

Titan Machinery Inc.  
Form S-1  
April 28, 2008

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As filed with the Securities and Exchange Commission on April 28, 2008

Registration No. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-1**

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**TITAN MACHINERY INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**5080**  
(Primary Standard Industrial  
Classification Code Number)

**45-0357838**  
(I.R.S. Employer  
Identification No.)

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**4876 Rocking Horse Circle  
Fargo, ND 58104-6049  
(701) 356-0130**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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**David J. Meyer  
Chairman and Chief Executive Officer  
Titan Machinery Inc.  
4876 Rocking Horse Circle  
Fargo, ND 58104-6049  
(701) 356-0130**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

### CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price per Share(2) | Proposed Maximum Aggregate Offering Price(1)(2) | Amount of Registration Fee |
|--|----------------------------|--|---|----------------------------|
| Common stock, par value \$0.00001                  | 4,025,000 shares           | \$22.81                                      | \$91,810,250                                    | \$3,616                    |

(1) Includes 525,000 shares of Common Stock issuable upon exercise of the underwriters' over-allotment option.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended, based on the average of the high and low trading prices for the common stock as reported by the Nasdaq Global Market on April 23, 2008.

\_\_\_\_\_

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

\_\_\_\_\_

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The information in this prospectus is not complete and may be changed. We may not sell these securities until our registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED APRIL 28, 2008**

## 3,500,000 Shares

### Common Stock

Titan Machinery Inc. is offering 3,000,000 shares and selling stockholders are offering 500,000 shares. Our common stock is traded on the Nasdaq Global Market under the symbol "TITN." On April 23, 2008, the last reported sale price of our common stock was \$22.79 per share.

|  | <u>Per Share</u> | <u>Total</u> |
|--|------------------|--------------|
| Price to public  | \$               | \$           |
| Underwriting discounts and commissions                 | \$               | \$           |
| Proceeds, before expenses, to Titan Machinery Inc.     | \$               | \$           |
| Proceeds, before expenses, to the selling stockholders | \$               | \$           |

The underwriters have a 30-day option to purchase up to 525,000 additional shares of common stock from us at the public offering price less the underwriting discount to cover over-allotments, if any. Delivery of the shares of common stock will be made on or about 2008.

**This investment involves risk. See "Risk Factors" beginning on page 8.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**Craig-Hallum Capital  
Group**

**Robert W. Baird & Co.**

The date of this prospectus is \_\_\_\_\_, 2008.





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## SUMMARY

*This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the notes thereto accompanying this prospectus, before making an investment in our common stock.*

*You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover of this prospectus, but the information may have changed since that date.*

### **Our Company**

We own and operate what we believe is one of the largest networks of full-service agricultural and construction equipment stores in North America. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America LLC, collectively referred to in this prospectus as CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S.

The agricultural equipment we sell and service includes machinery and attachments for uses ranging from large-scale farming to home and garden use. The construction equipment we sell and service includes heavy construction and light industrial machinery for commercial and residential construction, road and highway construction and mining applications. We offer our customers a one-stop solution for their equipment needs through:

new and used equipment sales;

parts sales;

repair and maintenance services; and

equipment rental and other activities.

The new equipment and parts we sell are supplied primarily by CNH. We acquire used equipment for resale through trade-ins from our customers and selective purchases. We sell parts and provide in-store and on-site repair and maintenance services. We rent equipment and provide other ancillary services such as equipment transportation, GPS signal subscriptions and finance and insurance products.

Throughout our 28-year operating history, we have built an extensive, geographically contiguous network of 39 full-service stores and two outlet stores located in the upper Midwest. We have a successful history of growth through acquisitions, including 17 acquisitions consisting of 34 stores operating in four states since January 1, 2003, which includes three acquisitions consisting of four stores completed since our initial public offering on December 11, 2007. We have a well-established track record of successfully integrating acquired stores, retaining acquired-store employees and maintaining acquired-store customer relationships. We expect that acquisitions will continue to be an important component of our growth.

For the fiscal year ended January 31, 2008, our revenue increased 48% to \$433.0 million from \$292.6 million for the fiscal year ended January 31, 2007. For the fiscal year ended January 31, 2008, our net income increased 43% to \$5.2 million from \$3.6 million for the fiscal year ended January 31, 2007. The improvement in our profitability resulted primarily from acquisitions, growth in same-store sales and a manufacturer leasing program.

## Our Industry

Our business is driven by the demand for agricultural equipment, which is purchased primarily for the production of food, fiber, feed grain and renewable energy. Based on USDA data, farmers are currently enjoying historically strong economic fundamentals, which is driven in part by growing global demand for agricultural commodities, due in part to renewable energy and economic growth in developing countries. IBISWorld data shows that total revenue for U.S. farm and garden equipment dealers was \$51.8 billion in 2006 and is projected to grow to \$53.5 billion by 2012, as adjusted for inflation.

In addition, our business is impacted by the demand for construction equipment, which is purchased primarily for private and government commercial, residential and infrastructure construction, including the energy and mining markets. CNH and industry reports show that demand for construction equipment in our markets is driven by several factors, including public infrastructure spending, including roads and highways, sewer and water. The Federal Highway Administration allocations to public infrastructure spending in the states in which we operate stores will increase from \$1.3 billion, or 3.9% of federal funding, in 2005 to \$1.6 billion, or 4.3% of federal funding, in 2009, as adjusted for inflation. IBISWorld data shows that total revenue for U.S. construction equipment dealers was \$72.4 billion in 2006 and is projected to grow to \$78.3 billion by 2012, as adjusted for inflation.

## Our Business Strengths

We believe our business has the following key strengths:

*Titan Operating Model.* Through the Titan Operating Model, we empower leadership and share best practices at the store level while realizing efficiencies at the corporate level. We believe exceptional customer service is most efficiently delivered through accountable store employees who are supported by centralized administrative, finance and marketing functions.

*Leading North American Equipment Provider with Significant Scale.* We believe our size and large, contiguous geographic market provide us with several competitive advantages, including efficient inventory management, a large distribution network, and our ability to capitalize on crop diversification and disparate weather conditions throughout the large geographic area in which we operate stores.

*Customer Focus at the Local Level.* As part of the Titan Operating Model, we centralize general, administrative, finance and marketing functions. This strategy enables our store employees to focus exclusively on their customers and eliminates redundant operating expenses.

*Superior Customer Service to Attract and Retain Customers.* We believe our ability to respond quickly to our customers' demands is a key to profitable growth. We spend significant time and resources training our employees to effectively service our customers in each of our local markets, which we believe will increase our revenue.

*Unique Entrepreneurial Culture to Attract and Retain Superior Employees.* Our unique entrepreneurial culture empowers our employees to make decisions and act within the parameters of a proven operating process and system. The balance we maintain between our entrepreneurial spirit and standardized operations enables us to attract and retain superior employees who can work independently yet consistently throughout our company based on defined objectives and frequent feedback.

*Diverse and Stable Customer Base to Avoid Market Volatility.* We believe our large and diverse customer base of over 28,000 customers in fiscal 2008 limits our exposure to risks associated with customer concentration and fluctuations in local market conditions.



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*Experienced Management Team to Implement our Growth Strategy.* Our executive team is led by David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Financial Officer, who have approximately 33 and 29 years, respectively, of industry experience. Our store managers and field marketers also have extensive industry knowledge and experience.

### **Our Growth Strategy**

We believe our business strengths will enable us to grow our business as we implement the following growth strategies:

*Increase Market Share and Same-Store Sales.* We focus on increasing our share of the equipment sold in our markets because our market share impacts current period revenue and compounds our revenue over the life of the equipment sold through recurring parts and service business. We seek to generate same-store sales growth and increase market share through significant marketing and advertising programs, supporting evolving technologies that are difficult for single-store operators to support, maintaining state-of-the-art service facilities and mobile service trucks and maximizing parts and equipment availability for our customers.

*Make Selective Acquisitions to Grow Our Business.* The agricultural and construction equipment industries are fragmented and consist of many relatively small, independent businesses servicing discrete local markets. We believe a favorable climate for dealership consolidation exists due to several factors, including the competitiveness of our industry, growing dealer capitalization requirements and lack of succession alternatives. We intend to evaluate and pursue acquisitions with the objectives of entering new markets, consolidating distribution within our established network and strengthening our competitive position. We also look to add construction stores in local markets in which we sell agriculture equipment but do not have construction dealership agreements with CNH.

*Integrate New Dealers into the Titan Operating Model.* We have developed the Titan Operating Model to optimize the performance and profitability of each of our stores. Upon consummation of each acquisition, we integrate acquired stores into our operations by implementing the Titan Operating Model and seeking to enhance each acquired store's performance within its target market.

### **Recent Developments**

Since our initial public offering in December 2007, we have acquired three additional dealers, totaling four stores. Effective December 1, 2007, we acquired Reiten & Young International, Inc., resulting in the addition of one store in Grand Forks, North Dakota. On January 2, 2008, we acquired Avoca Operations, Inc. and Greenfield Operations, Inc. resulting in the addition of one store in Avoca, Iowa and one store in Greenfield, Iowa. On February 1, 2008, we acquired certain assets of Ceres Equipment Inc., resulting in the addition of one store in Roseau, Minnesota. We have also made significant additions to our administrative operations, including the hiring of several regional managers, and significant additions to both our information technology and accounting staff.

### **Risk Factors**

Our business is subject to a number of risks discussed under the heading "Risk Factors" and elsewhere in this prospectus. The principal risks facing our business include, among others, our substantial dependence upon our relationship with CNH, termination and other provisions in our agreements with CNH affiliates, economic conditions in the agriculture and construction industries, the availability of financing for the equipment we sell, our ability to execute our acquisition strategy, and competition in our industry. There are also several risks relating to this offering and the ownership of our common stock. You should carefully consider these factors, as well as all of the other information set forth in this prospectus.

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### Corporate Information

We were incorporated as a North Dakota corporation in 1980 and reincorporated in Delaware in December 2007 prior to our initial public offering. Our executive offices are located at 4876 Rocking Horse Circle, Fargo, ND 58104-6049. Our telephone number is (701) 356-0130. We maintain a web site at [www.titanmachinery.com](http://www.titanmachinery.com). Our web site and the information contained on our web site shall not be deemed to be part of this prospectus.

### The Offering

|  |   |
|--|---|
| Common stock offered by us                         | 3,000,000 shares  |
| Common stock offered by the selling stockholders   | 500,000 shares  |
| Common stock to be outstanding after this offering | 16,443,810 shares   |
| Over-allotment option                              | The underwriters have a 30-day option to purchase up to 525,000 additional shares of common stock from us.  |
| Use of proceeds                                    | We intend to use the net proceeds from this offering to fund future acquisitions of dealerships and for working capital and general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholders. See "Use of Proceeds" for additional information. |
| Nasdaq Global Market symbol                        | TITN  |

Unless otherwise indicated, the number of shares of our common stock that will be outstanding immediately after this offering is based on 13,443,810 shares of common stock outstanding as of April 10, 2008, and excludes:

shares issuable under our 2005 Equity Incentive Plan, including 493,252 shares of common stock issuable upon the exercise of outstanding stock options (of which 49,085 are exercisable) at a weighted average exercise price of \$7.61 per share and 506,748 shares of common stock reserved for future issuances;

85,932 shares of common stock issuable pursuant to vesting of restricted stock grants; and

133,638 shares of common stock issuable upon the exercise of outstanding warrants (all of which are exercisable) at a weighted average exercise price of \$3.46 per share.

Except as otherwise noted, all information in this prospectus assumes:

no exercise of the underwriters' over-allotment option; and

an assumed offering price of \$            per share (the last reported sale price of our common stock on            , 2008).

## Summary Financial Data

The following tables set forth, for the periods and dates indicated, our summary financial data. The summary financial data as of and for our fiscal years ended January 31, 2008, 2007 and 2006 have been derived from our audited financial statements included elsewhere in this prospectus. The results included here and elsewhere in this prospectus are not necessarily indicative of future performance.

|   | Year ended January 31, |                |                |
|---|------------------------|----------------|----------------|
|   | 2008                   | 2007           | 2006           |
| (in thousands, except per share data)   |                        |                |                |
| <b>Statement of Operations Data:</b>  |                        |                |                |
| Revenue   |                        |                |                |
| Equipment   | \$ 338,382             | \$ 220,958     | \$ 175,549     |
| Parts   | 58,743                 | 42,619         | 31,099         |
| Service   | 27,344                 | 21,965         | 16,572         |
| Other   | 8,502                  | 7,056          | 5,250          |
|   | <u>432,971</u>         | <u>292,598</u> | <u>228,470</u> |
| Cost of revenue   |                        |                |                |
| Equipment   | \$ 302,320             | \$ 200,558     | \$ 160,814     |
| Parts   | 42,568                 | 29,909         | 22,459         |
| Service   | 10,118                 | 8,183          | 6,404          |
| Other   | 5,913                  | 5,337          | 4,081          |
|   | <u>360,919</u>         | <u>243,987</u> | <u>193,758</u> |
| Gross profit  | 72,052                 | 48,611         | 34,712         |
| Operating expenses  | <u>53,190</u>          | <u>37,399</u>  | <u>26,978</u>  |
| Income from operations  | 18,862                 | 11,212         | 7,734          |
| Other income (expense)  |                        |                |                |
| Interest and other income   | 577                    | 349            | 87             |
| Floorplan interest expense  | (3,812)                | (3,294)        | (2,296)        |
| Other interest expense, including interest on subordinated debentures of \$559 in 2006, \$1,680 in 2007 and \$1,552 in 2008 | (2,480)                | (2,179)        | (1,072)        |
| Debt retirement costs   | <u>(3,824)</u>         |                |                |
| Income before income taxes  | 9,323                  | 6,088          | 4,453          |
| Provision for income taxes  | <u>(4,110)</u>         | <u>(2,450)</u> | <u>(1,721)</u> |
| Net income  | \$ 5,213               | \$ 3,638       | \$ 2,732       |
| Adjustment to income:   |                        |                |                |
| Amortization of syndication fees-preferred stock (net of tax effect)  | (51)                   | (21)           | (21)           |
|   | <u>(88)</u>            | <u>(102)</u>   | <u>(102)</u>   |

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Year ended January 31,

|   | <hr/>    |          |          |
|---|----------|----------|----------|
| Unpaid accumulated preferred dividends  | <hr/>    | <hr/>    | <hr/>    |
| Income available to common stockholders | \$ 5,074 | \$ 3,515 | \$ 2,609 |
|   | <hr/>    | <hr/>    | <hr/>    |



|                               | January 31,    |          |          |
|-------------------------------|----------------|----------|----------|
|                               | 2008           | 2007     | 2006     |
|                               | (in thousands) |          |          |
| <b>Balance Sheet Data:</b>    |                |          |          |
| Cash                          | \$ 42,802      | \$ 7,572 | \$ 8,671 |
| Inventories                   | 145,767        | 106,254  | 81,631   |
| Goodwill and intangibles, net | 8,608          | 3,905    | 1,587    |
| Total assets                  | 239,369        | 138,872  | 105,083  |
| Floorplan notes payable       | 105,848        | 84,699   | 61,908   |
| Long-term liabilities         | 17,059         | 24,790   | 18,599   |
| Total liabilities             | 163,251        | 123,814  | 93,834   |
| Redeemable securities         |                | 1,680    | 1,556    |
| Total stockholders' equity    | 76,117         | 13,378   | 9,693    |

## RISK FACTORS

*An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all the other information contained in this prospectus before you decide to buy our common stock. If any of the following risks related to our business actually occurs, our business, financial condition and operating results would be adversely affected. The market price of our common stock could decline due to any of these risks and uncertainties related to our business, or related to an investment in our common stock, and you may lose part or all of your investment.*

### Risks Related to Our Business

***We are substantially dependent upon our relationship with CNH.***

We are an authorized dealer of CNH agricultural and construction equipment and parts. In fiscal 2008, CNH supplied approximately 77.9% of the new equipment we sold and represented a significant portion of our parts revenue. Our acquisition strategy contemplates the acquisition of additional CNH geographic areas of responsibility and store locations in both the agricultural and construction equipment areas. We depend on CNH Capital America LLC, or CNH Capital, for floorplan financing to purchase a substantial portion of our inventory. In addition, CNH Capital provides a significant percentage of the financing used by our customers to purchase CNH equipment from us. CNH also provides incentive programs and discount programs from time to time that enable us to price our products more competitively. In addition, CNH conducts promotional and marketing activities on national, regional and local levels. Due to our substantial dependence on CNH, our success depends, in significant part, on (i) the overall reputation and success of CNH; (ii) the availability and terms of floorplan financing and customer financing from CNH Capital; (iii) the incentive and discount programs provided by CNH and its promotional and marketing efforts for its industrial and agricultural products; (iv) the goodwill associated with CNH trademarks; (v) the introduction of new and innovative products by CNH; (vi) the manufacture and delivery of competitively-priced, high quality equipment and parts by CNH in quantities sufficient to meet our customers' requirements on a timely basis; (vii) the quality, consistency and management of the overall CNH dealership system; and (viii) the ability of CNH to manage its risks and costs, including those associated with being a multinational company. If CNH does not provide, maintain or improve any of the foregoing, or if CNH were sold or reduced or ceased operations, there could be a material adverse effect on our financial condition and results of operations.

***CNH may terminate its dealership agreements with us or change the terms of those agreements, which could adversely affect our business.***

Under our dealership agreements with CNH through CNH America LLC, CNH's U.S. manufacturing entity, CNH entities have the right to terminate these agreements immediately in certain circumstances, and, in some cases, for any reason 90 days following written notice. Furthermore, CNH entities may change the terms of their agreements with us, among other things, to change our sales and service areas and/or the product, pricing or delivery terms. CNH routinely conducts evaluations of dealership standards, customer satisfaction surveys and market share studies, the results of which can impact the relationships with its dealers. CNH uses the evaluation results to increase or decrease the monetary rewards to dealers, or limit or expand the availability of financing, warranty reimbursements or other marketing incentives. If CNH were to change the terms of any or all of these agreements in a manner that adversely affects us, our business may be harmed, and if CNH were to terminate all or any of its dealer agreements with us, our business would be severely harmed.

***Restrictions in our CNH dealership agreements may significantly affect our operations and growth and prevent a change in control of our company.***

We operate our stores pursuant to CNH's customary dealership agreements. These agreements impose a number of restrictions and obligations on us with respect to our operations, including our obligations to actively promote the sale of CNH equipment within our designated geographic areas of responsibility, fulfill the warranty obligations of CNH, provide services to our customers, maintain sufficient parts inventory to service the needs of our customers, maintain inventory in proportion to the sales potential in each sales and service geographic area of responsibility, maintain adequate working capital and maintain stores only in authorized locations. Prior consent of CNH is required for the acquisition by another party of 20% or more of our outstanding stock and for our acquisition of other CNH dealerships; otherwise, CNH may terminate our dealership agreements. There can be no assurances that CNH will give its consent. The restrictions and obligations in our CNH dealership agreements limit our flexibility in operating our current stores and acquiring new stores, which could have an adverse effect on our operations and growth. Furthermore, the requirement that CNH consent to the acquisition by any party of 20% or more of our outstanding stock may have the effect of discouraging transactions involving a change in our control, including transactions that stockholders might deem to be in their best interests.

***Our agricultural equipment dealer appointments are not exclusive to the geographic areas we serve, which could adversely affect our operations and financial condition.***

CNH could appoint other agricultural equipment dealers in close proximity to our existing stores. The sales and service geographic areas of responsibility assigned to our dealerships can be enlarged or reduced by CNH upon 30 days' prior written notice. CNH and other agricultural equipment dealers can also sell in our sales and service geographic areas of responsibility. To the extent CNH appoints other agricultural equipment dealers within our markets, enlarges or reduces the sales and service geographic areas of responsibility relating to our stores, amends the dealership agreements or imposes new or different terms or conditions under the dealer agreements, our operations and financial condition could be adversely affected.

***Our operating results may be adversely impacted by an under-supply of new equipment or an over-supply of used equipment.***

If our suppliers cannot continue to provide us a reliable supply of new equipment, we may not be able to meet the our customers' demand and our operating results could be negatively impacted. In light of the current growing global demand for agricultural commodities and the equipment needed to produce those commodities, agricultural equipment suppliers may experience difficulty providing all dealerships a reliable supply of new agricultural equipment, which could adversely impact our results of operations. Further, an under-supply of equipment may cause prices for such equipment to increase. To the extent we cannot pass on any increased costs of equipment to our customers, our operating results may suffer. Conversely, an industry over-supply of used and rental equipment may also adversely affect our operations. Short-term lease programs and commercial rental agencies for construction and agricultural equipment have expanded significantly in North America. Nationwide rental conglomerates have become sizeable purchasers of new equipment and can have a significant impact on industry sales and margins. When equipment comes off of lease or is replaced with newer equipment by rental agencies, there may be a significant increase in the availability of late-model used equipment. An over-supply of used equipment could adversely affect demand for, or the market prices of, new and used equipment. In addition, a decline in used equipment prices could have an adverse effect on residual values for leased equipment, which could adversely affect our financial performance.



***If our acquisition plans are unsuccessful, we may not achieve our planned revenue growth.***

We believe a significant portion of our future growth will depend on our ability to acquire additional dealerships. Our ability to continue to grow through the acquisition of additional CNH geographic areas of responsibility and store locations or other businesses will be dependent upon the availability of suitable acquisition candidates at acceptable costs, our ability to compete effectively for available acquisition candidates and the availability of capital to complete the acquisitions. We may not successfully identify suitable targets, or if we do, we may not be able to close the transactions, or if we close the transactions, they may not be profitable. In addition, CNH's consent is required for the acquisition of any CNH dealership, and the consent of Bremer Bank National Association is required for the acquisition of any dealership. CNH typically evaluates management, performance and capitalization of a prospective acquirer in determining whether to consent to the sale of a CNH dealership. There can be no assurance that CNH or Bremer will consent to any or all acquisitions of dealerships that we may propose.

***Our potential inability to successfully integrate newly-acquired dealerships may adversely affect our financial results.***

Once an acquisition is completed, we face many other risks commonly encountered with growth through acquisitions. These risks include incurring significantly higher than anticipated capital expenditures and operating expenses; failing to assimilate the operations and personnel of the acquired dealerships; disrupting our ongoing business; dissipating our management resources; failing to maintain uniform standards, controls and policies; and impairing relationships with employees and customers as a result of changes in management. Fully integrating an acquired dealership into our operations and realization of the full benefit of our strategies, operating model and systems may take several years. There can be no assurance that we will be successful in overcoming these risks or any other problems encountered with such acquisitions. To the extent we do not successfully avoid or overcome the risks or problems related to acquisitions, our results of operations and financial condition could be adversely affected. Future acquisitions also will have a significant impact on our financial position and capital needs, and could cause substantial fluctuations in our quarterly and yearly results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings.

We have grown significantly through acquisitions in recent years and expect to continue to grow through acquisitions. Management has expended, and expects to continue to expend, significant time and effort in evaluating, completing and integrating acquisitions and opening new stores. There can be no assurance that our systems, procedures and controls will be adequate to support our expanding operations. Any future growth will also impose significant added responsibilities on our executives, including the need to identify, recruit and integrate new senior level managers and executives. There can be no assurance we will be able to identify and retain such additional management. If we are unable to manage growth efficiently and effectively, or are unable to attract and retain additional qualified management, there could be a material adverse effect on our financial condition and results of operations.

***Substantial inventory financing is required for the equipment we sell but may not be available, which could adversely affect our growth and results of operations.***

The sale of agricultural and construction equipment requires substantial inventories of equipment and parts to be maintained at each store to facilitate sales to customers on a timely basis. We generally purchase our inventories of equipment with the assistance of floorplan financing programs through CNH Capital and other lenders. As we grow, whether internally or through acquisitions, our inventory requirements will increase and, as a result, our financing requirements also will increase. Certain financing has been guaranteed by David Meyer, our Chairman and Chief Executive Officer. To the

extent that these guarantees were to be revoked or otherwise unavailable, we may not be able to maintain or obtain inventory financing. In the event that our available financing sources are not maintained or are insufficient to satisfy our future requirements, we would be required to obtain financing from other sources. There can be no assurance that additional or alternative financing could be obtained on commercially reasonable terms. To the extent additional financing cannot be obtained on commercially reasonable terms, our growth and results of operations could be adversely affected.

***We lease most of our dealership sites from related parties, and if we are unable to obtain commercially reasonable terms and conditions from these related parties or unrelated third parties in the future, our growth and financial condition may be adversely affected.***

We lease 25 of our 39 dealership sites from entities affiliated with David Meyer, our Chairman and Chief Executive Officer, Tony Christianson, one of our directors, or Peter Christianson, our President and Chief Financial Officer. We expect that we may lease future dealership sites we acquire from parties related to our affiliates. There is no guarantee that related parties will offer us commercially reasonable terms and conditions or that unrelated third parties will provide alternate dealership sites on commercially reasonable terms and conditions. If we cannot obtain commercially reasonable terms and conditions on leases for our current or future dealership sites from entities related to Messrs. Meyer, Tony Christianson or Peter Christianson, or from unrelated third parties, our growth and financial condition may be adversely affected.

***Failure to properly manage our equipment inventory, our largest asset, would have a significant adverse effect on our operations.***

Our equipment inventory has generally represented 50% or more of our total assets. Thus, our success is significantly dependent upon our ability to manage the supply and cost of new and used equipment. The pricing of equipment can be highly volatile and subject to negotiation, particularly in the used equipment market. Pricing for and sales of used equipment can be significantly affected by the limited market for such equipment. Further, liquidation prices of used agricultural and construction equipment can have significant fluctuations due to economic cycles, utilization trends and degree of specialization. We are dependent upon the ability of our management and buyers to negotiate acceptable purchase prices, to affect a proper balance of new and used equipment and to manage the amount of equipment in inventory to assure quick turnover. Our failure to manage our inventory and equipment costs could materially adversely affect our results of operations and financial condition.

***Adverse changes in the agricultural industries could result in decreases in purchases of agricultural equipment and harm our revenue and profitability.***

Our business depends to a great extent upon general activity levels in the agricultural industries. Changes in farm income and farmland value, the level of worldwide farm output and demand for farm products, commodity prices, animal diseases and crop pests, and limits on agricultural imports are all material factors that could adversely affect the agricultural industries and result in a decrease in the amount of agricultural equipment that our customers purchase. The nature of the agricultural equipment industries is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for new and used equipment. These downturns may be prolonged and our revenue and profitability would be harmed.

***Adverse changes in governmental agricultural policies, including decreases in farm subsidies, may reduce demand for agricultural equipment and cause our revenue to decline.***

Changes in governmental agricultural policy could adversely affect sales of agricultural equipment. Government subsidies influence demand for agricultural equipment. Proposals for a new farm bill and the 2008 USDA budget, if adopted, may reduce the amount of payments to individual farmers. We

cannot predict the outcome of these proposals, and to the extent that these proposals reduce payments to individual farmers, these proposals, if adopted, could reduce demand for agricultural equipment and we could experience a decline in revenue.

***Adverse changes in the construction industry could result in decreased demand for construction equipment and harm our revenue.***

General economic conditions in markets in which we do business can impact the demand for our construction equipment. The construction industry in our geographical areas has experienced recent instances of economic down cycles and interest rate fluctuations that have affected the new residential housing market, which negatively impacts sales of light construction equipment. Decreased demand for our products can have a negative impact on our financial performance and cash flow. Our business and earnings are impacted by the changes in the residential construction industry. The ability of consumers to obtain mortgages for the purchase of newly constructed homes impacts the overall demand for new home construction. The uncertainties created by recent events in the sub-prime mortgage market and their impact on the overall mortgage market, including the tightening of credit standards, could adversely affect the ability of consumers to obtain financing for the purchase of new homes, thus reducing demand for new construction and in turn reducing our customers' demand for our construction equipment. Reduced demand for our construction equipment can negatively affect our financial performance and cash flow.

***Climate fluctuations may negatively impact the agricultural and construction equipment markets and harm our sales.***

Weather conditions, particularly severe floods and droughts, can have a significant impact on the success of regional agricultural and construction markets and, therefore, the economic conditions of the regions in which we operate stores. Accordingly, our financial condition and results of operations may be materially and adversely affected by any adverse cyclical trends or weather conditions. Our quarterly operating results are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment, parts and service purchases by our customers. A significant increase in the severity of weather cycles could increase the volatility of our results of operations and impact our financial condition. If we acquire businesses in geographic areas other than where we currently have operations, we may be affected more by the above-mentioned or other seasonal and equipment buying trends.

***Our results of operations may fluctuate from period to period due to interest rate adjustments.***

The ability to finance affordable purchases, of which the interest rate charged is a significant component, is an important part of a customer's decision to purchase agricultural or construction equipment. Interest rate increases may make equipment purchases less affordable for customers and, as a result, our revenue and profitability may decrease as we manage excess inventory and reduce prices for equipment. To the extent we cannot pass on our increased costs of inventory to our customers, our net income may decrease. Partially as a result of the foregoing, our results of operations have in the past and in the future are expected to continue to fluctuate from quarter to quarter and year to year. We are unable to anticipate the timing and impact of interest rate adjustments. Recently, the sub-prime and alternative mortgage markets have been receiving negative attention, resulting in tighter lending standards throughout the mortgage industry and overall credit markets. This volatility in the credit markets may have a negative impact on our business by making it more difficult for certain of our customers to obtain financing to purchase agricultural or construction equipment. Conversely, the recent decreases in interest rates may positively affect a customer's decision to purchase agricultural or construction equipment. We are unable to predict with certainty any positive or negative affect on our business as a result of the recent interest rate decreases.

***Aggressive pricing competition could adversely affect our results of operation and growth.***

The agricultural and construction equipment sales and distribution industries are highly competitive and fragmented, with large numbers of companies operating on a regional or local scale. Historically, our competitors have competed aggressively on the basis of pricing or inventory availability, resulting in decreased margins on our sales to the extent we choose to match our competitors' downward pricing. To the extent we choose not to match or remain within a reasonable competitive distance from our competitors' pricing, it could also have an adverse impact on our results of operations, as we may lose sales volume. In addition, to the extent CNH's competitors provide their dealers with more innovative or higher quality products, better customer financing, or have more effective marketing efforts, our ability to compete and financial condition and results of operations could be adversely affected.

***We are substantially dependent on our Chief Executive Officer and President, the loss and replacement of whom could have a material adverse effect on our business.***

We believe our success will depend to a significant extent upon the efforts and abilities of David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Financial Officer. The employment relationships with both Mr. Meyer and Mr. Christianson are terminable by us or each of them at any time for any reason. The loss of the services of one or both of these persons and other key employees could have a material adverse effect on our operating results.

***Selling agricultural and construction equipment and parts subjects us to product liability risks that could adversely affect our financial condition and reputation.***

Products sold or serviced by us may expose us to potential liabilities for personal injury or property damage claims relating to the use of such products. There can be no assurance that we will not be subject to or incur any liability for such claims in the future. There can be no assurance that our product liability insurance will be adequate to cover product liability claims. There also can be no assurance that such insurance will continue to be available on economically reasonable terms. An uninsured or partially insured claim for which indemnification is not provided could have a material adverse effect on our financial condition. Furthermore, if any significant claims are made against us or against CNH or any of our other suppliers, our business may be adversely affected by any resulting negative publicity.

**Risks Relating to this Offering and Ownership of Our Common Stock**

***Our common stock price may be volatile and you may not be able to resell your shares at or above the price you paid for your shares.***

You may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering. The stock markets have been extremely volatile. The risks related to our company discussed above, as well as the public's reaction to our public announcements, changes in research analysts' recommendations and decreases in market valuations of similar companies, could cause the market price of our common stock to decrease significantly from the price you pay in this offering. Further, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

In addition, securities class action litigation often has been initiated when a company's stock price has fallen below the company's public offering price soon after the offering closes or following a period of volatility in the market price of the company's securities. If class action litigation is initiated against us, we would incur substantial costs and our management's attention would be diverted from our operations. All of these factors could cause the market price of our stock to decline, and you may lose some or all of your investment.

***Future sales of our common stock by our existing stockholders could cause our stock price to decline.***

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that our stockholders might sell shares of our common stock could also depress the market price of our common stock. Stockholders holding an aggregate of 5,672,104 shares prior to this offering are subject to lock-up agreements that restrict their ability to transfer their shares of our common stock. The market price of shares of our common stock may decrease significantly when the restrictions on resale by certain of our existing stockholders lapse. In addition, we have an effective registration statement covering 1,000,000 shares of our common stock issuable under our 2005 Equity Incentive Plan. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities, and may cause you to lose part or all of your investment in our shares of common stock.

***We have broad discretion in the use of the proceeds of this offering and may apply the proceeds in ways with which you do not agree.***

Our net proceeds from this offering will be used, as determined by management in its sole discretion, for working capital and general corporate purposes, including possible acquisitions of dealers of CNH products. We have not, however, determined the allocation of these net proceeds among the various uses described in this prospectus. Our management will have broad discretion over the use and investment of these net proceeds, and, accordingly, you will have to rely upon the judgment of our management with respect to our use of these net proceeds, with only limited information concerning management's specific intentions. You will not have the opportunity, as part of your investment decision, to assess whether we use the net proceeds from this offering appropriately. We may place the net proceeds in investments that do not produce income or that lose value, which may cause our stock price to decline.

***Our directors and executive officers will continue to have substantial control over us after this offering and could limit your ability to influence the outcome of key transactions, including changes of control.***

We anticipate that our executive officers and directors and entities affiliated with them will, in the aggregate, beneficially own 32.2% of our outstanding common stock following the completion of this offering, assuming the underwriters do not exercise their over-allotment option. Our executive officers, directors and affiliated entities, if acting together, would be able to control or influence significantly all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other significant corporate transactions. These stockholders may have interests that differ from yours, and they may vote in a way with which you disagree and that may be adverse to your interests. In particular, David Meyer, our Chairman and Chief Executive Officer, will own over 19% of our outstanding capital stock following the completion of this offering. As such, he alone is able to exercise significant influence over matters requiring approval by the stockholders, including the election of directors and approval of significant corporate transactions. The concentration of ownership of our common stock may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and may affect the market price of our common stock. This concentration of ownership of our common stock may also have the effect of influencing the completion of a change in control that may not necessarily be in the best interests of all of our stockholders.

***Our charter documents and Delaware law may inhibit a takeover that stockholders consider favorable.***

Provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may delay or discourage transactions involving an actual or potential change in our control or change

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in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. These provisions:

permit our board of directors to issue up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in our control;

provide that the authorized number of directors may be changed by resolution of the board of directors;

provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;

divide our board of directors into three classes;

provide that directors may only be removed for cause by the holders of at least two-thirds of the voting power of the shares eligible to vote for directors;

require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and not be taken by written consent;

provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice; and

do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose).

In addition, Section 203 of the Delaware General Corporation Law generally limits our ability to engage in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock. See "Description of Capital Stock Anti-Takeover Provisions."

***You will experience immediate and substantial dilution in the net tangible book value of the common stock you purchase in this offering.***

If you purchase shares of our common stock in this offering, you will experience immediate dilution of \$ \_\_\_\_\_ per share (based on the assumed offering price of \$ \_\_\_\_\_ per share, the last reported sale price of our common stock on \_\_\_\_\_, 2008), because the price that you pay will be substantially greater than the adjusted net tangible book value per share of common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the price of the shares being sold in this offering when they purchased their shares of our capital stock. A \$1.00 increase or decrease in the assumed public offering price of \$ \_\_\_\_\_ per share would increase or decrease, as applicable, the dilution per share you experience by \$ \_\_\_\_\_ per share. In addition, if outstanding options to purchase our common stock are exercised, you will experience additional dilution.

*We can issue shares of preferred stock without stockholder approval, which could adversely affect the rights of common stockholders.*

Our charter documents permit us to establish the rights, privileges, preferences and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our stockholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of our company, depriving common stockholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

*Being a public company has substantially increased our legal and financial compliance costs, which could harm our business, financial condition and results of operations.*

Compliance with publicly-traded company regulations adversely impacts our resources. As a publicly-traded company, we are subject to rules and regulations that increase our legal and financial compliance costs, make some activities more time-consuming and costly, and divert our management's attention away from the operation of our business. These rules and regulations may make it more difficult and more expensive for us to maintain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, we may experience more difficulty attracting and retaining qualified individuals to serve on our board of directors or as executive officers. We cannot predict or estimate the amount of additional costs we may incur as a result of these requirements or the timing of these costs. Furthermore, our current management has limited experience in running a public company. The costs of being public and the diversion of management's time and attention may have a material adverse effect on our business, financial condition and results of operations.

*Our internal controls over financial reporting may not be effective and our independent registered public accounting firm may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business and reputation.*

We will be required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC thereunder for fiscal 2009. If we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. We cannot be certain as to the timing of completion of our evaluation, testing and any remedial actions or their impact on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting, we may be unable to report our financial results accurately or in a timely manner and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. We have implemented actions relating to remediating past control deficiencies and will need to continue to take actions to improve our internal control system, which may include the hiring of additional personnel and incurring other costs. Any such actions could negatively affect our results of operations.

### **INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by the following words: "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "should," "will," "would," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. These statements involve known and unknown risks, uncertainties and other factors that may cause our results or our industry's actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information.

These important factors include those that we discuss under the heading "Risk Factors." You should read these risk factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. We cannot assure you that the forward-looking statements in this prospectus will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. You should read this prospectus completely. Other than as required by law, we undertake no obligation to update these forward-looking statements, even though our situation may change in the future.

### **THIRD PARTY INFORMATION**

All trademarks, trade names and service marks appearing in this prospectus are the property of their respective owners.

We obtained industry and market data used throughout this prospectus through our research, surveys and studies conducted by third parties and industry and general publications. We have not independently verified market and industry data from third-party sources. While we believe internal company surveys are reliable and market definitions are appropriate, neither these surveys nor these definitions have been verified by any independent sources.



### USE OF PROCEEDS

We estimate that the net proceeds from our sale of shares of common stock in this offering will be approximately \$ million, or approximately \$ million if the underwriters exercise their over-allotment option in full, based on the last reported sale price of our common stock on , 2008, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. Each \$1.00 increase or decrease in the assumed public offering price of \$ per share would increase or decrease, as applicable, the net proceeds to us by approximately \$ (or approximately \$ if the underwriters exercise their over-allotment option in full), assuming the number of shares offered by us as set forth on the cover of this prospectus remains the same and after deducting estimated underwriting discounts and commissions payable by us.

We intend to use these net proceeds to fund potential acquisitions of CNH agricultural and construction equipment dealerships and for general corporate purposes, including working capital needs. We are not currently in negotiations for any acquisitions for which we intend to use the proceeds of this offering.

Pending the uses described above, we intend to invest the net proceeds of this offering in short- to medium-term, investment-grade, interest-bearing securities. We intend to use any interest earned by these investments for the purposes listed above.

### PRICE RANGE OF COMMON STOCK

Our common stock has traded on the Nasdaq Global Market under the symbol "TITN" since it began trading on December 6, 2007. Our initial public offering was priced at \$8.50 per share. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock as reported on the Nasdaq Global Market.

|  | <u>High</u> | <u>Low</u> |
|--|-------------|------------|
| <b>Fiscal 2008</b>                     |             |            |
| Fourth Quarter (from December 6, 2007) | \$ 17.40    | \$ 9.48    |
| <b>Fiscal 2009</b>                     |             |            |
| First Quarter (through April 23, 2008) | \$ 24.50    | \$ 14.66   |

On April 23, 2008, the last reported sale price of our common stock on the Nasdaq Global Market was \$22.79.

On April 10, 2008, we had approximately 38 holders of record of our common stock, excluding holders whose stock is held either in nominee name and/or street name brokerage accounts.

### DIVIDEND POLICY

We have not historically paid any dividends on our common stock. We intend to retain our future earnings, if any, to finance the expansion and growth of our business. We do not expect to pay cash dividends on our common stock in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, outstanding indebtedness and plans for expansion and restrictions imposed by lenders, if any. Currently, our credit facilities restrict our ability to pay cash dividends. In December 2007, we paid accrued cash dividends in the aggregate amount of \$441,028 upon the conversion of all of our outstanding preferred stock.

## CAPITALIZATION

The following table sets forth our capitalization as of January 31, 2008:

on an actual basis; and

on an as adjusted basis to reflect our sale of shares in this offering at an assumed offering price of \$        per share (the last reported sale price of our common stock on       , 2008), after deducting estimated underwriting discounts and commissions and offering expenses payable by us, and the application of the net proceeds from our sale of common stock in this offering. Each \$1.00 increase or decrease in the assumed public offering price of \$        per share (the last reported sale price of our common stock on       , 2008) would increase or decrease, respectively, the as adjusted amount of cash, additional paid-in capital and total stockholders' equity in each case by approximately \$       , assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions payable to us.

You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes appearing elsewhere in this prospectus.

|   | As of January 31, 2008 |               |
|---|------------------------|---------------|
|   | Actual                 | As Adjusted   |
| (dollars in thousands)  |                        |               |
| Cash  | \$ 42,802              | \$            |
| Floorplan notes payable(1)  | \$ 105,848             | \$ 105,848    |
| Long-term debt:   |                        |               |
| Senior term notes (including current maturities)  | 18,737                 | 18,737        |
| Subordinated debentures   | 1,300                  | 1,300         |
| Other debt  | 2,676                  | 2,676         |
| <b>Total long-term debt</b>   | <b>22,713</b>          | <b>22,713</b> |
| Stockholders equity:  |                        |               |
| Undesignated preferred stock, \$0.00001 par value, 5,000,000 authorized, no shares issued and outstanding, actual and as adjusted   |                        |               |
| Common stock \$0.00001 par value, 30,000,000 shares authorized, 13,440,654 shares issued and outstanding, actual, 30,000,000 authorized and        shares issued and outstanding, as adjusted |                        |               |
| Additional paid-in capital  | 58,180                 |               |
| Retained earnings   | 17,937                 |               |
| <b>Total equity</b>   | <b>76,117</b>          |               |
| <b>Total capitalization</b>   | <b>\$ 204,678</b>      | <b>\$</b>     |

(1) Approximately \$36.9 million of floorplan notes were interest-bearing.



## SELECTED FINANCIAL DATA

You should read the following selected financial data together with our financial statements and the related notes appearing at the end of this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which follows immediately after this section. We derived the statement of operations data for the years ended January 31, 2004, 2005, 2006, 2007 and 2008, and the balance sheet data as of those dates, from our audited financial statements, which for the years ended January 31, 2006, 2007 and 2008 are contained elsewhere in this prospectus. Those statements were audited by Eide Bailly LLP, our independent registered public accounting firm. Our results are not necessarily indicative of the results we may achieve in any future period.

|                                       | Year Ended January 31, |                |                |                |               |
|---------------------------------------|------------------------|----------------|----------------|----------------|---------------|
|                                       | 2008                   | 2007           | 2006           | 2005           | 2004          |
| (in thousands, except per share data) |                        |                |                |                |               |
| <b>Statement of Operations Data:</b>  |                        |                |                |                |               |
| Revenue                               |                        |                |                |                |               |
| Equipment                             | \$ 338,382             | \$ 220,958     | \$ 175,549     | \$ 119,850     | \$ 66,091     |
| Parts                                 | 58,743                 | 42,619         | 31,099         | 25,058         | 18,897        |
| Service                               | 27,344                 | 21,965         | 16,572         | 13,141         | 9,940         |
| Other                                 | 8,502                  | 7,056          | 5,250          | 4,134          | 2,527         |
|                                       | <u>432,971</u>         | <u>292,598</u> | <u>228,470</u> | <u>162,183</u> | <u>97,455</u> |
| Cost of revenue                       |                        |                |                |                |               |
| Equipment                             | \$ 302,320             | \$ 200,558     | \$ 160,814     | \$ 109,023     | \$ 60,287     |
| Parts                                 | 42,568                 | 29,909         | 22,459         | 18,402         | 13,401        |
| Service                               | 10,118                 | 8,183          | 6,404          | 5,236          | 3,717         |
| Other                                 | 5,913                  | 5,337          | 4,081          | 3,119          | 1,864         |
|                                       | <u>360,919</u>         | <u>243,987</u> | <u>193,758</u> | <u>135,780</u> | <u>79,269</u> |
| Gross profit                          | 72,052                 | 48,611         | 34,712         | 26,403         | 18,186        |
| Operating expenses                    | 53,190                 | 37,399         | 26,978         | 22,596         | 16,609        |
| Income from operations                | 18,862                 | 11,212         | 7,734          | 3,807          | 1,577         |
| Other income (expense)                |                        |                |                |                |               |
| Interest and other income             | 577                    | 349            | 87             | 144            | 48            |
| Interest expense                      | (6,292)                | (5,473)        | (3,368)        | (1,693)        | (1,346)       |
| Debt retirement costs                 | (3,824)                |                |                |                |               |
| Income before income taxes            | 9,323                  | 6,088          | 4,453          | 2,258          | 279           |
| Provision for income taxes            | (4,110)                | (2,450)        | (1,721)        | (911)          | (115)         |
| Income from continuing operations     | 5,213                  | 3,638          | 2,732          | 1,347          | 164           |
| Discontinued operations               |                        |                |                | (75)           |               |

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Year Ended January 31,

|  |    |       |    |       |    |       |    |       |    |       |
|--|----|-------|----|-------|----|-------|----|-------|----|-------|
| Net income                                       | \$ | 5,213 | \$ | 3,638 | \$ | 2,732 | \$ | 1,272 | \$ | 164   |
| Adjustment to income:                            |    |       |    |       |    |       |    |       |    |       |
| Amortization of syndication fees preferred stock |    | (51)  |    | (21)  |    | (21)  |    | (19)  |    | (14)  |
| Unpaid accumulated preferred dividends           |    | (88)  |    | (102) |    | (102) |    | (90)  |    | (59)  |
| Income available to common stockholders          | \$ | 5,074 | \$ | 3,515 | \$ | 2,609 | \$ | 1,163 | \$ | 91    |
| Earnings per share                               |    |       |    |       |    |       |    |       |    |       |
| Basic  | \$ | 0.90  | \$ | 0.81  | \$ | 0.60  | \$ | 0.27  | \$ | 0.02  |
| Diluted  | \$ | 0.67  | \$ | 0.57  | \$ | 0.47  | \$ | 0.24  | \$ | 0.02  |
| Weighted average shares outstanding              |    |       |    |       |    |       |    |       |    |       |
| Basic  |    | 5,607 |    | 4,345 |    | 4,341 |    | 4,341 |    | 4,341 |
| Diluted  |    | 8,246 |    | 6,907 |    | 6,317 |    | 6,106 |    | 4,348 |
|  |    | 20    |    |       |    |       |    |       |    |       |

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|                                      | January 31,       |                   |                   |                  |                  |
|--------------------------------------|-------------------|-------------------|-------------------|------------------|------------------|
|                                      | 2008              | 2007              | 2006              | 2005             | 2004             |
|                                      | (in thousands)    |                   |                   |                  |                  |
| <b>Balance Sheet Data:</b>           |                   |                   |                   |                  |                  |
| Cash                                 | \$ 42,802         | \$ 7,572          | \$ 8,671          | \$ 1,108         | \$ 1,937         |
| Receivables                          | 22,061            | 10,921            | 5,794             | 4,969            | 3,084            |
| Inventories                          | 145,767           | 106,254           | 81,631            | 66,569           | 34,381           |
| Prepaid expenses                     | 215               | 186               | 33                | 45               | 50               |
| Income tax receivable                | 1,074             |                   |                   |                  |                  |
| Deferred income taxes                | 1,027             | 462               | 423               | 321              | 288              |
| Goodwill and intangibles, net        | 8,608             | 3,905             | 1,587             | 1,227            | 1,280            |
| Property and equipment               | 16,023            | 8,175             | 5,327             | 3,559            | 2,235            |
| Other assets                         | 1,792             | 1,397             | 1,617             | 1,308            | 1,413            |
| <b>Total assets</b>                  | <b>\$ 239,369</b> | <b>\$ 138,872</b> | <b>\$ 105,083</b> | <b>\$ 79,106</b> | <b>\$ 44,668</b> |
| Accounts payable                     | \$ 9,244          | \$ 4,228          | \$ 5,488          | \$ 3,227         | \$ 3,316         |
| Line of credit                       |                   |                   |                   | 2,644            | 400              |
| Floorplan notes payable(1)           | 105,848           | 84,699            | 61,908            | 51,617           | 20,721           |
| Current maturities of long-term debt | 5,654             | 2,824             | 1,532             | 1,113            | 1,139            |
| Customer deposits                    | 19,310            | 4,608             | 4,015             | 2,135            | 3,641            |
| Accrued expenses                     | 6,137             | 2,287             | 1,942             | 1,023            | 914              |
| Income taxes payable                 |                   | 378               | 350               | 691              | 61               |
| <b>Total current liabilities</b>     | <b>146,193</b>    | <b>99,024</b>     | <b>75,235</b>     | <b>62,450</b>    | <b>30,192</b>    |
| Long-term liabilities                | 15,759            | 8,043             | 4,405             | 4,948            | 4,442            |
| Subordinated debentures              | 1,300             | 16,747            | 14,194            | 3,492            | 3,492            |
| Redeemable securities                |                   | 1,680             | 1,556             | 1,433            | 927              |
| <b>Total stockholders' equity</b>    | <b>76,117</b>     | <b>13,378</b>     | <b>9,693</b>      | <b>6,783</b>     | <b>5,615</b>     |
|                                      | <b>\$ 239,369</b> | <b>\$ 138,872</b> | <b>\$ 105,083</b> | <b>\$ 79,106</b> | <b>\$ 44,668</b> |

(1)

Approximately 35% of floorplan notes payable were interest bearing at January 31, 2008.

**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 the Selected Financial Data and our financial statements and the accompanying notes. Our actual results could differ materially from those anticipated in the forward-looking statements included in this discussion as a result of certain factors, including, but not limited to, those discussed in "Risk Factors" and "Information Regarding Forward-Looking Statements" included elsewhere in this prospectus.*

**Overview**

We own and operate what we believe is one of the largest networks of full service agricultural and construction equipment stores in North America. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America LLC, collectively referred to in this prospectus as CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S.

The agricultural equipment we sell and service includes machinery and attachments for uses ranging from large-scale farming to home and garden use. The construction equipment we sell and service includes heavy construction and light industrial machinery for commercial and residential construction, road and highway construction and mining applications. We offer our customers a one-stop solution for their equipment needs through:

new and used equipment sales;

parts sales;

repair and maintenance services; and

equipment rental and other activities.

The new equipment and parts we sell are supplied primarily by CNH. According to public reports filed by CNH, CNH is a leading manufacturer and supplier of agricultural and construction equipment based on the number of units sold, primarily through the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. Sales of new CNH products accounted for approximately 77.9% of our new equipment revenue in fiscal 2008, with no other supplier accounting for more than 3%. We acquire used equipment for resale through trade-ins from our customers and selective purchases. We sell parts and provide in-store and on-site repair and maintenance services. We rent equipment and provide other ancillary services such as equipment transportation, GPS signal subscriptions and finance and insurance products.

Throughout our 28-year operating history we have built an extensive, geographically contiguous network of 39 full service stores and two outlet stores located in the upper Midwest. We have a successful history of growth through acquisitions, including 17 acquisitions consisting of 34 stores operating in four states since January 1, 2003. We have a well-established track record of successfully integrating acquired stores, retaining acquired-store employees and maintaining acquired-store customer relationships. We expect that acquisitions will continue to be an important component of our growth.

## **Certain External Factors Affecting our Business**

We are subject to a number of factors that affect our business as discussed in the sections entitled "Risk Factors" and "Information Regarding Forward-Looking Statements." Certain of the external factors include, but are not limited to, the following:

### *Industry Factors*

Our business is primarily driven by the demand for agricultural equipment for use in the production of food, fiber, feed grain and renewable energy; home and garden applications; and the maintenance of commercial, residential and government properties. Based on USDA data, we believe farmers are currently enjoying historically strong economical fundamentals, driven by growing global demand for agricultural commodities in part due to growth in renewable energy and the economies of developing countries. We believe our operating model, as discussed in "Business Titan Operating Model," enables us to maximize opportunities presented by strong economic fundamentals in the agricultural industries. Thus, we also expect to enjoy strong economic fundamentals by expanding existing stores and acquiring additional stores.

Additionally, our business is impacted by the demand for construction equipment for use in private and government commercial, residential and infrastructure construction; demolition; maintenance; mining and forestry operations. CNH and industry reports show that demand for construction equipment in our markets is driven by several factors, one of which is public infrastructure spending, including roads and highways, sewer and water. The projected growth in federal allocations to public infrastructure spending over the next few years, as stated by the U.S. Department of Transportation, should positively impact our future results of operations. However, an offsetting factor may be the recent declines in residential and commercial real estate development to the extent such declines continue. To address the uncertainty of the construction industry, we expect to continue our focus on agricultural industries and acquisition opportunities to establish additional locations in the markets where we believe the local construction industry will maintain its current level or grow.

If the positive trends in the agricultural industries cease to continue, we believe we would be in a position to operate efficiently. Our large and diverse customer base and four state geographic footprint limits our exposure to negative trends that may occur in a particular area or crop. Our management also implements a conservative expenditure philosophy that emphasizes scalable costs, which we believe positions us to operate efficiently in the event of a significant downturn in the agricultural industries.

### *Seasonality*

Our quarterly operating results are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment, parts and service purchases by our customers. A significant increase in the severity of weather cycles could increase the volatility of our results of operations and impact our financial condition. If we acquire businesses in geographic areas other than where we currently have operations, we may be affected more by the above-mentioned or other seasonal and equipment buying trends.

### *Economic Cyclicity*

Sales of equipment, particularly new units, historically have fluctuated with general economic cycles. During economic downturns, equipment retailers tend to experience similar periods of decline and recession as the general economy. The impact of an economic downturn on retailers is generally less than the impact on manufacturers due to the sale of parts and service by retailers to maintain customer equipment. As noted above, the agricultural industries are in a positive economic cycle from which we expect to benefit.



*Credit Market Changes*

Changes in credit markets can affect our customers' ability and willingness to make capital expenditures, including purchasing our equipment. Creditors have recently heightened their lending standards, we believe in part due to difficulties in the sub-prime mortgage market. Heightened lending standards may have a negative impact on our business if our customers are unable to obtain financing for equipment purchases. However, if interest rates continue to decrease, as recently occurred, our business may be positively affected by customers who find financing purchases of our equipment more attractive due to lower borrowing costs. We cannot predict what future changes will occur in credit markets or how these changes will impact our business.

*Inflation*

Inflation has not had a material impact upon operating results and we do not expect it to have such an impact in the future. To date, in those instances in which we have experienced cost increases, we have been able to increase selling prices to offset such increases. There can be no assurance, however, that our business will not be affected by inflation or that we can continue to increase our selling prices to offset increased costs and remain competitive.

**Acquisitions**

We have a successful history of growth through acquisitions. Since January 1, 2003, we have completed 17 acquisitions consisting of 34 stores operating in four states. These acquisitions have been the most significant factor affecting our results of operations and liquidity over the last several years, as noted in the period-to-period comparisons below. We expect that acquisitions will continue to be an important component of our growth. Acquisitions are typically financed with floorplan debt, long-term debt and cash from operations. Although we cannot quantify the impact of any such potential acquisitions, we believe the nature of their impact on our financial statements to be similar to that experienced with our prior acquisitions as noted in our discussions of period comparisons.

The following is a summary of acquisitions completed during the identified periods.

*Fiscal 2009*

On February 1, 2008, we acquired certain assets of Ceres Equipment Inc., resulting in the addition of one store in Roseau, Minnesota.

*Fiscal 2008*

On January 2, 2008, we acquired Avoca Operations, Inc. and Greenfield Operations, Inc., resulting in the addition of one store in Avoca, Iowa and one store in Greenfield, Iowa.

On December 1, 2007, we acquired Reiten & Young International, Inc., resulting in the addition of one store in Grand Forks, North Dakota.

On November 13, 2007, we acquired certain assets of Twin City Implement, Inc., resulting in the addition of one store in Mandan, North Dakota.

On August 1, 2007, we acquired all of the outstanding stock of Red Power International, Inc., resulting in the addition of two stores located in Ada and Crookston, Minnesota. We subsequently merged Red Power into our company.

On April 13, 2007, we acquired certain assets of Aberdeen Equipment Co., Huron Equipment Co. and Redfield Equipment Co., three related dealerships, resulting in the addition of three stores located in Aberdeen, Huron and Redfield, South Dakota.

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On February 3, 2007, we acquired certain assets of Richland County Implement, Inc., resulting in the addition of one store located in Wahpeton, North Dakota.

### *Fiscal 2007*

On June 15, 2006, we acquired certain assets of Piorier Equipment Company, Inc. and RAJ Equipment, its related entity, resulting in the addition of four stores located in Sioux City, Iowa, Marshall, Minnesota and Rapid City and Sioux Falls, South Dakota.

On March 31, 2006, we acquired all of the outstanding stock of Farm Power, Inc. of Minnesota and its wholly-owned subsidiary, Fergus International, Inc., resulting in the addition of two stores located in Elbow Lake and Fergus Falls, Minnesota. In addition, as of the same date, we purchased the inventory of FPI Leasing, an entity related to Farm Power through common ownership. We subsequently merged Farm Power into our company.

### *Fiscal 2006*

On November 1, 2005, we acquired certain assets of Vern Anderson, Inc., resulting in the addition of four stores located in Anthon, Cherokee, Kingsley and Le Mars, Iowa.

On November 1, 2005, we assumed management of the operations of a dealership formerly owned by Walterman Implement, Inc. located in Dike, Iowa. We subsequently acquired certain assets of the dealership and as of December 31, 2006 began to operate it as one of our stores.

On May 16, 2005, we acquired certain assets of H.C. Clark Implement Co., Inc., resulting in the addition of a store located in Aberdeen, South Dakota.

On March 1, 2005, we acquired certain assets of Smith International, Inc., resulting in the addition of a store located in Waverly, Iowa.

### **Critical Accounting Policies and Estimates**

During the preparation of our financial statements, we are required to make estimates, assumptions and judgments that affect reported amounts. These estimates, assumptions and judgments include those related to bad debts and credit sales, inventories, goodwill and intangibles, income taxes and legal proceedings, revenue recognition, allowance for doubtful accounts, inventory reserves, incentive plan accruals, deferred taxes and stock-based compensation. We update these estimates, assumptions and judgments as appropriate, which in most cases is at least quarterly. We use our technical accounting knowledge, cumulative business experience, judgment and other factors in the selection and application of our accounting policies. While we believe our estimates, assumptions and judgments we use in preparing our financial statements are appropriate, they are subject to factors and uncertainties regarding their outcome and therefore, actual results may materially differ from these estimates. We believe the following are our primary critical accounting policies and estimates.

#### *Revenue Recognition*

Revenue on equipment and parts sales is recognized upon delivery of product to customers. Rental and service revenue is recognized at the time the related services are provided. In addition to outright sales of new and used equipment, certain rental agreements may include rent-to-purchase options. Under these agreements, customers are given a period of time to exercise an option to purchase the related equipment, with a portion of the rental payments being applied to the purchase price. This equipment is included in inventory until the purchase option is exercised. Rental revenue is recognized during the rental period, with equipment sales revenue being recognized upon the exercise of the purchase option.

*Inventories*

New and used machinery are stated at the lower of cost (specific identification method) or market with adjustments for decreases in market value on inventory rented but available for sale being a percentage (80%) of the rental income received on such inventory. Equipment held specifically for lease is reported as inventory held for rental. Parts inventory is valued at the lower of average cost or market, and parts inventory not expected to be sold in the next operating cycle has been reported separately. Typically, there are no freight-in charges, except in cases of special orders where such freight-in charges are included in the cost of inventory.

*Intangible Assets and Goodwill*

Goodwill is reviewed for possible impairment at least annually, or more frequently upon the occurrence of events or circumstances that may affect its fair value. As of January 31, 2008, the carrying value of goodwill was not considered impaired. Intangible assets include covenants not-to-compete that are being amortized using the straight-line method over the lives of the related agreements, which range from five to 15 years.

*Income Taxes*

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, inventory, property and equipment, intangible assets, stock-based compensation, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Our policy is to recognize interest expense and penalties related to income tax matters within our provision for income taxes.

*Stock-Based Compensation*

We accounted for stock options in accordance with the provisions of the Financial Accounting Standards Board (FASB) Statement No. 123 (Revised), *Share-Based Payments*. Statement FAS 123(R) requires that share-based compensation, which includes stock options, be accounted for at the fair value of the applicable equity instrument. We utilized the Black Scholes option pricing model to value stock options.

**Key Financial Metrics**

In addition to tracking our sales and expenses to evaluate our operational performance, we also monitor certain key financial metrics, including absorption and same-store sales.

*Absorption*

Absorption is an industry term that refers to the percentage of an equipment dealer's fixed operating expense covered by the gross margin of its combined parts and service businesses. Absorption in a given period is calculated by dividing our gross profit from parts and service sales in the period by the difference between (i) our operating expenses (including interest on floorplan notes) and (ii) our variable expense of sales commissions on equipment sales and incentive compensation in the same period. We believe that absorption is an important management metric because during economic down cycles our customers tend to postpone new and used equipment purchases while continuing to run, maintain and repair their existing equipment. Thus, operating at a high absorption rate enables us to operate profitably throughout economic down cycles. We measure and track absorption on a company-wide basis as well as on a per store basis. For fiscal 2008, our company-wide absorption rate

was 72.6%; for fiscal 2007, our company-wide absorption rate was 75.9%; and for fiscal 2006, our company-wide absorption rate was 74.4%.

#### *Same-Store Sales*

Same-store sales for any period represent sales by stores that were part of our company for the entire comparable period in the preceding fiscal year. We do not distinguish relocated or newly-expanded stores in this same-store analysis. Closed stores are excluded from the same-store analysis. We believe that tracking this metric is important to evaluating the success of the Titan Operating Model on a comparable basis.

### **Key Financial Statement Components**

#### *Revenue*

*Equipment.* We derive equipment revenue from the sale of new and used agricultural and construction equipment.

*Parts.* We derive parts revenue from the sale of parts for equipment that we sell and rent, as well as for other equipment makes. Our parts sales provide us with a relatively stable revenue stream that is less sensitive to the economic cycles that affect our equipment sales.

*Services.* We derive services revenue from maintenance and repair services to our customers' equipment. Our repair and maintenance services provide a high-margin, relatively stable source of revenue through changing economic cycles.

*Other.* We derive other revenue from equipment rentals and ancillary equipment support activities such as equipment transportation, GPS signal subscriptions and reselling finance and insurance products.

#### *Cost of Revenue*

*Equipment.* Cost of equipment revenue is the lower of the acquired cost or the market value of the specific piece of equipment sold.

*Parts.* Cost of parts revenue is the lower of the acquired cost or the market value of the parts sold, based on average costing.

*Service.* Cost of service revenue represents costs attributable to services provided for the maintenance and repair of customer-owned equipment and equipment then on-rent by customers.

*Other.* Costs of other revenue represent costs associated with equipment rental, providing transportation, hauling, parts freight, GPS subscriptions and damage waivers, including, among other items, drivers' wages, fuel costs, shipping costs and our costs related to damage waiver policies.

#### *Operating Expenses*

Our operating expenses include sales and marketing expenses, sales commissions (which generally are based upon equipment gross profit margins), payroll and related benefit costs, insurance expenses, professional fees, property and other taxes, administrative overhead, and depreciation associated with property and equipment (other than rental equipment).

#### *Floorplan Interest*

The cost of financing inventory is an important factor affecting our results of operations. Floorplan financing from CNH Capital represents the primary source of financing for equipment inventories,

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particularly for equipment supplied by CNH. We also have credit facilities for financing of equipment inventories with Bremer Bank and GE Commercial Distribution Finance Corporation. Historically, approximately 80% to 90% of our inventory has been subject to floorplan financing. CNH regularly offers interest-free periods as well as additional incentives and special offers. Throughout the fiscal year ended January 31, 2008, approximately 67% of our equipment inventory was subject to non-interest bearing floorplan financing.

*Other Interest Expense*

Interest expense represents the interest on our outstanding debt instruments, other than floorplan financing facilities.

**Results of Operations**

Comparative financial data for each of our four sources of revenue for fiscal 2008, 2007 and 2006 are expressed below. The results of 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.

|   | Year ended January 31, |            |            |
|---|------------------------|------------|------------|
|   | 2008                   | 2007       | 2006       |
|   | (dollars in thousands) |            |            |
| <b>Equipment</b>                            |                        |            |            |
| Revenue                                     | \$ 338,382             | \$ 220,958 | \$ 175,549 |
| Cost of revenue                             | 302,320                | 200,558    | 160,814    |
| Gross profit                                | \$ 36,062              | \$ 20,400  | \$ 14,735  |
| <b>Parts</b>                                |                        |            |            |
| Revenue                                     | \$ 58,743              | \$ 42,619  | \$ 31,099  |
| Cost of revenue                             | 42,568                 | 29,909     | 22,459     |
| Gross profit                                | \$ 16,175              | \$ 12,710  | \$ 8,640   |
| <b>Service</b>                              |                        |            |            |
| Revenue                                     | \$ 27,344              | \$ 21,965  | \$ 16,572  |
| Cost of revenue                             | 10,118                 | 8,183      | 6,404      |
| Gross profit                                | \$ 17,226              | \$ 13,782  | \$ 10,168  |
| <b>Other, including trucking and rental</b> |                        |            |            |
| Revenue                                     | \$ 8,502               | \$ 7,056   | \$ 5,250   |
| Cost of revenue                             | 5,913                  | 5,337      | 4,081      |
| Gross profit                                | \$ 2,589               | \$ 1,719   | \$ 1,169   |

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

|                                      | Year ended January 31, |       |       |
|--------------------------------------|------------------------|-------|-------|
|                                      | 2008                   | 2007  | 2006  |
| <b>Revenue</b>                       |                        |       |       |
| Equipment                            | 78.1%                  | 75.5% | 76.8% |
| Parts                                | 13.6%                  | 14.6% | 13.6% |
| Service                              | 6.3%                   | 7.5%  | 7.3%  |
| Other, including trucking and rental | 2.0%                   | 2.4%  | 2.3%  |
|                                      | 100%                   | 100%  | 100%  |
| <b>Cost of Revenue</b>               |                        |       |       |
| Equipment                            | 69.8%                  | 68.6% | 70.4% |
| Parts                                | 9.8%                   | 10.2% | 9.8%  |
| Service                              | 2.4%                   | 2.8%  | 2.8%  |
| Other, including trucking and rental | 1.4%                   | 1.8%  | 1.8%  |
|                                      | 83.4%                  | 83.4% | 84.8% |
| <b>Gross profit</b>                  | 16.6%                  | 16.6% | 15.2% |
| <b>Operating expenses</b>            | 12.3%                  | 12.8% | 11.8% |
| <b>Income from operations</b>        | 4.3%                   | 3.8%  | 3.4%  |

*Fiscal Year Ended January 31, 2008 Compared to Fiscal Year Ended January 31, 2007*

### Revenue

|                                      | Fiscal year ended<br>January 31, 2008 | Fiscal year ended<br>January 31, 2007 | Increase   | Percent<br>change |
|--------------------------------------|---------------------------------------|---------------------------------------|------------|-------------------|
|                                      | (dollars in thousands)                |                                       |            |                   |
| Total revenue                        | \$ 432,971                            | \$ 292,598                            | \$ 140,373 | 48.0%             |
| Equipment                            | \$ 338,382                            | \$ 220,958                            | \$ 117,424 | 53.1%             |
| Parts                                | \$ 58,743                             | \$ 42,619                             | \$ 16,124  | 37.8%             |
| Service                              | \$ 27,344                             | \$ 21,965                             | \$ 5,379   | 24.5%             |
| Other, including trucking and rental | \$ 8,502                              | \$ 7,056                              | \$ 1,446   | 20.5%             |

The increase in revenue was primarily due to the following three items: acquisitions, same-store sales growth and a manufacturer leasing program. The acquired stores contributed \$74.6 million in additional total revenue, or 53.1% of the increase, while the leasing program transactions totaled \$22.4 million, or 16.0%. Manufacturer leasing programs are offered from time to time but the frequency and terms of these programs cannot be predicted. The remaining increase of \$43.4 million is attributable to same-store sales growth of 16.8%, which is reflective of the strong market for our products, particularly in the area of equipment sales. We believe equipment sales were strong in fiscal 2008 due to the growth in global demand for agricultural commodities and the positive impact this commodity demand has had on farm income. We anticipate favorable market conditions will, at a minimum, continue into the first half of fiscal 2009, assuming normal weather conditions.

*Cost of Revenue*

|                                      | <b>Fiscal year ended<br/>January 31, 2008</b> | <b>Fiscal year ended<br/>January 31, 2007</b> | <b>Increase</b> | <b>Percent<br/>change</b> |
|--------------------------------------|---|---|-----------------|---------------------------|
| (dollars in thousands)               |   |   |                 |                           |
| Total cost of revenue                | \$ 360,919                                    | \$ 243,987                                    | \$ 116,932      | 47.9%                     |
| Equipment                            | \$ 302,320                                    | \$ 200,558                                    | \$ 101,762      | 50.7%                     |
| Parts                                | \$ 42,568                                     | \$ 29,909                                     | \$ 12,659       | 42.3%                     |
| Service                              | \$ 10,118                                     | \$ 8,183                                      | \$ 1,935        | 23.6%                     |
| Other, including trucking and rental | \$ 5,913                                      | \$ 5,337                                      | \$ 576          | 10.8%                     |

The increase in cost of revenue of \$116.9 million was due to revenue increases attributable primarily to acquisitions, same-store sales growth and the leasing program, as noted above. Acquisitions contributed \$62.2 million to the cost of revenue, while the leasing program added another \$20.2 million, which is 53.2% and 17.3%, respectively, of the total increase in cost of revenue from the prior fiscal year. The remainder of the increase in cost of revenue is reflective of the increase in same-store sales. As a percentage of revenue, cost of revenue was 83.4% in fiscal 2008, matching the prior fiscal year's results.

*Gross Profit*

|                                      | <b>Fiscal year ended<br/>January 31, 2008</b> | <b>Fiscal year ended<br/>January 31, 2007</b> | <b>Increase</b> | <b>Percent<br/>change</b> |
|--------------------------------------|---|---|-----------------|---------------------------|
| (dollars in thousands)               |   |   |                 |                           |
| Total gross profit                   | \$ 72,052                                     | \$ 48,611                                     | \$ 23,441       | 48.2%                     |
| Equipment                            | \$ 36,062                                     | \$ 20,400                                     | \$ 15,662       | 76.8%                     |
| Parts                                | \$ 16,175                                     | \$ 12,710                                     | \$ 3,465        | 27.3%                     |
| Service                              | \$ 17,226                                     | \$ 13,782                                     | \$ 3,444        | 25.0%                     |
| Other, including trucking and rental | \$ 2,589                                      | \$ 1,719                                      | \$ 870          | 50.6%                     |

Of the \$23.4 million increase in gross profit in fiscal 2008, acquisitions contributed \$12.4 million, which is 53.0% of the total increase in gross profit, while the leasing program added another \$2.2 million. Same-store gross profits provided the remainder of the gross profit improvement, primarily due to the increase in same-store sales. Total gross profit margins remained even at 16.6% for both fiscal 2008 and 2007. Normally, a higher percentage of equipment sales would cause total gross margins to decline, but equipment margins were high in fiscal 2008 relative to historical levels reflecting a significant increase in demand and partially enhanced by a manufacturer market share incentive bonus program. We recorded this incentive bonus in the fourth quarter of fiscal 2008 by achieving annual market share targets established by CNH for product lines within the regions in which we market our products. We expect to be eligible to receive a similar bonus in fiscal 2009 if we achieve certain market share goals.

*Operating Expenses*

|                        | <b>Fiscal year ended<br/>January 31, 2008</b> | <b>Fiscal year ended<br/>January 31, 2007</b> | <b>Increase</b> | <b>Percent<br/>change</b> |
|------------------------|---|---|-----------------|---------------------------|
| (dollars in thousands) |   |   |                 |                           |
| Operating expenses     | \$ 53,190                                     | \$ 37,399                                     | \$ 15,791       | 42.2%                     |

The increase in operating expenses is primarily due to the additional costs associated with acquisitions. As a percentage of total revenue, operating expenses decreased to 12.3% in fiscal 2008 from 12.8% in fiscal 2007. This decrease was primarily driven by the strong sales in fiscal 2008 resulting in improved fixed operating expense utilization as a percentage of sales.

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*Other Income (Expense)*

|                            | <b>Fiscal year ended<br/>January 31, 2008</b> | <b>Fiscal year ended<br/>January 31, 2007</b> | <b>Increase</b> | <b>Percent<br/>change</b> |
|----------------------------|---|---|-----------------|---------------------------|
| (dollars in thousands)     |   |   |                 |                           |
| Interest and other income  | \$ 577  | \$ 349  | \$ 228          | 65.3%                     |
| Floorplan interest expense | \$ (3,813)                                    | \$ (3,294)                                    | \$ 519          | 15.8%                     |
| Interest expense           | \$ (2,480)                                    | \$ (2,179)                                    | \$ 301          | 13.8%                     |
| Debt retirement costs      | \$ (3,824)                                    | \$ 0  | \$ 3,824        | N/A%                      |

Floorplan interest expense increased \$0.5 million due to higher levels of floorplan debt in fiscal 2008 compared to fiscal 2007. The higher floorplan debt is driven by increased equipment inventory levels resulting from acquisitions. The \$300,000 increase in interest expense was due to additional long-term debt incurred primarily in connection with acquisitions.

In conjunction with our December 2007 initial public offering, we exchanged or converted all \$6.4 million in aggregate principal amount of our outstanding convertible subordinated debentures for 2,308,648 shares of our common stock and retired \$9.4 million in subordinated debentures. As a result of these transactions, we recognized debt retirement costs of \$3.8 million in the fourth quarter of fiscal 2008. This debt reduction will result in lower interest expense in fiscal 2009.

*Provision for Income Taxes*

|                            | <b>Fiscal year ended<br/>January 31, 2008</b> | <b>Fiscal year ended<br/>January 31, 2007</b> | <b>Increase</b> | <b>Percent<br/>change</b> |
|----------------------------|---|---|-----------------|---------------------------|
| (dollars in thousands)     |   |   |                 |                           |
| Provision for income taxes | \$ 4,110                                      | \$ 2,450                                      | \$ 1,660        | 67.8%                     |

The effective tax rate as a percentage of income before taxes increased to 44.1% in fiscal 2008 from 40.2% in fiscal 2007. The increase resulted from an unrecognized tax benefit of \$420,000 in the fourth quarter of fiscal 2008. If we recognize this tax benefit in the future, our effective tax rate will be favorably impacted.

*Fiscal Year Ended January 31, 2007 Compared to Fiscal Year Ended January 31, 2006*

*Revenue*

|                                      | <b>Fiscal year ended<br/>January 31, 2007</b> | <b>Fiscal year ended<br/>January 31, 2006</b> | <b>Increase</b> | <b>Percent<br/>change</b> |
|--------------------------------------|---|---|-----------------|---------------------------|
| (dollars in thousands)               |   |   |                 |                           |
| Total revenue                        | \$ 292,598                                    | \$ 228,470                                    | \$ 64,128       | 28.1%                     |
| Equipment                            | \$ 220,958                                    | \$ 175,549                                    | \$ 45,409       | 25.9%                     |
| Parts                                | \$ 42,619                                     | \$ 31,099                                     | \$ 11,520       | 37.0%                     |
| Service                              | \$ 21,965                                     | \$ 16,572                                     | \$ 5,393        | 32.5%                     |
| Other, including trucking and rental | \$ 7,056                                      | \$ 5,250                                      | \$ 1,806        | 34.4%                     |

The increase in revenue is primarily due to the two acquisitions completed during fiscal 2007 described above. In addition, our revenue growth is reflective of the strong market for our products and resulting from the growth in the global demand for agricultural commodities, net farm income, governmental subsidies and public infrastructure spending. The fiscal 2007 acquisitions contributed \$34.9 million in total revenue, or 54.4% of the year-over-year increase. The remaining increase is attributable to the impact of having stores acquired in fiscal 2006 in our operating system for a full fiscal year and same-store sales growth. Same-store sales of \$194.6 million were recorded in fiscal 2007, representing a 5.1% increase compared to the sales by these stores in fiscal 2006. Same-store sales growth in fiscal 2007 was lower than in fiscal 2006 due to a significant decrease in equipment sales at



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our then highest equipment volume store resulting from that store's change in sales practice away from high-volume, low-margin sales to a preferred strategy of focusing on higher-margin sales, which resulted in lower volume at that store.

### *Cost of Revenue*

|                                      | <u>Fiscal year ended<br/>January 31, 2007</u> |    | <u>Fiscal year ended<br/>January 31, 2006</u> | <u>Increase</u> | <u>Percent<br/>change</u> |
|--------------------------------------|---|----|---|-----------------|---------------------------|
| (dollars in thousands)               |   |    |   |                 |                           |
| Total cost of revenue                | \$ 243,987                                    | \$ | 193,758                                       | \$ 50,229       | 25.9%                     |
| Equipment                            | \$ 200,558                                    | \$ | 160,814                                       | \$ 39,744       | 24.7%                     |
| Parts                                | \$ 29,909                                     | \$ | 22,459  | \$ 7,450        | 33.2%                     |
| Service                              | \$ 8,183                                      | \$ | 6,404   | \$ 1,779        | 27.8%                     |
| Other, including trucking and rental | \$ 5,337                                      | \$ | 4,081   | \$ 1,256        | 30.8%                     |

The increase in cost of revenue is primarily due to the additional costs associated with the operation of newly acquired stores. The acquisitions made in fiscal 2007 contributed \$27.9 million to the cost of revenue for fiscal 2007, which is 55.6% of the total increase in cost of revenue year-over-year. The remainder of the increase in cost of revenue is due to inventory costs to support our higher sales. As a percentage of revenue, cost of revenue was 83.3% in fiscal 2007, compared to 84.8% in fiscal 2006. This percentage of revenue decrease is attributable to growth in the higher margin parts and services revenue relative to equipment revenue.

### *Gross Profit*

|                                      | <u>Fiscal year ended<br/>January 31, 2007</u> |    | <u>Fiscal year ended<br/>January 31, 2006</u> | <u>Increase</u> | <u>Percent<br/>change</u> |
|--------------------------------------|---|----|---|-----------------|---------------------------|
| (dollars in thousands)               |   |    |   |                 |                           |
| Total gross profit                   | \$ 48,611                                     | \$ | 34,712  | \$ 13,899       | 40.0%                     |
| Equipment                            | \$ 20,400                                     | \$ | 14,735  | \$ 5,665        | 38.4%                     |
| Parts                                | \$ 12,710                                     | \$ | 8,640   | \$ 4,070        | 47.1%                     |
| Service                              | \$ 13,782                                     | \$ | 10,168  | \$ 3,614        | 35.5%                     |
| Other, including trucking and rental | \$ 1,719                                      | \$ | 1,169   | \$ 550          | 47.0%                     |

The fiscal 2007 acquisitions contributed \$7.0 million to gross profit, which is the primary reason for the increase over fiscal 2006. Also contributing to the gross profit improvement was the impact of having stores acquired in fiscal 2006 in our operating system for a full fiscal year and same-store sales growth. Gross profit margins were 16.7% in fiscal 2007, compared to 15.2% in fiscal 2006.

### *Operating Expenses*

|                        | <u>Fiscal year ended<br/>January 31, 2007</u> |    | <u>Fiscal year ended<br/>January 31, 2006</u> | <u>Increase</u> | <u>Percent<br/>change</u> |
|------------------------|---|----|---|-----------------|---------------------------|
| (dollars in thousands) |   |    |   |                 |                           |
| Operating expenses     | \$ 37,399                                     | \$ | 26,978  | \$ 10,421       | 38.6%                     |

The increase in operating expenses is primarily due to the additional costs associated with acquisitions. As a percentage of total revenue, operating expenses increased to 12.8% in fiscal 2007 from 11.8% in fiscal 2006, primarily due to an increase in sales commissions based upon increased equipment gross profits. Other factors contributing to the increase in operating expenses include an increase in sales and other promotional activities and administrative costs in fiscal 2007.

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*Other Income (Expense)*

|                            | <u>Fiscal year ended<br/>January 31, 2007</u> |    | <u>Fiscal year ended<br/>January 31, 2006</u> |    | <u>Increase</u> | <u>Percent<br/>change</u> |
|----------------------------|---|----|---|----|-----------------|---------------------------|
| (dollars in thousands)     |   |    |   |    |                 |                           |
| Interest and other income  | \$ 349  | \$ | 87  | \$ | 262             | 301.2%                    |
| Floorplan interest expense | \$ (3,294)                                    | \$ | (2,296)                                       | \$ | 998             | 43.5%                     |
| Interest expense           | \$ (2,179)                                    | \$ | (1,072)                                       | \$ | 1,107           | 103.3%                    |

The increase in interest and other income is attributable to acquisitions made in fiscal 2007 increasing our total amount of debt. The primary reason for the increase in floorplan interest expense is the increased amount of floorplan debt related to inventory that we incurred in fiscal 2007. Of the increase in floorplan interest expense, \$475,000 is attributable to additional inventory related to stores acquired in fiscal 2007 and \$523,000 is attributable to additional inventory related to the other stores. The primary reason for the increase in interest expense relates to the issuance of \$7.5 million of subordinated debt to CNH Capital and additional long-term debt primarily in connection with acquisitions.

*Provision for Income Taxes*

|                            | <u>Fiscal year ended<br/>January 31, 2007</u> |    | <u>Fiscal year ended<br/>January 31, 2006</u> |    | <u>Increase</u> | <u>Percent<br/>change</u> |
|----------------------------|---|----|---|----|-----------------|---------------------------|
| (dollars in thousands)     |   |    |   |    |                 |                           |
| Provision for income taxes | \$ 2,450                                      | \$ | 1,721   | \$ | 729             | 42.4%                     |

The effective tax rate as a percentage of income before taxes increased to 40.2% in fiscal 2007 from 38.6% in fiscal 2006. Our effective tax rate reflects the full federal and state statutory rates on taxable income. Variations in the effective tax rate reflect the changing mix of sales made in states with different tax rates.

**Liquidity and Capital Resources**

*Cash Flow From Operating Activities*

During fiscal 2008, our operating activities provided net cash flow of \$12.5 million. Our cash flows from operations were primarily the result of our reported net income of \$5.2 million, non-cash adjustments to net income for depreciation of \$2.4 million and for debt retirement costs of \$2.4 million, an increase in customer deposits of \$14.7 million and an increase in accrued expenses of \$3.5 million. These operating cash inflows were principally offset by an increase in receivables of \$8.5 million, an increase in inventories of \$3.2 million and a decrease in floorplan payables of \$4.4 million. The large increase in customer deposits and receivables is representative of our growth through acquisitions and strong fiscal 2008 fourth quarter activity.

During fiscal 2007, our operating activities provided net cash flow of \$6.5 million. Our cash flows from operations were primarily the result of our reported net income of \$3.6 million, a receivables increase of \$5.1 million and an inventory increase of \$286,000, which were offset by an increase in floorplan notes payable (unrelated to acquisitions) of \$2.9 million, floorplan notes payable (related to acquisitions) of \$4.9 million and an increase in customer deposits of \$594,000.

*Cash Flow From Investing Activities*

During fiscal 2008, cash used for investing activities was \$16.3 million. Our cash used for investing activities primarily consisted of purchases of equipment dealerships (net of cash purchased) of \$10.1 million and property and equipment purchases of \$6.3 million. Our property and equipment

purchases in fiscal 2008 were higher than the prior fiscal year primarily due to the purchase of a designated rental fleet of \$2.8 million.

During fiscal 2007, cash used for investing activities was \$14.0 million. Our cash used for investing activities related to purchases of equipment dealerships (net of cash purchased) of \$12.1 million and property and equipment purchases of \$2.0 million. This was partially offset by net proceeds from equipment disposals of \$120,000.

#### *Cash Flow From Financing Activities*

During fiscal 2008, cash provided by financing activities was \$39.1 million. Cash provided by financing activities was primarily the result of \$41.8 million in net proceeds from our initial public offering. Partially offsetting these proceeds were principal payments on long-term debt exceeding proceeds from long-term debt by \$2.3 million.

During fiscal 2007, cash provided by financing activities was \$6.4 million. Cash provided by financing activities was primarily the result of proceeds from long-term debt borrowings and subordinated debentures related to acquisitions of \$5.4 million, proceeds from fixed asset financing related to acquisitions of \$1.6 million, proceeds from long-term debt borrowings and subordinated debentures unrelated to acquisitions of \$1.3 million and an increase in the net change in non-manufacturer floorplan payables of \$203,000. Partially offsetting the cash provided by financing activities were principal payments on long-term debt of \$2.1 million and an increase in subordinated debt interest accruals of \$202,000.

#### *Debt Facilities*

*Bremer Bank Credit Facility.* We currently have a credit facility with Bremer that provides for a \$2.0 million floorplan line of credit, a \$12.0 million operating line of credit and two term loans in the aggregate amount of \$10.0 million. The floorplan and operating lines of credit each have a variable interest rate of 0.25% per annum below the prime rate. The term debt has an 8% per annum fixed interest rate. The floorplan and operating lines of credit require monthly payments of interest due and have maturity dates of August 1, 2008, and the two term loans require aggregate monthly payments of principal and interest of \$202,000 and have maturity dates of August 2012 and December 2012. The Bremer credit facility is secured by a personal guarantee of our Chief Executive Officer. As of January 31, 2008, we had no amount outstanding on the Bremer operating line of credit, \$9.4 million outstanding on the term debt and \$350,000 of outstanding floorplan financing. The Bremer credit facility contains various restrictive covenants that require prior consent of Bremer if we desire to make any loans or advances to any person. In addition, the Bremer credit facility restricts our ability to incur indebtedness or liens, places restrictions on our ability to merge or consolidate with any person, or sell, lease, assign, transfer or otherwise dispose of any of our assets other than in the ordinary course of business. In addition, the consent of Bremer is required for the acquisition of any dealership.

*CNH Capital Credit Facility.* We currently have a credit facility with CNH Capital that provides for an aggregate principal balance of up to \$200.0 million for floorplan financing. The CNH Capital facility also provides for term loans, which typically have one to three year terms. The interest rate under the CNH Capital floorplan line of credit is equal to the prime rate plus 0.3% per annum for most purposes, subject to any interest-free periods offered by CNH. The CNH Capital term loans and loans for certain purposes have an interest rate equal to the prime rate plus 1.6% per annum. Cumulative and unpaid balance of advances under the CNH Capital credit facility accrues interest each month and requires monthly payments. The expiration date for the CNH Capital credit facility is August 31, 2008, with annual renewals through August 31, 2012, unless earlier terminated. The CNH Capital credit facility is secured by all of our assets. As of January 31, 2008, we had approximately \$97.1 million outstanding on the CNH Capital credit facility. The CNH Capital credit facility contains

various restrictive covenants that require prior consent of CNH Capital if we desire to engage in any acquisition of, consolidation or merger with any other business entity in which we are not the surviving company; move any collateral outside of the U.S.; or sell, rent, lease or otherwise dispose or transfer any of the collateral, other than in the ordinary course of business. CNH's consent is also required for the acquisition of any CNH dealership. In addition, the CNH Capital credit facility restricts our ability to incur any liens upon any substantial part of our assets.

*Other Indebtedness with CNH Capital.* CNH Capital periodically provides loans for fixed asset financing in connection with acquisitions. Related to this acquisition financing, we have various term loans with CNH Capital. The aggregate principal amount of these terms loans was approximately \$1.2 million at January 31, 2008. We also obtained various fixed rate notes with rates ranging from 3.25% to 10.35% and variable rate notes at prime plus 0.3% from CNH, which are secured by our designated rental fleet. The amount of our rental fleet notes as of January 31, 2008, was \$1.9 million. Finally, we periodically incur indebtedness with CNH in the form of parts term notes when we acquire new dealerships. These notes typically have terms of 1.5 to 3.0 years and either bear no interest or bear interest at variable rates. At January 31, 2008, we had approximately \$3.1 million in parts term notes outstanding.

*GE Credit Facility.* We currently have a credit facility with GE, whereby GE may make loans to us from time to time to purchase inventory from GE-approved vendors and for other working capital purposes. The credit limit on the GE facility is \$5.0 million. The GE facility has a variable, transaction-based interest rate that has typically been equal to the prime rate plus 0.25% per annum. The GE facility is secured by all of our equipment inventory that is financed by the GE facility, as well as our accounts receivable, deposit accounts and our other assets. The GE credit facility contains various restrictive covenants that require prior consent of GE if we desire to engage in the sale, consignment or other disposal of any collateral financed by GE outside of the ordinary course of business, merge or consolidate with any other entity, or move any collateral outside of the U.S.

*Certain Other Debt.* In connection with various acquisitions, we have issued subordinated debentures in an aggregate principal amount of \$1.3 million. These debentures bear interest at 9% or 10% per annum and mature in March 2010, May 2010 and December 2010.

#### **Sources of Liquidity**

Our primary sources of liquidity are cash reserves, cash flow from operations, proceeds from the issuance of debt and our borrowings under the Bremer, CNH Capital and GE 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 floorplans payable. The primary factors affecting our ability to generate cash and to meet existing, known or reasonably likely cash requirements are the timing and extent of acquisitions and our operating performance as impacted by (i) industry factors, which are currently positive, (ii) competition, (iii) general economic conditions and (iv) other business factors as identified in "Risk Factors."

For fiscal 2008 and 2007, we spent \$6.3 million and \$2.0 million on property and equipment, respectively, exclusive of acquisitions. Our property and equipment purchases in fiscal 2008 were higher than the prior fiscal year primarily due to the purchase of a designated rental fleet of \$2.8 million. While we do not have any material commitments for capital expenditures for fiscal 2009, we expect our

equipment expenditures, exclusive of acquisitions, for fiscal 2009 will decrease to approximately \$4.0 to \$5.0 million. The actual amount of our fiscal 2009 equipment expenditures will depend upon factors such as general economic conditions, growth prospects for our industry and our acquisition activity. We currently expect to finance equipment purchases with borrowings under the existing credit facilities, with available cash including from the proceeds of this offering or with cash flow from operations. We may need to incur additional debt if we pursue any future acquisitions.

Our ability to service our debt will depend upon our ability to generate the necessary cash. This will depend on our future acquisitions activity, operating performance, general economic conditions, and financial, competitive, business and other factors, some of which are beyond our immediate control. 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.

We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available under the Bremer, CNH Capital and GE credit facilities in amounts sufficient to allow us to service our indebtedness and to meet our other commitments. If we are unable to generate sufficient cash flow from operations or to obtain sufficient future borrowings, we may be required to seek one or more alternatives such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. We cannot assure you that we will be able to succeed with one of these alternatives on commercially reasonable terms, if at all. In addition, if we pursue strategic acquisitions, we may require additional equity or debt financing to consummate the transactions, and we cannot assure you that we will succeed in obtaining this financing on favorable terms or at all. If we incur additional indebtedness to finance any of these transactions, this may place increased demands on our cash flow from operations to service the resulting increased debt. Our existing debt agreements contain restrictive covenants that may restrict our ability to adopt any of these alternatives. Any non-compliance by us under the terms of our debt agreements could result in an event of default which, if not cured, could result in the acceleration of our debt.

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

As of January 31, 2008, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships. In the normal course of our business activities, we lease rental equipment under operating leases.

**Contractual and Commercial Commitment Summary**

Our contractual obligations and commercial commitments as of January 31, 2008 are summarized below:

| Contractual Obligations        | Payments Due By Period |                     |                  |                  |                      |
|--------------------------------|------------------------|---------------------|------------------|------------------|----------------------|
|                                | Total                  | Less Than<br>1 Year | 1 to 3 Years     | 3 to 5 Years     | More Than<br>5 Years |
| (dollars in thousands)         |                        |                     |                  |                  |                      |
| Long-term debt obligations(1)  | \$ 21,883              | \$ 6,836            | \$ 8,619         | \$ 5,837         | \$ 590               |
| Operating lease obligations(2) | 39,742                 | 3,792               | 6,550            | 5,560            | 23,840               |
| Other long-term liabilities(3) | 1,632                  | 146                 | 1,486            |                  |                      |
| <b>Total</b>                   | <b>\$ 63,257</b>       | <b>\$ 10,774</b>    | <b>\$ 16,655</b> | <b>\$ 11,397</b> | <b>\$ 24,430</b>     |

- (1) Includes obligations under notes payable issued in favor of our lenders and estimates of interest payable.
- (2) Includes rental payment obligations under operating leases related to our stores. Amounts do not include insurance, tax, or maintenance costs, which we include in operating expenses and which we estimate will be approximately \$442,656 for the less than 1 year period, \$780,564 for the 1-3 year period, \$819,661 for the 3-5 year period, and \$4,125,331 for the more than 5 years period, for a total of \$6,168,212. See Note 11 to our audited financial statements for a description of our operating lease obligations.
- (3) Includes outstanding amounts under our subordinated debentures and estimates of interest payable.

**Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk from changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices such as interest rates. For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant. During fiscal 2008, we renegotiated or executed several new credit facilities. Many of these credit agreements are floating rate facilities now containing minimum rates of interest to be charged. We have also entered into fixed rate financing. Based upon balances and interest rates as of January 31, 2008, holding other variables constant, a one percentage point increase in interest rates for the next 12-month period would decrease pre-tax earnings and cash flow by approximately \$408,000. Conversely, a one percentage point decrease in interest rates for the next 12-month period would result in an increase to pre-tax earnings and cash flow of approximately \$408,000. At January 31, 2008, we had variable rate floorplan notes payable of \$105.8 million, of which approximately \$36.9 million was interest-bearing, variable notes payable and long-term debt of \$3.9 million, and fixed rate notes payable and long-term debt of \$16.1 million.

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

**New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective

for the fiscal year beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of this standard will have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of this standard will have on our financial statements.

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

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

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

## BUSINESS

### Our Company

#### Overview

We own and operate what we believe is one of the largest networks of full service agricultural and construction equipment stores in North America. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America LLC, collectively referred to in this prospectus as CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. We sell and rent agricultural and construction equipment, sell parts, and service the equipment in the areas surrounding our stores.

The agricultural equipment we sell and service includes machinery and attachments for uses ranging from large-scale farming to home and garden use. The construction equipment we sell and service includes heavy construction and light industrial machinery for commercial and residential construction, road and highway construction and mining. We engage in four principal business activities:

new and used equipment sales;

parts sales;

repair and maintenance services; and

equipment rental and other activities.

The new equipment and parts we sell are supplied primarily by CNH. CNH is a leading manufacturer and supplier of agricultural and construction equipment, primarily through the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. We acquire used equipment for resale through trade-ins from our customers and selective purchases. We also sell parts and provide in-store and on-site repair and maintenance services. We also rent equipment and provide other ancillary services such as equipment transportation, GPS signal subscriptions and finance and insurance products.

We offer our customers a one-stop solution by providing equipment and parts sales, repair and maintenance services and rental functions in each store. Our full service approach provides us with multiple points of customer contact and substantial cross-selling opportunities. We believe our mix of equipment and recurring parts and service sales enables us to operate effectively throughout economic cycles. We also believe our significant scale, superior customer service, diverse and stable customer base, proven management reporting system and experienced management team provide us with a competitive advantage in many of our local markets.

Throughout our 28-year operating history we have built an extensive, geographically contiguous network of 39 full service stores and two outlet stores. Our agricultural equipment stores are located in highly productive farming regions, including the Red River valley in eastern North Dakota and northwestern Minnesota and western portions of the corn belt in Iowa, eastern South Dakota and southern Minnesota. Our construction equipment stores operate in markets where we also sell agriculture equipment and are located close to the growing regional trade centers of Fargo and Bismarck, North Dakota, and Rapid City and Sioux Falls, South Dakota, as evidenced by the increase in GDP for each area for the years 2001 through 2005 as reported by the Bureau of Economic Analysis of the U.S. Department of Commerce.

Our executives have extensive industry experience. David Meyer, our Chairman and Chief Executive Officer, founded our company in 1980. In 2002, we acquired two stores owned by C.I. Farm Power, Inc., a business owned by our President and Chief Financial Officer, Peter Christianson, which he co-founded in 1988. Based on our collective industry experience, we developed the Titan Operating



Model, which combines management accountability and decision-making at the store level with centralized, back-office support. In addition, our executives work closely with our store managers to develop the managers' industry knowledge and ensure these managers achieve operational excellence in line with our management philosophy.

We have a history of successful growth through acquisitions. Since January 1, 2003, we have completed 17 acquisitions consisting of 34 stores operating in four states, including three acquisitions consisting of four stores completed since our initial public offering on December 11, 2007. We have a well-established track record of successfully integrating acquired stores through the Titan Operating Model, retaining acquired-store employees and maintaining acquired-store customer relationships. We expect that acquisitions will continue to be an important component of our growth.

## Industry Overview

### *Agricultural Equipment Industry*

Agricultural equipment is purchased primarily for the production of food, fiber, feed grain and renewable energy. It is also purchased for home and garden applications and maintenance of commercial, residential and government properties. IBISWorld data reports that total revenue for U.S. farm and garden equipment dealers was \$51.8 billion in 2006 and is projected to grow to \$53.5 billion by 2012, as adjusted for inflation. Deere & Company, CNH and AGCO Corporation are the largest global manufacturers and supply a full line of equipment and parts that address the primary machinery requirements of farmers. In 2007, revenue from agriculture operations was \$12.1 billion for Deere & Company, \$9.9 billion for CNH and \$6.8 billion for AGCO. In addition to the major manufacturers, several short-line manufacturers produce specialized equipment that addresses regional and niche requirements of farmers. Agricultural equipment manufacturers typically grant dealers in the U.S. authorized store locations, not exclusive territories, to distribute their products.

According to IBISWorld reports, there are many factors that influence demand for agricultural equipment, parts and repair and maintenance services, including commodity prices, interest rates, general economic conditions and weather. Conditions can fluctuate drastically in a short time period, creating volatility in demand, especially for equipment, in a given year. Government subsidies also influence demand for agricultural equipment. Legislation, most notably the U.S. Farm Bill and the Farm Security and Rural Investment Act of 2002, attempts to stabilize the agriculture industry through USDA subsidies. USDA subsidies include (i) commodity programs consisting of direct, counter-cyclical and price support payments to farmers; (ii) conservation programs; and (iii) disaster relief programs. In 2006, total USDA subsidies in the U.S. equaled \$13.4 billion dollars, with \$2.8 billion paid to farmers in the states in which we operate stores: Iowa, Minnesota, North Dakota and South Dakota. We believe USDA subsidies reduce financial volatility and help ensure that farmers operate their farms and equipment during economic down cycles, thus stabilizing demand for equipment, replacement parts and repair and maintenance services.

Currently, the USDA reports that U.S. farmers are enjoying historically strong economic fundamentals. U.S. annual net farm income since 2000 has averaged \$61.1 billion, compared to average annual net farm income during the 1990s of approximately \$48 billion, as adjusted for inflation. In 2007, U.S. net farm income was \$88.6 billion and the USDA projects this amount to grow to \$99.4 billion by 2017, as adjusted for inflation. In addition, farm balance sheets are strong, with the average debt-to-asset ratio for U.S. farmers in 2007 equal to 9.9%, the lowest level since the late 1950s.

Growing global demand for agricultural commodities is primarily responsible for the current and projected strength of the U.S. farm economy. Many factors are contributing to growth in demand, including rapid expansion of ethanol and biodiesel production throughout the world and the growing economies of developing countries, most notably India and China. According to the USDA, in 2006, 2.2 billion bushels of corn, approximately 20.4% of the total U.S. crop, were used for ethanol

production. The USDA has stated that in 2007, the ethanol industry's consumption of corn is projected to grow 58% to 3.4 billion bushels, or 27% of the U.S. crop, and continue to grow to 4.9 billion bushels of corn by 2010. These large increases in ethanol production increase the demand for, and prices of, farm land and commodities. In addition, we believe the growing economies of developing countries will continue to increase demand for agricultural products.

#### *Construction Equipment Industry*

Construction equipment is purchased primarily for commercial, residential and infrastructure construction, as well as for demolition, maintenance, mining, energy production and forestry operations. The market for construction equipment is larger than the market for agricultural equipment and is segmented across multiple categories including earth moving, lifting, light industrial, asphalt and paving, and concrete and aggregate equipment. IBISWorld data reports that total revenue for U.S. construction equipment dealers was \$72.4 billion in 2006 and is projected to grow to \$78.3 billion by 2012, as adjusted for inflation. We believe Caterpillar, Inc., Komatsu Ltd., Deere & Company, CNH and Ingersoll-Rand Co. Ltd. are the largest global manufacturers of construction equipment. According to IBISWorld data in 2007, these companies generated revenue from their construction operations of \$42.0 billion for Caterpillar, \$18.4 billion for Komatsu, \$5.0 billion for Deere & Company, and \$5.0 billion for CNH. As in the agricultural equipment market, distribution of construction equipment in the U.S. is executed primarily by manufacturer authorized dealers; however, manufacturers' dealership agreements in the construction industry typically assign exclusive distribution territories.

Construction machinery is generally divided into heavy and light subgroups. Heavy machinery includes large wheel loaders, large tracked excavators, crawler dozers, motor graders and articulated haul trucks. Light machinery includes backhoe landscape tractors, forklifts, compact excavators and skid steers. Heavy machinery is generally purchased by construction companies, municipalities, local governments, rental fleet owners, quarrying and mining companies, waste management companies and forestry-related organizations. Typically, light machinery is purchased by contractors, rental fleet owners, landscapers, logistics companies, farmers and recreational users. Although demand for construction equipment is affected by weather and seasonal factors, it is usually less susceptible to seasonal changes than the agricultural equipment industry.

CNH and industry reports show demand for construction equipment in our markets is driven by several factors, one of which is public infrastructure spending, including roads and highways, sewer and water, as well as by public and private expenditures for the energy and mining industries. Data prepared by the U.S. Department of Transportation shows that Federal Highway Administration allocations to public infrastructure spending in the states in which we do business Iowa, Minnesota, North Dakota and South Dakota will increase from \$1.3 billion, or 3.9% of federal funding, in 2005 to \$1.6 billion, or 4.3% of federal funding, in 2009, as adjusted for inflation. Our business is also influenced by public and private expenditures for the energy and mining industries in the areas in which we operate. Demand for fossil fuels, as well as metals and other commodities, has grown considerably in recent years. We expect to benefit from the need for equipment to establish the infrastructure necessary to extract these natural resources, particularly in North Dakota, as consumer and wholesale consumption accelerates.

#### **Titan Operating Model**

We believe the Titan Operating Model is a key element to our continued success. Through the Titan Operating Model, we empower leadership and share best practices at the store level while realizing efficiencies at the corporate level. We believe exceptional customer service is most efficiently delivered through accountable store employees who are supported by centralized administrative, finance and marketing functions. By managing our business as a network of independent stores supported by a

centralized, shared resources group, we ensure coordination of the entire enterprise while promoting local business relationships on a store-by-store basis.

#### *Strong Stores*

Each of our stores is run by a store manager who is reviewed and compensated based on the store's achievement of revenue, profitability, market share and balance sheet objectives. Also, each store is typically staffed by a parts manager, a service manager and field marketers, all of whom report directly to the store manager. Under our operating model, decision-making for customer-related issues is decentralized, with each store manager responsible for matters such as the type of equipment to stock, equipment pricing, customer credit approvals, staffing levels and customer satisfaction. This operating model enables each trained and motivated store manager to concentrate on customers' equipment, parts and service needs, while our shared resources group manages the administrative functions of the store. We believe customers in our industry view store managers and sales and service personnel as important partners in operating their businesses. Therefore, we believe developing and supporting strong store managers enables us to grow same-store sales through fostering new relationships and further developing existing relationships with our customers. In addition, we believe other regional operators that choose to centralize customer-related decisionmaking at the corporate level risk undermining the partnership many customers seek to build with their dealer.

#### *Shared Resources*

Our shared resources group provides a range of services to support our stores, including warranty and service administration, information technology support, administration, marketing campaigns, human resources management, finance and insurance, central purchasing, accounting, data administration and cash management. We believe these functions can be run more efficiently when combined and provide more sophisticated tools to our store managers than an independent dealership could support alone. We maintain accountability on a daily basis through our management reporting systems, which provide data on key operational and financial metrics, as well as monthly reviews of financial performance. We believe the services provided by our shared resources group enables our stores to achieve a higher level of customer service by freeing them from certain general and administrative functions and a more competitive market presence at a lower cost than would be feasible if our stores operated independently. Furthermore, as we acquire new stores, we believe the shared services required to support these stores will grow at a lower rate than our overall growth in store count.

#### *Management Development and Succession Planning*

Our executives work closely with our store managers and mid-level corporate managers to ensure the managers benefit from our executives' industry knowledge and execute operational excellence in line with our management philosophy. We also conduct formal store manager meetings every month to assess operational and financial objectives, develop near-term strategies and share best practices across the organization. We believe the relationships between our executives, our store managers and mid-level corporate managers will sustain our financial success through continued implementation of our effective operating model, by providing a strong pool of capable successors to our current team of executives and store managers. Further, we have deliberately structured our store personnel with entrepreneurial individuals trained, including through our programs, to move up the management ladder. In addition, we sponsor a program with Minnesota State Technical College that offers scholarships to students who will ultimately work for us in various capacities empowered with the basic knowledge and tools to succeed. This program was the first of its kind among CNH dealers and is now being replicated elsewhere in the CNH network.

## **Business Strengths**

In addition to the Titan Operating Model, we believe the following attributes of our business model and market position are important factors in our ability to compete effectively and achieve our long-term financial objectives:

### *Leading North American Equipment Provider with Significant Scale*

According to CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. We believe our size and large, contiguous geographic market provide us with several competitive advantages including:

our ability to efficiently manage inventory by empowering each individual store with inventory management responsibility and access to our centralized inventory management system, thus allowing inventory exchanges among the stores, which permits us to maintain only the inventory deemed needed by each store while providing significant breadth of parts and equipment to our customers;

our ability to use expanded sales channels, including used equipment listings and periodic auctions hosted on our website, which enables us to offer our customers alternative purchasing options; and

our ability to sell inventory to customers in a large geographic area covering North Dakota, South Dakota, Iowa and Minnesota, which enables us to capitalize on crop diversification and disparate weather throughout this area.

### *Customer Focus at the Local Level*

As part of the Titan Operating Model, we centralize general and administrative functions and finance resources. This strategy enables our store employees to focus exclusively on customers and eliminates redundant operating expenses. We also centralize our marketing resources to offer our stores and field marketers professional marketing support that includes targeted direct mailings, advertising with targeted local media outlets, participation in and sponsorship of trade shows and industry events, our Titan Trader monthly magazine, and our hosting of open houses, service clinics, equipment demonstrations, product showcases and customer appreciation outings. We believe this operating structure, which focuses on serving our customers on a local level, will allow us to increase market share.

### *Superior Customer Service to Attract and Retain Customers*

We believe our ability to respond quickly to our customers' demands is a key to profitable growth. Our executives are committed to maintaining a customer-focused culture. We spend significant time and resources training our employees to effectively service our customers in each of our local markets, which we believe will increase our revenue. Our training program involves active participation in all manufacturer-sponsored training programs and the use of industry experts as consultants for customized training programs and a training team to assist in the integration of newly-acquired operations. We also partner with a local technical college to sponsor students who we plan to ultimately employ. In particular, the following capabilities enable us to better service our customers:

our ability to staff a large number of highly-trained service technicians across our network of stores, which makes it possible to schedule repair services on short notice without affecting our technician utilization rates;

our ability to staff and leverage product and application specialists across our network of stores, which makes it possible to offer valuable pre-sale and aftermarket services, including equipment training, best practices education and precision farming technology support; and

our ability to innovate and lead our industry through initiatives such as Rural Tower Network, our joint venture with certain local Caterpillar and John Deere dealerships to deploy a GPS guidance system in support of precision farming in our core geographic market, which provides our customers with the latest advances in technology and operating practices.

*Unique Entrepreneurial Culture to Attract and Retain Superior Employees*

We created a unique entrepreneurial culture that empowers our employees to make decisions and act within the parameters of a proven operating process and system. We believe this culture and our size gives us a competitive advantage in attracting and retaining the best employees in our industry. We developed an operating system and process that provides our employees with defined objectives and frequent feedback of results within an entrepreneurial environment that allows them to work independently yet consistently throughout our company. Through this operating system and process we have established defined financial metrics on a balanced scorecard, which is used monthly with each store manager to assess performance. Each store manager is empowered to operate the individual store as appropriate within the guidelines set by the operating system and process. This balanced management philosophy enables our employees to understand clearly how they succeed in our organization and how to interact with customers who expect a level of autonomy from our employees. Our compensation system focuses on rewarding our employees for high performance, thus enabling us to retain most of those employees who perform at or above expectations. This system also enables us to attract talented individuals outside of our industry and train them to perform at a high level within a relatively short period of time.

*Diverse and Stable Customer Base to Avoid Market Volatility*

We believe our large and diverse customer base limits our exposure to risks associated with customer concentration and fluctuations in local market conditions. We have long and stable relationships with many of our customers. During fiscal 2008, we conducted business with over 28,000 customers and no customer accounted for more than 1.6% of our total revenue and our top ten customers combined represented approximately 6.5% of our total revenue. In addition, we believe current economic conditions for our customer base are historically strong. For example, U.S. annual net farm income since 2000 has averaged \$61.1 billion and the USDA projects an annual average of \$91.2 billion for the next 10 years. This compares to average U.S. annual net farm income during the 1990s of approximately \$48 billion. In addition, USDA reports indicate that farm balance sheets are strong, with the average debt-to-asset ratio for U.S. farmers in 2007 equal to 9.9%, the lowest level since the late 1950s. Our construction customers have multiple needs requiring equipment spending, including commercial construction, residential construction, local road, state and federal highway construction, commercial and government facilities maintenance and mining.

*Proven Information Technology Systems*

Our management reporting systems provide the data and reports that facilitate our ability to make informed decisions. We use these systems to actively manage our business and enable each store to access the available inventory of our other stores before ordering additional parts or equipment from our suppliers. As a result, we minimize our investment in inventory while promptly satisfying our customers' parts and equipment needs. Our customer relationship management system provides sales and customer information and other organizational tools to assist our field marketers, parts managers and service managers. In addition, our management reporting systems facilitate training and foster development of management personnel.

*Experienced Management Team to Implement our Growth Strategy*

Our executive team is led by David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Financial Officer, who have approximately 33 and 29 years, respectively, of industry experience. Our store managers and field marketers also have extensive knowledge and experience in our industry. In addition, we compensate, develop and review our store managers based on an approach that aligns their incentives with the goals and objectives of our company, including achievement of revenue, profitability, market share and balance sheet objectives. We believe the strength of our management team will help our success in the marketplace.

**Growth Strategy**

We believe our business strengths will enable us to grow our business as we continue to pursue the following growth strategies:

*Increase Market Share and Same-Store Sales*

We focus on increasing our share of the equipment sold in our markets because our market share impacts current period revenue and compounds our revenue over the life of the equipment sold through recurring parts and service business. We seek to generate same-store growth and increase market share through:

employing significant marketing and advertising programs, including targeted direct mailings, advertising with targeted local media outlets, participation in and sponsorship of trade shows and industry events, our Titan Trader monthly magazine, and by hosting open houses, service clinics, equipment demonstrations, product showcases and customer appreciation outings;

supporting and providing customers with training for evolving technologies, such as precision farming, that are difficult for single-store operators to support;

maintaining state-of-the-art service facilities, mobile service trucks and trained service technicians to maximize our customers' equipment uptime through preventative maintenance programs and seasonal 24/7 service support; and

utilizing our inventory system to maximize parts and equipment availability for our customers.

*Make Selective Acquisitions*

The agricultural and construction equipment industries are fragmented and consist of many relatively small, independent businesses servicing discrete local markets. We believe a favorable climate for dealership consolidation exists due to several factors, including the competitiveness of our industry, growing dealer capitalization requirements and lack of succession alternatives. We intend to evaluate and pursue acquisitions with the objectives of entering new markets, consolidating distribution within our established network and strengthening our competitive position.

We have a track record of completing and integrating acquisitions and have successfully used acquisitions to enter new markets, as demonstrated by the expansion of our agricultural business from the Red River valley region into the western portion of the corn belt and our entry into and expansion of our construction equipment business in four states where we also sell agriculture equipment. We look to add stores through acquisitions that offer attractive growth opportunities, high demand for the equipment we sell and services we offer, management strength, and contiguity with our existing geography. We also look to add construction stores in local markets in which we sell agriculture equipment but do not have construction dealership agreements with CNH. These factors have guided us to successful acquisition candidates. We believe our track record of successful acquisitions and expansion increases the probability that our future expansion will be profitable.

## Edgar Filing: Titan Machinery Inc. - Form S-1

We believe that we are effectively able to identify attractive acquisition candidates due to our leadership position in the industry, our track record of completing and integrating acquisitions, and our contacts in and knowledge of our industry and geographic region. We regularly assess the acquisition landscape, evaluating potential acquisition candidates in terms of their availability and desirability to our long-term growth strategy. In addition, we believe acquisition economics in our industry have been and will continue to be conducive to executing our long-term growth strategy. Typically, we acquire only the fixed assets, working capital and selected inventory we believe are necessary to run an efficient store according to the Titan Operating Model and assume only the liabilities related to financing the inventory and working capital acquired. We, therefore, calculate our net purchase price of an acquisition as the value paid for the assets acquired less the amount of any liabilities assumed. Upon completion of an acquisition we seek to re-finance the inventory acquired according to the parts and floor plan financing parameters of the Titan Operating Model. In addition to the purchase price, we track the adjusted net purchase price of our acquisitions by subtracting any incremental parts inventory or floorplan financing incurred through re-financing the inventory according to the Titan Operating Model.

The aggregate net purchase price and adjusted net purchase price of the acquisitions we have completed since January 1, 2003 equals \$37.3 million and \$23.8 million, respectively. We estimate that the aggregate trailing twelve-month revenue and income before taxes at the time of acquisition for the acquisitions completed to date equals \$238.6 million and \$4.7 million, respectively. For the acquisitions that have at least one year of operating results under our management, the aggregate purchase price and implied net purchase price equals \$19.8 million and \$11.5 million, respectively. We estimate that the aggregate trailing twelve-month revenue and income before taxes at the time of acquisition for these locations was approximately \$134.0 million and \$2.1 million, respectively. The aggregate trailing twelve-month revenue and income before taxes as of January 31, 2008 for these same dealerships was approximately \$219.6 million and \$6.0 million, respectively. We intend to pursue acquisitions in the future that reflect economics similar to the aggregate economics summarized above. We believe our management team's experience in evaluating potential acquisition candidates helps them determine whether a particular dealership can be successfully integrated into our existing operations and enables them to structure mutually beneficial purchase terms.

The consent of CNH is required to acquire any CNH dealership, and the consent of Bremer is required for the acquisition of any dealership.

## Edgar Filing: Titan Machinery Inc. - Form S-1

The following table summarizes our acquisition of 17 dealers, totaling 34 stores, since January 1, 2003:

| Acquired Dealer   | Location of Stores  |
|---|---|
| Titan Machinery, LLC<br><i>January 2003</i>   | Watertown, South Dakota<br>Wahpeton, North Dakota<br>Casselton, North Dakota<br>Fargo, North Dakota |
| Krider Equipment Co., Inc.<br><i>January 2003</i>   | Fargo, North Dakota<br>Bismarck, North Dakota   |
| Fargo Tractor & Equipment, Inc.<br><i>January 2003</i>                                      | West Fargo, North Dakota  |
| Consolidated Ag Service, Inc.<br><i>February 2004</i>                                       | Graceville, Minnesota<br>Marshall, Minnesota<br>Pipestone, Minnesota                                |
| Smith International, Inc.<br><i>March 2005</i>  | Waverly, Iowa   |
| H.C. Clark Implement Co., Inc.<br><i>May 2005</i>   | Aberdeen, South Dakota  |
| Vern Anderson, Inc.<br><i>November 2005</i>   | Anthon, Iowa<br>Cherokee, Iowa<br>Kingsley, Iowa<br>Le Mars, Iowa                                   |
| Walterman Implement, Inc.<br><i>November 2005</i>   | Dike, Iowa  |
| Farm Power, Inc. of Minnesota and related entities<br><i>March 2006</i>                     | Elbow Lake, Minnesota<br>Fergus Falls, Minnesota  |
| Piorier Equipment Company, Inc. and related entities<br><i>June 2006</i>                    | Sioux City, Iowa<br>Marshall, Minnesota<br>Rapid City, South Dakota<br>Sioux Falls, South Dakota    |
| Richland County Implement, Inc.<br><i>February 2007</i>                                     | Wahpeton, North Dakota  |
| Aberdeen Equipment Co., Huron Equipment Co. and Redfield Equipment Co.<br><i>April 2007</i> | Aberdeen, South Dakota<br>Huron, South Dakota<br>Redfield, South Dakota                             |
| Red Power International, Inc.<br><i>August 2007</i>   | Ada, Minnesota<br>Crookston, Minnesota  |
| Twin City Implement, Inc.<br><i>November 2007</i>   | Mandan, North Dakota  |
| Reiten & Young International, Inc.<br><i>December 2007</i>                                  | Grand Forks, North Dakota   |
| Avoca Operations, Inc. and Greenfield Operations, Inc.                                      | Avoca, Iowa   |



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| <b>Acquired Dealer</b>                       | <b>Location of Stores</b> |
|--|---------------------------|
| <i>January 2008</i>                          | Greenfield, Iowa          |
| Ceres Equipment Inc.<br><i>February 2008</i> | Roseau, Minnesota         |

*Integrate New Dealers into the Titan Operating Model*

We have developed the Titan Operating Model to optimize the performance and profitability of each of our stores. Upon consummation of each acquisition, we integrate acquired stores into our operations by implementing the Titan Operating Model to enhance each acquired store's performance within its target market. We generally complete integration of a store in six to 18 months, although it may take several years before acquired stores fully realize the benefits of the Titan Operating Model. We believe the Titan Operating Model provides us with multiple points of customer contact, creates cross-selling opportunities, fosters strong customer relationships and supports a culture of individual accountability that increases our revenue and provides a strong platform for future growth.

**Suppliers**

*CNH Case IH Agriculture, Case Construction, New Holland Agriculture and New Holland Construction*

We have a longstanding relationship with CNH and, according to CNH, are the world's largest retail dealer of Case IH Agriculture equipment. We have been an authorized dealer of Case agricultural equipment since the inception of our company in 1980 and added the other CNH brands as Case grew, acquired other brands and merged with New Holland in 1999 to form CNH. CNH supplied approximately 77.9% of the new equipment we sold in fiscal 2008 through CNH America LLC, CNH's U.S. manufacturing entity.

CNH is a global leader in the agricultural and construction equipment industries based on the number of units sold. In 2007, CNH had \$16.0 billion in worldwide revenue, with agricultural equipment accounting for approximately 62% and construction equipment accounting for approximately 34% of CNH's total revenue. In addition, CNH provides financing and insurance products and services to its end-user customers and authorized dealers through its CNH Capital business unit. CNH is a publicly-traded company and a majority-owned subsidiary of Fiat S.p.A.

CNH is the world's second largest manufacturer of agricultural equipment. CNH owns and operates the Case IH Agriculture and New Holland Agriculture brands. Case IH Agriculture, recognized by the red color of its equipment, possesses over 160 years of farm equipment heritage. New Holland Agriculture, recognized by the blue color of its tractors and the yellow color of its harvesting and hay equipment, has over 100 years of farm equipment industry experience. CNH's agricultural equipment dealers are assigned authorized store locations but do not have exclusive territories.

CNH is the world's fifth largest manufacturer of construction equipment in terms of market share, owning and operating the Case Construction, New Holland Construction and Kobelco brands. CNH's construction equipment dealers are assigned a specific geographic area of responsibility, which typically include an entire state, within which they have the right to sell new Case Construction, New Holland Construction and/or Kobelco equipment.

We have entered into separate dealership agreements with certain CNH entities to sell the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. These dealer agreements authorize us to sell CNH equipment and parts and entitle us to use CNH trademarks and trade names, with certain restrictions. The CNH entities have the right to terminate their dealer agreements with us immediately in certain circumstances, including if a person acquires 20% or more of our common stock without CNH's consent, and, in some cases, for any reason 90 days following written notice. The dealership agreements and industry practices generally provide that payment on equipment and parts purchased from CNH entities is due within 30 days and is typically subject to floor plan financing as discussed below. With respect to sales of equipment, payments from customers, which are typically financed by a third party, are due upon sale. Payments from customers for parts and services are due within 30 days. CNH makes available to us any

floorplans, parts return programs, sales or incentive programs or similar plans or programs it offers to other dealers, and provides us with promotional items and marketing materials.

Based upon information provided to us by CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. Thus, our relationship with CNH entities is more than a typical supply relationship; it is strategic for both our company and CNH. In that regard, it is in our mutual interests to maintain the strong longstanding relationship we share. If, however, that relationship were to significantly weaken or terminate, we believe our experience, reputation and industry knowledge would enable us to identify reasonable alternatives.

#### *Other Suppliers*

In addition to products supplied by CNH, we sell a variety of new equipment, parts and attachments from other manufacturers. These products tend to address specialized niche markets and complement the CNH products we sell by filling gaps in the CNH line of products. We believe our offering of products for specialized niche markets supports our goal of being a one-stop solution for equipment needs at each of our stores. Approximately 22.1% of our total new equipment sales in fiscal 2008 resulted from sales of products manufactured by companies other than CNH with our single largest manufacturer other than CNH representing less than 3% of our total new equipment sales. The terms of our arrangements with these other suppliers vary, but most of the dealership agreements contain termination provisions allowing the supplier to terminate the agreement after a specified notice period, which is typically 30 days. Payment and financing practices with these other suppliers are similar to those practices described above with respect to CNH entities.

#### **Products and Services**

We have four principal sources of revenue: new and used equipment sales, parts sales, repair and maintenance service and equipment rental and other business activities.

#### *Equipment Sales*

We sell new agricultural and construction equipment manufactured under the CNH family of brands as well as equipment from a variety of other manufacturers. The used equipment we sell is from inventory acquired through trade-ins from our customers and selective purchases. The agricultural equipment we sell and service includes application equipment and sprayers, combines and attachments, hay and forage equipment, planting and seeding equipment, precision farming technology, tillage equipment, and tractors. The construction equipment we sell and service includes articulated trucks, compact track loaders, compaction equipment, cranes, crawler dozers, excavators, forklifts, loader/backhoes, loader/tool carriers, motor graders, skid steer loaders, telehandlers and wheel loaders. We sell new and used equipment through our professional in-house retail sales force, which is organized by geography and product type. We also sell used equipment through an outlet store and the internet. We believe this organizational structure improves the effectiveness of our sales force, better serves our customers and helps us negotiate advantageous trade-in purchase terms. Equipment sales generate cross-selling opportunities for us by populating our markets with equipment we repair and maintain and for which we sell parts. For the year ended January 31, 2008, equipment revenue was \$338.4 million, representing 78.2% of total revenue for the period.

#### *Parts Sales*

We sell a broad range of maintenance and replacement parts on equipment that we sell and rent, as well as other types of equipment. We maintain an extensive in-house parts inventory to provide timely parts and repair and maintenance support to our customers. We generally are able to acquire

out-of-stock parts directly from manufacturers within two business days. Our parts sales provide us with a relatively stable revenue stream that is less sensitive to economic cycles than our equipment sales and rental operations. For the year ended January 31, 2008, parts revenue was \$58.7 million, representing 13.6% of total revenue for the period.

#### *Repair and Maintenance Services*

We provide repair and maintenance services, including warranty repairs, for our customers' equipment. Each of our stores includes service bays staffed by trained service technicians. Our technicians are also available to make on-site repairs. In addition, we provide proactive and comprehensive customer service by maintaining service histories for each piece of equipment owned by our customers, maintaining 24/7 service hours in times of peak service usage, providing on-site repair services, scheduling off-season maintenance activities with customers, notifying customers of periodic service requirements and providing training programs to customers to educate them as to standard maintenance requirements. At the time equipment is purchased, we also offer customers the option of purchasing guaranteed maintenance contracts. These after-market services have historically provided us with a high-margin, relatively stable source of revenue through changing economic cycles. For the year ended January 31, 2008, service revenue was \$27.3 million, representing 6.3% of total revenue for the period.

#### *Equipment Rental and Other Business Activities*

We rent equipment to our customers on a short-term basis for periods ranging from a few days to a few months. We actively manage the size, quality, age and composition of our rental fleet and use our information technology systems to closely monitor and analyze customer demand and rate trends. We maintain the quality of our fleet through our on-site parts and services support and dispose of rental equipment through our retail sales force. Our rental business creates cross-selling opportunities for us in equipment sales. In addition, we provide ancillary equipment support activities such as equipment transportation, GPS signal subscriptions in connection with precision farming and reselling CNH Capital finance and insurance products. For the year ended January 31, 2008, other revenue was \$8.5 million, representing 2.0% of total revenue for the period.

#### **Customers**

We serve over 28,000 customers in the U.S., primarily in North Dakota, South Dakota, Minnesota and Iowa. Our customers include a wide range of farmers, construction contractors, public utilities, municipalities and maintenance contractors. They vary from small, single machine owners to large farming or contracting firms that operate under sophisticated capital equipment and maintenance budgets. Our stores enable us to closely service local and regional customers. We believe the Titan Operating Model enables us to satisfy customer requirements and increase revenue through cross-selling opportunities presented by the various products and services that we offer. In fiscal 2008, no single customer accounted for more than 1.6% of our revenue and our top ten customers combined accounted for less than 6.5% of our total revenue. In addition to our U.S. customers, we began to sell equipment on a limited basis to international customers, primarily in Eastern Europe. Our U.S. customers primarily finance their equipment purchases through CNH Capital.

#### **Floorplan Financing**

We attempt to maintain at each store, or have readily available at other stores in our network, sufficient inventory to satisfy customer needs. Inventory levels fluctuate throughout the year and tend to increase before the primary sales seasons for agricultural equipment. The cost of financing our inventory is an important factor affecting our financial results.

*CNH Capital*

CNH Capital offers floorplan financing to CNH dealers for extended periods to finance products from both CNH and other suppliers. CNH Capital provides this financing in part to enable dealers to carry representative inventories of equipment and encourage the purchase of goods by dealers in advance of seasonal retail demand. CNH Capital charges variable market rates of interest at or over the prime rate on balances outstanding after any interest-free periods and retains a security interest in all of our assets, including inventories, which it inspects periodically. The interest-free periods, which CNH offers periodically in the form of additional incentives or special offers, typically average four months. CNH Capital also provides financing for used equipment accepted in trade, repossessed equipment and approved equipment from other suppliers, and receives a security interest in such equipment.

*Other Financing Sources for Equipment*

In addition to the financing provided by CNH Capital, we have floorplan lines of credit with other lenders, including GE Capital and Bremer Bank. The GE facility has a credit limit of \$5.0 million, a variable, transaction-based interest rate typically equal to the prime rate plus 0.25%, and is secured by equipment inventory financed by the facility and certain receivables. The Bremer facility has a credit limit of \$2.0 million, a variable interest rate of 0.25% below the prime rate payable monthly, and is secured by substantially all of our assets. Financing also may be available through floorplan financing programs provided by the suppliers, which may be financed by such suppliers themselves or through third party lenders.

*Other Financing*

We have a revolving operating line of credit with Bremer Bank for up to \$12.0 million. The revolving operating line of credit is to provide for our short term working capital requirements. Additionally, under the agreement, Bremer Bank, in its discretion, (i) may make up to a \$2.0 million floor plan loan for the purposes of purchase and floor planning of equipment inventory; and (ii) issue standby letters of credit for up to \$1.0 million. Furthermore, Bremer Bank has agreed to make term loans to us in the aggregate amount of \$10.0 million, which are to assist us in meeting our long term working capital requirements.

**Sales and Marketing**

As part of the Titan Operating Model, we have centralized sales support and marketing management. All of our stores benefit from our centralized media buys, strategic planning, sales support and training, and we provide our store managers and their sales teams with flexibility to localize sales and marketing.

We currently market our products and services through:

field marketers, our direct sales representatives who operate out of our network of local stores and call on customers in the markets surrounding each store;

parts counter and service managers, who provide our customers with comprehensive after-market support;

local and national advertising efforts, including broadcast, cable, print and web-based media; and

our remarketing division, which trades and sells used equipment through our outlet store and website.

*Field Marketers*

We believe our sales force is one of the industry's most productive and highly trained. Our field marketers perform a variety of functions, such as servicing customers at our stores, calling on existing customers and soliciting new business at farming, construction and industrial sites. These field marketers target customers in specific areas, and we develop customized marketing programs for our sales force by analyzing each customer group for profitability, buying behavior and product selection. All members of our sales force are required to attend frequent in-house training sessions to develop product and application knowledge, sales techniques and financial acumen. Our sales force is supported by our corporate marketing department.

*Parts Counter and Service Managers*

Our parts counter and service managers are involved in our uptime service efforts, taking advantage of our seasonal marketing campaigns in parts and service sales. As a group, they have won multiple awards from our suppliers for their efforts benefiting both our customers and our key strategic partners. We believe they rank among the most well-trained and efficient parts and service groups in our industry.

*Print, Broadcast and Web-Based Advertising Campaigns*

Each year we initiate several targeted direct mail, print and broadcast advertising and marketing campaigns. CNH and other suppliers periodically provide us with advertising funds, which we primarily use to promote new equipment, parts and financing programs. We will continue to explore and launch new internet-based efforts to provide additional sales channels.

*Remarketing Division*

Our remarketing division capitalizes on after-market sales opportunities for used equipment. We have opened two outlet stores that sell used equipment. In addition, we are actively engaged in selling equipment through our website, both through direct purchases and auctions.

**Competition**

The agricultural and construction equipment sales and distribution industries are highly competitive and fragmented, with large numbers of companies operating on a regional or local scale. Our competitors range from multi-location, regional operators to single-location, local dealers and include dealers and distributors of competing equipment brands, including John Deere, Caterpillar and the AGCO family of brands, as well as other dealers and distributors of the CNH family of brands. Competition among equipment dealers is primarily based on the price, value, reputation, quality and design of the products offered by the dealer, the customer service and repair and maintenance service provided by the dealer, the availability of equipment and parts and the accessibility of stores. While we believe we compete favorably on each of the identified competitive factors, our sales and margins may be impacted depending on (i) the extent of aggressive pricing competition through manufacturer discount programs or other competitive pricing tactics, (ii) our ability to obtain higher service gross margins based on our service quality and reputation and (iii) our ability to attract new and maintain existing customers based on the availability and quality of the products we offer and our local relationship and reputation.

The number of agricultural and construction equipment dealers operating on a regional scale is limited and we are one of the principal regional-scale, agricultural and construction equipment dealers in the U.S. The primary regional-scale equipment dealers with whom we compete include RDO Equipment Co., Butler Machinery and Brandt Holdings Co. RDO Equipment Co. is a John Deere agricultural and construction equipment dealer with 24 locations in North Dakota, South Dakota and

Minnesota, as well as 32 locations in Arizona, California, Montana, Oregon, Texas and Washington. Butler Machinery is a Caterpillar dealer with nine locations in North Dakota and South Dakota. Brandt Holdings owns John Deere, Vermeer and Bobcat equipment dealers with 22 locations in California, Connecticut, Iowa, Massachusetts, Minnesota, Nebraska, New York, North Dakota, South Carolina and South Dakota. Other agricultural and construction equipment dealers that have consolidated stores in other regions of the country include Pioneer Equipment, which has 14 locations that sell Case IH Agriculture and Case Construction equipment in California, Idaho and Texas; Western Power and Equipment, which has nine Case Construction locations in California, Nevada, Oregon and Washington; Scott Companies, which has ten Case Construction and eight Case IH Agriculture dealerships, located in Arkansas, Louisiana, Mississippi, Tennessee and Texas; and Birkey's Farm Store, which has ten Case IH Agriculture and New Holland dealerships located in Illinois and Indiana and four Case Construction dealerships located in Illinois.

### **Information Technology Systems**

We use an integrated management reporting system developed and supported by Dealer Information Systems Corporation to manage our operating information. Dealer Information Systems Corporation is a supplier of dealer management systems to more than 1,700 agricultural and construction equipment dealerships and distributors in North America. The information system we use enables us to closely monitor our performance and actively manage our business and includes features that were enhanced to support the Titan Operating Model, including detailed store-based financial reporting, inventory management and customer relationship management.

Through this information system we maintain a complete database on inventory of parts and equipment and a centralized inventory control system. This system enables each store to access the available inventory of our other stores before ordering additional parts or equipment from our suppliers. As a result, we minimize our investment in inventory while effectively and promptly satisfying our customers' needs. Using this system, we also monitor inventory levels and mix at each store and make adjustments in accordance with our operating plan. Finally, the information system we use is externally connected to CNH, enabling us to locate CNH parts, communicate with other CNH dealers, make electronic payments to CNH and register and reimburse warranty expenses.

Our customer relationship management system provides sales and customer information and other organizational tools to assist our sales force. We maintain an extensive customer database that allows us to monitor the status and maintenance history of our customers' equipment and enables us to more effectively provide parts and services to meet their needs. In addition, our system includes, among other features, on-line contract generation, automated billing, local sales tax computation and automated rental purchase option calculation. We also use our relationship management information system and customer database to monitor market conditions, sales information and customer demand, as well as to assess product merchandising strategies.

The data we store with this information system is replicated on a daily basis and stored at an off-site data center. Thus, if our system were to become inoperable, we would be able to continue operations through the off-site data center. Further, we own the software and hardware necessary to operate this system and have on staff employees trained to manage and maintain the software without reliance on Dealer Information Systems Corporations direct involvement.

### **Intellectual Property**

We do not have any registered intellectual property. Case IH, Case and New Holland are registered trademarks of CNH, which we use in connection with advertisements and sales as authorized under our dealership agreements. We license trademarks and tradenames of new equipment obtained from suppliers other than CNH from their respective owners. We operate each of our stores under

either the Titan Machinery name or, if there was strong local name recognition and customer loyalty at a location we acquired, the name historically used by the dealership in that location for a transition period, the length of which can vary depending upon the location.

**Product Warranties**

Product warranties for new equipment and parts are provided by our suppliers. The term and scope of these warranties vary greatly by supplier and by product. We occasionally provide additional warranties to retail purchasers of new equipment. CNH pays us for repairs we perform to CNH equipment under warranty. We generally sell used equipment "as is" and without manufacturer's warranty, although manufacturers sometimes provide limited warranties if the supplier's original warranty is transferable and has not expired. Typically, we provide no additional warranties on used equipment.

**Seasonality**

Our quarterly operating results are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment, parts and service purchases by our customers. A significant increase in the severity of weather cycles could increase the volatility of our results of operations and impact our financial condition. If we acquire businesses in geographic areas other than where we currently have operations, we may be affected more by the above-mentioned or other seasonal and equipment buying trends.

**Employees**

As of April 10, 2008, we employed 716 full-time employees. None of our employees is covered by a collective bargaining agreement. We believe our relations with our employees are good.

**Properties**

*Equipment Stores*

We currently operate 39 full service agricultural and construction equipment stores and two outlet stores in the following locations:

| <b>North Dakota (14 stores)</b> |                     | <b>Minnesota (10 stores)</b>   |                   |
|---------------------------------|---------------------|--------------------------------|-------------------|
| Bismarck                        | Lamoure             | Ada                            | Marshall          |
| Casselton                       | Lidgerwood          | Crookston                      | Moorhead          |
| Fargo                           | Lisbon              | Elbow Lake                     | Moorhead (outlet) |
| Grand Forks                     | Mandan              | Fergus Falls                   | Pipestone         |
| Jamestown                       | Wahpeton (2 stores) | Graceville                     | Roseau            |
| Kulm                            | West Fargo          |                                |                   |
|                                 | Wishek              |                                |                   |
| <b>Iowa (10 stores)</b>         |                     | <b>South Dakota (7 stores)</b> |                   |
| Anthon                          | Greenfield          | Aberdeen (2 stores)            | Redfield          |
| Avoca                           | Kingsley            | Huron                          | Sioux Falls       |
| Cherokee                        | Le Mars             | Rapid City                     | Watertown         |
| Dike                            | Sioux City          |                                |                   |
| Dike (outlet)                   | Waverly             |                                |                   |

Our stores are generally located in rural areas on property zoned for commercial use. The stores typically range from 5,000 square feet with three acres of land to 40,000 square feet with 14 acres of



land. We fully utilize the leased space for each of our stores and believe the respective square footage and related acreage is adequate to meet our current and anticipated needs.

#### *Store Lease Arrangements*

We lease real estate for 25 of our stores from entities affiliated with David Meyer, our Chairman and Chief Executive Officer, Tony Christianson, one of our directors and/or Peter Christianson, our President and Chief Financial Officer. We lease three dealership sites from Meyer Family Limited Partnership, an entity affiliated by common ownership with Mr. Meyer; 20 dealership sites from Dealer Sites, LLC, an entity affiliated by common ownership with Messrs. Meyer and Tony Christianson; one dealership site from Padre Partnership, an entity affiliated by common ownership with Mr. Peter Christianson; and one dealership site from Landco LLC, an entity affiliated by common ownership with Messrs. Meyer and Peter Christianson. We lease 14 additional locations under operating lease agreements with unrelated parties. The leases for our dealership sites generally expire between 2008 and 2022, other than those leases which are currently automatically renewed on a year-to-year-basis until either we or the lessor terminate them. We do not intend to own significant amounts of real estate. Therefore, we anticipate that when we need real estate, including as part of acquiring dealerships, we will lease such real estate from third parties, which may include affiliates of our investors, directors or management. We intend for the terms of all of our leases to be commercially reasonable. We do not believe the terms of our leases with entities affiliated with Messrs. Meyer, Tony Christianson and Peter Christianson are any less favorable to us than could be obtained in an arm's length transaction with an unrelated party.

Our store lease agreements with entities affiliated with David Meyer, Peter Christianson, and/or Tony Christianson all contain substantially similar terms. The leases with Dealer Sites, LLC and C.I. Farm Power provide for fixed lease periods ranging from five to fifteen years, and leases with the Meyer Family Limited Partnership and Landco LLC have single-year terms that are automatically renewed on a year-to-year basis. All of the leases provide for fixed monthly rental payments and require us to pay the real estate taxes on the properties for the lease periods. The leases require that we maintain public liability and personal property insurance on each of the leased premises, and require us to indemnify the lessor in connection with any claims arising from the leased premises during our occupation of the property. The leases generally prohibit us from assigning the lease agreements or subletting the leased premises without the prior written consent of the lessor. The lease agreements with Dealer Sites, LLC provide that in the event Dealer Sites, LLC sells the leased premises to a party other than us or our affiliates, then we shall share in half of any surplus or deficit resulting to Dealer Sites, LLC from that sale.

Our store lease agreements with unrelated parties contain terms comparable to the agreements with entities affiliated with our directors and officers described above. The lease periods range from automatically renewable month-to-month terms to twelve years in length. A majority of the lease agreements either give us the option to renew or extend the lease for an additional period at the conclusion of the original lease term or automatically renew the lease term at the conclusion of the original lease period on a month-to-month or year-to-year basis. A majority of the leases provide for fixed monthly rental payments and require us to pay the real estate taxes on the properties for the lease periods. All of the leases require that we maintain public liability and personal property insurance on each of the leased premises, and a majority of the leases require us to indemnify the lessor in connection with any claims arising from the leased premises during our occupation of the property. Most of the leases prohibit us from assigning the lease agreements or subletting the leased premises without the prior written consent of the lessor. We have been granted a right of first refusal to purchase the Watertown, Marshall, and one of the Aberdeen properties during the applicable lease terms. The lease agreements for the West Fargo, Kingsley, Le Mars, Watertown and Redfield properties grant us the option to purchase the leased premises during or at the conclusion of the lease term. The

Kingsley, Le Mars and Redfield lease agreements grant the lessor the right to require us to purchase the leased premises during or at the conclusion of the lease term.

As part of our due diligence review prior to a dealership acquisition, we evaluate the adequacy, suitability and condition of the related real estate. Our evaluation typically includes a Phase I environmental study of the real property to determine whether there are any environmental concerns. If any environmental concerns exist, we generally require that such concerns be addressed prior to acquisition of the dealership.

#### *Headquarters*

We currently lease and occupy approximately 12,700 square feet in Fargo, North Dakota for our headquarters. This lease expires on January 31, 2015, with an option to extend for two additional five-year terms. We believe this facility is adequate to meet our current and expected administration and shared resource needs. We continually review our location needs, including the adequacy of our headquarters space, to ensure they are sufficient to support our operations. We believe there is ample opportunity for expansion in the Fargo area if necessary.

#### **Governmental Regulation**

We are subject to numerous federal, state, and local rules and regulations, including regulations promulgated by the Environmental Protection Agency and similar state agencies, with respect to storing, shipping, disposing, discharging and manufacturing hazardous materials and hazardous and non-hazardous waste. These activities are associated with the repair and maintenance of equipment at our stores. Currently, none of our stores or operations exceeds small quantity generation status. Compliance with these rules and regulations have not had any material effect on our operations, nor do we expect it to in the future. Further, we have not made, and do not anticipate making, any material capital expenditures in compliance with environmental regulations. However, there can be no assurance that these expectations are accurate, particularly if regulations change, unforeseen incidents occur or unknown past contamination or non-compliance is discovered, among other similar events.

#### **Legal Proceedings**

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

## MANAGEMENT

## Executive Officers and Directors

The following table set forth the names and positions of our directors and executive officers:

| Name                 | Age | Position   |
|----------------------|-----|--|
| David Meyer          | 55  | Chairman, Chief Executive Officer and Class III Director |
| Peter Christianson   | 51  | President, Chief Financial Officer and Class II Director |
| Ted Christianson     | 49  | Vice President, Finance and Treasurer                    |
| Gordon Paul Anderson | 62  | Class II Director  |
| John Bode            | 60  | Class III Director                                       |
| Tony Christianson    | 55  | Class I Director   |
| James Irwin          | 65  | Class I Director   |
| James Williams       | 68  | Class II Director  |

**David Meyer** is our Chairman and Chief Executive Officer. Mr. Meyer was a founder of our company in 1980 and has been a director of our company since its creation. From 1976 to 1980, Mr. Meyer was a partner in a Case and New Holland dealership with locations in Lisbon and Wahpeton, North Dakota.

**Peter Christianson** has been our President and a director since January 2003 and our Chief Financial Officer since August 2007. Prior to joining us and since 1988, he was a partner and owner of C.I. Farm Power, Inc., the operator of two of the dealership locations acquired by Titan Machinery LLC in 2002. Peter Christianson, Tony Christianson and Ted Christianson are brothers.

**Ted Christianson** has been our Vice President, Finance and Treasurer since August 2007 and was previously our Chief Financial Officer from 2003 until August 2007. Mr. Christianson has spent over 15 years with startups and high growth companies in a variety of financial management roles, including as chief financial officer. Mr. Christianson was the full-time Managing Partner for Adam Smith Properties, a private real estate development company from 1997 to 2003. Mr. Christianson was formerly with US Bank (First Bank System).

**Gordon Paul Anderson** has been a director since 2003. Dr. Anderson is a cardiologist who retired in December 2002, the founding member of Consultants in Cardiovascular Diseases, Inc., and the former Chief of Cardiology and President of the medical staff, Saint Vincent Health Center, Erie, Pennsylvania. Dr. Anderson has been an active investor and board member of several private business and technology ventures and has active farming operations in North Dakota.

**John Bode** has been a director since 2005. Mr. Bode is a retired partner of KPMG, LLP with over 34 years of experience in public accounting. Mr. Bode was elected to the partnership in 1981 and retired in 2005. Mr. Bode was the lead audit partner for numerous clients in the consumer products, food, agribusiness and manufacturing industries. Mr. Bode also currently serves on the board of The Valspar Corporation.

**Tony Christianson** has been a director since January 2003. Mr. Christianson is a founder of Titan Machinery LLC. Since 1981, Mr. Christianson has been the Chairman of Cherry Tree Companies, an affiliated group of investment banking, venture capital and asset management firms in Minneapolis. Mr. Christianson has been a director of numerous public and private companies over his career and is

currently a director of Dolan Media Company, Fair Isaac Corporation, Peoples Educational Holdings, Inc. and Ameripride Services.

**James Irwin** has been a director since 2005. Mr. Irwin is a former vice president of Case IH's North American Agricultural Business, with over 40 years of experience in various executive positions in CNH prior to his retirement in January 2005. Mr. Irwin helped manage the mergers and buyouts of International Harvester and New Holland. Mr. Irwin was named the 2005 Agribusiness Leader of the Year by the National Agri-Marketing Association.

**James Williams** has been a director since 2003. Mr. Williams is currently Chairman of First State Bank of North Dakota and Goose River Bank. Mr. Williams has been an owner of Arthur Mercantile, a farm equipment dealership, since 1972. Mr. Williams is managing partner of Williams Farms in Arthur, North Dakota. Mr. Williams previously worked at Bank of New York.

### **Committees of our Board of Directors**

Our board of directors maintains the following standing committees:

#### *Audit Committee*

Among other matters, our audit committee:

assists the board of directors in fulfilling its oversight responsibility to our stockholders and other constituents with respect to the integrity of financial statements;

appoints and has oversight over our independent auditors, determines the compensation of our independent auditors and reviews the independence and the experience and qualifications of our independent auditors' lead partner, and pre-approves the engagement of our independent auditors for audit and permitted non-audit services;

meets with the independent auditors and reviews the scope and significant findings of audits and meets with management and internal financial personnel regarding these findings;

reviews the performance of our independent auditors;

discusses with management and our independent auditors the adequacy and sufficiency of our financial and accounting controls, practices and procedures, the activities and recommendations of our auditors and our reporting policies and practices, and reporting recommendations to the board of directors for approval;

establishes procedures for the receipt, retention and treatment of complaints regarding internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and

prepares the committee reports required by the rules of the SEC to be included in our annual proxy statement.

#### *Compensation Committee*

Our compensation committee reviews and recommends policy relating to compensation and benefits of our officers, employees and directors. Our compensation committee reviews and approves corporate goals and objectives relevant to compensation of our Chief Executive Officer and other executive officers, evaluates the performance of these officers in light of those goals and objectives and sets the compensation of these officers based on such evaluations. Our compensation committee also administers the issuance of stock options and other awards under our equity award plans.



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### *Nominating/Governance Committee*

Our nominating/governance committee makes recommendations to our board of directors regarding candidates for directorships and the size and composition of our board of directors and its committees. In addition, our nominating/governance committee oversees our codes of conduct and makes recommendations to our board of directors concerning governance matters.

The following sets forth the membership of each of our committees:

| <b>Audit Committee</b>                                      | <b>Compensation Committee</b>               | <b>Nominating/Governance Committee</b> |
|---|---|--|
| John Bode (Chair)<br>James Williams<br>Gordon Paul Anderson | Gordon Paul Anderson (Chair)<br>James Irwin | James Williams (Chair)<br>James Irwin  |

**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table sets forth certain information with respect to the beneficial ownership of our outstanding common stock by (i) each of our executive officers; (ii) each of our directors; (iii) all of our executive officers and directors as a group; and (iv) each of those known by us to be beneficial owners of more than 5% of our common stock.

The percentage ownership information shown in the table is based upon 13,443,810 shares outstanding as of April 10, 2008 and the issuance of 3,000,000 shares in this offering. The percentage ownership following the offering assumes none of the persons in the table below will purchase any shares in the offering. Shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of April 10, 2008 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The percentage ownership information assumes no exercise of the underwriters' over-allotment option.

Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws. Except as otherwise noted below, the address for each person or entity listed in the table is c/o Titan Machinery Inc., 4876 Rocking Horse Circle, Fargo, North Dakota 58104-6049.

| Name  | Beneficial Ownership<br>Prior to Offering |         | Number of<br>Shares<br>Offered | Beneficial Ownership<br>After Offering |         |
|---|---|---------|--------------------------------|--|---------|
|   | Number                                    | Percent |                                | Number                                 | Percent |
| <b><i>Executive Officers and Directors</i></b>                |   |         |                                |  |         |
| David Meyer(1)  | 3,502,680                                 | 26.1%   | 345,000                        | 3,157,680                              | 19.2%   |
| Peter Christianson(2)   | 1,001,285                                 | 7.4%    | 150,000                        | 851,285                                | 5.2%    |
| Ted Christianson(3)   | 32,323                                    | *       | 5,000                          | 27,323                                 | *       |
| Gordon Paul Anderson(4)                                       | 92,318                                    | *       |                                | 92,318                                 | *       |
| John Bode(5)  | 10,334                                    | *       |                                | 10,334                                 | *       |
| Tony Christianson(6)  | 1,166,797                                 | 8.7%    |                                | 1,146,142                              | 6.9%    |
| James Irwin(7)  | 18,009                                    | *       |                                | 18,009                                 | *       |
| James Williams(8)   | 51,668                                    | *       |                                | 51,668                                 | *       |
| Executive Officers and Directors as a group<br>(8 persons)(9) | 5,847,684                                 | 42.9%   | 500,000                        | 5,347,684                              | 32.2%   |
| <b><i>5% Stockholders</i></b>                                 |   |         |                                |  |         |
| Systematic Financial Management LP(10)                        | 762,200                                   | 5.6%    |                                | 762,200                                | 4.6%    |

\*

Indicates ownership of less than 1%.

(1)

The shares Mr. Meyer is selling were acquired in connection with the acquisition of Titan Machinery LLC in January 2003 in the form of shares of common stock and a convertible subordinated debenture.

(2)

Includes 1,001,285 shares beneficially owned by C.I. Farm Power, Inc. Mr. Christianson may be deemed to be the beneficial owner of such shares by virtue of his status as a controlling owner of C.I. Farm Power. The shares C.I. Farm Power is selling are beneficially owned by Mr. Peter Christianson and these shares were acquired by C.I. Farm Power upon the exchange of convertible subordinated debentures prior to our initial public offering in December 2007.

(3)

Includes 11,668 shares that may be purchased upon exercise of stock options by Mr. Christianson that were exercisable as of April 10, 2007, or within 60 days of that date. Includes 20,655 shares that may be purchased upon exercise of a cross-purchase option granted to Mr. Christianson by

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Adam Smith Growth Partners. Mr. Christianson intends to exercise this cross-purchase option prior to the consummation of this offering and sell 5,000 of the issuable shares in this offering.

- (4) Includes 8,984 shares that may be purchased upon exercise of stock options and warrants by Mr. Anderson that were exercisable as of April 10, 2007, or within 60 days of that date. Of these, 650 are beneficially owned by Titan Income Holdings, LLLP, of which Mr. Anderson is a limited partner. Mr. Anderson expressly disclaims beneficial ownership of any shares held by Titan Income Holdings except to the extent of his pecuniary interest in that entity.
- (5) Includes 7,334 shares that may be purchased upon exercise of stock options by Mr. Bode that were exercisable as of April 10, 2007, or within 60 days of that date.
- (6) Includes 663,094 shares beneficially owned by Adam Smith Growth Partners, 188,235 shares and warrants to purchase 115,650 shares of common stock beneficially owned by Titan Income Holdings, 182,142 shares beneficially owned by Adam Smith Activist Fund, LLC, warrants to purchase 15,009 shares of common stock beneficially owned by Cherry Tree Companies, LLC, and options to purchase 2,667 shares of common stock beneficially owned by Mr. Christianson. All of these warrants and options were exercisable as of April 10, 2007, or within 60 days of this date. Mr. Christianson may be deemed to share beneficial ownership of shares beneficially owned by Adam Smith Growth Partners, Titan Income Holdings, and Cherry Tree by virtue of his status as a controlling owner of such entities. Mr. Christianson expressly disclaims beneficial ownership of any shares held by Adam Smith Growth Partners, Titan Income Holdings, Adam Smith Activist Fund and Cherry Tree except to the extent of his pecuniary interest in such entities. Includes shares other individuals have the right to acquire from Adam Smith Growth Partners pursuant to options, including 20,655 acquirable by Ted Christianson, which he intends to exercise prior to the consummation of this offering.
- (7) Includes 13,009 shares that may be purchased upon exercise of stock options and warrants by Mr. Irwin that were exercisable as of April 10, 2007, or within 60 days of that date. Of these, 6,425 are beneficially owned by Titan Income Holdings, of which the Irwin Revocable Trust is a limited partner. Mr. Irwin expressly disclaims beneficial ownership of any shares held by Titan Income Holdings except to the extent of his pecuniary interest in that entity.
- (8) Includes 8,334 shares that may be purchased upon exercise of stock options and warrants by Mr. Williams that were exercisable as of April 10, 2007, or within 60 days of that date.
- (9) Includes 175,580 shares that may be purchased upon exercise of options or warrants that were exercisable as of April 10, 2008, or within 60 days of that date.
- (10) The information is based on a Schedule 13G filed with the Securities and Exchange Commission on February 15, 2008 by Systematic Financial Management LP. The address of Systematic Financial Management is c/o Glenpointe East, 7th Floor, 300 Frank W Burr Boulevard, Teaneck, New Jersey 07666. Systematic Financial Management possesses sole voting power over 330,100 of these shares and sole dispositive power over 762,200 of these shares.

### **Certain Relationships with Selling Stockholders**

David Meyer is our Chairman and Chief Executive Officer. C.I. Farm Power, Inc. is a company owned by our President and Chief Financial Officer, Peter Christianson. Ted Christianson is our Vice President Finance, Treasurer and Secretary.



## DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 30,000,000 shares, consisting of 25,000,000 shares of common stock and 5,000,000 shares of undesignated stock, from which our board of directors is authorized to issue preferred stock and establish the rights, preferences and privileges with respect to such shares of preferred stock.

The following summarizes important provisions of our capital stock and describes all material provisions of our certificate of incorporation and bylaws. This summary is qualified by our certificate of incorporation and bylaws and by the provisions of applicable law.

### Common Stock

No outstanding share of common stock is entitled to preference over any other share, and each share is equal to any other share in all respects. Holders of the common stock are entitled to one vote for each share held of record at each meeting of stockholders. In any distribution of capital assets, such as liquidation, whether voluntary or involuntary, holders of the common stock are entitled to receive pro rata the assets remaining after creditors have been paid in full and after payment of the liquidation preference of all classes and series of preferred stock outstanding. Holders of shares of common stock have no preemptive rights.

### Undesignated Shares

The board of directors may by resolution and without stockholder approval establish from the undesignated shares different classes or series of shares (including other classes or series of preferred stock), with such designations, voting power, preferences, rights qualifications, limitations, restrictions, dividends, time and prices of redemption, and conversion rights as the board of directors may establish. The issuance of such capital stock could adversely affect the rights and voting power of holders of common stock, entitle holders to greater liquidation preferences or board representation than holders of our common stock or prevent or delay a change in control. No shares of preferred stock will be outstanding upon the closing of this offering.

### Warrants

As of the date of this prospectus, the following warrants to purchase common stock are outstanding:

11,917 shares at \$3.00 per share expiring in 2013; and

121,721 shares at \$3.50 per share, 115,650 of which expire in 2013 and 6,071 of which expire in 2014.

### Registration Rights

Pursuant to a shareholder rights agreement dated April 7, 2003, as amended effective January 31, 2006, with David Meyer, our Chairman and Chief Executive Officer, Adam Smith Companies, C.I. Farm Power, CNH Capital and holders of our previously outstanding Series A and Series B preferred stock, these stockholders are entitled to piggyback registration rights upon certain registrations of our securities. The registration rights are not available to these stockholders for registrations in connection with an initial public offering, registrations on Form S-8, Form S-4 or other limited purposes forms, registrations relating solely to employee benefit plans, Rule 145 transactions or transactions relating solely to the sale of debt or convertible debt instruments. The registration rights continue for a period of three years following our initial public offering. Under the shareholder rights agreement, piggyback registration rights are not available for shares that are eligible to be distributed pursuant to Rule 144. Under Rule 144, when an affiliate has held its restricted shares for at least six months, the affiliate is

entitled to resell, within any three-month period, a number of shares that does not exceed the greater of 1% of our then-outstanding shares of common stock or the average weekly trading volume of our common stock, subject to manner of sale provisions, notice requirements and the availability of current public information about us. Any shares remaining or otherwise ineligible to be sold pursuant to Rule 144 are deemed registrable securities entitled to piggyback registration rights.

### **Anti-Takeover Provisions**

#### *Delaware Law*

We are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines a business combination to include:

any merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;

subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; and

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

#### *Certificate of Incorporation and Bylaws*

Provisions of our certificate of incorporation and bylaws may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions

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could adversely affect the price of our common stock. Among other things, our certificate of incorporation and bylaws:

permit our board of directors to issue up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in our control;

provide that the authorized number of directors may be changed by resolution of the board of directors;

provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;

divide our board of directors into three classes;

provide that directors may only be removed for cause by the holders of at least two-thirds of the voting power of the shares eligible to vote for directors;

require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and not be taken by written consent;

provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice; and

do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose).

### *CNH Dealer Agreements*

Prior consent of CNH is required for the acquisition by any party of 20% or more of our outstanding stock. Without this consent, CNH may terminate our dealer agreements.

### **Limitation on Liability of Directors and Indemnification**

Our certificate of incorporation limits the liability of our directors to the fullest extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability for any:

breach of their duty of loyalty to us or our stockholders;

act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

unlawful payment of dividends or redemption of shares as provided in Section 174 of the Delaware General Corporation Law; or

transaction from which the directors derived an improper personal benefit.

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These limitations of liability do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Our bylaws provide that we will indemnify and advance expenses to our directors and officers to the fullest extent permitted by law subject to certain procedural and other requirements set forth in the bylaws; or, if applicable, pursuant to indemnification agreements, which, when executed, will supersede the bylaw provisions. They further provide that we may choose to indemnify other employees or agents

of the corporation from time to time. Section 145(g) of the Delaware General Corporation Law and our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us, regardless of whether our bylaws permit indemnification. We intend to obtain a directors' and officers' liability insurance policy prior to the closing of this offering.

We have separate indemnification agreements with our directors and officers, in addition to the indemnification provisions set forth in our bylaws. These agreements, among other things, require us to indemnify our directors and officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or officer in any action or proceeding arising out of his or her services as one of our directors or officers, including services provided to any of our subsidiaries or any other company or enterprise to which the person provides services at our request.

At present, there is no pending litigation or proceeding involving any of our directors or officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against these liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by the director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether this indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Wells Fargo Shareowner Services.

#### **Nasdaq Global Market**

Our common stock is traded on the Nasdaq Global Market under the trading symbol "TITN."

#### **SHARES ELIGIBLE FOR FUTURE SALE**

We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock. Sales of substantial amounts of our common stock in the public market could adversely affect the market prices of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

Upon completion of this offering, based on our outstanding shares as of April 10, 2008, and assuming no exercise of outstanding options or warrants, we will have outstanding an aggregate of 16,443,810 shares of our common stock (16,968,810 shares if the underwriters' over-allotment option is exercised in full). Of these shares, all of the shares sold in this offering (plus any shares sold as a result of the underwriters' exercise of the over-allotment option) will be freely tradable without restriction or further registration under the Securities Act, unless those shares are purchased by our affiliates as that term is defined in Rule 144 under the Securities Act.

Of the remaining shares of common stock to be outstanding after this offering, 5,407,398 shares will be subject to the restrictions on transfer contained in Rule 144. Of these restricted securities,

5,172,104 shares will be subject to transfer restrictions for 90 days from the date of this prospectus pursuant to market stand-off agreements. Upon expiration of the 90-day transfer restriction period, all these shares will be eligible for resale under Rule 144, subject to volume limitations. Restricted securities may be sold in the public market only if they have been registered or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act.

#### **Lock-up Agreements**

All of our officers and directors and their affiliated entities have entered into lock-up agreements pursuant to which they have agreed, subject to limited exceptions, not to offer, sell, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or securities convertible into or exchangeable or exercisable for shares of common stock for a period of 90 days from the date of this prospectus without our prior written consent or, in some cases, the prior written consent of Craig-Hallum Capital Group. After the 90-day lock-up period, these shares may be sold, subject to applicable securities laws. See "Underwriting."

#### **Rule 144**

In general, under Rule 144 under the Securities Act, a person, or persons whose shares are aggregated, who is not (and has not been for at least three months prior to the date of sale) our affiliate and owns shares that were purchased from us, or any affiliate, at least six months previously, is entitled to resell their restricted shares without limitation, subject to the availability of current public information about us if such shares have been held for longer than six months and less than one year. Under Rule 144, a person that is our affiliate and has held its restricted shares for at least six months is entitled to resell, within any three-month period, a number of shares that does not exceed the greater of 1% of our then-outstanding shares of common stock or the average weekly trading volume of our common stock calculated in accordance with Rule 144, subject to manner of sale provisions, notice requirements and the availability of current public information about us. We are unable to estimate the number of shares that will be sold under Rule 144 since this will depend on the market price for our common stock, the personal circumstances of the stockholder and other factors.

#### **Rule 701**

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or written agreement relating to compensation and who is not deemed to have been an affiliate of our company to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits our affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. As of January 31, 2008, the aggregate number of shares eligible for resale under Rule 701 is 13,902.

#### **Options**

As of April 10, 2008, stock options to purchase a total of 493,252 shares of our common stock were outstanding. These stock options have a weighted average exercise price of \$7.61 and expire between April 1, 2016 and February 1, 2018.

#### **Registration of Shares in Connection with Compensatory Benefit Plans**

We are unable to estimate the number of shares that will be sold under Rules 144 or 701 because that number will depend on the market price for the common stock, the personal circumstances of the sellers and other factors. We have filed a registration statement on Form S-8 under the Securities Act covering up to 1,000,000 shares of our common stock issuable upon the exercise of vesting of awards

made under our 2005 Equity Incentive Plan. The registration statement became effective upon filing. Accordingly, shares registered under the registration statement on Form S-8 are available for sale in the open market immediately, after complying with Rule 144 volume limitations applicable to affiliates, with applicable lock-up agreements, and with the vesting requirements and restrictions on transfer affecting any shares that are subject to restricted stock awards.

**Registration Rights**

For a description of registration rights with respect to our common stock, see the information under the heading titled "Description of Capital Stock Registration Rights."

## UNDERWRITING

The underwriters named below have agreed to buy, subject to the terms of the purchase agreement, the number of shares listed opposite their names below. The underwriters are committed to purchase and pay for all of the shares if any are purchased.

| Underwriters  | Number of<br>Shares |
|---|---------------------|
| Craig-Hallum Capital Group<br>Robert W. Baird & Co. |                     |
| Total   | 3,500,000           |

The underwriters have advised us that they propose to offer the shares to the public at \$ \_\_\_\_\_ per share. The underwriters propose to offer the shares to certain dealers at the same price less a concession of not more than \$ \_\_\_\_\_ per share. The underwriters may allow and the dealers may reallow a concession of not more than \$ \_\_\_\_\_ per share on sales to certain other brokers and dealers. After the offering, these figures may be changed by the underwriters.

We have granted to the underwriters an option to purchase up to an additional 525,000 shares of common stock from us at the same price to the public, and with the same underwriting discount, as set forth in the table below. The underwriters may exercise this option any time during the 30-day period after the date of this prospectus, but only to cover over-allotments, if any. To the extent the underwriters exercise the option, each underwriter will become severally obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares as it was obligated to purchase under the purchase agreement.

The following table summarizes the underwriting discounts and commissions that we and the selling stockholders will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the over-allotment option.

|  | Total with no<br>over-allotment | Total, with<br>over-allotment |
|--|---------------------------------|-------------------------------|
| Underwriting discount to be paid to the underwriters by us                       |                                 |                               |
| Underwriting discount to be paid to the underwriters by the selling stockholders |                                 |                               |

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be \$ \_\_\_\_\_. These expenses are payable by us.

We have agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

We and each of our directors, executive officers and certain principal stockholders have agreed to certain restrictions on our ability to sell additional shares of our common stock for a period of 90 days after the date of this prospectus. We have agreed not to directly or indirectly offer for sale, sell, contract to sell, grant any option for the sale of, or otherwise issue or dispose of, any shares of common stock, options or warrants to acquire shares of common stock, or any related security or instrument, without the prior written consent of Craig-Hallum Capital Group. The agreements provide exceptions for (i) sales to underwriters pursuant to the purchase agreement, (ii) sales in connection with the exercise of options granted and (iii) certain other exceptions.

To facilitate the offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock during and after the offering. Specifically, the underwriters may over-allot or otherwise create a short position in the common stock for their own



account by selling more shares of common stock than have been sold to them by us and the selling stockholders. The underwriters may elect to cover any such short position by purchasing shares of common stock in the open market or by exercising the over-allotment option granted to the underwriters. In addition, the underwriters may stabilize or maintain the price of the common stock by bidding for or purchasing shares of common stock in the open market and may impose penalty bids. If penalty bids are imposed, selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if shares of common stock previously distributed in the offering are repurchased, whether in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the common stock at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also effect the price of the common stock to the extent that it discourages resales of the common stock. The magnitude or effect of any stabilization or other transactions is uncertain. These transactions may be effected on the Nasdaq Global Market or otherwise and, if commenced, may be discontinued at any time.

In connection with this offering, some underwriters (and selling group members) may also engage in passive market making transactions in the common stock on the Nasdaq Global Market. Passive market making consists of displaying bids on the Nasdaq Global Market limited by the prices of independent market makers and effecting purchases limited by those prices in response to order flow. Rule 103 of Regulation M promulgated by the SEC limits the amount of net purchases that each passive market maker may make and the displayed size of each bid. Passive market making may stabilize the market price of the common stock at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

One or more of the underwriters may facilitate the marketing of this offering online directly or through one of its affiliates. In those cases, prospective investors may view offering terms and a prospectus online and, depending upon the particular underwriter, place orders online or through their financial advisors.

A managing director of Craig-Hallum Capital Group is a special limited partner of Titan Income Holdings, LLLP, an investment partnership whose primary assets are common stock and common stock warrants issued by us. His personal financial interest in the partnership is \$41,721, as valued by the general partners of Titan Income Holdings as of March 31, 2008.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses. Craig-Hallum Capital Group and Robert W. Baird & Co. served as the managing underwriters for our initial public offering in December 2007.

## LEGAL MATTERS

The validity of the shares of common stock offered hereby and certain other legal matters will be passed upon for us by Fredrikson & Byron, P.A., Minneapolis, Minnesota. The underwriters have been represented in connection with this offering by Faegre & Benson LLP, Minneapolis, Minnesota.

## EXPERTS

The financial statements of Titan Machinery Inc. as of January 31, 2007 and 2008 and for each of the three years in the period ended January 31, 2008 included in this prospectus have been so included in reliance on the report of Eide Bailly LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus does not contain all of the information included in the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. For further information pertaining to us and the common stock to be sold in this offering, you should refer to the registration statement and its exhibits. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document filed as an exhibit to the registration statement or such other document, each such statement being qualified in all respects by such reference. We are subject to the informational requirements of the Exchange Act of 1934 and file annual, quarterly and current reports, proxy statements and other information with the SEC.

You can read the registration statement and our filings with the SEC over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov). You may request copies of the filing, at no cost, by telephone at (701) 356-0130 or by mail at Titan Machinery Inc., 4876 Rocking Horse Circle Fargo, ND 58104-6049. You may also read and copy any document we file with the SEC at its public reference facility at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

### INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference certain of our publicly filed documents into this prospectus, which means that important information included in these publicly filed documents is considered part of this prospectus. Our annual report on Form 10-K filed with the SEC on April 28, 2008 for the fiscal year ended January 31, 2008 is incorporated by reference into this prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus will be deemed to be modified or superseded for the purposes of this prospectus to the extent that a later statement contained herein or in any other document incorporated or deemed to be incorporated by reference in this prospectus modifies or supersedes the earlier statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide at no cost to each person, including any beneficial owner, to whom this prospectus is delivered, upon oral or written request of such person, a copy of any or all of the reports or documents that have been incorporated by reference in this prospectus, but not delivered with the prospectus, other than exhibits to these other documents (unless these exhibits are specifically incorporated by reference into these documents). We will furnish any exhibit upon the payment of a specified reasonable fee, which fee will be limited to our reasonable expenses in furnishing such exhibit. Requests for copies should be directed to:

Ted Christianson  
Secretary  
Titan Machinery Inc.  
4876 Rocking Horse Circle  
Fargo, North Dakota 58104-0649  
Telephone: (701) 356-0130

These documents may also be accessed through our internet web site at [www.titanmachinery.com](http://www.titanmachinery.com) or as described under "Where You Can Find More Information."

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**REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM**

The Audit Committee and Board of Directors  
Titan Machinery Inc.  
Fargo, North Dakota

We have audited the accompanying consolidated balance sheets of Titan Machinery Inc. and Subsidiary as of January 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2008. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Titan Machinery Inc. and Subsidiary as of January 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Eide Bailly LLP

Minneapolis, Minnesota  
April 23, 2008

**TITAN MACHINERY INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**JANUARY 31, 2008 AND 2007**

|  | <u>2008</u>           | <u>2007</u>           |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                       |
| <b>CURRENT ASSETS</b>  |                       |                       |
| Cash   | \$ 42,802,505         | \$ 7,572,000          |
| Receivables, net   | 22,061,275            | 10,921,049            |
| Inventories  | 145,766,866           | 106,253,862           |
| Prepaid expenses   | 215,312               | 186,137               |
| Income tax receivable  | 1,074,216             |                       |
| Deferred income taxes  | 1,027,000             | 462,000               |
|  | <u>212,947,174</u>    | <u>125,395,048</u>    |
| <b>INTANGIBLES AND OTHER ASSETS</b>                                |                       |                       |
| Parts inventory in excess of amounts expected to be sold currently | 1,480,000             | 1,062,000             |
| Goodwill   | 8,271,133             | 3,736,147             |
| Intangible assets, net of accumulated amortization                 | 337,242               | 168,876               |
| Other  | 311,581               | 334,907               |
|  | <u>10,399,956</u>     | <u>5,301,930</u>      |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation            | 16,022,336            | 8,175,105             |
|  | <u>\$ 239,369,466</u> | <u>\$ 138,872,083</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                        |                       |                       |
| <b>CURRENT LIABILITIES</b>   |                       |                       |
| Accounts payable   | \$ 9,244,064          | \$ 4,227,830          |
| Floorplan notes payable  | 105,847,648           | 84,698,775            |
| Current maturities of long-term debt                               | 5,653,840             | 2,823,609             |
| Customer deposits  | 19,309,533            | 4,608,345             |
| Accrued expenses   | 6,137,842             | 2,287,677             |
| Income taxes payable   |                       | 377,729               |
|  | <u>146,192,927</u>    | <u>99,023,965</u>     |
| <b>LONG-TERM LIABILITIES</b>                                       |                       |                       |
| Long-term debt, less current maturities                            | 13,082,795            | 6,787,598             |
| Deferred income taxes  | 1,865,000             | 925,000               |
| Other long term liabilities  | 811,689               |                       |
| Accrued interest on subordinated debt                              |                       | 330,441               |
|  | <u>15,759,484</u>     | <u>8,043,039</u>      |
| SUBORDINATED DEBENTURES  | 1,300,000             | 16,746,836            |

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|   | <u>2008</u>           | <u>2007</u>           |
|---|-----------------------|-----------------------|
| CONTINGENCIES Note 16   |                       |                       |
| REDEEMABLE SECURITIES   |                       |                       |
| Series A Convertible Preferred stock par value \$.00001, authorized None at January 31, 2008 and 2,000,000 shares at January 31, 2007; issued and outstanding None at January 31, 2008 and 341,672 shares at January 31, 2007 |                       | 1,193,594             |
| Series B Convertible Preferred stock par value \$.00001, authorized None at January 31, 2008 and 2,000,000 shares at January 31, 2007; issued and outstanding None at January 31, 2008 and 125,001 shares at January 31, 2007 |                       | 486,112               |
|   |                       | <u>1,679,706</u>      |
| STOCKHOLDERS' EQUITY  |                       |                       |
| Common stock, par value \$.00001 per share, authorized 25,000,000 shares; outstanding 13,440,654 and 4,344,753 shares at January 31, 2008 and 2007, respectively  | 134                   | 43                    |
| Additional paid-in-capital  | 58,179,695            | 514,864               |
| Retained earnings   | 17,937,226            | 12,863,630            |
|   | <u>76,117,055</u>     | <u>13,378,537</u>     |
|   | <u>\$ 239,369,466</u> | <u>\$ 138,872,083</u> |

See Notes to Consolidated Financial Statements

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

## YEARS ENDED JANUARY 31, 2008, 2007 AND 2006

|  | 2008               | 2007               | 2006               |
|--|--------------------|--------------------|--------------------|
| <b>REVENUE</b>   |                    |                    |                    |
| Equipment  | \$ 338,382,140     | \$ 220,957,940     | \$ 175,548,847     |
| Parts  | 58,742,784         | 42,618,622         | 31,098,984         |
| Service  | 27,343,778         | 21,964,966         | 16,572,415         |
| Other, including trucking and rental   | 8,502,509          | 7,056,470          | 5,250,034          |
|  | <u>432,971,211</u> | <u>292,597,998</u> | <u>228,470,280</u> |
| <b>COST OF REVENUE</b>   |                    |                    |                    |
| Equipment  | 302,319,633        | 200,557,976        | 160,814,335        |
| Parts  | 42,568,214         | 29,909,043         | 22,458,546         |
| Service  | 10,117,702         | 8,182,908          | 6,404,325          |
| Other, including trucking and rental   | 5,913,229          | 5,336,741          | 4,080,916          |
|  | <u>360,918,778</u> | <u>243,986,668</u> | <u>193,758,122</u> |
| <b>GROSS PROFIT</b>  | 72,052,433         | 48,611,330         | 34,712,158         |
| <b>OPERATING EXPENSES</b>  | 53,190,711         | 37,399,182         | 26,977,881         |
| <b>INCOME FROM OPERATIONS</b>  | 18,861,722         | 11,212,148         | 7,734,277          |
| <b>OTHER INCOME (EXPENSE)</b>  |                    |                    |                    |
| Interest and other income  | 577,239            | 348,809            | 87,686             |
| Floorplan interest expense   | (3,812,724)        | (3,293,901)        | (2,295,766)        |
| Interest expense, including interest on subordinated debentures of \$1,551,563 in 2008, \$1,679,774 in 2007, and \$558,911 in 2006 | (2,479,965)        | (2,178,745)        | (1,073,332)        |
| Debt retirement costs  | (3,823,574)        |                    |                    |
|  | <u>9,322,698</u>   | <u>6,088,311</u>   | <u>4,452,865</u>   |
| <b>INCOME BEFORE INCOME TAXES</b>  | 9,322,698          | 6,088,311          | 4,452,865          |
| <b>PROVISION FOR INCOME TAXES</b>  | (4,110,000)        | (2,450,000)        | (1,721,000)        |
| <b>NET INCOME</b>  | \$ 5,212,698       | \$ 3,638,311       | \$ 2,731,865       |
| <b>ADJUSTMENTS TO INCOME:</b>  |                    |                    |                    |
| Amortization of syndication fees preferred stock (net of tax effect)   | (51,311)           | (21,185)           | (21,185)           |
| Unpaid accumulated preferred dividends   | (87,791)           | (102,376)          | (102,376)          |
|  | <u>5,073,596</u>   | <u>3,514,750</u>   | <u>2,608,304</u>   |
| <b>INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>   | \$ 5,073,596       | \$ 3,514,750       | \$ 2,608,304       |
| <b>EARNINGS PER SHARE BASIC</b>  | \$ 0.90            | \$ 0.81            | \$ 0.60            |
| <b>EARNINGS PER SHARE DILUTED</b>  | \$ 0.67            | \$ 0.57            | \$ 0.47            |
| <b>WEIGHTED AVERAGE SHARES BASIC</b>   | 5,607,473          | 4,344,753          | 4,340,852          |
| <b>WEIGHTED AVERAGE SHARES DILUTED</b>   | 8,246,176          | 6,906,772          | 6,316,980          |

See Notes to Consolidated Financial Statements





## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

## YEARS ENDED JANUARY 31, 2008, 2007 AND 2006

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total         |
|--|--------------|--------|----------------------------------|----------------------|---------------|
|  | Shares       | Amount |                                  |                      |               |
| BALANCE, JANUARY 31, 2005  | 4,340,852    | \$ 43  | \$ 42,757                        | \$ 6,740,576         | \$ 6,783,376  |
| Issuance of stock warrants   |              |        | 301,000                          |                      | 301,000       |
| Unpaid accumulated dividends   |              |        |                                  | (102,376)            | (102,376)     |
| Amortization of syndication fees   |              |        |                                  | (21,185)             | (21,185)      |
| Net income   |              |        |                                  | 2,731,865            | 2,731,865     |
| BALANCE, JANUARY 31, 2006  | 4,340,852    | 43     | 343,757                          | 9,348,880            | 9,692,680     |
| Issuance of stock warrants   |              |        | 113,000                          |                      | 113,000       |
| Stock based compensation expense   | 3,901        |        | 58,107                           |                      | 58,107        |
| Unpaid accumulated dividends   |              |        |                                  | (102,376)            | (102,376)     |
| Amortization of syndication fees   |              |        |                                  | (21,185)             | (21,185)      |
| Net income   |              |        |                                  | 3,638,311            | 3,638,311     |
| BALANCE, JANUARY 31, 2007  | 4,344,753    | 43     | 514,864                          | 12,863,630           | 13,378,537    |
| Common stock issued in initial public offering   | 5,442,395    | 55     | 41,793,588                       |                      | 41,793,643    |
| Issuance of shares for stock acquisition   | 235,294      | 2      | 1,999,997                        |                      | 1,999,999     |
| Issuance of shares for conversion of debt/conversion of redeemable securities/exercise of warrants | 3,339,792    | 33     | 13,729,791                       |                      | 13,729,824    |
| Stock based compensation expense   | 78,420       | 1      | 141,455                          |                      | 141,456       |
| Unpaid accumulated dividends   |              |        |                                  | (87,791)             | (87,791)      |
| Amortization of syndication fees   |              |        |                                  | (51,311)             | (51,311)      |
| Net income   |              |        |                                  | 5,212,698            | 5,212,698     |
| BALANCE, JANUARY 31, 2008  | 13,440,654   | \$ 134 | \$ 58,179,695                    | \$ 17,937,226        | \$ 76,117,055 |

See Notes to Consolidated Financial Statements

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## YEARS ENDED JANUARY 31, 2008, 2007 AND 2006

|   | 2008                | 2007                | 2006               |
|---|---------------------|---------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>   |                     |                     |                    |
| Net income  | \$ 5,212,698        | \$ 3,638,311        | \$ 2,731,865       |
| Adjustments to reconcile net income to cash provided from operating activities                                      |                     |                     |                    |
| Depreciation  | 2,388,119           | 1,648,551           | 1,107,348          |
| Amortization  | 127,234             | 119,133             | 93,108             |
| Debt retirement costs   | 2,406,554           |                     |                    |
| Loss (gain) on sale of equipment  | 46,642              | (26,207)            | 1,643              |
| Other long term liabilities   | 811,689             |                     |                    |
| Deferred income taxes   | (181,052)           | 74,000              | (23,000)           |
| Stock based compensation expense  | 141,455             | 58,107              |                    |
| Changes in assets and liabilities, net of purchase of agricultural dealerships assets and assumption of liabilities |                     |                     |                    |
| Receivables   | (8,501,525)         | (5,104,174)         | (758,299)          |
| Inventories   | (3,165,080)         | (285,688)           | (5,365,361)        |
| Prepaid expenses  | (9,960)             | (153,165)           | 12,348             |
| Other assets  | 23,326              | (161,244)           | (123,066)          |
| Floorplan notes payable   | (4,449,358)         | 7,832,820           | 6,418,512          |
| Accounts payable  | 1,029,222           | (1,472,855)         | 2,260,891          |
| Customer deposits   | 14,701,188          | 593,944             | 1,879,975          |
| Accrued expenses  | 3,506,948           | (160,186)           | 918,374            |
| Income taxes  | (1,628,281)         | (95,932)            | (340,863)          |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>   | <b>12,459,819</b>   | <b>6,505,415</b>    | <b>8,813,475</b>   |
| <b>INVESTING ACTIVITIES</b>   |                     |                     |                    |
| Property and equipment purchases  | (6,287,571)         | (1,987,258)         | (1,179,161)        |
| Net proceeds from sale of equipment   | 269,638             | 119,674             | 21,929             |
| Payment for intangible asset  | (216,819)           |                     | (40,000)           |
| Purchase of dealerships, net of cash purchased  | (10,102,968)        | (12,088,053)        | (2,576,014)        |
| <b>NET CASH USED FOR INVESTING ACTIVITIES</b>   | <b>(16,337,720)</b> | <b>(13,955,637)</b> | <b>(3,773,246)</b> |

See Notes to Consolidated Financial Statements

## TITAN MACHINERY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

## YEARS ENDED JANUARY 31, 2008, 2007 AND 2006

|   | 2008                 | 2007                | 2006                |
|---|----------------------|---------------------|---------------------|
| <b>FINANCING ACTIVITIES</b>   |                      |                     |                     |
| Proceeds from initial public offering of common stock net of underwriting discount of \$3,238,225 and other direct costs of \$1,228,455 | 41,793,643           |                     |                     |
| Proceeds from exercise of warrants  | 1,084,255            |                     |                     |
| Net change in line of credit  |                      |                     | (2,644,249)         |
| Net change in non-manufacturer floor plan payable   | (704,989)            | 202,731             | (3,865,258)         |
| Dividends paid on redeemable securities   | (441,028)            |                     |                     |
| Proceeds from long-term debt borrowings and subordinated debentures   | 12,199,108           | 6,688,848           | 10,087,546          |
| Proceeds from fixed asset financings  |                      | 1,631,000           | 1,261,000           |
| Principal payments on long-term debt  | (14,492,142)         | (2,082,696)         | (2,577,633)         |
| Net change in subordinated debt interest accrual  | (330,441)            | (202,081)           | (39,006)            |
| Proceeds from issuance of preferred stock and warrants  |                      | 113,000             | 301,000             |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>   | <b>39,108,406</b>    | <b>6,350,802</b>    | <b>2,523,400</b>    |
| <b>NET CHANGE IN CASH</b>   | <b>35,230,505</b>    | <b>(1,099,420)</b>  | <b>7,563,629</b>    |
| <b>CASH AT BEGINNING OF YEAR</b>  | <b>7,572,000</b>     | <b>8,671,420</b>    | <b>1,107,791</b>    |
| <b>CASH AT END OF YEAR</b>  | <b>\$ 42,802,505</b> | <b>\$ 7,572,000</b> | <b>\$ 8,671,420</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>  |                      |                     |                     |
| Cash paid during the year   |                      |                     |                     |
| Income taxes, net of refunds  | \$ 5,348,894         | \$ 2,348,384        | \$ 2,084,863        |
| Interest  | 6,614,606            | 5,539,260           | 3,328,520           |
| <b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>   |                      |                     |                     |
| Dividends on preferred redeemable stock charged to retained earnings  | \$ 87,791            | \$ 102,376          | \$ 102,376          |
| Purchase of equipment by issuance of long-term debt   | 1,327,583            | 872,308             | 453,430             |
| Issuance of shares for conversion of debt and conversion of redeemable securities   | 8,114,446            |                     |                     |
| Acquisition of equipment dealerships:   |                      |                     |                     |
| Accounts receivable   | \$ (2,638,702)       | \$ (22,731)         | \$ (66,728)         |
| Inventories   | (32,329,975)         | (17,047,973)        | (10,860,806)        |
| Property and equipment  | (2,936,475)          | (1,731,225)         | (1,265,239)         |
| Goodwill  | (4,534,986)          | (2,371,000)         | (400,000)           |
| Other assets  | (55,748)             |                     |                     |
| Floorplan notes payable   | 21,867,271           | 7,846,626           | 8,716,759           |
| Subordinated debentures and long term debt  | 1,000,000            |                     | 1,300,000           |
| Accounts payable  | 3,987,011            | 212,661             |                     |
| Income taxes payable  | 176,336              | 123,548             |                     |

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|                                   | <u>2008</u>                 | <u>2007</u>                 | <u>2006</u>                 |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Deferred income taxes             | 592,586                     | 396,000                     |                             |
| Accrued expenses                  | 343,217                     | 506,041                     |                             |
| Issuance of redeemable securities | 2,426,498                   |                             |                             |
| Issuance of common stock          | 1,999,999                   |                             |                             |
|                                   | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Cash paid for dealerships         | \$ (10,102,968)             | \$ (12,088,053)             | \$ (2,576,014)              |
|                                   | <u>                    </u> | <u>                    </u> | <u>                    </u> |

See Notes to Consolidated Financial Statements

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**TITAN MACHINERY INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

*Nature of Business*

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

*Principles of Consolidation*

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

*Concentrations of Credit Risk*

The Company's sales are to agricultural and construction equipment customers principally in southeastern and south-central North Dakota, eastern South Dakota, southwestern and west-central Minnesota and northern Iowa. The Company extends credit to its customers in the ordinary course of business and monitors its customers' financial condition to minimize its risks associated with trade receivables, however, does not generally require collateral on trade receivables.

The Company's cash balances are maintained in bank deposit accounts. Periodically, account balances are in excess of federally insured limits.

*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.

*Concentrations in Operations*

The Company currently purchases new and rental equipment and related parts from a limited number of manufacturers. Although no change in suppliers is anticipated, the occurrence of such a change could cause a possible loss of sales and adversely affect operating results.

*Receivables and Credit Policy*

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of trade receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews trade receivable balances that exceed 30 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected.

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Finance receivables consist primarily of contracts in transit with manufacturers or manufacturer finance companies. These receivables do not generally have established payment terms and are collected in relatively short time periods.

*Inventories*

New and used machinery are stated at the lower of cost (specific identification) or market. All used inventory, including that which has been rented is subject to periodic lower of cost or market evaluation. Parts inventory is valued at the lower of average cost or market, and parts inventory not expected to be sold in the next operating cycle has been reported separately. Work in process is valued at the average cost of parts inventory plus the standard cost of labor incurred on service work in process at year end.

*Property and Equipment*

Property and equipment is stated at cost. Depreciation is computed principally using the straight-line and declining balance methods over useful lives of the assets, which range from three to forty years as follows:

|                                      |               |
|--------------------------------------|---------------|
| Buildings and leasehold improvements | 15 - 40 years |
| Machinery and equipment              | 3 - 10 years  |
| Furniture and fixtures               | 3 - 10 years  |
| Vehicles                             | 5 - 10 years  |
| Rental fleet                         | 5 years       |

The Company completes an evaluation, at each balance sheet date, whether or not events or circumstances have taken place to indicate that the remaining net book value of the assets may be unrecoverable. If necessary, the estimated future undiscounted cash flows of any assets in question are compared to their carrying value to determine if an adjustment to the recorded value is necessary.

*Goodwill*

Goodwill represents the excess of costs over the fair value of the assets of businesses acquired. Goodwill acquired in business combinations is assigned to the specific reporting unit for which it is related and is not amortized, rather tested for impairment at least annually, or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount of goodwill is greater than its fair value. As of January 31, 2008, the carrying value of goodwill was not considered impaired.

*Intangible Assets*

The covenants not to compete are being amortized using the straight-line method over the lives of the related agreements, which range from five to fifteen years. Debt issuance costs included in other assets are being amortized using the straight-line method over the lives of the related agreements, which range from six to seven years.

*Customer Deposits*

Customer deposits consist of advance payments from customers for revenue to be recognized in the following year.

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Lease Accounting*

The Company periodically purchases equipment from its primary supplier that is subsequently sold to and leased back from a financing group. The Company records the sale of the equipment at the time units are sold to the financing group. Under the sale leaseback program, the lease period is four months or less and lease expense is recognized over the leasing period. The Company recognizes the entire sales transaction and gross profit on these units at the time of sale to the financing group due to the short leaseback period.

*Income Taxes*

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, inventory, property and equipment, intangible assets, stock-based compensation, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The Company's policy is to recognize interest expense and penalties related to income tax matters within its provision for income taxes.

*Earnings Per Share*

Basic earnings per share were computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding during the year. Accumulated preferred dividends and amortization of syndication fees were subtracted from net income to arrive at income available to common stockholders.

Diluted earnings per share were computed by dividing income available to common stockholders plus assumed conversions 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.

The components of basic earnings per share are as follows:

| <b>Basic Earnings Per Share</b>                                      | <b>2008</b>  | <b>2007</b>  | <b>2006</b>  |
|--|--------------|--------------|--------------|
| Net Income   | \$ 5,212,698 | \$ 3,638,311 | \$ 2,731,865 |
| Amortization of syndication fees preferred stock (net of tax effect) | \$ (51,311)  | \$ (21,185)  | \$ (21,185)  |
| Less: Preferred stock dividends unpaid                               | (87,791)     | (102,376)    | (102,376)    |
| Income available to common stockholders                              | \$ 5,073,596 | \$ 3,514,750 | \$ 2,608,304 |
| Basic weighted-average shares outstanding                            | 5,607,473    | 4,344,753    | 4,340,852    |
| Basic Earnings Per Share   | \$ 0.90      | \$ 0.81      | \$ 0.60      |

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## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of diluted earnings per share are as follows:

| Diluted Earnings Per Share   | 2008         | 2007         | 2006         |
|--|--------------|--------------|--------------|
| Income available to common stockholders                              | \$ 5,073,596 | \$ 3,514,750 | \$ 2,608,304 |
| Plus: Income impact of assumed conversions                           |              |              |              |
| Amortization of syndication fees preferred stock (net of tax effect) | 51,311       | 21,185       | 21,185       |
| Preferred stock dividends unpaid                                     | 87,791       | 102,376      | 102,376      |
| Interest on convertible debentures (net of tax effect)               | 278,452      | 322,324      | 222,691      |
| Income available to common stockholders plus assumed conversions     | \$ 5,491,150 | \$ 3,960,635 | \$ 2,954,556 |
| Diluted weighted-average shares outstanding:                         |              |              |              |
| Basic weighted-average shares outstanding                            | 5,607,473    | 4,344,753    | 4,340,852    |
| Plus: Incremental shares from assumed conversions                    |              |              |              |
| Convertible debentures   | 1,863,976    | 2,006,667    | 1,488,148    |
| Convertible preferred shares   | 542,902      | 466,673      | 466,673      |
| Warrants   | 152,657      | 65,377       | 10,498       |
| Options  | 79,168       | 23,302       | 10,809       |
| Diluted weighted-average shares outstanding                          | 8,246,176    | 6,906,772    | 6,316,980    |
| Diluted Earnings Per Share   | \$ 0.67      | \$ 0.57      | \$ 0.47      |

*Revenue Recognition*

Revenue on equipment and parts sales is recognized upon delivery of product to customers. Rental and service revenue is recognized at the time the related services are provided. In addition to outright sales of new and used equipment, certain rental agreements may include rent-to-purchase options. Under these agreements, customers are given a period of time to exercise an option to purchase the related equipment, with a portion of the rental payments being applied to the purchase price. Any such equipment is included in inventory until the purchase option is exercised. Rental revenue is recognized during the rental period, with equipment sales revenue being recognized upon the exercise of the purchase option.

*Sales Taxes*

The Company has customers in states and municipalities in which those governmental units impose a sales tax on certain sales. The Company collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Company's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

*Shipping and Handling Costs*

Shipping and handling costs are recorded as cost of revenue and amounts billed to customers for shipping and handling costs are recorded in revenue.



TITAN MACHINERY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Manufacturer Incentives and Discounts*

The Company receives various manufacturer incentives and discounts, which are based on a variety of factors. All such incentive payments are accounted for as a reduction of cost of revenue as they are earned.

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. Advertising expense amounted to \$1,324,264, \$757,883, and \$613,325, respectively, for the years ended January 31, 2008, 2007 and 2006.

*Stock-Based Compensation*

The Company accounted for stock options in accordance with the provisions of the Financial Accounting Standards Board (FASB) Statement No. 123 (Revised), *Share-Based Payments*. Statement FAS 123(R) requires that share-based compensation, which includes stock options, be accounted for at the fair value of the applicable equity instrument. The Company utilized the Black Scholes option pricing model to value stock options.

*Redeemable Securities*

All redeemable securities were converted into shares of common stock concurrent with the Company's December 2007 initial public offering. The Company did not have sole control over the redemption features of its convertible preferred stock outstanding prior to its initial public offering and therefore classified all of this stock as redeemable securities, which was excluded from Stockholders' Equity. The Company determined the redemption of these instruments to be probable based upon the Company's decision to file a registration statement and initiate a public offering. Accordingly, the Company accrued all accumulated dividends on preferred stock as an increase to redeemable securities.

*Recently Issued Accounting Pronouncements*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. As amended by FAS 157-2, the effective date of SFAS No. 157 for certain non-financial assets and liabilities was deferred to fiscal years beginning after November 15, 2008. The Company is in the process of evaluating the effect that the adoption of this standard will have on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the effect that the adoption of this standard will have on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R provides additional guidance on improving the relevance, representational

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is in the process of evaluating the effect that the adoption of this standard will have on the Company's financial statements.

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

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

## NOTE 2 RECEIVABLES

|                                      | January 31,<br>2008  | January 31,<br>2007  |
|--------------------------------------|----------------------|----------------------|
| Trade accounts                       | \$ 4,210,302         | \$ 2,821,702         |
| Finance receivables                  | 14,525,122           | 5,190,428            |
| Volume discounts                     | 2,329,242            | 2,013,815            |
| Warranty claims                      | 1,054,263            | 749,811              |
| Other                                | 130,905              | 181,085              |
|                                      | <u>\$ 22,249,834</u> | <u>\$ 10,956,841</u> |
| Less allowance for doubtful accounts | (188,559)            | (35,792)             |
|                                      | <u>\$ 22,061,275</u> | <u>\$ 10,921,049</u> |

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 3 INVENTORIES

|                              | January 31,<br>2008   | January 31,<br>2007   |
|------------------------------|-----------------------|-----------------------|
| New equipment                | \$ 78,409,999         | \$ 48,431,945         |
| Used equipment               | 44,478,010            | 41,913,153            |
| Parts, tires and attachments | 20,462,680            | 14,292,319            |
| Work in process              | 2,416,177             | 1,616,445             |
|                              | <u>\$ 145,766,866</u> | <u>\$ 106,253,862</u> |

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

## NOTE 4 PROPERTY AND EQUIPMENT

|   | January 31,<br>2008  | January 31,<br>2007 |
|---|----------------------|---------------------|
| Rental fleet equipment                      | \$ 2,788,835         | \$ 3,846,009        |
| Machinery and equipment                     | 5,597,550            | 6,074,115           |
| Vehicles                                    | 8,538,463            | 2,427,104           |
| Furniture and fixtures                      | 3,557,362            | 1,606,644           |
| Land, buildings, and leasehold improvements | 3,506,882            | 23,989,092          |
|   | <u>23,989,092</u>    | <u>13,953,872</u>   |
| Less accumulated depreciation               | (7,966,756)          | (5,778,767)         |
|   | <u>\$ 16,022,336</u> | <u>\$ 8,175,105</u> |

## NOTE 5 INTANGIBLE ASSETS AND GOODWILL

The following is a summary of non-goodwill intangibles as of January 31, 2008 and 2007:

|                               | 2008              | 2007              |
|-------------------------------|-------------------|-------------------|
| Covenants not to compete      | \$ 759,330        | \$ 552,511        |
| Less accumulated amortization | (422,088)         | (383,635)         |
|                               | <u>\$ 337,242</u> | <u>\$ 168,876</u> |

Future amortization expense is estimated as follows:

| Years ending January 31, | Amount    |
|--------------------------|-----------|
| 2009                     | \$ 67,435 |
| 2010                     | 60,250    |
| 2011                     | 52,725    |
| 2012                     | 51,685    |
| 2013                     | 51,685    |
| Thereafter               | 53,462    |

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| Years ending January 31, | Amount     |
|--------------------------|------------|
|                          | \$ 337,242 |

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## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in the carrying amount of goodwill during the years ended January 31, 2008 and 2007 are summarized as follows:

|  |              |
|--|--------------|
| Goodwill                                   |              |
| Balance, January 31, 2006                  | \$ 1,365,147 |
| Arising in completed business combinations | 2,371,000    |
| Impairment losses                          |              |
| Balance, January 31, 2007                  | 3,736,147    |
| Arising in completed business combinations | 4,534,986    |
| Impairment losses                          |              |
|  | <hr/>        |
| Balance, January 31, 2008                  | \$ 8,271,133 |
|  | <hr/>        |

## NOTE 6 LINE OF CREDIT

The Company had no amount outstanding on the line of credit with Bremer Bank National Association at January 31, 2008 and 2007. The agreement provides for available borrowings of \$12,000,000 and carries a variable interest rate of prime minus 0.25% (5.75% at January 31, 2008) with monthly interest payments due, and has a maturity date of August 1, 2008. The line is secured by substantially all assets of the Company and a personal guarantee by its Chief Executive Officer.

## NOTE 7 LONG-TERM DEBT

|   | January 31,<br>2008 | January 31,<br>2007 |
|---|---------------------|---------------------|
|   | <hr/>               | <hr/>               |
| Fixed rate note payable to Bremer Bank, 8.0% interest rate, Monthly payments of \$162,000 including interest, to August 2012, secured by substantially all assets and a personal guarantee by the Company's Chief Executive Officer                                     | \$ 7,450,998        | \$ 5,892,701        |
| Fixed rate note payable to Bremer Bank, 8.0% interest rate. Monthly payments of \$40,000 to December, 2012. Secured by substantially all assets and a personal guarantee by the Company's Chief Executive Officer   | 1,925,326           |                     |
| Fixed and variable rate notes payable to CNH America LLC (CNH) fixed rates at 3.25% to 10.35% and variable rates at prime plus 0.3% (6.3% at January 31, 2008), total monthly installment payments of \$44,442 maturing August 2012. Secured by rental fleet equipment. | 1,952,440           |                     |
| Fixed rate note to Aberdeen Equipment Co., 6.5% interest rate   | 945,253             |                     |

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|   | <u>January 31,<br/>2008</u> | <u>January 31,<br/>2007</u> |
|---|-----------------------------|-----------------------------|
| principal and interest payment of \$34,206 due quarterly, balance due July 2011, unsecured  |                             |                             |
| Variable rate note to CNH (7.60% at January 31, 2008), monthly payments of \$43,142, maturing May 2009, secured by parts. Variable interest rate at prime plus 1.6% | 690,270                     | 1,164,831                   |

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## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  |         |  |
|--|---------|--|
| Non-interest bearing notes to CNH, monthly payments of \$22,624, maturing June 2010, secured by parts. Variable interest rate at prime + 1.6% rate beginning July 2008 | 656,104 |  |
|--|---------|--|

|  |         |  |
|--|---------|--|
| Non-interest bearing note to CNH, monthly payments of \$27,147, maturing October 2009, secured by parts. Variable interest rate at prime + 1.6% rate beginning November 2008 | 570,080 |  |
|--|---------|--|

|  |           |           |
|--|-----------|-----------|
| Non-interest bearing notes to CNH, in varying monthly installments, various maturity dates through February 2010, secured by parts | 1,162,146 | 1,126,235 |
|--|-----------|-----------|

|  |         |  |
|--|---------|--|
| Variable rate notes payable to CNH 7.5% at January 31, 2008, due in quarterly installments of \$29,986, including interest. Balance due July 2008. Secured by equipment. Variable interest rate at prime plus 1.5% | 569,734 |  |
|--|---------|--|

|  |         |         |
|--|---------|---------|
| Fixed rate notes payable to Ford Motor Credit and GMAC (5.99% to 9.85%), due in monthly installments including interest and various maturity dates thru December 2012, secured by vehicles | 291,428 | 268,680 |
|--|---------|---------|

|   |         |  |
|---|---------|--|
| Fixed rate note to Avoca Implement and Greenfield Implement 10.0%, monthly payments of \$18,920. Matures January 2011, secured by equipment | 759,080 |  |
|---|---------|--|

|  |         |  |
|--|---------|--|
| Fixed rate note to Textron Financial, 7.09%, monthly payments of \$4,969, matures January 2018, secured by company asset | 549,583 |  |
|--|---------|--|

|  |         |  |
|--|---------|--|
| Variable rate note to CNH Capital America LLC, prime plus 1.5% (7.50% at January 31, 2008). Quarterly payments of \$22,000 due beginning May 31, 2008. Due November 2008 | 440,000 |  |
|--|---------|--|

|                           |         |  |
|---------------------------|---------|--|
| Non-interest bearing note | 210,152 |  |
|---------------------------|---------|--|

payable under non-compete agreement, due in monthly installments which are capped at \$3,333 per month, actual payment calculated from related store profits

Fixed rate note payable to the Northwest Minnesota Foundation, 5.5%, amortized over 10 years, due August, 2009, secured by real estate and equipment

160,405

Variable rate notes payable to Case Credit, secured by equipment

138,000

Fixed rate note payable to former owner of Red Power International, 6.25%, monthly payments of \$3,193, due 4/1/11, unsecured

123,000

Variable rate note payable to CNH Capital America LLC, prime plus 1.6% (7.6% at January 31, 2008), through April 2010, payments of \$32,252 due annually, secured by equipment

96,758

129,010

Variable interest note payable with related party (6.0% at January 31, 2008), monthly interest only payments adjusting to Wells Fargo prime, matures in March 2008, unsecured

117,000

117,000

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## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|   |                      |                     |
|---|----------------------|---------------------|
| Variable rate note payable to CNH Capital America LLC, prime plus 1.5% (7.5% at January 31, 2008), quarterly payment of \$3,332, due beginning November 2007, balloon due August 2008 | 63,128               |                     |
| Non-interest bearing note payable to Fargo Tractor and Equipment, Inc., due in quarterly installments of \$3,750, to January 2009, unsecured  | 3,750                | 18,750              |
| Variable rate note to Bremer Bank due in monthly installments of \$11,742, including interest, to January 2014, secured by substantially all assets and stockholder guarantees        |                      | 750,000             |
| Non-interest bearing note payable under non-compete agreement, due in annual installments on March 1 of each year through 2007  |                      | 6,000               |
|   | <u>18,736,635</u>    | <u>9,611,207</u>    |
| Less current maturities   | <u>(5,653,840)</u>   | <u>(2,823,609)</u>  |
|   | <u>\$ 13,082,795</u> | <u>\$ 6,787,598</u> |

Under covenants in the Bremer Bank note payable and a Bremer Bank floorplan agreement, the Company has agreed, among other things, to (1) comply with equipment and parts inventory turn ratios and (2) maintain various financial ratio levels.

Additionally, under covenants of the above note payable with Case Credit Corporation, the Company has agreed, among other things, to maintain various financial ratio levels and to submit certain financial information.

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

Long-term debt maturities are as follows:

| 12 Months Ending January 31, | Amount               |
|------------------------------|----------------------|
| 2009                         | \$ 5,653,840         |
| 2010                         | 3,982,388            |
| 2011                         | 3,240,000            |
| 2012                         | 3,354,388            |
| 2013                         | 2,069,314            |
| Thereafter                   | 436,705              |
|                              | <u>\$ 18,736,635</u> |

## NOTE 8 FLOORPLAN NOTES PAYABLE

Floorplan notes payable with a bank and manufacturers carry various interest rates ranging from 6.2% to 9.5% and are secured by substantially all assets of the Company. The Bremer Bank floorplan note payable, with a balance of \$353,839 at January 31, 2008, is also secured by the personal guarantee of the Company's Chief Executive Officer. Repayment terms vary by individual notes, but generally payments are made from sales proceeds or rental revenue from the related inventories.

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 9 ACCRUED EXPENSES

|                                   | January 31,<br>2008 | January 31,<br>2007 |
|-----------------------------------|---------------------|---------------------|
| Interest                          | \$ 91,354           | \$ 82,830           |
| Compensation                      | 5,253,561           | 1,752,564           |
| Sales and payroll taxes           | 445,669             | 228,071             |
| Health insurance claims liability | 230,258             | 172,000             |
| Other                             | 117,000             | 52,212              |
|                                   | <u>\$ 6,137,842</u> | <u>\$ 2,287,677</u> |

## NOTE 10 SUBORDINATED DEBENTURES

|   | January 31,<br>2008 | January 31,<br>2007  |
|---|---------------------|----------------------|
| 10% debentures to former owners of H.C. Clark Implement Co., interest payments due annually, balance due May 2010, unsecured, subordinated to bank and manufacturer debt                  | \$ 550,000          | \$ 550,000           |
| 9% debentures to Vern Anderson, former owner of Vern Anderson Inc, interest payments due quarterly, balance due December 2010, unsecured, subordinated to bank and manufacturer debt      | 450,000             | 450,000              |
| 10% debentures to Bernard Smith, former owner of Smith International, interest payments due annually, balance due March 2010, unsecured, subordinated to bank and manufacturer debt       | 300,000             | 300,000              |
| 10.5% debentures to CNH Capital America, LLC, \$7,500,000 available, interest payments due quarterly, balance due April 2012, unsecured, subordinated to bank and manufacturer debt       |                     | 7,248,912            |
| 9%-10% debentures to stockholders, interest payments due annually, balance due November 2012, unsecured, subordinated to bank and manufacturer debt(1)                                    |                     | 3,350,000            |
| 7% debentures to CNH Capital America, LLC, interest payments due annually, balance due November 2012, unsecured, subordinated to bank and manufacturer debt                               |                     | 3,000,000            |
| 10.5% debentures to Titan Income Holdings, LLLP, \$2,000,000 available, interest payments due quarterly, balance due April 2012, unsecured, subordinated to bank and manufacturer debt(2) |                     | 1,705,500            |
| 5% debentures to stockholders, interest payments due annually, balance due November 2012, unsecured, subordinated to bank and manufacturer debt(1)  |                     | 142,424              |
|   | <u>\$ 1,300,000</u> | <u>\$ 16,746,836</u> |

(1)

These debentures were issued in January 2003 to the following related parties: David Meyer, Chief Executive Officer, \$536,965; C.I. Farm Power, Inc., affiliated with Peter Christianson, President and

TITAN MACHINERY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Chief Financial Officer, \$1,739,292; Adam Smith Growth Partners, affiliated with Tony Christianson, a director, \$755,000; David Christianson, the brother of Tony and Peter Christianson, \$100,000; Adam Smith Activist Fund, LLC, affiliated with Tony Christianson, \$196,500; and Earl Christianson, father of Tony and Peter Christianson, \$164,667.

(2)

The Titan Income Holdings, LLLP debentures were issued with an offering completed April 2005. Titan Income Holdings is a limited liability limited partnership in which one of its general partners is Adam Smith Companies, affiliated with Tony Christianson, a director. Titan Income Holdings limited partners include Gordon Paul Anderson, a director, who holds a 2.5% interest, and James Irwin, a director, who holds a 4.9% interest through the Irwin Revocable Trust.

Scheduled future maturities of subordinated debentures are \$1,300,000 in the year ending January 31, 2011. Accrued interest payable related to the subordinated debentures totaled \$20,418 and \$330,441 as of January 31, 2008 and 2007.

In conjunction with its initial public offering, the Company exchanged or converted all outstanding convertible subordinated debentures of \$6,350,000 into 2,308,648 shares of common stock and retired \$9,442,424 in subordinated debentures. As a result of these transactions, the Company recognized debt retirement costs of \$3,823,574. The debt retirement costs consisted of \$2,406,554 of conversion costs, \$1,065,000 of repayment penalties and \$352,020 of unamortized debt issuance costs.

**NOTE 11 OPERATING LEASES AND RELATED PARTY TRANSACTIONS**

The Company leases building space from Meyer Family Limited Partnership, an entity affiliated by common ownership, under three operating leases. The leases are on a month-to-month basis with rentals negotiated annually (\$22,000 per month at January 31, 2008). The leases provide that the lessee pay all property taxes, utilities, insurance and all expenses necessary for the general upkeep of the buildings. The Company paid rent of \$264,000, \$304,100 and \$304,100 under these leases for the years ended January 31, 2008, 2007 and 2006, respectively.

The Company leases buildings on 20 different operating lease agreements from Dealer Sites, LLC, an entity affiliated by common ownership, with monthly rentals of \$196,376 at January 31, 2008. Rent expense for these leases totaled \$1,823,032, \$940,988 and \$595,440 for the years ended January 31, 2008, 2007 and 2006, respectively. The leases expire on various dates through December 2022. The leases provide that the lessee pay all property taxes, utilities, insurance and all expenses necessary for the general upkeep of the building.

The Company leases buildings on operating leases from Padre Partnership and Landco LLC, companies also affiliated through common ownership. The leases expire October 2008 and December 2008, respectively, and have monthly rentals of \$8,000 and \$6,500, respectively. In addition, through August 31, 2007 the Company leased a building from C.I. Farm Power, Inc., a company also affiliated through common ownership. This lease had a monthly rental of \$8,250. Rent expense for these leases totaled \$326,250 for the year ended January 31, 2008, \$215,000 for the year ended January 31, 2007, and \$195,000 for the year ended January 31, 2006.

The Company also leases 14 additional buildings under operating lease agreements with unrelated parties. The leases expire at various dates through July 2022.

The Company also leases office equipment under various operating lease agreements. Rent and lease expense under these agreements and the leases noted above totaled \$3,232,097, \$2,167,998 and \$1,603,468 during the years ended January 31, 2008, 2007 and 2006, respectively.

The Company's operating lease agreements are structured using straight line payment terms over the minimum lease period.

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Approximate minimum future lease payments are as follows:

| Years ending January 31, | Amount               |
|--------------------------|----------------------|
| 2009                     | \$ 3,791,884         |
| 2010                     | 3,449,681            |
| 2011                     | 3,100,019            |
| 2012                     | 2,925,838            |
| 2013                     | 2,633,848            |
| Thereafter               | \$ 23,840,535        |
|                          | <u>\$ 39,741,805</u> |

Three lease agreements grant the lessor the right to require the Company to purchase the leased premises during or at the conclusion of the lease term. If the lessors exercise this right, the Company would be obligated to pay up to \$1,305,000 for building assets. Of this amount, \$280,000 could be required beginning in fiscal 2009, while the remaining \$1,025,000 could be required in fiscal 2011.

The Company paid Cherry Tree Securities, LLC, affiliated with Tony Christianson, a director, a fee of \$125,000 related to successful completion of the initial public offering.

**NOTE 12 INCOME TAXES**

Net deferred tax assets and liabilities consist of the following components as of January 31, 2008 and 2007:

|                                 | 2008                | 2007              |
|---------------------------------|---------------------|-------------------|
| <b>Deferred tax assets</b>      |                     |                   |
| Inventory allowances            | \$ 604,000          | \$ 353,000        |
| Other accrued liabilities       | 279,000             | 79,000            |
| Receivables                     | 75,000              | 14,000            |
| Stock based compensation        | 69,000              | 16,000            |
|                                 | <u>\$ 1,027,000</u> | <u>\$ 462,000</u> |
| <b>Deferred tax liabilities</b> |                     |                   |
| Property and equipment          | \$ 1,801,000        | \$ 549,000        |
| Intangibles                     | 64,000              | 376,000           |
|                                 | <u>\$ 1,865,000</u> | <u>\$ 925,000</u> |

The components giving rise to the net deferred tax assets and liabilities described above have been included in the accompanying balance sheets as of January 31, 2008 and 2007 as follows:

|                        | 2008                | 2007                |
|------------------------|---------------------|---------------------|
| Current assets         | \$ 1,027,000        | \$ 462,000          |
| Noncurrent liabilities | (1,865,000)         | (925,000)           |
|                        | <u>\$ (838,000)</u> | <u>\$ (463,000)</u> |



## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The provision for income taxes charged to income for the years ended January 31, 2008, 2007 and 2006 consists of the following:

|                   | <u>2008</u>         | <u>2007</u>         | <u>2006</u>         |
|-------------------|---------------------|---------------------|---------------------|
| Currently payable |                     |                     |                     |
| Federal           | \$ 3,260,000        | \$ 1,949,000        | \$ 1,432,000        |
| State             | 760,000             | 427,000             | 312,000             |
| Deferred          | 90,000              | 74,000              | (23,000)            |
|                   | <u>\$ 4,110,000</u> | <u>\$ 2,450,000</u> | <u>\$ 1,721,000</u> |

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

|  | <u>2008</u>  | <u>2007</u>  | <u>2006</u>  |
|--|--------------|--------------|--------------|
| U.S. Statutory Rate                              | 35.0%        | 35.0%        | 35.0%        |
| State taxes on income net of federal tax benefit | 5.3%         | 4.6%         | 4.5%         |
| Unrecognized tax benefits                        | 4.5%         |              |              |
| All other, net                                   | (0.7)%       | 0.6%         | (0.9)%       |
|  | <u>44.1%</u> | <u>40.2%</u> | <u>38.6%</u> |

#### Uncertain Tax Positions

On February 1, 2007, the Company adopted the provisions of Financial Interpretations No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (Issued 6/06)* ("FIN 48"). The Company did not record any uncertain tax positions as a result of the initial adoption of FIN 48 but did record an unrecognized tax benefit during the year ending January 31, 2008. This unrecognized tax benefit is included in other long term liabilities on the Company's Consolidated Balance Sheet. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

|   | <u>January 31,<br/>2008</u> |
|---|-----------------------------|
| Balance at February 1, 2007                                 | \$                          |
| Additions for tax positions related to current year         | 420,000                     |
| Additions/reductions for tax positions taken in prior years |                             |
| Reductions for tax positions as a result of:                |                             |
| Settlements   |                             |
| Lapse of statute of limitations                             |                             |
| Balance at January 31, 2008                                 | <u>\$ 420,000</u>           |

If recognized, the full \$420,000 of unrecognized tax benefits would affect the Company's effective tax rate. No amount of interest or penalties was recognized in the Statement of Operations or in the Balance Sheets. The Company files income tax returns in the U.S. federal jurisdiction and various states and is no longer subject to U.S. federal and state income tax examinations by tax authorities for fiscal years ending prior to January 31, 2005.

TITAN MACHINERY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 13 CAPITAL STRUCTURE**

The Company effected a reincorporation from North Dakota to Delaware on December 11, 2007, the closing date of the Company's initial public offering.

The Company's certificate of incorporation provides the Company with the authority to issue 30,000,000 shares of \$0.00001 par value stock, consisting of 25,000,000 shares of common stock and 5,000,000 shares classified as undesignated. The Company did not have sole control over the redemption features of its convertible preferred stock outstanding prior to its initial public offering and therefore classified all of this stock as redeemable securities, which was excluded from Stockholder's Equity as of January 31, 2007.

All convertible preferred stock was converted into common stock concurrent with the closing of the initial public offering.

*Series A Preferred Stock*

Holders of Series A Preferred shares were entitled to annual dividends at the rate of \$0.21 per share. Preferred dividends were cumulative on these shares, and no dividends or distributions could be paid on outstanding common shares until all accrued and unpaid dividends on the Series A convertible preferred shares were paid. In addition, ten years after the original issuance, the preferred stockholders could have required the Company to redeem the preferred shares for the original preferred share purchase price (\$3.00 per share), plus any preferred return to which the stockholders could have been entitled.

There were no shares and 341,672 Series A convertible preferred shares issued and outstanding as of January 31, 2008 and 2007, respectively. A dividend was declared and all accumulated dividends were paid during the year ended January 31, 2008. There were no dividends declared or paid for the year ended January 31, 2007. Accumulated unpaid dividends totaled \$0 and \$273,850 at January 31, 2008 and 2007, respectively.

*Series B Preferred Stock*

Holders of Series B preferred shares were entitled to annual dividends at the rate of \$0.245 per share. These preferred dividends were cumulative, and no dividends or distributions could be paid on outstanding common shares until all accrued and unpaid dividends on the Series B convertible preferred shares were paid. In addition, ten years after the original issuance, the preferred stockholders could have required the Company to redeem the preferred shares for the original purchase price (\$3.50 per share) plus any preferred return to which the stockholders could have been entitled.

There were no shares and 125,001 Series B convertible preferred shares issued and outstanding as of January 31, 2008 and 2007, respectively. Accumulated unpaid dividends totaled \$0 and \$79,115 at January 31, 2008 and 2007, respectively.

**NOTE 14 COMMON STOCK OPTIONS AND WARRANTS**

*Common Stock Warrants*

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

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6,071 stock warrants to Cherry Tree Securities at an exercise price of \$3.50 per share. These warrants terminate on July 1, 2014.

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

In January 2006 and March 2006, the Company issued stock warrants to a manufacturer for 160,625 and 80,313 shares of common stock, respectively, at an exercise price of \$4.50 per share. These warrants were exercised prior to, and the shares of common stock issued in connection therewith were sold in, the Company's initial public offering.

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

| Outstanding Warrants |         |                |                     |   |
|----------------------|---------|----------------|---------------------|---|
| Issue Date           | Number  | Exercise Price | Fair Value Assigned | Purpose of Issuance                     |
| April 2003           | 11,917  | \$ 3.00        | \$ 11,200           | Facilitate preferred stock issuance     |
| August 2004          | 6,071   | \$ 3.50        | \$ 6,600            | Facilitate preferred stock issuance     |
| April 2005           | 115,650 | \$ 3.50        | \$ 126,000          | Subordinated debt financing transaction |

Outstanding stock warrants are valued using the Black Scholes option pricing model. Assumptions used to value the warrants are similar to those used in valuing the stock options as described below. Warrants issued in conjunction with a debt offering are valued and classified as Additional Paid-In Capital, per APB 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*.

#### Stock Award Plans

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



## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes stock option activity for the years ended January 31, 2008 and 2007:

*Stock Options*

|   | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|----------------------|--|---|---------------------------------|
| Outstanding at January 31, 2006         | 9,250                | \$ 4.00                                  |   |                                 |
| Granted                                 | 105,667              | 4.50                                     |   |                                 |
| Exercised                               |                      |  |   |                                 |
| Outstanding at January 31, 2007         | 114,917              | \$ 4.46                                  | 8.92  | \$ 4,597                        |
| Granted                                 | 368,335              | 8.14                                     |   |                                 |
| Exercised                               |                      |  |   |                                 |
| Outstanding at January 31, 2008         | 483,252              | \$ 7.43                                  | 9.13  | \$ 4,374,084                    |
| Options exercisable at January 31, 2007 | 19,917               | \$ 4.27                                  | 8.54  | \$ 33,700                       |
| Options exercisable at January 31, 2008 | 49,085               | \$ 4.41                                  | 8.08  | \$ 592,663                      |

The following table summarizes restricted stock activity for the years ended January 31, 2008 and 2007:

*Restricted Stock*

|                                 | Shares  | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |
|---------------------------------|---------|---|
| Outstanding at January 31, 2006 |         |   |
| Granted                         | 15,388  |   |
| Forfeited                       |         |   |
| Issued                          | (3,901) |   |
| Outstanding at January 31, 2007 | 11,487  | 5.00  |
| Granted                         | 66,933  |   |
| Forfeited                       |         |   |
| Issued                          | (1,914) |   |
| Outstanding at January 31, 2008 | 76,506  | 3.22  |

| Shares | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |
|--------|---|
| _____  | _____   |
| _____  | _____   |

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## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| Assumption              | Fixed Plan   |
|-------------------------|--------------|
| Dividend Yield          | 0%           |
| Risk-free interest rate | 3.6 - 4.9%   |
| Expected life           | 3 - 10 years |
| Expected volatility     | 14 - 22%     |

Prior to the Company's initial public offering, the expected volatility was based upon management's best estimate of the value of the shares based upon the Company's internal market. Subsequent to the offering, the Company will estimate its volatility using its quoted market price. The expected life assumptions for options currently granted is based upon the average expected term of service by directors and contractual term of the agreements for employees. The following is a summary of the status of options outstanding and exercisable at January 31, 2008 under the fixed share-based payment plan:

| Outstanding Options |         |   |  |                                  |
|---------------------|---------|---|--|----------------------------------|
| Exercise Price      | Number  | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price | Exercisable<br>Options<br>Number |
| \$4.00              | 9,250   | 7 years   | \$ 4.00                                  | 9,250                            |
| 4.50                | 119,002 | 8.1 years   | 4.50                                     | 39,835                           |
| 7.50                | 80,000  | 9.5 years   | 7.50                                     |                                  |
| 8.50                | 181,000 | 10 years  | 8.50                                     |                                  |
| 9.35                | 94,000  | 10 years  | 9.35                                     |                                  |

The weighted average grant date fair value of options granted during the years ended January 31, 2008, 2007 and 2006 was \$2.94, \$1.80 and \$1.56, respectively. The weighted average grant date fair value of restricted stock granted during the years ended January 31, 2008, 2007 and 2006 was \$8.50, \$3.25 and \$0, respectively. Compensation cost charged to operations under the equity incentive plan was \$127,100 and \$58,107 for the years ended January 31, 2008 and 2007, respectively. For the year ended January 31, 2006, the amount of compensation cost to be charged to operations was determined to be immaterial. The income tax benefit recognized from all stock-based compensation arrangements was \$50,800, \$22,700 and \$0, respectively, for the years ended January 31, 2008, 2007 and 2006. The income tax benefit realized from all stock-based payment arrangements was \$5,750, \$6,550 and \$0 for the years ended January 31, 2008, 2007 and 2006, respectively. For the years ended January 31, 2008, 2007 and 2006, no options were exercised. As of January 31, 2008, there was \$1,113,100 of unrecognized compensation cost on non-vested awards related to the stock incentive plan. That cost is expected to be recognized over a weighted-average period of 4.7 years.

TITAN MACHINERY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 15 EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) profit-sharing plan for those full-time employees at least 19 years of age. The Company makes matching contributions of 50% of qualifying employee elective contributions to the plan. The Company's matching contributions to the plan of \$698,996, \$505,797 and \$301,552 were charged to expense for the years ended January 31, 2008, 2007 and 2006, respectively. In addition, the Company may make a discretionary contribution to the plan as determined by the board of directors, with a maximum amount equal to the amount allowed under the Internal Revenue Service regulations. The Company did not make any discretionary contributions to the plan for the years ended January 31, 2008, 2007 and 2006.

**NOTE 16 CONTINGENCIES**

*Guarantees of Customer Credit*

The Company may provide a guarantee to the third party who is financing the customer's purchase. The third party financing is secured by the equipment the customer has purchased; however, the Company may still be liable to the third party financier in certain circumstances. The Company's outstanding customer guarantees as of January 31, 2008, 2007 and 2006 were \$483,000, \$2,879,000 and \$3,192,000, respectively. Management believes the contingent liability related to these guarantees is not material due to the securitization of the financing by the equipment and the Company's history with these arrangements.

**NOTE 17 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 years ended January 31, 2008, 2007 and 2006. In certain of the business combination transactions the Company recognized goodwill. Factors contributing to the recognition of goodwill include an evaluation of enterprise value, historical financial performance, estimated industry potential within the market and the market territory relationship to other existing and future planned Company locations. Pro forma results are not presented as the acquisitions are not considered material, individually or in aggregate, to the Company.

***Fiscal 2008***

*Avoca Operations, Inc. and Greenfield Operations, Inc.*

On January 2, 2008, the Company acquired 100% of the outstanding stock of Avoca Operations, Inc. and Greenfield Operations, Inc. in a related transaction. The dealerships are located in Avoca and Greenfield, Iowa, and are contiguous to existing markets. The total cash purchase price was \$3,784,164. The Company expects the allocation of the purchase price will be finalized during the fiscal year ending January 31, 2009.

*Reiten and Young International, Inc.*

On December 1, 2007, the Company acquired Reiten and Young International, Inc. The dealership is located in Grand Forks, North Dakota, and is contiguous to existing markets. The purchase price of the dealership was \$1,999,999 in Company common stock. The Company expects the allocation of the purchase price will be finalized during the fiscal year ending January 31, 2009.

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Twin City Implement, Inc.*

On November 13, 2007, the Company acquired the assets of Twin City Implement, Inc. The dealership is located in Mandan, North Dakota and is contiguous to existing markets. The acquisition increases the Company's market share in the west/central part of North Dakota. The total cash purchase price was \$1,891,291.

*Red Power International*

On August 1, 2007, the Company acquired Red Power International. The dealerships are located in Minnesota and contiguous to existing markets. The acquisition expands the Company's market share in the state. The Company acquired 100% of the common stock of Red Power International, Inc. in exchange for 323,533 shares of Series D convertible preferred stock issued by the Company and valued at \$2,426,497. The Company's Series D convertible preferred stock was automatically converted into common stock of the Company in connection with the Company's initial public offering. The Company expects the allocation will be finalized during the fiscal year ending January 31, 2009.

*Aberdeen Equipment, Huron Equipment and Redfield Equipment*

On April 13, 2007, the Company acquired the assets of the related entities of Aberdeen Equipment, Huron Equipment and Redfield Equipment. The dealerships are located in South Dakota and contiguous to existing markets. The acquisition expands the Company's market share in the state. The total cash purchase price was \$4,095,864.

*Richland County Implement*

The Company acquired the assets of Richland County Implement in February 2008. The total cash purchase price was \$1,030,713. Through the acquisition, the Company increased its market share in existing markets in the Wahpeton area and gained control of the New Holland dealership.

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

|                           | <b>Avoca and<br/>Greenfield<br/>Operations<br/>Inc.</b> | <b>Reiten and<br/>Young<br/>International<br/>Inc.</b> | <b>Twin City<br/>Implement Inc.</b> | <b>Red Power<br/>International</b> | <b>Aberdeen,<br/>Huron, and<br/>Redfield<br/>Equipment</b> | <b>Richland<br/>County<br/>Implement</b> | <b>Total</b>         |
|---------------------------|---|--|-------------------------------------|------------------------------------|--|--|----------------------|
| Cash                      | \$  | \$ 409,904   | \$ 350                              | \$ 288,810                         | \$   | \$                                       | \$ 699,064           |
| Accounts receivable       | 1,226,136   | 392,250  |                                     | 907,528                            | 112,788  |  | 2,638,702            |
| Inventories               | 10,230,045  | 3,629,433  | 3,705,167                           | 6,657,915                          | 4,648,779  | 3,458,636                                | 32,329,975           |
| Property and equipment    | 778,000   | 312,589  | 437,319                             | 635,882                            | 600,000  | 172,685                                  | 2,936,475            |
| Goodwill                  | 681,070   | 435,490  | 600,000                             | 318,427                            | 2,500,000  |  | 4,534,987            |
| Other current assets      |   | 28,808   |                                     | 26,940                             |  |  | 55,748               |
|                           | <b>\$ 12,915,251</b>                                    | <b>\$ 5,208,474</b>                                    | <b>\$ 4,742,836</b>                 | <b>\$ 8,835,502</b>                | <b>\$ 7,861,567</b>  | <b>\$ 3,631,321</b>                      | <b>\$ 43,194,951</b> |
| Accounts Payable          | \$ 778,000  | \$ 158,250   | \$ 192,630                          | \$ 224,563                         | \$ 2,383,568   | \$ 250,000                               | \$ 3,987,011         |
| Floorplan notes payable   | 8,072,017   | 2,940,226  | 2,658,915                           | 5,593,370                          | 382,135  | 2,220,608                                | 21,867,271           |
| Other liabilities assumed |   |  |                                     | 389,553                            |  | 130,000                                  | 519,553              |
| Long term debt            |   |  |                                     |                                    | 1,000,000  |  | 1,000,000            |
| Deferred tax liability    | 281,070   | 109,999  |                                     | 201,518                            |  |  | 592,587              |
|                           | <b>\$ 9,131,087</b>                                     | <b>\$ 3,208,475</b>                                    | <b>\$ 2,851,545</b>                 | <b>\$ 6,409,004</b>                | <b>\$ 3,765,703</b>  | <b>\$ 2,600,608</b>                      | <b>\$ 27,966,422</b> |
| Consideration given       | \$ 3,784,164  | \$ 1,999,999   | \$ 1,891,291                        | \$ 2,426,498                       | \$ 4,095,864   | \$ 1,030,713                             | \$ 15,228,529        |

## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Of the total goodwill of \$4,534,987 recorded in the acquisition transactions during the year ended January 31, 2008, \$3,100,000 is expected to be deductible for tax purposes.

**Fiscal 2007***Farm Power, Inc. of Minnesota and FPI Leasing*

On March 31, 2006, the Company acquired 100% of the outstanding common stock of Farm Power, Inc. of Minnesota and its wholly owned subsidiary, Fergus International, Inc. In addition, as of the same date, the Company purchased the inventory of FPI Leasing, an entity related to Fargo Power Inc. of Minnesota through common ownership. The total cash purchase price for the dealership was \$7,868,158.

*Piorier Equipment Company, Inc & RAJ Equipment*

On June 15, 2006, the Company acquired the assets of Piorier Equipment Company, Inc and RAJ Equipment, its related entity. The total cash purchase price was \$4,304,990.

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

|                           | <b>Farm Power<br/>Inc. of MN<br/>and<br/>FPI Leasing</b> | <b>Piorier<br/>Equipment<br/>Company, Inc. &amp;<br/>RAJ Equipment</b> | <b>Total</b>                |
|---------------------------|--|--|-----------------------------|
|                           | <u>                    </u>                              | <u>                    </u>  | <u>                    </u> |
| Cash                      | \$ 85,095  | \$   | \$ 85,095                   |
| Accounts receivable       | 22,731   |  | 22,731                      |
| Inventories               | 9,106,919  | 7,941,054  | 17,047,973                  |
| Property and equipment    | 1,100,000  | 631,225  | 1,731,225                   |
| Goodwill                  | 2,371,000  |  | 2,371,000                   |
|                           | <u>                    </u>                              | <u>                    </u>  | <u>                    </u> |
|                           | \$ 12,685,745  | \$ 8,572,279   | \$ 21,258,024               |
|                           | <u>                    </u>                              | <u>                    </u>  | <u>                    </u> |
| Floorplan notes payable   | \$ 3,579,337   | \$ 4,267,289   | \$ 7,846,626                |
| Other liabilities assumed | 842,250  |  | 842,250                     |
| Deferred tax liability    | 396,000  |  | 396,000                     |
|                           | <u>                    </u>                              | <u>                    </u>  | <u>                    </u> |
|                           | \$ 4,817,587   | \$ 4,267,289   | \$ 9,084,876                |
|                           | <u>                    </u>                              | <u>                    </u>  | <u>                    </u> |
| Consideration given       | \$ 7,868,158   | \$ 4,304,990   | \$ 12,173,148               |
|                           | <u>                    </u>                              | <u>                    </u>  | <u>                    </u> |

Of the total goodwill of \$2,371,000 recorded in the acquisition transactions during the year ended January 31, 2007, none is expected to be deductible for tax purposes.

**Fiscal 2006***Smith International Inc.*

On March 1, 2005, the Company acquired the assets of Smith International, Inc. The total cash purchase price for the dealership was \$1,222,271.

*H.C. Clark Implement Co., Inc.*

On May 16, 2005, the Company acquired the assets of H.C. Clark Implement Co., Inc. The total cash purchase price for the dealership was \$768,514.



## TITAN MACHINERY INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Dike, Iowa*

On November 1, 2005, the Company assumed management of the operations of a dealership located in Dike, Iowa. The Company initially operated the dealership as an independent contractor authorized by Case New Holland. A group with common ownership interests purchased the buildings at the site in December 2006. The Company currently leases the facility for \$6,500 per month and utilizes the location as an outlet store.

*Vern Anderson, Inc.*

On November 1, 2005, the Company acquired the assets of Vern Anderson, Inc. The total cash purchase price for the dealership was \$585,229.

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

|                           | Smith<br>International<br>Inc. | H.C. Clark<br>Implement Co<br>Inc. | Vern<br>Anderson<br>Inc. | Total                |
|---------------------------|--------------------------------|------------------------------------|--------------------------|----------------------|
| Accounts receivable       | \$ 66,728                      | \$                                 | \$                       | \$ 66,728            |
| Inventories               | 4,275,742                      | 2,501,249                          | 4,083,816                | 10,860,807           |
| Property and equipment    | 236,000                        | 200,000                            | 829,239                  | 1,265,239            |
| Goodwill                  | 300,000                        | 100,000                            |                          | 400,000              |
|                           | <u>\$ 4,878,470</u>            | <u>\$ 2,801,249</u>                | <u>\$ 4,913,055</u>      | <u>\$ 12,592,774</u> |
| Floorplan notes payable   | \$ 3,356,199                   | \$ 1,482,735                       | \$ 3,877,826             | \$ 8,716,760         |
| Other liabilities assumed | 300,000                        | 550,000                            | 450,000                  | 1,300,000            |
| Deferred tax liability    |                                |                                    |                          |                      |
|                           | <u>\$ 3,656,199</u>            | <u>\$ 2,032,735</u>                | <u>\$ 4,327,826</u>      | <u>\$ 10,016,760</u> |
| Consideration given       | <u>\$ 1,222,271</u>            | <u>\$ 768,514</u>                  | <u>\$ 585,229</u>        | <u>\$ 2,576,014</u>  |

Of the total goodwill of \$400,000 recorded in the acquisition transactions during the year ended January 31, 2006, \$400,000 is expected to be deductible for tax purposes.

**NOTE 18 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Quoted market prices are generally not available for the Company's financial instruments. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. As explained in Note 1, actual results could differ from the estimates.

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, the fair value of the long-term debt approximates the carrying value as of January 31, 2008 and 2007.

**NOTE 19 SUBSEQUENT EVENTS**

On February 1, 2008, the Company acquired certain assets of an agricultural equipment dealership in Roseau, Minnesota for approximately \$3.3 million paid in cash.





**Schedule II Valuation and Qualifying Accounts and Reserves**  
**Titan Machinery Inc.**

| <b>Classification</b>                         | <b>Beginning Balance</b> | <b>Additions Charged to Expenses</b> | <b>Deductions for Write-offs</b> | <b>Ending Balance</b> |
|---|--------------------------|--------------------------------------|----------------------------------|-----------------------|
| Valuation reserve deduction from receivables: |                          |                                      |                                  |                       |
| Year ended January 31, 2008                   | \$ 35,792                | \$ 367,248                           | \$ (214,481)                     | \$ 188,559            |
| Year ended January 31, 2007                   | 34,116                   | 46,359                               | (44,683)                         | 35,792                |
| Year ended January 31, 2006                   | 22,894                   | 159,290                              | (148,068)                        | 34,116                |

| <b>Classification</b>                       | <b>Beginning Balance</b> | <b>Additions Charged to Cost of Revenue</b> | <b>Deductions for Write-offs</b> | <b>Ending Balance</b> |
|---|--------------------------|---|----------------------------------|-----------------------|
| Valuation reserve deduction from inventory: |                          |   |                                  |                       |
| Year ended January 31, 2008                 | \$ 143,300               | \$ 483,356                                  |                                  | \$ 626,656            |
| Year ended January 31, 2007                 | 161,600                  | (18,300)                                    |                                  | 143,300               |
| Year ended January 31, 2006                 | 131,200                  | 30,400                                      |                                  | 161,600               |

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**3,500,000 Shares**

**Common Stock**

**PROSPECTUS**

**Craig-Hallum Capital Group**

, 2008

**Robert W. Baird & Co.**

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**PART II.****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 13. Other expenses of issuance and distribution.**

The following table sets forth the costs and expenses, other than the underwriting discounts and commissions, payable by us in connection with the sale of common stock being registered. All amounts shown are estimates, except the SEC registration fee and the Financial Industry Regulatory Authority, Inc. filing fee.

|  | <b>Amount</b> |
|--|---------------|
| SEC registration fee                           | \$ 3,616      |
| FINRA fee                                      | \$ 9,682      |
| Blue sky fees and expenses                     | \$ *          |
| Legal fees and expenses                        | \$ *          |
| Accounting fees and expenses                   | \$ *          |
| Printing expenses                              | \$ *          |
| Transfer agent and registrar fees and expenses | \$ *          |
| Miscellaneous                                  | \$ *          |
| <b>Total</b>                                   | <b>\$ *</b>   |

\*

To be filed by amendment

**ITEM 14. Indemnification of directors and officers.**

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to an action by reason of the fact that he or she was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful, except that, in the case of an action by or in right of the corporation, no indemnification may generally be made in respect of any claim as to which such person is adjudged to be liable to the corporation. Our bylaws provide that we will indemnify and advance expenses to our directors and officers (and may choose to indemnify and advance expenses to other employees and other agents) to the fullest extent permitted by law, subject to certain procedural and other requirements set forth in the bylaws; provided, however, that in the event the corporation enters into an indemnification agreement with such directors or officers, such agreement controls. Our bylaws also permit us to carry insurance, which we have obtained, on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us, regardless of whether our bylaws permit indemnification.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, except for liability for any:

breach of a director's duty of loyalty to the corporation or its stockholders;

act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;



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unlawful payment of dividends or redemption of shares; or

transaction from which the director derives an improper personal benefit.

Our certificate of incorporation provides that our directors are not personally liable for breaches of fiduciary duties to the fullest extent permitted by the Delaware General Corporation Law.

These limitations of liability do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Section 145(g) of the Delaware General Corporation Law permits a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation. Our bylaws permit us to secure, and we have secured, insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us, regardless of whether our bylaws permit indemnification.

As permitted by the Delaware General Corporation Law, we have entered into indemnity agreements with each of our directors and officers that require us to indemnify such persons against various actions including, but not limited to, third-party actions where such director or officer, by reason of his or her corporate status, is a party or is threatened to be made a party to an action, or by reason of anything done or not done by such director or officer in any such capacity. We intend to indemnify directors and officers against all costs, judgments, penalties, fines, liabilities, amounts paid in settlement by or on behalf such directors and officers, and for any expenses actually and reasonably incurred by such directors and officers in connection with such action, if such directors or officers acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal proceeding, had no reasonable cause to believe their conduct was unlawful. We also intend to advance to our directors and officers expenses (including attorney's fees) incurred by such directors or officers in advance of the final disposition of any action after the receipt by the corporation of a statement or statements from directors or officers requesting such payment or payments from time to time, provided that such statement or statements are accompanied by an undertaking, by or on behalf of such directors or officers, to repay such amount if it shall ultimately be determined that they are not entitled to be indemnified against such expenses by the corporation.

The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification or advancement of expenses, including, among others, provisions about providing notice to the corporation of any action in connection with which a director or officer seeks indemnification or advancement of expenses from the corporation, and provisions concerning the determination of entitlement to indemnification or advancement of expenses.

Prior to the closing of this offering we plan to enter into an underwriting agreement, which will provide that the underwriters are obligated, under some circumstances, to indemnify our directors, officers and controlling persons against specified liabilities.

### **ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.**

In the three years preceding the filing of this registration statement, we issued the securities described below that were not registered under the Securities Act of 1933, as amended (the "Securities Act"). None of the transactions involved any underwriters, underwriting discounts, or commissions or any public offering, and we believe each transaction, if deemed to be a sale of a security, was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder, based on the limited number of offerees in any such offering, representations and warranties made by such offerees in the particular transactions, or the identity of such offerees as either accredited investors or our executive officers.



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1. On April 15, 2005, we completed the sale of \$1.8 million in subordinated convertible debentures, along with a warrant for the purchase of 115,650 shares of common stock, to a single accredited investor, Titan Income Holdings, LLLP. The proceeds from this offering were used for working capital and general corporate purposes, including acquisitions. No other offerings were integrated with this offering.

2. In November 2005, we completed the sale of a \$3,000,000 subordinated convertible note to a single accredited investor, CNH Capital America, LLC. The aggregate amount raised in the offering was \$3,000,000. The proceeds from this offering were used for an acquisition.

3. In January 2006, we issued a warrant for the purchase of 160,625 shares of common stock to CNH Capital America, LLC, an accredited investor, in connection with a lending arrangement pursuant to which CNH Capital provided a line of credit in the aggregate amount of \$7,500,000 and we received \$50 in cash consideration. The proceeds from the lending arrangement were used for working capital and general corporate purposes including acquisitions.

4. On March 24, 2006, we issued a warrant for the purchase of 80,313 shares of common stock to CNH Capital America, LLC, an accredited investor, in connection with a draw under the \$7,500,000 loan facility with CNH Capital.

5. On August 1, 2007, we issued an aggregate of 323,533 shares of Series D Preferred Stock to individuals affiliated with Red Power International, Inc., each of whom is an accredited investor, in connection with our acquisition of Red Power's Case IH and New Holland dealership in Crookston, Minnesota.

6. On December 11, 2007, we issued 1,641,981 shares of common stock to David Meyer, Adam Smith Growth Partners, David Christianson, Adam Smith Activist Fund, Earl Christianson and C.I. Farm Power in exchange for the cancellation of \$3,350,000 in principal amount of convertible subordinated debentures that bear interest at 9% or 10% per annum. We received no proceeds in connection with this exchange. Each of these debenture holders is an accredited investor. Also on December 11, 2007, we issued an aggregate of 235,294 shares of common stock as consideration for the acquisition of Reiten & Young International, Inc. to the former shareholders of that entity.

### ITEM 16. EXHIBITS.

(a)

#### Exhibits

The exhibits filed with this registration statement are set forth on the Exhibit Index filed as part of this registration statement immediately following the signatures on this registration statement.

### ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered, and the offering of these securities at that time shall be deemed to be the initial bona fide offering.

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*/s/* TONY CHRISTIANSON

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Director

Tony Christianson

April 28, 2008

*/s/* JAMES IRWIN

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Director

James Irwin

April 28, 2008

*/s/* JAMES WILLIAMS

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Director

James Williams

April 28, 2008

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The following exhibits are filed as part of this registration statement, pursuant to Item 601 of Regulation S-K.

| No.      | Description  |
|----------|--|
| 1.1*     | Form of Underwriting Agreement   |
| 3.1***   | Certificate of Incorporation of the registrant   |
| 3.2***   | Bylaws of the registrant   |
| 4.1***   | Specimen Certificate representing shares of common stock of Titan Machinery Inc.   |
| 4.2***   | Common Stock Purchase Warrant, dated April 7, 2003, in favor of Cherry Tree Securities, LLC.   |
| 4.3***   | Common Stock Purchase Warrant, dated August 1, 2004, in favor of Cherry Tree Securities, LLC.  |
| 4.4***   | Common Stock Purchase Warrant, dated April 15, 2005, in favor of Titan Income Holdings, LLLP.  |
| 4.5***   | Common Stock Purchase Warrant, dated February 15, 2005, in favor of Titan Income Holdings, LLLP.   |
| 5.1      | Opinion of Fredrikson & Byron, P.A.  |
| 10.1***  | 2005 Equity Incentive Plan**   |
| 10.2***  | Employment Agreement, dated November 16, 2007, between David Meyer and the registrant**  |
| 10.3***  | Employment Agreement, dated November 16, 2007, between Peter Christianson and the registrant**   |
| 10.4***  | Non-employee Director Compensation Policy**  |
| 10.5***  | Agricultural Equipment Sales & Service Agreement, dated December 31, 2002, between Case, LLC and the registrant  |
| 10.6***  | Construction Equipment Sales & Service Agreement, dated effective April 8, 2003, between Case, LLC and the registrant                                  |
| 10.7***  | Dealer Agreement, dated April 14, 2003, between New Holland North America, Inc. and the registrant, as amended December 27, 2005 and December 9, 2006. |
| 10.8***  | Construction Equipment Sales & Service Agreement, dated effective June 15, 2006, between CNH America, LLC and the registrant                           |
| 10.9***  | Dealer Agreement, effective February 20, 2007, between CNH America LLC and the registrant  |
| 10.10*** | Dealer Agreement, dated effective June 22, 2006, between CNH America LLC and the registrant  |
| 10.11*** | Dealer Agreements, dated effective April 1, 2006, between CNH America and the registrant   |
| 10.12*** | Dealer Agreement, dated April 1, 2005, between CNH America LLC and the registrant.   |
| 10.13*** | Dealer Agreement, dated effective January 1, 2000 between New Holland North America, Inc. and the registrant   |
| 10.14*** | Dealer Security Agreements between New Holland North America, Inc. and the registrant  |

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- 10.15\*\*\* Dealer Security Agreements between CNH America LLC and the registrant
- 10.16\*\*\* Lease by and between Rocking Horse Farm, LLC and the registrant, dated August 2, 2004, and Addendum No. 1 thereto dated September 13, 2005.
- 10.17\*\*\* Wholesale Floor Plan Credit Facility and Security Agreement, dated as of February 21, 2006, between CNH Capital America LLC and the registrant.
- 10.18\*\*\* Agreement for Wholesale Financing, dated June 29, 2004, between GE Commercial Distribution Finance Corporation and the registrant (and amendments dated January 24, 2007, November 7, 2005, June 29, 2004).
- 10.19\*\*\* Loan Agreement, dated August 7, 2007, between Bremer Bank, N.A. and the registrant.
- 10.20\*\*\* Shareholder Rights Agreement, dated April 7, 2003, by and between the registrant and the individuals listed on Schedule A.
- 10.21\*\*\* Amendment No. 1 to Shareholder Rights Agreement, dated January 31, 2006, by and between the registrant and the individuals listed on Schedule A.
- 10.22\*\*\* Form of Incentive Stock Option Agreement under the 2005 Equity Incentive Plan.
- 10.23\*\*\* Form of Non-Qualified Stock Option Agreement under the 2005 Equity Incentive Plan.
- 10.24\*\*\* Form of Restricted Stock Agreement under the 2005 Equity Incentive Plan.
- 10.25\*\*\* Amended and Restated Wholesale Floorplan Credit Facility and Security Agreement, dated November 13, 2007, between CNH Capital America LLC and the registrant.
- 10.26\*\*\* Consent and Agreement, dated November 13, 2007, between CNH Capital America LLC and the registrant.
- 10.27\*\*\* Amendment to Case IH Agricultural Equipment Sales and Service Agreement, dated November 14, 2007, between CNH America LLC and Red Power International, Inc.
- 10.28\*\*\* Amendment to Case IH Agricultural Equipment Sales and Service Agreements, dated November 14, 2007, between CNH America LLC and the registrant.
- 10.29\*\*\* Amendment to Case Construction Equipment Sales and Service Agreements, dated November 14, 2007, between CNH America LLC and the registrant.
- 10.30\*\*\* Amendment to Kobelco Construction Machinery America LLC Dealer Agreement, dated November 14, 2007, between Kobelco Construction Machinery America LLC and the registrant.
- 10.31\*\*\* Amendment to CNH America LLC Dealer Agreement for New Holland Construction Products, dated November 14, 2007, between CNH America LLC and the registrant.
- 10.32\*\*\* Amendment to CNH America LLC Dealer Agreement for New Holland Agricultural Equipment, dated November 14, 2007, between CNH America LLC and the registrant.
- 10.33\*\*\* Recapitalization Agreement, dated effective August 16, 2007, among the registrant, David J. Meyer, C.I. Farm Power, Inc., Peter Christianson, Adam Smith Growth Partners, L.P., Adam Smith Companies, LLC, Tony J. Christianson, Adam Smith Activist Fund, LLC, David Christianson and Earl Christianson.
- 10.34\*\*\* Form of Director and Officer Indemnification Agreement.
- 10.35\*\*\* Agreement, dated July 17, 2007, between Cherry Tree Securities, LLC and the registrant.

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- 10.36\*\*\* Amendment to Loan Documents dated December 4, 2007 between the registrant and Bremer Bank, N.A.
- 10.37 Titan Machinery Inc. Fiscal 2009 Non-Employee Director Compensation Plan (incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2007).\*\*
- 10.38 Titan Machinery Inc. Fiscal 2008 Executive Bonus Plan (incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2007).\*\*
- 10.39 Compensation Arrangements for Executive Officers (incorporated by reference to Exhibit 10.39 to the registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2008).\*\*
- 21 Subsidiaries of the Registrant: Transportation Solutions, LLC
- 23.1 Consent of Eide Bailly LLP.
- 23.2 Consent of Fredrikson & Byron, P.A. (included in Exhibit 5.1).
- 24.1 Power of Attorney (included on Page II-4).
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\*  
To be filed by amendment

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Indicates management contract or compensatory plan or arrangement.

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Incorporated by reference to the corresponding exhibit numbers to our Registration Statement on Form S-1, Reg. No. 333-145526