities which are measured at fair value on a recurring basis as of October 31, 2014 and January 31, 2014 are as follows:

	October 31, 2014				January 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in thousands)				(in thousands)			
Financial Assets								
Foreign currency contracts	$—	$346	$—	$346	$—	$436	$—	$436
Total Financial Assets	$—	$346	$—	$346	$—	$436	$—	$436
Financial Liabilities								
Interest rate swap	$—	$2,262	$—	$2,262	$—	$1,227	$—	$1,227
Foreign currency contracts	—	—	—	—	—	211	—	211
Total Financial Liabilities	$—	$2,262	$—	$2,262	$—	$1,438	$—	$1,438

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

The Company also has financial instruments that are not recorded at fair value in its consolidated financial statements. The carrying amount of cash, receivables, payables, short-term debt and other current liabilities approximates fair value because of the short maturity and/or frequent repricing of those instruments, which are Level 2 fair value inputs. Based upon current borrowing rates with similar maturities, which are Level 2 fair value inputs, the carrying value of long-term debt approximates the fair value as of October 31, 2014 and January 31, 2014, respectively. The following table provides details on the Senior Convertible Notes as of October 31, 2014 and January 31, 2014. The difference between the face value and the carrying value of these notes is the result of the allocation between the debt and equity components. Fair value of the Senior Convertible Notes was estimated based on Level 2 fair value inputs.

	October 31, 2014			January 31, 2014		
	Estimated Fair Value	Carrying Value	Face Value	Estimated Fair Value	Carrying Value	Face Value
	(in thousands)			(in thousands)		
Senior convertible notes	$115,254	$131,456	$150,000	$128,522	$128,893	$150,000

NOTE 8—SEGMENT INFORMATION AND OPERATING RESULTS

The Company owns and operates a network of full service agricultural and construction equipment stores in the United States and Europe. The Company has three reportable segments: Agriculture, Construction and International. The Company's segments are organized based on types of products sold and geographic areas, as described in the following paragraphs. The operating results for each segment are reported separately to the Company's Chief Executive Officer and President to make decisions regarding the allocation of resources, to assess the Company's operating performance and to make strategic decisions.

The Company’s Agriculture segment sells, services, and rents machinery, and related parts and attachments, for uses ranging from large-scale farming to home and garden use for customers in North America. This segment also includes ancillary sales and services related to agricultural activities and products such as equipment transportation, Global Positioning System (“GPS”) signal subscriptions and finance and insurance products.

The Company’s Construction segment sells, services, and rents machinery, and related parts and attachments, for uses ranging from heavy construction to light industrial machinery use to customers in North America. This segment also includes

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ancillary sales and services related to construction activities such as equipment transportation, GPS signal subscriptions and finance and insurance products.

The Company’s International segment sells, services, and rents machinery, and related parts and attachments, for uses ranging from large-scale farming and construction to home and garden use to customers in Eastern Europe. It also includes export sales of equipment and parts to customers outside of the United States.

Revenue, income (loss) 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. Revenue between segments is immaterial. Revenue amounts included in Eliminations primarily relate to transactions within a segment.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Revenue				
Agriculture	$346,116	$459,005	$1,013,118	$1,186,893
Construction	110,095	109,850	325,482	290,637
International	53,348	40,255	127,249	107,855
Segment revenue	509,559	609,110	1,465,849	1,585,385
Eliminations	(16,418)	(21,149)	(56,255)	