Titan Machinery Inc.
Form 10-Q
December 07, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2017

Commission File No. 001-33866

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

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

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

Registrant’s telephone number (701) 356-0130

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES o NO o

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

The number of shares outstanding of the registrant's common stock as of November 30, 2017 was: Common Stock, $0.00001 par value, 22,094,610 shares.

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PART I. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 31, 2017	January 31, 2017
Assets		
Current Assets		
Cash	$ 43,861	$ 53,151
Receivables (net of allowance of $3,233 and $3,630 as of October 31, 2017 and January 31, 2017, respectively)	73,605	60,082
Inventories	529,761	478,266
Prepaid expenses and other	8,363	10,989
Income taxes receivable	111	5,380
Total current assets	655,701	607,868
Noncurrent Assets		
Intangible assets, net of accumulated amortization	4,944	5,001
Property and equipment, net of accumulated depreciation	156,426	156,647
Deferred income taxes	271	547
Other	948	1,359
Total noncurrent assets	162,589	163,554
Total Assets	$ 818,290	$ 771,422
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 19,567	$ 17,326
Floorplan payable	322,439	233,228
Current maturities of long-term debt	1,529	1,373
Customer deposits	15,111	26,366
Accrued expenses and other	27,298	30,533
Total current liabilities	385,944	308,826
Long-Term Liabilities		
Senior convertible notes	62,277	88,501
Long-term debt, less current maturities	35,892	38,236
Deferred income taxes	4,806	9,500
Other long-term liabilities	10,216	5,180
Total long-term liabilities	113,191	141,417
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value $.00001 per share, 45,000 shares authorized; 22,042 shares issued and outstanding at October 31, 2017; 21,836 shares issued and outstanding at January 31, 2017	—	—
Additional paid-in-capital	245,140	240,615
Retained earnings	75,361	85,347
Accumulated other comprehensive loss	(1,346)	(4,783)
Total stockholders' equity	319,155	321,179

Total Liabilities and Stockholders' Equity	$ 818,290	$ 771,422

See Notes to Consolidated Financial Statements

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Revenue				
Equipment	$215,956	$212,194	$551,752	$570,369
Parts	64,729	69,261	176,892	185,106
Service	31,532	33,777	90,807	96,065
Rental and other	18,124	17,034	43,879	43,919
Total Revenue	330,341	332,266	863,330	895,459
Cost of Revenue				
Equipment	199,154	201,140	509,400	532,370
Parts	45,408	48,387	124,868	130,006
Service	11,139	11,828	33,377	35,473
Rental and other	13,163	12,485	32,482	32,703
Total Cost of Revenue	268,864	273,840	700,127	730,552
Gross Profit	61,477	58,426	163,203	164,907
Operating Expenses	50,374	53,143	152,884	159,132
Restructuring Costs	2,587	275	10,480	546
Income (Loss) from Operations	8,516	5,008	(161)	5,229
Other Income (Expense)				
Interest income and other income	380	502	1,840	1,251
Floorplan interest expense	(1,900)	(3,294)	(6,719)	(10,843)
Other interest expense	(2,110)	(2,160)	(6,694)	(5,930)
Income (Loss) Before Income Taxes	4,886	56	(11,734)	(10,293)
Provision for (Benefit from) Income Taxes	2,502	(208)	(3,000)	(3,997)
Net Income (Loss) Including Noncontrolling Interest	$2,384	$264	$(8,734)	$(6,296)
Less: Loss Attributable to Noncontrolling Interest	—	—	—	(356)
Net Income (Loss) Attributable to Titan Machinery Inc.	$2,384	$264	$(8,734)	$(5,940)
Net (Income) Loss Allocated to Participating Securities - Note 1	(56)	(8)	176	120
Net Income (Loss) Attributable to Titan Machinery Inc. Common Stockholders	$2,328	$256	$(8,558)	$(5,820)
Earnings (Loss) per Share - Note 1				
Earnings (Loss) per Share - Basic	$0.11	$0.01	$(0.40)	$(0.27)
Earnings (Loss) per Share - Diluted	$0.11	$0.01	$(0.40)	$(0.27)
Weighted Average Common Shares - Basic	21,585	21,218	21,503	21,208
Weighted Average Common Shares - Diluted	21,643	21,269	21,503	21,208

See Notes to Consolidated Financial Statements

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Net Income (Loss) Including Noncontrolling Interest	$2,384	$264	$(8,734)	$(6,296)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	1,369	626	2,760	945
Unrealized gain (loss) on interest rate swap cash flow hedge derivative instrument, net of tax expense (benefit) of $91 for the three months ended October 31, 2016, and $19 and ($109) for the nine months ended October 31, 2017 and 2016	—	137	29	(163)
Reclassification of loss on interest rate swap cash flow hedge derivative instrument included in net loss, net of tax benefit of $39 and $133 for the three months ended October 31, 2017 and 2016, and $433 and $426 for the nine months ended October 31, 2017 and 2016	59	200	651	638
Total Other Comprehensive Income	1,428	963	3,440	1,420
Comprehensive Income (Loss)	3,812	1,227	(5,294)	(4,876)
Comprehensive Loss Attributable to Noncontrolling Interest	—	—	—	(333)
Comprehensive Income (Loss) Attributable To Titan Machinery Inc.	$3,812	$1,227	$(5,294)	$(4,543)

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

	Nine Months Ended October 31, 2017	2016
Operating Activities		
Net loss including noncontrolling interest	$(8,734)	$(6,296)
Adjustments to reconcile net loss including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	18,949	19,896
Impairment	131	275
Deferred income taxes	(3,121)	825
Stock-based compensation expense	2,478	1,805
Noncash interest expense	2,917	4,305
Unrealized foreign currency gain on loans to international subsidiaries	(1,115)	(44)
Gain on repurchase of senior convertible notes	(22)	(3,130)
Other, net	(548)	(980)
Changes in assets and liabilities		
Receivables, prepaid expenses and other assets	(9,784)	(18,070)
Inventories	(41,748)	91,222
Manufacturer floorplan payable	97,734	(20,821)
Accounts payable, customer deposits, accrued expenses and other and other long-term liabilities	(7,328)	(2,546)
Income taxes	6,222	7,957
Net Cash Provided by Operating Activities	56,031	74,398
Investing Activities		
Rental fleet purchases	(11,784)	(3,094)
Property and equipment purchases (excluding rental fleet)	(12,129)	(7,121)
Proceeds from sale of property and equipment	4,564	2,285
Proceeds from insurance recoveries	—	1,431
Other, net	430	(517)
Net Cash Used for Investing Activities	(18,919)	(7,016)
Financing Activities		
Net change in non-manufacturer floorplan payable	(14,357)	(54,478)
Repurchase of senior convertible notes	(29,093)	(46,013)
Proceeds from long-term debt borrowings	33,000	—
Principal payments on long-term debt	(36,121)	(1,935)
Payment of debt issuance costs	(27)	(31)
Loan provided to non-controlling interest holder	—	(2,148)
Other, net	(341)	(33)
Net Cash Used for Financing Activities	(46,939)	(104,638)
Effect of Exchange Rate Changes on Cash	537	222
Net Change in Cash	(9,290)	(37,034)
Cash at Beginning of Period	53,151	89,465
Cash at End of Period	$43,861	$52,431
Supplemental Disclosures of Cash Flow Information		
Cash paid (received) during the period		
Income tax refunds, net of payments	$(5,768)	$(12,942)
Interest	$11,254	$15,544

Supplemental Disclosures of Noncash Investing and Financing Activities		
Net property and equipment financed with long-term debt, accounts payable and accrued expenses and other	$729	$2,818
Net transfer of assets from property and equipment to inventories	$(3,010)	$(4,411)
Acquisition of non-controlling interest through satisfaction of outstanding receivables	$—	$4,324

See Notes to Consolidated Financial Statements

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

NOTE 1—BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. The quarterly operating results for Titan Machinery Inc. (the “Company”) are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by the Company’s Agriculture, Construction and International customers. Therefore, operating results for the nine-month period ended October 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2018. The information contained in the balance sheet as of January 31, 2017 was derived from the audited financial statements for the Company for the year then ended. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2017 as filed with the SEC.

Nature of Business

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

Estimates

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

Principles of Consolidation

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

In June 2016, the Company acquired all of the outstanding ownership interest held by the non-controlling interest holder of the Company's Bulgarian subsidiary. Subsequent to this acquisition, all of the Company's subsidiaries are wholly-owned.

Earnings (Loss) Per Share (“EPS”)

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

Diluted EPS was computed by dividing net income (loss) attributable to Titan Machinery Inc. after allocation of net income (loss) to participating securities by the weighted-average shares of common stock outstanding after adjusting for potential dilution related to the conversion of all dilutive securities into common stock. All potentially dilutive securities were included in the computation of diluted EPS. All anti-dilutive securities were excluded from the computation of diluted EPS.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
	(in thousands, except per share data)		(in thousands, except per share data)	
Basic Weighted-Average Common Shares Outstanding	21,585	21,218	21,503	21,208
Plus: Incremental Shares From Assumed Exercise of Stock Options	58	51	—	—
Diluted Weighted-Average Common Shares Outstanding	21,643	21,269	21,503	21,208
Anti-Dilutive Shares Excluded From Diluted Weighted-Average Common Shares Outstanding:				
Stock Options	103	141	106	146
Shares Underlying Senior Convertible Notes (conversion price of $43.17)	1,521	2,217	1,521	2,217
Earnings (Loss) per Share - Basic	$ 0.11	$ 0.01	$ (0.40)	$ (0.27)
Earnings (Loss) per Share - Diluted	$ 0.11	$ 0.01	$ (0.40)	$ (0.27)

Recent Accounting Guidance

Accounting guidance adopted

In July 2015, the Financial Accounting Standards Board (the "FASB") amended authoritative guidance on accounting for the measurement of inventory, codified in ASC 330, Inventory. The amended guidance requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this guidance on a prospective basis on February 1, 2017. Under the former guidance for measuring inventory, the Company recognized lower of-cost-or-market adjustments using a definition of market value as net realizable value reduced by an allowance for a normal profit margin. Upon implementation of the new authoritative guidance, market is defined solely as net realizable value. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB amended authoritative guidance on stock-based compensation, codified in ASC 718, Compensation - Stock Compensation. The amended guidance changes the accounting for certain aspects of share-based payments, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statements of cash flows. The Company adopted this guidance on February 1, 2017. Under the new guidance, excess tax benefits or deficiencies related to share-based compensation that were previously recorded to equity are now recognized as a discrete tax benefit or expense in the statement of operations. The impact on income tax expense (benefit) was not material for the first quarter of fiscal 2018. Excess tax benefits are no longer reclassified out of cash flows from operating activities to financing activities in the statement of cash flows. We elected to apply this cash flow presentation requirement prospectively. The amount of excess tax benefits recognized for the three and nine months ended October 31, 2017 and 2016 were not material. Cash paid by an employer when directly withholding shares for tax withholding purposes are required to be classified as a financing activity in the statement of cash flows. This method of presentation is consistent with the Company's historical presentation. Also under the new standard, the Company elected to account for forfeitures of share-based instruments as they occur, as compared to the previous guidance under which the Company estimated the number of forfeitures. The Company applied the accounting change on a modified retrospective basis as a cumulative-effect adjustment to retained earnings as of February 1, 2017. The following table summarizes the impact to the Company’s consolidated balance sheet:

	As of February 1, 2017
	Balance Sheet Classification

	Additional paid-in capital	Deferred income tax liability	Retained earnings
	(in thousands)		
	Increase (Decrease)		
Impact of cumulative-effect adjustment from adoption of ASU 2016-09	$2,087	$(835)	$(1,252)

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Accounting guidance not yet adopted

In May 2014 and August 2015, the FASB issued authoritative guidance on accounting for revenue recognition, codified in ASC 606, Revenue from Contracts with Customers. This guidance has been amended on various occasions and supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Company will adopt this guidance on February 1, 2018.

We are in the process of assessing the impact adoption of this standard will have on our consolidated financial statements and related disclosures. Our implementation efforts to date consist of an identification and assessment of our primary revenue streams and performing contract analyses over a sample of contracts within each of our revenue streams. Based on our assessment to date, we do not expect the adoption of this standard to have a material impact on our revenue recognition policies for our equipment, parts or service revenues. ASC 606 does not apply to the recognition of our rental revenues as the accounting for such revenues is governed by other authoritative guidance. We anticipate adopting the standard by use of the modified retrospective approach. In addition, we are continuing to evaluate the changes necessary to our business processes, systems and controls to support recognition and disclosure under the new standard.

In February 2016, the FASB amended authoritative guidance on leases, codified in ASC 842, Leases. The amended guidance requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The new standard also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach, with elective reliefs, which requires application of the guidance for all periods presented. We anticipate adopting the new standard on February 1, 2019, and expect to elect the package of practical expedients afforded under the guidance, including the use of hindsight to determine the lease term. While we continue to evaluate this standard, we anticipate this standard will have a material impact on our consolidated balance sheets due to the capitalization of a right-of-use asset and lease liability associated with our current operating leases, but do not believe it will have a material impact on our consolidated statements of operations or cash flows.

In May 2017, the FASB amended authoritative guidance on modifications related to stock compensation, codified in ASC 718, Compensation - Stock Compensation. The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. The guidance is effective for the Company as of the first quarter of its fiscal year ending January 31, 2019. The Company does not believe the update will have a material impact on its consolidated financial statements.

In August 2017, the FASB amended authoritative guidance on hedge accounting, codified in ASC 815, Derivatives and Hedging. The amendments better align the accounting rules with a company's risk management activities; better reflects economic results of hedging in financial statements; and simplifies hedge accounting treatment. The guidance is effective for the Company as of the first quarter of its fiscal year ending January 31, 2020. The Company is evaluating the impact of this new standard on the financial statements.

NOTE 2—INVENTORIES

	October 31, 2017	January 31, 2017
	(in thousands)	
New equipment	$343,434	$235,161
Used equipment	114,499	160,503
Parts and attachments	70,170	81,734
Work in process	1,658	868

	$529,761	$478,266

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NOTE 3—PROPERTY AND EQUIPMENT

	October 31, 2017	January 31, 2017
	(in thousands)	
Rental fleet equipment	$125,533	$124,417
Machinery and equipment	21,701	22,255
Vehicles	37,558	36,384
Furniture and fixtures	39,334	39,875
Land, buildings, and leasehold improvements	63,652	59,481
	287,778	282,412
Less accumulated depreciation	(131,352)	(125,765)
	$156,426	$156,647

NOTE 4—LINES OF CREDIT / FLOORPLAN PAYABLE

Floorplan Lines of Credit

Floorplan payable balances reflect the amount owed for new equipment inventory purchased from a manufacturer and for used equipment inventory, which is primarily acquired through trade-in on equipment sales. Certain of the manufacturers from which the Company purchases new equipment inventory offer financing on these purchases, either offered directly from the manufacturer or through the manufacturers' captive finance subsidiaries. CNH Industrial's captive finance subsidiary, CNH Industrial Capital, also provides financing of used equipment inventory. The Company also has floorplan payable balances with non-manufacturer lenders for new and used equipment inventory. Cash flows associated with manufacturer floorplan payable are reported as operating cash flows, while cash flows associated with non-manufacturer floorplan payable are reported as financing cash flows in the Company's consolidated statements of cash flows. The Company has three significant floorplan lines of credit for U.S. operations, floorplan credit facilities for its foreign subsidiaries, and other floorplan payable balances with non-manufacturer lenders and manufacturers.

As of October 31, 2017, the Company had discretionary floorplan lines of credit for equipment inventory purchases totaling approximately $727.4 million, which includes a $140.0 million Floorplan Payable Line under its second amended and restated credit agreement with Wells Fargo (the "Wells Fargo Credit Agreement"), a $450.0 million credit facility with CNH Industrial Capital, a $30.0 million credit facility with DLL Finance and the U.S. dollar equivalent of $107.4 million in credit facilities related to our foreign subsidiaries. Floorplan payables relating to these credit facilities totaled approximately $306.6 million of the total floorplan payable balance of $322.4 million outstanding as of October 31, 2017 and $228.3 million of the total floorplan payable balance of $233.2 million outstanding as of January 31, 2017. The remaining outstanding balances relate to equipment inventory financing from manufacturers and non-manufacturer lenders other than the lines of credit described above. As of October 31, 2017, the interest-bearing U.S. floorplan payables carried various interest rates primarily ranging from 3.74% to 6.55%, and the foreign floorplan payables carried various interest rates primarily ranging from 0.92% to 7.24%.

As of October 31, 2017, the Company had a compensating balance arrangement under one of its foreign floorplan credit facilities, which requires a minimum cash deposit to be maintained with the lender in the amount of $5.0 million for the term of the credit facility.

Working Capital Line

As of October 31, 2017, the Company had a $60.0 million Working Capital Line under the Wells Fargo Credit Agreement. The Company had $13.0 million and $13.0 million outstanding on this Working Capital Line as of October 31, 2017 and January 31, 2017, respectively. As of October 31, 2017, the Working Capital Line carried an interest rate of 3.73%.

Wells Fargo Credit Agreement

As a result of our ongoing equipment inventory reduction and related reduction in floorplan financing needs, in May 2017, the Company provided notice to Wells Fargo of its election to reduce the maximum credit amount available under the Wells Fargo Credit Agreement from an aggregate of $275.0 million to an aggregate of $200.0 million, comprised of a $70.0 million reduction in the Floorplan Payable Line, from $210.0 million to $140.0 million, and a

$5.0 million reduction in the Working Capital Line, from $65.0 million to $60.0 million.

As a result of the reduction of the maximum credit amount available under the Wells Fargo Credit Agreement, in the second quarter of fiscal 2018, the Company wrote off $0.4 million of capitalized debt issuance costs. This charge is recorded in other interest expense in the consolidated statements of operations.

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CNH Industrial Capital Floorplan Payable Line of Credit

In October 2017, the minimum fixed charge coverage ratio that is imposed under the CNH Industrial Capital credit facility was decreased from 1.25:1.00 to 1.10:1.00.

DLL Finance Floorplan Payable Line of Credit

In September 2017, the Company provided notice to DLL Finance of its election to reduce the maximum credit amount available under the DLL Finance credit facility from $45.0 million to $30.0 million. Additionally, the minimum fixed charge coverage ratio that is imposed under the DLL Finance credit facility was decreased from 1.25:1.00 to 1.10:1.00.

NOTE 5—SENIOR CONVERTIBLE NOTES

The Company’s 3.75% senior convertible notes issued on April 24, 2012 (“senior convertible notes”) consisted of the following:

	October 31, 2017	January 31, 2017
	(in thousands except conversion rate and conversion price)	
Principal value	$ 65,644	$ 95,725
Unamortized debt discount	(2,973)	(6,368)
Unamortized debt issuance costs	(394)	(856)
Carrying value of senior convertible notes	$ 62,277	$ 88,501
Carrying value of equity component, net of deferred taxes	$ 14,923	$ 15,546