

TITAN INTERNATIONAL INC  
Form 10-Q  
October 29, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For Quarterly Period Ended: September 30, 2013

or

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

Commission file number 1-12936

TITAN INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Illinois

(State of Incorporation)

2701 Spruce Street, Quincy, IL 62301

(Address of principal executive offices, including Zip Code)

36-3228472

(I.R.S. Employer Identification No.)

(217) 228-6011

(Registrant's telephone number, including area code)

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 such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See 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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Shares Outstanding at<br>October 21, 2013 |
|-------|---|
|-------|---|

|                                      |            |
|--------------------------------------|------------|
| Common stock, no par value per share | 53,550,422 |
|--------------------------------------|------------|



TITAN INTERNATIONAL, INC.

## TABLE OF CONTENTS

|                 | Page   |           |
|-----------------|--|-----------|
| <u>Part I.</u>  | <u>Financial Information</u>   |           |
| <u>Item 1.</u>  | <u>Financial Statements (Unaudited)</u>  |           |
|                 | <u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012</u>           | <u>1</u>  |
|                 | <u>Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012</u> | <u>2</u>  |
|                 | <u>Consolidated Condensed Balance Sheets as of September 30, 2013, and December 31, 2012</u>                                     | <u>3</u>  |
|                 | <u>Consolidated Condensed Statement of Changes in Equity for the Nine Months Ended September 30, 2013</u>                        | <u>4</u>  |
|                 | <u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>                     | <u>5</u>  |
|                 | <u>Notes to Consolidated Condensed Financial Statements</u>  | <u>6</u>  |
| <u>Item 2.</u>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                     | <u>28</u> |
| <u>Item 3.</u>  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>44</u> |
| <u>Item 4.</u>  | <u>Controls and Procedures</u>   | <u>44</u> |
| <u>Part II.</u> | <u>Other Information</u>   |           |
| <u>Item 1.</u>  | <u>Legal Proceedings</u>   | <u>45</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u>  | <u>45</u> |
| <u>Item 6.</u>  | <u>Exhibits</u>  | <u>45</u> |
|                 | <u>Signatures</u>  | <u>45</u> |

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## TITAN INTERNATIONAL, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

(All amounts in thousands, except per share data)

|  | Three months ended |           | Nine months ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2013               | 2012      | 2013              | 2012        |
| Net sales  | \$497,510          | \$404,719 | \$1,669,188       | \$1,327,040 |
| Cost of sales                                      | 435,004            | 337,558   | 1,423,276         | 1,084,430   |
| Gross profit                                       | 62,506             | 67,161    | 245,912           | 242,610     |
| Selling, general and administrative expenses       | 38,731             | 25,497    | 124,827           | 79,742      |
| Research and development expenses                  | 2,778              | 1,759     | 8,281             | 4,456       |
| Royalty expense                                    | 3,942              | 3,739     | 10,960            | 8,740       |
| Supply agreement termination income                | —                  | —         | —                 | (26,134 )   |
| Income from operations                             | 17,055             | 36,166    | 101,844           | 175,806     |
| Interest expense                                   | (12,414 )          | (6,187 )  | (35,924 )         | (18,699 )   |
| Convertible debt conversion charge                 | —                  | —         | (7,273 )          | —           |
| Gain on earthquake insurance recovery              | —                  | —         | 22,451            | —           |
| Other income                                       | 8,722              | 2,439     | 7,712             | 6,163       |
| Income before income taxes                         | 13,363             | 32,418    | 88,810            | 163,270     |
| Provision for income taxes                         | 5,711              | 13,589    | 38,913            | 64,722      |
| Net income   | 7,652              | 18,829    | 49,897            | 98,548      |
| Net loss attributable to noncontrolling interests  | (441 )             | (750 )    | (888 )            | (506 )      |
| Net income attributable to Titan                   | \$8,093            | \$19,579  | \$50,785          | \$99,054    |
| Earnings per common share:                         |                    |           |                   |             |
| Basic  | \$.15              | \$.46     | \$.96             | \$2.35      |
| Diluted  | \$.15              | \$.39     | \$.89             | \$1.92      |
| Average common shares and equivalents outstanding: |                    |           |                   |             |
| Basic  | 53,440             | 42,180    | 52,900            | 42,148      |
| Diluted  | 59,391             | 53,326    | 59,444            | 53,315      |
| Dividends declared per common share:               | \$.005             | \$.005    | \$.015            | \$.015      |

See accompanying Notes to Consolidated Financial Statements.



TITAN INTERNATIONAL, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
(All amounts in thousands)

|  | Three months ended<br>September 30, |          |   |
|--|-------------------------------------|----------|---|
|  | 2013                                | 2012     |   |
| Net income   | \$7,652                             | \$18,829 |   |
| Unrealized loss on investments, net of tax of \$0 and \$208, respectively  | —                                   | (353     | ) |
| Currency translation adjustment, net                                       | 854                                 | (1,247   | ) |
| Pension liability adjustments, net of tax of \$557 and \$491, respectively | 969                                 | 836      |   |
| Comprehensive income   | 9,475                               | 18,065   |   |
| Net comprehensive loss attributable to noncontrolling interests            | (85                                 | ) (1,104 | ) |
| Comprehensive income attributable to Titan                                 | \$9,560                             | \$19,169 |   |

|  | Nine months ended<br>September 30, |          |   |
|--|------------------------------------|----------|---|
|  | 2013                               | 2012     |   |
| Net income   | \$49,897                           | \$98,548 |   |
| Unrealized loss on investments, net of tax of \$0 and \$9, respectively        | (3                                 | ) (16    | ) |
| Currency translation adjustment, net   | (24,513                            | ) (5,816 | ) |
| Pension liability adjustments, net of tax of \$1,670 and \$1,473, respectively | 2,990                              | 2,508    |   |
| Comprehensive income   | 28,371                             | 95,224   |   |
| Net comprehensive loss attributable to noncontrolling interests                | (3,243                             | ) (859   | ) |
| Comprehensive income attributable to Titan                                     | \$31,614                           | \$96,083 |   |

See accompanying Notes to Consolidated Financial Statements.



TITAN INTERNATIONAL, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)  
(All amounts in thousands, except share data)

|  | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current assets   |                       |                      |
| Cash and cash equivalents  | \$447,456             | \$189,114            |
| Accounts receivable, net   | 290,247               | 297,798              |
| Inventories  | 375,893               | 366,385              |
| Deferred income taxes  | 33,133                | 50,558               |
| Prepaid and other current assets   | 97,292                | 92,268               |
| Total current assets   | 1,244,021             | 996,123              |
| Property, plant and equipment, net   | 561,706               | 568,344              |
| Goodwill   | 22,534                | 24,941               |
| Deferred income taxes  | 7,241                 | 8,383                |
| Other assets   | 112,259               | 112,444              |
| Total assets   | \$1,947,761           | \$1,710,235          |
| Liabilities and Equity   |                       |                      |
| Current liabilities  |                       |                      |
| Short-term debt  | \$104,884             | \$145,801            |
| Accounts payable   | 195,123               | 180,065              |
| Other current liabilities  | 153,476               | 141,214              |
| Total current liabilities  | 453,483               | 467,080              |
| Long-term debt   | 637,388               | 441,438              |
| Deferred income taxes  | 47,216                | 62,259               |
| Other long-term liabilities  | 98,632                | 107,096              |
| Total liabilities  | 1,236,719             | 1,077,873            |
| Equity   |                       |                      |
| Titan stockholders' equity   |                       |                      |
| Common stock (no par, 120,000,000 shares authorized, 55,253,092 and 50,350,048 issued, respectively) | —                     | —                    |
| Additional paid-in capital   | 557,467               | 507,199              |
| Retained earnings  | 223,389               | 173,407              |
| Treasury stock (at cost, 1,712,557 and 1,787,844 shares, respectively)                               | (15,769)              | (16,445)             |
| Treasury stock reserved for deferred compensation  | (1,075)               | (1,075)              |
| Accumulated other comprehensive loss   | (75,640)              | (56,469)             |
| Total Titan stockholders' equity   | 688,372               | 606,617              |
| Noncontrolling interests   | 22,670                | 25,745               |
| Total equity   | 711,042               | 632,362              |
| Total liabilities and equity   | \$1,947,761           | \$1,710,235          |

See accompanying Notes to Consolidated Financial Statements.





TITAN INTERNATIONAL, INC.  
CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
(All amounts in thousands, except share data)

|  | Number of<br>common<br>shares | Additional<br>paid-in<br>capital | Retained<br>earnings | Treasury<br>stock | Treasury<br>stock<br>reserved<br>for<br>deferred<br>compensation | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Total<br>Equity | Noncontrol<br>interest | Total<br>Equity |
|--|-------------------------------|----------------------------------|----------------------|-------------------|--|---|-----------------|------------------------|-----------------|
| Balance<br>January 1,<br>2013                            | 48,562,204                    | \$507,199                        | \$173,407            | \$(16,445)        | \$(1,075)  | \$(56,469)  | \$606,617       | \$25,745               | \$632,362       |
| Net income   |                               |                                  | 50,785               |                   |  |   | 50,785          | (888)                  | 49,897          |
| Currency<br>translation<br>adjustment                    |                               |                                  |                      |                   |  | (22,158)  | (22,158)        | (2,355)                | (24,513)        |
| Pension<br>liability<br>adjustments,<br>net of tax       |                               |                                  |                      |                   |  | 2,990   | 2,990           |                        | 2,990           |
| Unrealized<br>loss on<br>investment                      |                               |                                  |                      |                   |  | (3)   | (3)             |                        | (3)             |
| Dividends on<br>common stock                             |                               |                                  | (803)                |                   |  |   | (803)           |                        | (803)           |
| Note<br>conversion                                       | 4,903,044                     | 45,903                           |                      |                   |  |   | 45,903          |                        | 45,903          |
| Exercise of<br>stock options                             | 49,967                        | 414                              |                      | 449               |  |   | 863             |                        | 863             |
| Acquisition  |                               |                                  |                      |                   |  |   | —               | 168                    | 168             |
| Stock-based<br>compensation                              |                               | 3,727                            |                      |                   |  |   | 3,727           |                        | 3,727           |
| Tax benefit<br>related to<br>stock-based<br>compensation |                               | (46)                             |                      |                   |  |   | (46)            |                        | (46)            |
| Issuance of<br>treasury stock<br>under 401(k)<br>plan    | 25,320                        | 270                              |                      | 227               |  |   | 497             |                        | 497             |
| Balance<br>September 30,<br>2013                         | 53,540,535                    | \$557,467                        | \$223,389            | \$(15,769)        | \$(1,075)  | \$(75,640)  | \$688,372       | \$22,670               | \$711,042       |

See accompanying Notes to Consolidated Financial Statements.

4

---

TITAN INTERNATIONAL, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(All amounts in thousands)

|   | Nine months ended September 30, |            |
|---|---------------------------------|------------|
|   | 2013                            | 2012       |
| Cash flows from operating activities:   |                                 |            |
| Net income  | \$49,897                        | \$98,548   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |            |
| Depreciation and amortization   | 56,333                          | 35,865     |
| Amortization of debt premium  | (2,185)                         | ) —        |
| Deferred income tax provision   | (6,860)                         | ) 6,906    |
| Convertible debt conversion charge  | 7,273                           | —          |
| Gain on earthquake insurance recovery   | (22,451)                        | ) —        |
| Supply agreement termination income   | —                               | (26,134)   |
| Stock-based compensation  | 3,727                           | 2,959      |
| Excess tax benefit from stock options exercised                                   | 46                              | (185)      |
| Insurance proceeds  | 35,808                          | —          |
| Issuance of treasury stock under 401(k) plan                                      | 497                             | 453        |
| (Increase) decrease in assets:  |                                 |            |
| Accounts receivable   | (1,022)                         | ) (24,099) |
| Inventories   | (18,599)                        | ) (36,921) |
| Prepaid and other current assets  | (24,687)                        | ) (17,619) |
| Other assets  | 5,924                           | 3,699      |
| Increase (decrease) in liabilities:   |                                 |            |
| Accounts payable  | 23,302                          | 25,893     |
| Other current liabilities   | 23,218                          | 4,786      |
| Other liabilities   | 1,968                           | 10,937     |
| Net cash provided by operating activities   | 132,189                         | 85,088     |
| Cash flows from investing activities:   |                                 |            |
| Capital expenditures  | (54,956)                        | ) (36,319) |
| Acquisitions, net of cash acquired  | (1,670)                         | ) (32,760) |
| Additional equity investment in Wheels India                                      | (8,017)                         | ) —        |
| Insurance proceeds  | 2,879                           | —          |
| Other   | 1,342                           | 636        |
| Net cash used for investing activities  | (60,422)                        | ) (68,443) |
| Cash flows from financing activities:   |                                 |            |
| Proceeds from borrowings  | 345,313                         | —          |
| Payment on debt   | (162,040)                       | ) (14,434) |
| Term loan borrowing   | 25,880                          | 4,378      |
| Convertible note conversion   | (14,090)                        | ) —        |
| Proceeds from exercise of stock options   | 863                             | 925        |
| Excess tax benefit from stock options exercised                                   | (46)                            | ) 185      |
| Payment of financing fees   | (5,520)                         | ) —        |
| Dividends paid  | (778)                           | ) (634)    |
| Net cash provided by (used for) financing activities                              | 189,582                         | (9,580)    |
| Effect of exchange rate changes on cash   | (3,007)                         | ) (1,345)  |
| Net increase in cash and cash equivalents   | 258,342                         | 5,720      |
| Cash and cash equivalents, beginning of period                                    | 189,114                         | 129,170    |
| Cash and cash equivalents, end of period  | \$447,456                       | \$134,890  |

Supplemental information:

|   |          |          |
|---|----------|----------|
| Interest paid   | \$18,484 | \$15,330 |
| Income taxes paid                                     | \$56,523 | \$63,669 |
| Noncash investing and financing information:          |          |          |
| Issuance of common stock for convertible debt payment | \$45,903 | \$—      |

See accompanying Notes to Consolidated Financial Statements.

5

---

TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

1. ACCOUNTING POLICIES

In the opinion of Titan International, Inc. (Titan or the Company), the accompanying unaudited consolidated condensed financial statements contain all adjustments, which are normal and recurring in nature and necessary for a fair statement of the Company's financial position as of September 30, 2013, and the results of operations and cash flows for the three and nine months ended September 30, 2013 and 2012.

Accounting policies have continued without significant change and are described in the Description of Business and Significant Accounting Policies contained in the Company's 2012 Annual Report on Form 10-K. These interim financial statements have been prepared pursuant to the Securities and Exchange Commission's rules for Form 10-Q's and, therefore, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2012 Annual Report on Form 10-K.

Sales

Sales and revenues are presented net of sales taxes and other related taxes.

Fair value of financial instruments

The Company records all financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, accounts payable, other accruals and notes payable at cost, which approximates fair value due to their short term or stated rates. Investments in marketable equity securities are recorded at fair value. The 7.875% senior secured notes due 2017 (senior secured notes) and 5.625% convertible senior subordinated notes due 2017 (convertible notes) are carried at cost of \$543.1 million and \$60.2 million at September 30, 2013, respectively. The fair value of the senior secured notes at September 30, 2013, as obtained through an independent pricing source, was approximately \$577.1 million.

Cash dividends

The Company declared cash dividends of \$.005 and \$.015 per share of common stock for each of the three and nine months ended September 30, 2013, and 2012. The third quarter 2013 cash dividend of \$.005 per share of common stock was paid October 15, 2013, to stockholders of record on September 30, 2013.

Interest paid

Titan paid \$2.1 million and \$3.5 million for interest for the quarters ended September 30, 2013 and 2012, respectively, and \$18.5 million and \$15.3 million for interest for the nine months ended September 30, 2013 and 2012, respectively.

Income taxes paid

Titan paid \$18.5 million and \$16.7 million for income taxes for the quarters ended September 30, 2013 and 2012, respectively, and \$56.5 million and \$63.7 million for income taxes for the nine months ended September 30, 2013 and 2012, respectively.

Use of estimates

The policies utilized by the Company in the preparation of the financial statements conform to accounting principles generally accepted in the United States of America and require management to make estimates, assumptions and

judgments that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates and assumptions.

Reclassification

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

Subsequent Events

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date of issuance of the financial statements.

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 2. ACQUISITIONS

## Acquisition of Titan Europe Plc.

On October 31, 2012, Titan acquired over 97% of the outstanding stock of Titan Europe Plc (Titan Europe) and in December 2012, the remaining 3% interest was acquired. Titan Europe is an international engineering group which designs and manufactures wheels, undercarriage components and assemblies for tracked and wheeled "off-road vehicles". The Titan Europe acquisition allowed the Company to expand its global presence and expand its product line. Prior to the acquisition, Titan held a 21.8% ownership percentage in Titan Europe. Titan Europe shareholders received one share of new Titan common stock for every 11 Titan Europe shares held. A total of 6,257,051 new shares of Titan were issued with a value of \$121.8 million. In addition, Titan paid cash of \$5.6 million for option payouts and partial shares. Titan's previous investment in Titan Europe had a fair value on the acquisition date of \$31.7 million based on Titan Europe's stock price on the AIM market in London. Total consideration including the value of stock issued, cash payments, and the fair value of previously held Titan Europe shares totaled \$159.1 million. A gain of \$26.7 million was recorded on Titan's previously held interest in Titan Europe which was recorded as Noncash Titan Europe Plc gain in the consolidated statement of operations. This gain was previously recorded in other comprehensive income.

The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values. Inventory was valued using the comparative sales method. Real and personal property was valued at fair value. The Company continues to evaluate the preliminary purchase price allocation, primarily the value of certain deferred taxes and property, plant & equipment, and may revise the purchase price allocation in future periods as these estimates are finalized.

The purchase price allocation of the Titan Europe acquisition consisted of the following (amounts in thousands):

|  |           |   |
|--|-----------|---|
| Cash   | \$39,122  |   |
| Accounts receivable                          | 128,585   |   |
| Inventories                                  | 178,407   |   |
| Deferred income taxes - current asset        | 22,068    |   |
| Prepaid & other current assets               | 21,745    |   |
| Earthquake insurance receivable              | 17,024    |   |
| Property, plant & equipment                  | 217,309   |   |
| Investment in Wheels India Limited           | 36,804    |   |
| Other assets                                 | 8,414     |   |
| Short term debt                              | (96,822)  | ) |
| Accounts payable                             | (142,752) | ) |
| Other current liabilities                    | (56,391)  | ) |
| Long term debt                               | (158,183) | ) |
| Deferred income taxes - noncurrent liability | (12,636)  | ) |
| Other noncurrent liabilities                 | (31,874)  | ) |
| Net assets acquired                          | \$170,820 |   |

The purchase price allocation has changed from that reported in the Form 10-K for the year ended December 31, 2012, and the 10-Q for the quarter ended March 31, 2013. Titan Europe's wheel manufacturing facility in Finale Emilia, Italy experienced damage from an earthquake in May 2012, prior to Titan's acquisition of Titan Europe. The



plant was closed for production during initial remedial work. This resulted in a limited transfer of production to other facilities within Titan Europe as well as sourcing product from facilities in the US owned by Titan and competitors. In the second quarter of 2013, Titan received a final insurance settlement payment of \$38.7 million. As a result of this information, Titan has recorded an earthquake insurance receivable of \$17.0 million, decreased the current deferred income taxes by \$5.3 million, and recorded a bargain purchase gain of \$11.7 million for the year ended December 31, 2012.

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## Pro forma financial information

The following unaudited pro forma financial information gives effect to the acquisition of Titan Europe Plc as if the acquisition had taken place on January 1, 2012. The pro forma financial information for Titan Europe Plc was derived from the historical accounting records of Titan Europe. The Titan Europe results were adjusted to reflect additional depreciation.

Pro forma financial information is as follows (in thousands, except per share data):

|                                  | Nine Months ended<br>September 30, 2012 |
|----------------------------------|---|
| Net sales                        | \$1,876,691                             |
| Net income                       | 101,801                                 |
| Net income attributable to Titan | 102,307                                 |
| Basic earnings per share         | \$2.11                                  |
| Diluted earnings per share       | 1.77                                    |

The pro forma information is presented for illustrative purposes only and may not be indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2012, nor is it necessarily indicative of Titan's future consolidated results of operations or financial position.

## 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following (amounts in thousands):

|                                 | September 30,<br>2013 | December 31,<br>2012 |
|---------------------------------|-----------------------|----------------------|
| Accounts receivable             | \$299,063             | \$302,928            |
| Allowance for doubtful accounts | (8,816)               | (5,130)              |
| Accounts receivable, net        | \$290,247             | \$297,798            |

Accounts receivable are reduced by an allowance for doubtful accounts which is based on historical losses.

## 4. INVENTORIES

Inventories consisted of the following (amounts in thousands):

|                          | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------|-----------------------|----------------------|
| Raw material             | \$134,229             | \$153,308            |
| Work-in-process          | 59,214                | 69,030               |
| Finished goods           | 189,566               | 154,785              |
|                          | 383,009               | 377,123              |
| Adjustment to LIFO basis | (7,116)               | (10,738)             |
|                          | \$375,893             | \$366,385            |

At September 30, 2013, approximately 12% of the Company's inventories were valued under the last-in, first-out (LIFO) method. At December 31, 2012, approximately 16% of the Company's inventories were valued under the LIFO method. The remaining inventories were valued under the first-in, first-out (FIFO) method or average cost method. All inventories are valued at lower of cost or market. The LIFO reserve decreased primarily as a result of the composition of inventory. An overall increase in raw material relative to total inventory resulted in a greater decrease in the FIFO cost versus the LIFO cost.

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following (amounts in thousands):

|                               | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------|-----------------------|----------------------|
| Land and improvements         | \$66,511              | \$66,012             |
| Buildings and improvements    | 193,393               | 192,135              |
| Machinery and equipment       | 581,591               | 555,261              |
| Tools, dies and molds         | 106,094               | 117,341              |
| Construction-in-process       | 47,776                | 49,136               |
|                               | 995,365               | 979,885              |
| Less accumulated depreciation | (433,659 )            | (411,541 )           |
|                               | \$561,706             | \$568,344            |

Depreciation on fixed assets for the nine months ended September 30, 2013 and 2012, totaled \$53.0 million and \$34.1 million, respectively.

Included in the total building and improvements are capital leases of \$4.6 million and \$4.5 million at September 30, 2013, and December 31, 2012, respectively. Included in the total of machinery and equipment are capital leases of \$39.7 million and \$36.0 million at September 30, 2013, and December 31, 2012, respectively.

## 6. GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill consisted of the following (amounts in thousands):

|                                | 2013                    |   |          | 2012                    |   |          |
|--------------------------------|-------------------------|---|----------|-------------------------|---|----------|
|                                | Agricultural<br>Segment | Earthmoving/<br>Construction<br>Segment | Total    | Agricultural<br>Segment | Earthmoving/<br>Construction<br>Segment | Total    |
| Goodwill balance, January 1    | \$11,522                | \$13,419                                | \$24,941 | \$19,841                | \$—                                     | \$19,841 |
| Acquisitions                   | —                       | —                                       | —        | —                       | 13,982                                  | 13,982   |
| Acquisition adjustment         | —                       | —                                       | —        | (7,289 )                | —                                       | (7,289 ) |
| Foreign currency translation   | (1,040 )                | (1,367 )                                | (2,407 ) | (957 )                  | (193 )                                  | (1,150 ) |
| Goodwill balance, September 30 | \$10,482                | \$12,052                                | \$22,534 | \$11,595                | \$13,789                                | \$25,384 |

The Company's agricultural segment goodwill balance is related to the acquisition of Goodyear's Latin American farm tire business which included the Sao Paulo, Brazil manufacturing facility. The Company's earthmoving/construction goodwill balance is related to the acquisition of Planet Group in August 2012. The Company reviews goodwill for impairment during the fourth quarter of each annual reporting period, and whenever events and circumstances indicate that the carrying values may not be recoverable. The Company's consumer segment does not have any recorded goodwill.



TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

The components of intangible assets consisted of the following (amounts in thousands):

|                                | Weighted-<br>Average<br>Useful Lives<br>(in Years) | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------------|--|-----------------------|----------------------|
| Amortizable intangible assets: |  |                       |                      |
| Customer relationships         | 13.8   | 17,457                | 19,357               |
| Patents, trademarks and other  | 2.0  | 3,466                 | 3,658                |
| Total at cost                  |  | 20,923                | 23,015               |
| Less accumulated amortization  |  | (3,470)               | (1,807)              |
|                                |  | 17,453                | 21,208               |

Amortization related to intangible assets for the nine months ended September 30, 2013 and 2012, totaled \$1.7 million and \$0.5 million, respectively. Intangible assets are included as a component of other assets in the consolidated condensed balance sheet.

The estimated aggregate amortization expense at September 30, 2013, is as follows (amounts in thousands):

|                               |          |
|-------------------------------|----------|
| October 1 - December 31, 2013 | \$534    |
| 2014                          | 2,143    |
| 2015                          | 1,764    |
| 2016                          | 1,180    |
| 2017                          | 1,118    |
| Thereafter                    | 10,714   |
|                               | \$17,453 |

## 7. WARRANTY

Changes in the warranty liability consisted of the following (amounts in thousands):

|                                    | 2013     | 2012     |
|------------------------------------|----------|----------|
| Warranty liability, January 1      | \$27,482 | \$17,659 |
| Provision for warranty liabilities | 35,134   | 23,036   |
| Warranty payments made             | (28,049) | (18,282) |
| Warranty liability, September 30   | \$34,567 | \$22,413 |

The Company provides limited warranties on workmanship on its products in all market segments. The majority of the Company's products have a limited warranty that ranges from zero to ten years, with certain products being prorated after the first year. The Company calculates a provision for warranty expense based on past warranty experience. Warranty accruals are included as a component of other current liabilities on the Consolidated Condensed Balance Sheets.



TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

8. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Long-term debt consisted of the following (amounts in thousands):

|  | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| 7.875% senior secured notes due 2017 - Issued 2013                   | \$325,000             | \$—                  |
| Unamortized premium based on 7.875% senior secured notes issued 2013 | 18,128                | —                    |
| 7.875% senior secured notes due 2017 - Issued 2010                   | 200,000               | 200,000              |
| European credit facilities   | 78,301                | 202,097              |
| 5.625% convertible senior subordinated notes due 2017                | 60,161                | 112,881              |
| Other debt   | 58,082                | 69,151               |
| Capital leases   | 2,600                 | 3,110                |
|  | 742,272               | 587,239              |
| Less amounts due within one year                                     | 104,884               | 145,801              |
|  | \$637,388             | \$441,438            |

Aggregate maturities of long-term debt at September 30, 2013, were as follows (amounts in thousands):

|                                 |           |
|---------------------------------|-----------|
| September 1 - December 31, 2013 | \$101,397 |
| 2014                            | 19,753    |
| 2015                            | 10,041    |
| 2016                            | 18,963    |
| 2017                            | 589,621   |
| Thereafter                      | 2,497     |
|                                 | \$742,272 |

7.875% senior secured notes due 2017

The Company's 7.875% senior secured notes (senior secured notes) are due October 2017. These notes are secured by the land and buildings of the following subsidiaries of the Company: Titan Tire Corporation, Titan Tire Corporation of Bryan, Titan Tire Corporation of Freeport and Titan Wheel Corporation of Illinois. The Company's senior secured notes outstanding balance was \$525.0 million at September 30, 2013 including \$200.0 million issued in 2010 and \$325.0 million issued in 2013. The 2013 amount was issued at a premium. Otherwise, all the notes have the same terms. The senior secured notes issued in 2013 have an imputed interest rate of 6.277% and an unamortized premium balance of \$18.1 million at September 30, 2013. See Note 23 for additional information.

Titan Europe credit facilities

The Titan Europe credit facilities contain borrowings from various institutions totaling \$78.3 million at September 30, 2013. Maturity dates on this debt range from less than one year to eleven years and interest rates range from 2% to 6.9%. The European facilities are secured by the assets of select European subsidiaries.



TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

5.625% convertible senior subordinated notes due 2017

The Company's 5.625% convertible senior subordinated notes (convertible notes) are due January 2017. The initial base conversion rate for the convertible notes is 93.0016 shares of Titan common stock per \$1,000 principal amount of convertible notes, equivalent to an initial base conversion price of approximately \$10.75 per share of Titan common stock. If the price of Titan common stock at the time of determination exceeds the base conversion price, the base conversion rate will be increased by an additional number of shares (up to 9.3002 shares of Titan common stock per \$1,000 principal amount of convertible notes) as determined pursuant to a formula described in the indenture. The base conversion rate will be subject to adjustment in certain events. The Company's convertible notes balance was \$60.2 million at September 30, 2013.

In the first quarter of 2013, the Company closed an Exchange Agreement with a note holder of the convertible notes. The two parties privately negotiated an agreement to exchange approximately \$52.7 million in aggregate principal amount of the convertible notes for approximately 4.9 million shares of the Company's common stock plus a cash payment totaling \$14.2 million. In connection with this exchange, the Company recognized a charge of \$7.3 million in accordance with accounting standards related to debt conversions.

Revolving credit facility

The Company's \$150 million revolving credit facility (credit facility) with agent Bank of America, N.A. has a December 2017 termination date and is collateralized by the accounts receivable and inventory of certain Titan domestic subsidiaries. During the first nine months of 2013 and at September 30, 2013, there were no borrowings under the credit facility.

Other debt

Brazil Revolving Line of Credit

The Company's wholly-owned Brazilian subsidiary, Titan Pneus Do Brasil Ltda (Titan Brazil), has a revolving line of credit (Brazil line of credit) established with Bank of America Merrill Lynch Banco Multiplo S.A. in May 2011. Titan Brazil could borrow up to 16.0 million Brazilian Reais, which equates to approximately \$7.1 million dollars as of September 30, 2013, for working capital purposes. Under the terms of the Brazil line of credit, borrowings, if any, bear interest at a rate of 1 month LIBOR plus 247 basis points. During the first nine months of 2013 and at September 30, 2013 there were no borrowings outstanding on this line of credit.

Brazil Other Debt

Titan Brazil has working capital loans for the Sao Paulo, Brazil manufacturing facility totaling \$9.2 million at September 30, 2013.

Australia Other Debt

Titan National Australia Holdings has capital leases totaling \$1.1 million at September 30, 2013.

Titan Europe Other Debt

Titan Europe has overdraft facilities totaling \$47.7 million at September 30, 2013.

Titan Europe Capital Leases

Titan Europe has capital lease obligations totaling \$2.6 million at September 30, 2013.



## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 9. DERIVATIVE FINANCIAL INSTRUMENTS

Prior to the April 2013 payoff of the Brazil Term Loan with Bank of America, N.A. (BoA Term Loan), the Company used financial derivatives to mitigate its exposure to volatility in the interest rate and foreign currency exchange rate in Brazil. The Company used these derivative instruments to hedge exposure in the ordinary course of business and did not invest in derivative instruments for speculative purposes. In order to reduce interest rate and foreign currency risk on the BoA Term Loan, the Company entered into an interest rate swap agreement and cross currency swap transactions with Bank of America Merrill Lynch Banco Multiplo S.A. that was designed to convert the outstanding \$5.0 million US Dollar based LIBOR loan to a Brazilian Reais based CDI loan. The Company did not designate these agreements as a hedging instrument. Changes in the fair value of the cross currency swap were recorded in other income/expense and changes in the fair value of the interest rate swap agreement were recorded as interest expense (or gain as an offset to interest expense). For the nine months ended September 30, 2013, the Company recorded \$0.6 million of other expense and \$0.1 million of interest expense related to these derivatives.

The Company also used derivative financial instruments to manage its exposure to market risks from changes in interest rates in Europe. These derivative financial instruments are recognized at fair value. The Company has not designated these financial instruments as hedging instruments. Any gain or loss on the re-measurement of the fair value is taken to interest expense. For the three months ended September 30, 2013, the Company recorded interest expense of \$0.1 million related to these derivatives. For the nine months ended September 30, 2013, the Company recorded an offset to interest expense of \$1.0 million related to these derivatives.

## 10. LEASE COMMITMENTS

The Company leases certain buildings and equipment under operating leases. Certain lease agreements provide for renewal options, fair value purchase options, and payment of property taxes, maintenance and insurance by the Company.

At September 30, 2013, future minimum rental commitments under noncancellable operating leases with initial terms of at least one year were as follows (amounts in thousands):

|                                     |          |
|-------------------------------------|----------|
| October 1 - December 31, 2013       | \$1,302  |
| 2014                                | 7,429    |
| 2015                                | 4,801    |
| 2016                                | 3,814    |
| 2017                                | 2,368    |
| Thereafter                          | 3,943    |
| Total future minimum lease payments | \$23,657 |

At September 30, 2013, the Company had assets held as capital leases with a net book value of \$9.1 million included in property, plant and equipment. Total future capital lease obligations relating to these leases are as follows (amounts in thousands):

|                               |       |
|-------------------------------|-------|
| October 1 - December 31, 2013 | \$679 |
| 2014                          | 1,374 |
| 2015                          | 892   |
| 2016                          | 480   |

|   |         |   |
|---|---------|---|
| 2017  | 200     |   |
| Thereafter  | 103     |   |
| Total future capital lease obligation payments            | 3,728   |   |
| Less amount representing interest                         | (174    | ) |
| Present value of future capital lease obligation payments | \$3,554 |   |

13

---

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 11. EMPLOYEE BENEFIT PLANS

The Company has three frozen defined benefit pension plans covering certain employees or former employees of three U.S. subsidiaries. The Company also has pension plans covering certain employees of several foreign subsidiaries. The Company also sponsors four 401(k) retirement savings plans in the U.S. and a number of defined contribution plans at foreign subsidiaries. The Company contributed approximately \$3.8 million to the pension plans during the nine months ended September 30, 2013 and expects to contribute approximately \$1.7 million to the pension plans during the remainder of 2013.

The components of net periodic pension cost consisted of the following (amounts in thousands):

|   | Three months ended |         | Nine months ended |         |
|---|--------------------|---------|-------------------|---------|
|   | September 30,      |         | September 30,     |         |
|   | 2013               | 2012    | 2013              | 2012    |
| Service cost                                    | \$275              | \$—     | \$665             | \$—     |
| Interest cost                                   | 1,352              | 1,133   | 4,031             | 3,399   |
| Expected return on assets                       | (1,381)            | (1,252) | (4,143)           | (3,756) |
| Amortization of unrecognized prior service cost | 34                 | 34      | 103               | 102     |
| Amortization of net unrecognized loss           | 1,314              | 1,293   | 3,942             | 3,879   |
| Net periodic pension cost                       | \$1,594            | \$1,208 | \$4,598           | \$3,624 |

## 12. ROYALTY EXPENSE

The Company has a trademark license agreement with Goodyear to manufacture and sell certain tires in North America and Latin America under the Goodyear name. The North American and Latin American farm tire royalties were prepaid for seven years as part of the 2011 Goodyear Latin American farm tire acquisition. In May 2012, the Company and Goodyear entered into an agreement under which Titan will sell certain non-farm tire products directly to third party customers and pay a royalty to Goodyear. Royalty expenses recorded were \$3.9 million and \$3.7 million for the quarters ended September 30, 2013 and 2012, respectively. Royalty expenses were \$11.0 million and \$8.7 million for the nine months ended September 30, 2013 and 2012, respectively.

## 13. SUPPLY AGREEMENT TERMINATION INCOME

Supply agreement termination income consisted of the following (amounts in thousands):

|                                     | Three months ended |      | Nine months ended |          |
|-------------------------------------|--------------------|------|-------------------|----------|
|                                     | September 30,      |      | September 30,     |          |
|                                     | 2013               | 2012 | 2013              | 2012     |
| Supply agreement termination income | \$—                | \$—  | \$—               | \$26,134 |

The Company's April 2011 acquisition of Goodyear's farm tire business included a three year supply agreement with Goodyear for certain non-farm tire products. A liability was recorded as the supply agreement was for sales at below market prices. In May 2012, the Company and Goodyear terminated this supply agreement and entered into an

agreement under which Titan will sell these products directly to third party customers and pay a royalty to Goodyear. The remaining balance of the supply agreement liability was recorded as income as the Company is no longer obligated to sell the products at below market prices.

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

#### 14. GAIN ON EARTHQUAKE INSURANCE RECOVERY

Gain on earthquake insurance recovery consisted of the following (amounts in thousands):

|                                       | Three months ended |      | Nine months ended |      |
|---------------------------------------|--------------------|------|-------------------|------|
|                                       | September 30,      |      | September 30,     |      |
|                                       | 2013               | 2012 | 2013              | 2012 |
| Gain on earthquake insurance recovery | \$—                | \$—  | \$22,451          | \$—  |

Titan Europe's wheel manufacturing facility in Finale Emilia, Italy experienced damage from an earthquake in May 2012, prior to Titan's acquisition of Titan Europe. The plant was closed for production during initial remedial work. This resulted in a limited transfer of production to other facilities within Titan Europe as well as sourcing product from facilities in the US owned by Titan and competitors. In the second quarter of 2013, Titan received a final insurance settlement payment of \$38.7 million, which offset the earthquake insurance receivable and resulted in a gain of \$22.5 million.

#### 15. OTHER INCOME

Other income consisted of the following (amounts in thousands):

|  | Three months ended |         | Nine months ended |          |
|--|--------------------|---------|-------------------|----------|
|  | September 30,      |         | September 30,     |          |
|  | 2013               | 2012    | 2013              | 2012     |
| Currency exchange gain (loss)  | \$5,678            | \$250   | \$(976            | ) \$(206 |
| Wheels India Limited equity gain                                     | 826                | —       | 1,101             | —        |
| Discount amortization on prepaid royalty                             | 780                | 910     | 2,483             | 2,882    |
| Interest income  | 594                | 372     | 2,525             | 757      |
| Investment gain (loss) related to contractual obligation investments | 497                | 492     | 590               | 1,287    |
| Other income   | 180                | 224     | 1,418             | 889      |
| Building rental income   | 167                | 191     | 571               | 554      |
|  | \$8,722            | \$2,439 | \$7,712           | \$6,163  |

The Company's investment in Wheels India Limited increased from 35.9% to 41.7% during the second quarter of 2013.

#### 16. INCOME TAXES

The Company recorded income tax expense of \$5.7 million and \$38.9 million for the three and nine months ended September 30, 2013, respectively, as compared to \$13.6 million and \$64.7 million for the three and nine months ended September 30, 2012. The Company's effective income tax rate was 44% and 40% for the nine months ended September 30, 2013 and 2012, respectively.

The Company's 2013 income tax expense and rate differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income primarily as a result of a change in Italian law making the insurance

proceeds from the earthquake non-taxable. In addition, as a result of the reassessment of the realizability of the deferred tax assets due to the Italian law change, a valuation allowance was established on the Italy net deferred tax assets. Other items contributing to the rate difference are state income tax expense, unrecognized tax benefits, foreign earnings, domestic production activities deduction, and tax deductible expenses related to the convertible bond repurchase.



TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

Accounting standards for income taxes provide that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination. The Company's unrecognized tax benefits were \$20.0 million and \$14.3 million as of September 30, 2013 and December 31, 2012, respectively. As of September 30, 2013, \$16.0 million would affect income tax expense if recognized. The majority of the increase in unrecognized tax benefits relates to potential state tax exposures. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. The amount of accrued interest and penalties included in the unrecognized tax benefits at September 30, 2013 and December 31, 2012 was \$3.3 million and \$2.4 million, respectively.

## 17. EARNINGS PER SHARE

Earnings per share (EPS) were as follows (amounts in thousands, except per share data):

|                                | Three months ended<br>September 30, 2013 |                                |                     | September 30, 2012  |                                |                     |
|--------------------------------|--|--------------------------------|---------------------|---------------------|--------------------------------|---------------------|
|                                | Titan Net<br>income                      | Weighted-<br>average<br>shares | Per share<br>amount | Titan Net<br>income | Weighted-<br>average<br>shares | Per share<br>amount |
| Basic earnings per share       | \$8,093                                  | 53,440                         | \$0.15              | \$19,579            | 42,180                         | \$0.46              |
| Effect of stock options/trusts | —  | 207                            |                     | —                   | 237                            |                     |
| Effect of convertible notes    | 610                                      | 5,744                          |                     | 1,143               | 10,909                         |                     |
| Diluted earnings per share     | \$8,703                                  | 59,391                         | \$0.15              | \$20,722            | 53,326                         | \$0.39              |
|                                | Nine months ended<br>September 30, 2013  |                                |                     | September 30, 2012  |                                |                     |
|                                | Titan Net<br>income                      | Weighted-<br>average<br>shares | Per share<br>amount | Titan Net<br>income | Weighted-<br>average<br>shares | Per share<br>amount |
| Basic earnings per share       | \$50,785                                 | 52,900                         | \$0.96              | \$99,054            | 42,148                         | \$2.35              |
| Effect of stock options/trusts | —  | 265                            |                     | —                   | 258                            |                     |
| Effect of convertible notes    | 1,991                                    | 6,279                          |                     | 3,429               | 10,909                         |                     |
| Diluted earnings per share     | \$52,776                                 | 59,444                         | \$0.89              | \$102,483           | 53,315                         | \$1.92              |

There were no stock options/trusts or convertible notes that were antidilutive for the periods presented.

## 18. LITIGATION

The Company is a party to routine legal proceedings arising out of the normal course of business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, the Company believes at this time that none of these actions, individually or in the aggregate, will have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company. However, due to the difficult nature of predicting unresolved and future legal claims, the Company cannot anticipate or predict the material adverse effect on its consolidated financial condition, results of operations or cash flows as a result of efforts to comply with or its liabilities pertaining to legal judgments.



TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 19. SEGMENT INFORMATION

The table below presents information about certain revenues and income from operations used by the chief executive officer of the Company for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands):

|                                       | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |             |
|---------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
|                                       | 2013                                | 2012      | 2013                               | 2012        |
| Revenues from external customers      |                                     |           |                                    |             |
| Agricultural                          | \$273,301                           | \$246,578 | \$907,797                          | \$831,376   |
| Earthmoving/construction              | 168,964                             | 103,135   | 586,806                            | 318,244     |
| Consumer                              | 55,245                              | 55,006    | 174,585                            | 177,420     |
|                                       | \$497,510                           | \$404,719 | \$1,669,188                        | \$1,327,040 |
| Gross profit                          |                                     |           |                                    |             |
| Agricultural                          | \$48,346                            | \$48,091  | \$158,566                          | \$173,684   |
| Earthmoving/construction              | 11,283                              | 18,689    | 75,598                             | 60,598      |
| Consumer                              | 3,363                               | 1,016     | 13,841                             | 10,488      |
| Unallocated corporate                 | (486)                               | (635)     | (2,093)                            | (2,160)     |
|                                       | \$62,506                            | \$67,161  | \$245,912                          | \$242,610   |
| Income from operations                |                                     |           |                                    |             |
| Agricultural                          | \$37,762                            | \$41,740  | \$125,063                          | \$156,965   |
| Earthmoving/construction              | (1,833)                             | 13,468    | 27,365                             | 51,385      |
| Consumer                              | 55                                  | (234)     | 4,224                              | 30,284      |
| Unallocated corporate                 | (18,929)                            | (18,808)  | (54,808)                           | (62,828)    |
| Income from operations                | 17,055                              | 36,166    | 101,844                            | 175,806     |
| Interest expense                      | (12,414)                            | (6,187)   | (35,924)                           | (18,699)    |
| Convertible debt conversion charge    | —                                   | —         | (7,273)                            | —           |
| Gain on earthquake insurance recovery | —                                   | —         | 22,451                             | —           |
| Other income, net                     | 8,722                               | 2,439     | 7,712                              | 6,163       |
| Income before income taxes            | \$13,363                            | \$32,418  | \$88,810                           | \$163,270   |

Assets by segment were as follows (amounts in thousands):

|                          | September 30,<br>2013 | December 31,<br>2012 |
|--------------------------|-----------------------|----------------------|
| Total assets             |                       |                      |
| Agricultural             | \$698,905             | \$630,222            |
| Earthmoving/construction | 788,578               | 851,995              |
| Consumer                 | 143,559               | 142,341              |
| Unallocated corporate    | 316,719               | 85,677               |
|                          | \$1,947,761           | \$1,710,235          |

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 20. FAIR VALUE MEASUREMENTS

Accounting standards for fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are defined as:

Level 1 – Quoted prices in active markets for identical instruments.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis consisted of the following (amounts in thousands):

|  | September 30, 2013 |         |          |         | December 31, 2012 |         |            |         |
|--|--------------------|---------|----------|---------|-------------------|---------|------------|---------|
|  | Total              | Level 1 | Level 2  | Level 3 | Total             | Level 1 | Level 2    | Level 3 |
| Contractual obligation investments         | \$7,998            | \$7,998 | \$—      | \$—     | \$7,408           | \$7,408 | \$—        | \$—     |
| Interest rate swap                         | —                  | —       | —        | —       | 1,048             | —       | 1,048      | —       |
| Preferred stock                            | 250                | —       | —        | 250     | 250               | —       | —          | 250     |
| Derivative financial instruments liability | (135 )             | —       | (135 )   | —       | (7,376 )          | —       | (7,376 )   | —       |
| Total                                      | \$8,113            | \$7,998 | \$(135 ) | \$250   | \$1,330           | \$7,408 | \$(6,328 ) | \$250   |

The following table presents the changes during the periods presented in Titan's Level 3 investments that are measured at fair value on a recurring basis (amounts in thousands):

|  |                          |
|--|--------------------------|
| Balance at December 31, 2012                   | Preferred stock<br>\$250 |
| Total realized and unrealized gains and losses | —                        |
| Balance as of September 30, 2013               | \$250                    |

## 21. RELATED PARTY TRANSACTIONS

The Company sells products and pays commissions to companies controlled by persons related to the chief executive officer of the Company. The related party is Mr. Fred Taylor and is Mr. Maurice Taylor's brother. The companies which Mr. Fred Taylor is associated with that do business with Titan include the following: Blackstone OTR, LLC; FBT Enterprises; and OTR Wheel Engineering. Sales of Titan products to these companies were approximately \$0.9 million and \$2.2 million for the three and nine months ended September 30, 2013, respectively, as compared to \$0.6 million and \$1.7 million for the three and nine months ended September 30, 2012. Titan had trade receivables due from these companies of approximately \$0.4 million at September 30, 2013, and approximately \$0.2 million at December 31, 2012. On other sales referred to Titan from the above manufacturing representative companies, commissions were approximately \$0.6 million and \$1.9 million for the three and nine months ended September 30, 2013, respectively as compared to \$0.6 million and \$2.1 million for the three and nine months ended September 30, 2012.

The Company has a 41.7% equity stake in Wheels India Limited, a company incorporated in India and listed on the National Stock Exchange in India. The Company had trade payables due to Wheels India of approximately \$0.4 million at December 31, 2012.

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

In the second quarter of 2013, the Company sold Titan Wheels Australia, a 100% owned subsidiary, to Titan National Australia Holdings, a 56% owned subsidiary operating as the Planet Corporation Group. The Company maintained financial control over Titan Wheels Australia and no gain or loss was recognized for the transaction.

## 22. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) consisted of the following (amounts in thousands):

|   | Currency<br>Translation<br>Adjustments | Unrealized<br>Gain (Loss) on<br>Investments | Unrecognized<br>Losses and<br>Prior Service<br>Cost | Total        |
|---|--|---|---|--------------|
| Balance at July 1, 2013   | \$ (43,449 )                           | \$ —  | \$ (33,658 )  | \$ (77,107 ) |
| Other comprehensive income (loss) before reclassifications                          | 498                                    | —   | —   | 498          |
| Reclassification adjustments:   |  |   |   |              |
| Amortization of unrecognized losses and prior service cost, net of tax of \$(557)   | —                                      | —   | 969   | 969          |
| Balance at September 30, 2013   | \$ (42,951 )                           | \$ —  | \$ (32,689 )  | \$ (75,640 ) |
|   | Currency<br>Translation<br>Adjustments | Unrealized<br>Gain (Loss) on<br>Investments | Unrecognized<br>Losses and<br>Prior Service<br>Cost | Total        |
| Balance at January 1, 2013  | \$ (20,793 )                           | \$ 3  | \$ (35,679 )  | \$ (56,469 ) |
| Other comprehensive income (loss) before reclassifications                          | (22,158 )                              | (3 )  | —   | (22,161 )    |
| Reclassification adjustments:   |  |   |   |              |
| Amortization of unrecognized losses and prior service cost, net of tax of \$(1,670) | —                                      | —   | 2,990   | 2,990        |
| Balance at September 30, 2013   | \$ (42,951 )                           | \$ —  | \$ (32,689 )  | \$ (75,640 ) |

## 23. SUBSEQUENT EVENTS

### Voltyre-Prom Purchase

On October 4, 2013, Titan in partnership with One Equity Partners and the Russian Direct Investment Fund closed the acquisition of an 85% interest in Voltyre-Prom, a leading producer of agricultural and industrial tires in Volgograd, Russia, for approximately \$94.0 million. Titan will act as operating partner with responsibility for Voltyre-Prom's daily operations on behalf of the consortium of which Titan holds a 30% interest.

### 6.875% Senior Secured Notes due 2020

On October 7, 2013, the Company closed on an offering of \$400.0 million 6.875% senior secured notes due 2020. Titan used the net proceeds from the offering towards financing the repurchase of the Company's 7.875% senior

secured notes due 2017 including tender and consent payments, accrued interest and expenses associated therewith.

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 7.875% Senior Secured Notes due 2017 Tender Offer Settlement

On October 7, 2013, the Company elected to exercise its early settlement election in connection with a tender offer to purchase all of its 7.875% senior secured notes due 2017, and purchased \$387.3 million, or approximately 73.8% of such notes. In connection with this transaction, Titan will record expenses of approximately \$18 million in the fourth quarter of 2013. These expenses relate primarily to a tender and consent premium of \$64.50 per \$1,000 principal amount of the notes and unamortized deferred financing fees offset by unamortized premium on the notes. The tender offer expired October 21, 2013, with no additional notes tendered.

## 7.875% Senior Secured Notes due 2017 Redemption Call

On October 7, 2013, the Company announced a call for redemption for all 7.875% senior secured notes due 2017 that were not validly tendered by the expiration of the tender offer on October 21, 2013. The remaining notes will be redeemed on November 6, 2013. In connection with this transaction, Titan will record expenses of approximately \$4 million in the fourth quarter of 2013. These expenses relate primarily to a redemption premium of \$59.06 per \$1,000 principal amount of the notes and unamortized deferred financing fees offset by unamortized premium on the notes.

## 24. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION

The Company's 7.875% senior secured notes and 5.625% convertible senior subordinated notes are guaranteed by the following 100% owned subsidiaries of the Company: Titan Tire Corporation, Titan Tire Corporation of Bryan, Titan Tire Corporation of Freeport, and Titan Wheel Corporation of Illinois. The note guarantees are full and unconditional, joint and several obligations of the guarantors. The guarantees of the guarantor subsidiaries are subject to release in limited circumstances only upon the occurrence of certain customary conditions. The following condensed consolidating financial statements are presented using the equity method of accounting. Certain sales & marketing expenses recorded by non-guarantor subsidiaries have not been allocated to the guarantor subsidiaries.

| (Amounts in thousands)                       | Consolidating Condensed Statements of Operations<br>For the Three Months Ended September 30, 2013 |                           |                               |              |              |
|--|---|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                    | \$—   | \$256,252                 | \$ 241,258                    | \$—          | \$497,510    |
| Cost of sales                                | 241   | 216,445                   | 218,318                       | —            | 435,004      |
| Gross profit (loss)                          | (241  | ) 39,807                  | 22,940                        | —            | 62,506       |
| Selling, general and administrative expenses | 3,561   | 16,513                    | 18,657                        | —            | 38,731       |
| Research and development expenses            | (17   | ) 1,423                   | 1,372                         | —            | 2,778        |
| Royalty expense                              | —   | 1,850                     | 2,092                         | —            | 3,942        |
| Income (loss) from operations                | (3,785  | ) 20,021                  | 819                           | —            | 17,055       |
| Interest expense                             | (10,945   | ) —                       | (1,469                        | ) —          | (12,414      |
| Intercompany interest income (expense)       | 2,469   | —                         | (2,469                        | ) —          | —            |
| Other income                                 | 1,182   | (117                      | ) 7,657                       | —            | 8,722        |
| Income (loss) before income taxes            | (11,079   | ) 19,904                  | 4,538                         | —            | 13,363       |
| Provision for income taxes                   | (4,717  | ) 7,435                   | 2,993                         | —            | 5,711        |
| Equity in earnings of subsidiaries           | 14,014  | —                         | 4,827                         | (18,841      | ) —          |



Edgar Filing: TITAN INTERNATIONAL INC - Form 10-Q

|   |         |          |          |           |           |
|---|---------|----------|----------|-----------|-----------|
| Net income (loss)                       | 7,652   | 12,469   | 6,372    | (18,841   | ) 7,652   |
| Net loss noncontrolling interests       | —       | —        | (441     | ) —       | (441 )    |
| Net income (loss) attributable to Titan | \$7,652 | \$12,469 | \$ 6,813 | \$(18,841 | ) \$8,093 |

20

---

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)                          | Consolidating Condensed Statements of Operations<br>For the Three Months Ended September 30, 2012 |                           |                               |              |              |
|---|---|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                       | \$—   | \$311,422                 | \$ 93,297                     | \$—          | \$404,719    |
| Cost of sales                                   | 253   | 246,275                   | 91,030                        | —            | 337,558      |
| Gross profit (loss)                             | (253  | ) 65,147                  | 2,267                         | —            | 67,161       |
| Selling, general and administrative<br>expenses | (9,013  | ) 40,635                  | (6,125                        | ) —          | 25,497       |
| Research and development expenses               | 155   | 1,604                     | —                             | —            | 1,759        |
| Royalty expense                                 | —   | 1,778                     | 1,961                         | —            | 3,739        |
| Income (loss) from operations                   | 8,605   | 21,130                    | 6,431                         | —            | 36,166       |
| Interest expense                                | (6,012  | ) —                       | (175                          | ) —          | (6,187       |
| Other income                                    | 1,163   | 364                       | 912                           | —            | 2,439        |
| Income (loss) before income taxes               | 3,756   | 21,494                    | 7,168                         | —            | 32,418       |
| Provision for income taxes                      | 6,329   | 7,398                     | (138                          | ) —          | 13,589       |
| Equity in earnings of subsidiaries              | 21,402  | —                         | 5,420                         | (26,822      | ) —          |
| Net income (loss)                               | 18,829  | 14,096                    | 12,726                        | (26,822      | ) 18,829     |
| Net loss noncontrolling interests               | —   | —                         | (750                          | ) —          | (750         |
| Net income (loss) attributable to Titan         | \$18,829  | \$14,096                  | \$ 13,476                     | \$(26,822    | ) \$19,579   |

| (Amounts in thousands)                          | Consolidating Condensed Statements of Operations<br>For the Nine Months Ended September 30, 2013 |                           |                               |              |              |
|---|--|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                       | \$—  | \$903,628                 | \$ 765,560                    | \$—          | \$1,669,188  |
| Cost of sales                                   | 908  | 734,460                   | 687,908                       | —            | 1,423,276    |
| Gross profit (loss)                             | (908   | ) 169,168                 | 77,652                        | —            | 245,912      |
| Selling, general and administrative<br>expenses | 8,008  | 54,637                    | 62,182                        | —            | 124,827      |
| Research and development expenses               | (35  | ) 4,136                   | 4,180                         | —            | 8,281        |
| Royalty expense                                 | —  | 5,478                     | 5,482                         | —            | 10,960       |
| Income (loss) from operations                   | (8,881   | ) 104,917                 | 5,808                         | —            | 101,844      |
| Interest expense                                | (29,509  | ) —                       | (6,415                        | ) —          | (35,924      |
| Convertible debt conversion charge              | (7,273   | ) —                       | —                             | —            | (7,273       |
| Gain on earthquake insurance recovery           | —  | —                         | 22,451                        | —            | 22,451       |
| Intercompany interest income (expense)          | 5,158  | —                         | (5,158                        | ) —          | —            |
| Other income (expense)                          | 2,741  | (91                       | ) 5,062                       | —            | 7,712        |
| Income (loss) before income taxes               | (37,764  | ) 104,826                 | 21,748                        | —            | 88,810       |
| Provision (benefit) for income taxes            | (6,561   | ) 38,025                  | 7,449                         | —            | 38,913       |
| Equity in earnings of subsidiaries              | 81,100   | —                         | 38,351                        | (119,451     | ) —          |
| Net income (loss)                               | 49,897   | 66,801                    | 52,650                        | (119,451     | ) 49,897     |
| Net loss noncontrolling interests               | —  | —                         | (888                          | ) —          | (888         |

Edgar Filing: TITAN INTERNATIONAL INC - Form 10-Q

Net income (loss) attributable to Titan    \$49,897        \$66,801        \$ 53,538        \$(119,451 )    \$50,785

21

---

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)                          | Consolidating Condensed Statements of Operations<br>For the Nine Months Ended September 30, 2012 |                           |                               |              |              |
|---|--|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                       | \$—  | \$1,055,586               | \$271,454                     | \$—          | \$1,327,040  |
| Cost of sales                                   | 812  | 828,935                   | 254,683                       | —            | 1,084,430    |
| Gross profit (loss)                             | (812)  | ) 226,651                 | 16,771                        | —            | 242,610      |
| Selling, general and administrative<br>expenses | 4,970  | 71,372                    | 3,400                         | —            | 79,742       |
| Research and development expenses               | 327  | 3,983                     | 146                           | —            | 4,456        |
| Royalty expense                                 | —  | 5,250                     | 3,490                         | —            | 8,740        |
| Supply agreement termination income             | —  | —                         | (26,134)                      | ) —          | (26,134)     |
| Income (loss) from operations                   | (6,109)  | ) 146,046                 | 35,869                        | —            | 175,806      |
| Interest expense                                | (18,119)   | ) —                       | (580)                         | ) —          | (18,699)     |
| Other income                                    | 3,620  | 1,174                     | 1,369                         | —            | 6,163        |
| Income (loss) before income taxes               | (20,608)   | ) 147,220                 | 36,658                        | —            | 163,270      |
| Provision (benefit) for income taxes            | 1,261  | 51,311                    | 12,150                        | —            | 64,722       |
| Equity in earnings of subsidiaries              | 120,417  | —                         | 24,242                        | (144,659)    | ) —          |
| Net income (loss)                               | 98,548   | 95,909                    | 48,750                        | (144,659)    | ) 98,548     |
| Net loss noncontrolling interests               | —  | —                         | (506)                         | ) —          | (506)        |
| Net income (loss) attributable to Titan         | \$98,548   | \$95,909                  | \$49,256                      | \$(144,659)  | ) \$99,054   |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Three Months Ended September 30, 2013 |                           |                               |              |              |
|--|---|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$7,652   | \$12,469                  | \$6,372                       | \$(18,841)   | ) \$7,652    |
| Currency translation adjustment, net                               | 854   | —                         | 854                           | (854)        | ) 854        |
| Pension liability adjustments, net of tax                          | 969   | 781                       | 188                           | (969)        | ) 969        |
| Comprehensive income (loss)  | 9,475   | 13,250                    | 7,414                         | (20,664)     | ) 9,475      |
| Net comprehensive loss attributable to<br>noncontrolling interests | —   | —                         | (85)                          | ) —          | (85)         |
| Comprehensive income (loss)<br>attributable to Titan               | \$9,475   | \$13,250                  | \$7,499                       | \$(20,664)   | ) \$9,560    |

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Three Months Ended September 30, 2012 |                           |                               |              |              |
|--|---|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$18,829  | \$14,096                  | \$12,726                      | \$(26,822)   | \$18,829     |
| Unrealized gain (loss) on investments,<br>net of tax               | (353)   | —                         | (353)                         | 353          | (353)        |
| Currency translation adjustment, net                               | (1,247)   | —                         | (1,247)                       | 1,247        | (1,247)      |
| Pension liability adjustments, net of tax                          | 836   | 790                       | 46                            | (836)        | 836          |
| Comprehensive income (loss)  | 18,065  | 14,886                    | 11,172                        | (26,058)     | 18,065       |
| Net comprehensive loss attributable to<br>noncontrolling interests | —   | —                         | (1,104)                       | —            | (1,104)      |
| Comprehensive income (loss)<br>attributable to Titan               | \$18,065  | \$14,886                  | \$12,276                      | \$(26,058)   | \$19,169     |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Nine Months Ended September 30, 2013 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$49,897   | \$66,801                  | \$52,650                      | \$(119,451)  | \$49,897     |
| Unrealized gain (loss) on investments,<br>net of tax               | (3)  | —                         | (3)                           | 3            | (3)          |
| Currency translation adjustment, net                               | (24,513)   | —                         | (24,513)                      | 24,513       | (24,513)     |
| Pension liability adjustments, net of tax                          | 2,990  | 2,343                     | 647                           | (2,990)      | 2,990        |
| Comprehensive income (loss)  | 28,371   | 69,144                    | 28,781                        | (97,925)     | 28,371       |
| Net comprehensive loss attributable to<br>noncontrolling interests | —  | —                         | (3,243)                       | —            | (3,243)      |
| Comprehensive income (loss)<br>attributable to Titan               | \$28,371   | \$69,144                  | \$32,024                      | \$(97,925)   | \$31,614     |

| (Amounts in thousands)                               | Consolidating Condensed Statements of Comprehensive Income<br>For the Nine Months Ended September 30, 2012 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)                                    | \$98,548   | \$95,909                  | \$48,750                      | \$(144,659)  | \$98,548     |
| Unrealized gain (loss) on investments,<br>net of tax | (16)   | —                         | (16)                          | 16           | (16)         |
| Currency translation adjustment, net                 | (5,816)  | —                         | (5,816)                       | 5,816        | (5,816)      |
| Pension liability adjustments, net of tax            | 2,508  | 2,370                     | 138                           | (2,508)      | 2,508        |

Edgar Filing: TITAN INTERNATIONAL INC - Form 10-Q

|   |          |          |           |              |          |
|---|----------|----------|-----------|--------------|----------|
| Comprehensive income (loss)                                     | 95,224   | 98,279   | 43,056    | (141,335 )   | 95,224   |
| Net comprehensive loss attributable to noncontrolling interests | —        | —        | (859 )    | —            | (859 )   |
| Comprehensive income (loss) attributable to Titan               | \$95,224 | \$98,279 | \$ 43,915 | \$(141,335 ) | \$96,083 |

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)                      | Consolidating Condensed Balance Sheets<br>September 30, 2013 |                           |                               |               |              |
|---|--|---------------------------|-------------------------------|---------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)                             | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
| <b>Assets</b>                               |  |                           |                               |               |              |
| Cash and cash equivalents                   | \$ 350,611   | \$ 4                      | \$ 96,841                     | \$ —          | \$ 447,456   |
| Accounts receivable                         | —  | 125,048                   | 165,199                       | —             | 290,247      |
| Inventories                                 | —  | 129,672                   | 246,221                       | —             | 375,893      |
| Prepaid and other current assets            | 63,335   | 13,634                    | 53,456                        | —             | 130,425      |
| Total current assets                        | 413,946  | 268,358                   | 561,717                       | —             | 1,244,021    |
| Property, plant and equipment, net          | 16,393   | 205,666                   | 339,647                       | —             | 561,706      |
| Investment in subsidiaries                  | 631,910  | —                         | 127,384                       | (759,294 )    | —            |
| Other assets                                | 35,590   | 403                       | 106,041                       | —             | 142,034      |
| Total assets                                | \$ 1,097,839   | \$ 474,427                | \$ 1,134,789                  | \$ (759,294 ) | \$ 1,947,761 |
| <b>Liabilities and Stockholders' Equity</b> |  |                           |                               |               |              |
| Short-term debt                             | \$ 4,121   | \$ —                      | \$ 100,763                    | \$ —          | \$ 104,884   |
| Accounts payable                            | 1,219  | 20,899                    | 173,005                       | —             | 195,123      |
| Other current liabilities                   | 30,222   | 59,921                    | 63,333                        | —             | 153,476      |
| Total current liabilities                   | 35,562   | 80,820                    | 337,101                       | —             | 453,483      |
| Long-term debt                              | 599,168  | —                         | 38,220                        | —             | 637,388      |
| Other long-term liabilities                 | 38,396   | 31,532                    | 75,920                        | —             | 145,848      |
| Intercompany accounts                       | (263,659 )   | (126,589 )                | 390,248                       | —             | —            |
| Titan stockholders' equity                  | 688,372  | 488,664                   | 270,630                       | (759,294 )    | 688,372      |
| Noncontrolling interests                    | —  | —                         | 22,670                        | —             | 22,670       |
| Total liabilities and stockholders' equity  | \$ 1,097,839   | \$ 474,427                | \$ 1,134,789                  | \$ (759,294 ) | \$ 1,947,761 |

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)                      | Consolidating Condensed Balance Sheets<br>December 31, 2012 |                           |                               |               |              |
|---|---|---------------------------|-------------------------------|---------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)                            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
| <b>Assets</b>                               |   |                           |                               |               |              |
| Cash and cash equivalents                   | \$ 103,154  | \$ 4                      | \$ 85,956                     | \$—           | \$ 189,114   |
| Accounts receivable                         | (72 )   | 128,917                   | 168,953                       | —             | 297,798      |
| Inventories                                 | —   | 142,070                   | 224,315                       | —             | 366,385      |
| Prepaid and other current assets            | 49,438  | 17,021                    | 76,367                        | —             | 142,826      |
| Total current assets                        | 152,520   | 288,012                   | 555,591                       | —             | 996,123      |
| Property, plant and equipment, net          | 11,497  | 208,734                   | 348,113                       | —             | 568,344      |
| Investment in subsidiaries                  | 565,811   | —                         | 86,189                        | (652,000 )    | —            |
| Other assets                                | 35,564  | 499                       | 109,705                       | —             | 145,768      |
| Total assets                                | \$ 765,392  | \$ 497,245                | \$ 1,099,598                  | \$ (652,000 ) | \$ 1,710,235 |
| <b>Liabilities and Stockholders' Equity</b> |   |                           |                               |               |              |
| Short-term debt                             | \$—   | \$—                       | \$ 145,801                    | \$—           | \$ 145,801   |
| Accounts payable                            | 1,000   | 21,222                    | 157,843                       | —             | 180,065      |
| Other current liabilities                   | 13,911  | 55,290                    | 72,013                        | —             | 141,214      |
| Total current liabilities                   | 14,911  | 76,512                    | 375,657                       | —             | 467,080      |
| Long-term debt                              | 312,881   | —                         | 128,557                       | —             | 441,438      |
| Other long-term liabilities                 | 44,512  | 35,482                    | 89,361                        | —             | 169,355      |
| Intercompany accounts                       | (213,529 )  | (34,272 )                 | 247,801                       | —             | —            |
| Titan stockholders' equity                  | 606,617   | 419,523                   | 232,477                       | (652,000 )    | 606,617      |
| Noncontrolling interests                    | —   | —                         | 25,745                        | —             | 25,745       |
| Total liabilities and stockholders' equity  | \$ 765,392  | \$ 497,245                | \$ 1,099,598                  | \$ (652,000 ) | \$ 1,710,235 |



TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)                               | Consolidating Condensed Statements of Cash Flows<br>For the Nine Months Ended September 30, 2013 |                           |                               |              |
|--|--|---------------------------|-------------------------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
| Net cash provided by (used for) operating activities | \$(72,306 )  | \$21,528                  | \$ 182,967                    | \$ 132,189   |
| Cash flows from investing activities:                |  |                           |                               |              |
| Capital expenditures                                 | (5,979 )   | (21,763 )                 | (27,214 )                     | (54,956 )    |
| Acquisitions, net of cash acquired                   | —  | —                         | (1,670 )                      | (1,670 )     |
| Additional equity investment in Wheels India         | —  | —                         | (8,017 )                      | (8,017 )     |
| Insurance proceeds                                   | —  | —                         | 2,879                         | 2,879        |
| Other, net   | —  | 235                       | 1,107                         | 1,342        |
| Net cash used for investing activities               | (5,979 )   | (21,528 )                 | (32,915 )                     | (60,422 )    |
| Cash flows from financing activities:                |  |                           |                               |              |
| Proceeds from borrowings                             | 345,313  | —                         | —                             | 345,313      |
| Payment on debt                                      | —  | —                         | (162,040 )                    | (162,040 )   |
| Term loan borrowing                                  | —  | —                         | 25,880                        | 25,880       |
| Convertible note conversion                          | (14,090 )  | —                         | —                             | (14,090 )    |
| Proceeds from exercise of stock options              | 863  | —                         | —                             | 863          |
| Excess tax benefit from stock options exercised      | (46 )  | —                         | —                             | (46 )        |
| Payment of financing fees                            | (5,520 )   | —                         | —                             | (5,520 )     |
| Dividends paid                                       | (778 )   | —                         | —                             | (778 )       |
| Net cash provided by (used for) financing activities | 325,742  | —                         | (136,160 )                    | 189,582      |
| Effect of exchange rate change on cash               | —  | —                         | (3,007 )                      | (3,007 )     |
| Net increase in cash and cash equivalents            | 247,457  | —                         | 10,885                        | 258,342      |
| Cash and cash equivalents, beginning of period       | 103,154  | 4                         | 85,956                        | 189,114      |
| Cash and cash equivalents, end of period             | \$350,611  | \$4                       | \$ 96,841                     | \$447,456    |

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)                               | Consolidating Condensed Statements of Cash Flows<br>For the Nine Months Ended September 30, 2012 |                           |                               |              |
|--|--|---------------------------|-------------------------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
| Net cash provided by operating activities            | \$20,502   | \$21,736                  | \$42,850                      | \$85,088     |
| Cash flows from investing activities:                |  |                           |                               |              |
| Capital expenditures                                 | (3,571)  | (22,076)                  | (10,672)                      | (36,319)     |
| Acquisitions, net of cash acquired                   | (32,760)   | —                         | —                             | (32,760)     |
| Other, net   | —  | 355                       | 281                           | 636          |
| Net cash used for investing activities               | (36,331)   | (21,721)                  | (10,391)                      | (68,443)     |
| Cash flows from financing activities:                |  |                           |                               |              |
| Payment on debt                                      | —  | —                         | (14,434)                      | (14,434)     |
| Term loan borrowing                                  | —  | —                         | 4,378                         | 4,378        |
| Proceeds from exercise of stock options              | 925  | —                         | —                             | 925          |
| Excess tax benefit from stock options exercised      | 185  | —                         | —                             | 185          |
| Dividends paid                                       | (634)  | —                         | —                             | (634)        |
| Net cash provided by (used for) financing activities | 476  | —                         | (10,056)                      | (9,580)      |
| Effect of exchange rate change on cash               | —  | —                         | (1,345)                       | (1,345)      |
| Net increase (decrease) in cash and cash equivalents | (15,353)   | 15                        | 21,058                        | 5,720        |
| Cash and cash equivalents, beginning of period       | 125,266  | 4                         | 3,900                         | 129,170      |
| Cash and cash equivalents, end of period             | \$109,913  | \$19                      | \$24,958                      | \$134,890    |

TITAN INTERNATIONAL, INC.

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

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

Management's discussion and analysis of financial condition and results of operations (MD&A) is designed to provide a reader of these financial statements with a narrative from the perspective of the management of Titan International, Inc. (Titan or the Company) on Titan's financial condition, results of operations, liquidity and other factors which may affect the Company's future results. The MD&A in this quarterly report should be read in conjunction with the MD&A in Titan's 2012 annual report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2013.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements, including statements regarding, among other items:

- Anticipated trends in the Company's business
- Future expenditures for capital projects
- The Company's ability to continue to control costs and maintain quality
- Ability to meet conditions of loan agreements
- The Company's business strategies, including its intention to introduce new products
- Expectations concerning the performance and success of the Company's existing and new products
- The Company's intention to consider and pursue acquisition and divestiture opportunities

Readers of this Form 10-Q should understand that these forward-looking statements are based on the Company's expectations and are subject to a number of risks and uncertainties (including, but not limited to, the factors discussed in Item 1A, Risk Factors of the Company's most recent annual report on Form 10-K), certain of which are beyond the Company's control.

Actual results could differ materially from these forward-looking statements as a result of certain factors, including:

- The effect of a recession on the Company and its customers and suppliers
- Changes in the Company's end-user markets as a result of world economic or regulatory influences
- Changes in the marketplace, including new products and pricing changes by the Company's competitors
- Ability to maintain satisfactory labor relations
- Unfavorable outcomes of legal proceedings
- Availability and price of raw materials
- Levels of operating efficiencies
- Unfavorable product liability and warranty claims
- Actions of domestic and foreign governments
- Results of investments
- Fluctuations in currency translations
- Climate change and related laws and regulations
- Risks associated with environmental laws and regulations

Any changes in such factors could lead to significantly different results. The Company cannot provide any assurance that the assumptions referred to in the forward-looking statements or otherwise are accurate or will prove to transpire. Any assumptions that are inaccurate or do not prove to be correct could have a material adverse effect on the Company's ability to achieve the results as indicated in forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this document will in fact transpire.



TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

## OVERVIEW

Titan International, Inc. and its subsidiaries are leading manufacturers of wheels, tires, wheel and tire assemblies, and undercarriage systems and components for off-highway vehicles used in the agricultural, earthmoving/construction and consumer markets. Titan manufactures both wheels and tires for the majority of these market applications, allowing the Company to provide the value-added service of delivering complete wheel and tire assemblies. The Company offers a broad range of products that are manufactured in relatively short production runs to meet the specifications of original equipment manufacturers (OEMs) and/or the requirements of aftermarket customers.

**Agricultural Market:** Titan's agricultural rims, wheels, tires and undercarriage systems and components are manufactured for use on various agricultural and forestry equipment, including tractors, combines, skidders, plows, planters and irrigation equipment, and are sold directly to OEMs and to the aftermarket through independent distributors, equipment dealers and Titan's own distribution centers.

**Earthmoving/Construction Market:** The Company manufactures rims, wheels, tires and undercarriage systems and components for various types of off-the-road (OTR) earthmoving, mining, military and construction equipment, including skid steers, aerial lifts, cranes, graders and levelers, scrapers, self-propelled shovel loaders, articulated dump trucks, load transporters, haul trucks and backhoe loaders.

**Consumer Market:** Titan manufactures bias truck tires in Latin America, provides wheels and tires and assembles brakes, actuators and components for the domestic boat, recreational and utility trailer markets. Titan also offers select products for ATVs, turf, and golf cart applications. Likewise, Titan produces a variety of tires for the consumer market.

The Company's major OEM customers include large manufacturers of off-highway equipment such as AGCO Corporation, CNH Global N.V., Deere & Company, Hitachi Construction Machinery, Kubota Corporation and Liebherr Group, in addition to many other off-highway equipment manufacturers. The Company distributes products to OEMs, independent and OEM-affiliated dealers, and through a network of distribution facilities.

The table provides highlights for the quarter ended September 30, 2013, compared to 2012 (amounts in thousands):

|                        | 2013      | 2012      | % Increase<br>(Decrease) |    |
|------------------------|-----------|-----------|--------------------------|----|
| Net sales              | \$497,510 | \$404,719 | 23                       | %  |
| Gross profit           | 62,506    | 67,161    | (7                       | )% |
| Income from operations | 17,055    | 36,166    | (53                      | )% |
| Net income             | 7,652     | 18,829    | (59                      | )% |

**Quarter:** The Company recorded sales of \$497.5 million for the third quarter of 2013, which were approximately 23% higher than the third quarter 2012 sales of \$404.7 million. The higher sales levels were primarily the result of recent acquisitions including the October 2012 acquisition of Titan Europe, offset by a price/mix reduction which resulted largely from decreased raw material prices that were generally passed on to customers, weakened demand in the earthmoving/construction market, and unfavorable currency translation.

The Company's gross profit was \$62.5 million, or 12.6% of net sales, for the third quarter of 2013, compared to \$67.2 million, or 16.6%, of net sales, in 2012. Income from operations was \$17.1 million for the third quarter of 2013,

compared to \$36.2 million in 2012. Net income was \$7.7 million for the third quarter of 2013, compared to net income of \$18.8 million in 2012. Basic income per share was \$.15 in the third quarter of 2013, compared to \$.46 in 2012. Increased SG&A expense from recently acquired entities contributed to a decline in income from operations. This increased SG&A expense as well as higher interest expense from additional debt contributed to a decline in net income.

TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

The table provides highlights for the nine months ended September 30, 2013, compared to 2012 (amounts in thousands):

|                        | 2013        | 2012        | % Increase<br>(Decrease) |    |
|------------------------|-------------|-------------|--------------------------|----|
| Net sales              | \$1,669,188 | \$1,327,040 | 26                       | %  |
| Gross profit           | 245,912     | 242,610     | 1                        | %  |
| Income from operations | 101,844     | 175,806     | (42)                     | )% |
| Net income             | 49,897      | 98,548      | (49)                     | )% |

Year-to-date: The Company recorded sales of \$1,669.2 million for the nine months ended September 30, 2013, which were approximately 26% higher than the nine months ended September 30, 2012 sales of \$1,327.0 million. The higher sales levels were primarily the result of recent acquisitions including the August 2012 acquisition of the Planet Group of companies based in Perth, Australia, and the October 2012 acquisition of Titan Europe, as well as increased demand in the Company's agricultural segment, offset by a price/mix reduction which resulted largely from decreased raw material prices that were generally passed on to customers, and unfavorable currency translation.

The Company's gross profit was \$245.9 million, or 14.7% of net sales, for the nine months ended September 30, 2013, compared to \$242.6 million, or 18.3% of net sales, in 2012. Income from operations was \$101.8 million for the nine months ended September 30, 2013, compared to \$175.8 million in 2012. Net income was \$49.9 million for the nine months ended September 30, 2013, compared to net income of \$98.5 million in 2012. Basic income per share was \$0.96 for the nine months ended September 30, 2013, compared to \$2.35 in 2012. Increased SG&A expense from recently acquired entities contributed to a decline in income from operations. This increased SG&A expense as well as higher interest expense from additional debt contributed to a decline in net income. Net income and earnings per share for the nine months ended September 30, 2013 were positively affected by the gain on earthquake insurance recovery of \$22.5 million. Income from operations, net income and earnings per share for the nine months ended September 30, 2012 were positively affected by the supply agreement termination income of \$26.1 million.

#### CRITICAL ACCOUNTING ESTIMATES

Preparation of the financial statements and related disclosures in compliance with accounting principles generally accepted in the United States of America requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The Company's application of these policies involves assumptions that require difficult subjective judgments regarding many factors, which, in and of themselves, could materially impact the financial statements and disclosures. A future change in the estimates, assumptions or judgments applied in determining the following matters, among others, could have a material impact on future financial statements and disclosures.

#### Asset and Business Acquisitions

The allocation of purchase price for asset and business acquisitions requires management estimates and judgment as to expectations for future cash flows of the acquired assets and business and the allocation of those cash flows to identifiable intangible assets in determining the estimated fair value for purchase price allocations. If the actual results differ from the estimates and judgments used in determining the purchase price allocations, impairment losses could occur. To aid in establishing the value of any intangible assets at the time of acquisition, the Company typically engages a professional appraisal firm.

#### Inventories

Inventories are valued at lower of cost or market. At September 30, 2013, approximately 12% of the Company's inventories were valued under the last-in, first-out (LIFO) method. The majority of steel material inventory and related work-in-process and finished goods are accounted for under the LIFO method. The remaining inventories were valued under the first-in, first-out (FIFO) method or average cost method. Market value is estimated based on current selling prices. Estimated provisions are established for slow-moving and obsolete inventory.

#### Income Taxes

Deferred income tax provisions are determined using the liability method whereby deferred tax assets and liabilities are recognized based upon temporary differences between the financial statement and income tax basis of assets and liabilities.



TITAN INTERNATIONAL, INC.

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

The Company assesses the realizability of its deferred tax asset positions and recognizes and measures uncertain tax positions in accordance with accounting standards for income taxes.

Retirement Benefit Obligations

Pension benefit obligations are based on various assumptions used by third-party actuaries in calculating these amounts. These assumptions include discount rates, expected return on plan assets, mortality rates and other factors. Revisions in assumptions and actual results that differ from the assumptions affect future expenses, cash funding requirements and obligations. The Company has three frozen defined benefit pension plans in the United States and pension plans in several foreign countries. During the first nine months of 2013, the Company contributed cash funds of \$3.8 million to its pension plans. Titan expects to contribute approximately \$1.7 million to these pension plans during the remainder of 2013. For more information concerning these costs and obligations, see the discussion of the "Pensions" and Note 25 to the Company's financial statements on Form 10-K for the fiscal year ended December 31, 2012.

Product Warranties

The Company provides limited warranties on workmanship on its products in all market segments. The majority of the Company's products have a limited warranty that ranges from zero to ten years, with certain products being prorated after the first year. The Company calculates a provision for warranty expense based on past warranty experience. Actual warranty expense may differ from historical experience. The Company's warranty accrual was \$34.6 million at September 30, 2013, and \$27.5 million at December 31, 2012. The Company's warranty accrual increased primarily as a result of increased provisions related to earthmoving tires.

SUBSEQUENT EVENTS

Voltyre-Prom Purchase

On October 4, 2013, Titan in partnership with One Equity Partners and the Russian Direct Investment Fund closed the acquisition of an 85% interest in Voltyre-Prom, a leading producer of agricultural and industrial tires in Volgograd, Russia, for approximately \$94.0 million. Titan will act as operating partner with responsibility for Voltyre-Prom's daily operations on behalf of the consortium of which Titan holds a 30% interest.

6.875% Senior Secured Notes due 2020

On October 7, 2013, the Company closed on an offering of \$400.0 million 6.875% senior secured notes due 2020. Titan used the net proceeds from the offering towards financing the repurchase of the Company's 7.875% senior secured notes due 2017 including tender and consent payments, accrued interest and expenses associated therewith.

7.875% Senior Secured Notes due 2017 Tender Offer Settlement

On October 7, 2013, the Company elected to exercise its early settlement election in connection with a tender offer to purchase all of its 7.875% senior secured notes due 2017, and purchased \$387.3 million, or approximately 73.8% of such notes. In connection with this transaction, Titan will record expenses of approximately \$18 million in the fourth quarter of 2013. These expenses relate primarily to a tender and consent premium of \$64.50 per \$1,000 principal amount of the notes and unamortized deferred financing fees offset by unamortized premium on the notes. The tender offer expired October 21, 2013, with no additional notes tendered.

7.875% Senior Secured Notes due 2017 Redemption Call

On October 7, 2013, the Company announced a call for redemption for all 7.875% senior secured notes due 2017 that were not validly tendered by the expiration of the tender offer on October 21, 2013. The remaining notes will be redeemed on November 6, 2013. In connection with this transaction, Titan will record expenses of approximately \$4 million in the fourth quarter of 2013. These expenses relate primarily to a redemption premium of \$59.06 per \$1,000 principal amount of the notes and unamortized deferred financing fees offset by unamortized premium on the notes.

TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Highlights for the three and nine months ended September 30, 2013, compared to 2012 (amounts in thousands):

|                         | Three months ended |           | Nine months ended |             |  |   |
|-------------------------|--------------------|-----------|-------------------|-------------|--|---|
|                         | September 30,      |           | September 30,     |             |  |   |
|                         | 2013               | 2012      | 2013              | 2012        |  |   |
| Net sales               | \$497,510          | \$404,719 | \$1,669,188       | \$1,327,040 |  |   |
| Cost of sales           | 435,004            | 337,558   | 1,423,276         | 1,084,430   |  |   |
| Gross profit            | 62,506             | 67,161    | 245,912           | 242,610     |  |   |
| Gross profit percentage | 12.6               | % 16.6    | % 14.7            | % 18.3      |  | % |

Net Sales

Quarter: Net sales for the quarter ended September 30, 2013, were \$497.5 million compared to \$404.7 million in 2012, an increase of 23%. Sales increased approximately 35% from the inclusion of recently acquired entities including \$128.9 million at Titan Europe. The increase in net sales was partially offset by a price/mix reduction which resulted largely from decreased raw material prices that were generally passed on to customers and decreased sales approximately 5%, weakened demand in the earthmoving/construction market which contributed to a 4% decrease in sales volume, and unfavorable currency translation which decreased sales by approximately 3%.

Year-to-date: Net sales for the nine months ended September 30, 2013, were \$1,669.2 million compared to \$1,327.0 million in 2012, an increase of 26%. Sales increased approximately 35% from the inclusion of recently acquired entities including \$432.0 million at Titan Europe. Overall sales volume was flat compared to the prior year. The increase in net sales was partially offset by a price/mix reduction which resulted largely from decreased raw material prices that were generally passed on to customers and decreased sales approximately 7%, and unfavorable currency translation which decreased sales by approximately 2%.

Cost of Sales and Gross Profit

Quarter: Cost of sales was \$435.0 million for the quarter ended September 30, 2013, compared to \$337.6 million in 2012. The higher cost of sales resulted primarily from the increase in sales levels. The cost of sales increased by approximately 29%, as compared to an approximate 23% increase in net sales.

Gross profit for the third quarter of 2013 was \$62.5 million, or 12.6% of net sales, compared to \$67.2 million, or 16.6% of net sales for the third quarter of 2012. Gross profit, as a percentage of net sales, decreased as a result of lower raw material costs that were passed on to customers before being fully realized by the Company. Increased warranty provisions relating to earthmoving tires also contributed to the decreased gross profit. Titan Europe provided gross profit of \$16.2 million, or 12.6% of net sales. Titan Europe margins were negatively affected by decreased earthmoving/construction demand.

Year-to-date: Cost of sales was \$1,423.3 million for the nine months ended September 30, 2013, compared to \$1,084.4 million in 2012. The higher cost of sales resulted primarily from the increase in sales levels. The cost of sales increased by approximately 31%, as compared to an approximate 26% increase in net sales.

Gross profit for the nine months ended September 30, 2013, was \$245.9 million, or 14.7% of net sales, compared to \$242.6 million, or 18.3% of net sales in 2012. Gross profit, as a percentage of net sales, decreased as a result of the Titan Europe acquisition and lower raw material costs that were passed on to customers before being fully realized by

the Company. Increased warranty provisions relating to earthmoving tires also contributed to the decreased gross profit. Titan Europe provided gross profit of \$50.5 million, or 11.7% of net sales. Titan Europe margins were negatively affected by decreased earthmoving/construction demand.

## TITAN INTERNATIONAL, INC.

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

## Selling, General and Administrative Expenses

Selling, general and administrative expenses were as follows (amounts in thousands):

|                                     | Three months ended |          | Nine months ended |          |   |
|-------------------------------------|--------------------|----------|-------------------|----------|---|
|                                     | September 30,      |          | September 30,     |          |   |
|                                     | 2013               | 2012     | 2013              | 2012     |   |
| Selling, general and administrative | \$38,731           | \$25,497 | \$124,827         | \$79,742 |   |
| Percentage of net sales             | 7.8                | % 6.3    | % 7.5             | % 6.0    | % |

Quarter: Selling, general and administrative (SG&A) expenses for the third quarter of 2013 were \$38.7 million, or 7.8% of net sales, compared to \$25.5 million, or 6.3% of net sales, for 2012. The higher SG&A expenses were primarily the result of approximately \$10 million of SG&A expenses at recently acquired facilities. The increase in SG&A as a percentage of sales was primarily the result of higher SG&A percentages at recently acquired facilities.

Year-to-date: Selling, general and administrative (SG&A) expenses for the nine months ended September 30, 2013 were \$124.8 million, or 7.5% of net sales, compared to \$79.7 million, or 6.0% of net sales, for 2012. The higher SG&A expenses were primarily the result of approximately \$45 million of SG&A expenses at recently acquired facilities. The increase in SG&A as a percentage of sales was primarily the result of higher SG&A percentages at recently acquired facilities.

## Research and Development Expenses

Research and development expenses were as follows (amounts in thousands):

|                          | Three months ended |         | Nine months ended |         |   |
|--------------------------|--------------------|---------|-------------------|---------|---|
|                          | September 30,      |         | September 30,     |         |   |
|                          | 2013               | 2012    | 2013              | 2012    |   |
| Research and development | \$2,778            | \$1,759 | \$8,281           | \$4,456 |   |
| Percentage of net sales  | 0.6                | % 0.4   | % 0.5             | % 0.3   | % |

Quarter: Research and development (R&D) expenses for the third quarter of 2013 were \$2.8 million, or 0.6% of net sales, compared to \$1.8 million, or 0.4% of net sales, for 2012. Approximately \$1 million of R&D expenses of recently acquired facilities contributed to the increase.

Year-to-date: Expenses for R&D were \$8.3 million, or 0.5% of net sales for the nine months ended September 30, 2013, compared to \$4.5 million, or 0.3% of net sales, for 2012. Approximately \$4 million of R&D expenses of recently acquired facilities contributed to the increase.

## Royalty Expense

Royalty expense was as follows (amounts in thousands):

|                 | Three months ended |         | Nine months ended |         |
|-----------------|--------------------|---------|-------------------|---------|
|                 | September 30,      |         | September 30,     |         |
|                 | 2013               | 2012    | 2013              | 2012    |
| Royalty expense | \$3,942            | \$3,739 | \$10,960          | \$8,740 |

The Company has a trademark license agreement with The Goodyear Tire & Rubber Company to manufacture and sell certain tires in North America and Latin America under the Goodyear name. The North American and Latin American farm tire royalties were prepaid through March 2018 as a part of the 2011 Goodyear Latin American farm

tire acquisition. In May 2012, the Company and Goodyear entered into an agreement under which Titan will sell certain non-farm tire products directly to third party customers and pay a royalty to Goodyear.

Quarter: Royalty expenses were \$3.9 million and \$3.7 million for the quarters ended September 30, 2013 and 2012, respectively.

TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

Year-to-date: Year-to-date royalty expenses recorded were \$11.0 million and \$8.7 million for the nine months ended September 30, 2013 and 2012, respectively. As sales subject to the license agreement increased in the first nine months of 2013, the Company's royalty expense increased accordingly.

Supply agreement termination income

Supply agreement termination income was as follows (amounts in thousands):

|                                     | Three months ended |      | Nine months ended |          |
|-------------------------------------|--------------------|------|-------------------|----------|
|                                     | September 30,      |      | September 30,     |          |
|                                     | 2013               | 2012 | 2013              | 2012     |
| Supply agreement termination income | \$—                | \$—  | \$—               | \$26,134 |

The Company's April 2011 acquisition of Goodyear's farm tire business included a three year supply agreement with Goodyear for certain non-farm tire products. A liability was recorded as the supply agreement was for sales at below market prices. In May 2012, the Company and Goodyear terminated this supply agreement and entered into an agreement under which Titan will sell these products directly to third party customers and pay a royalty to Goodyear. The remaining balance of the supply agreement liability was recorded as income as the Company is no longer obligated to sell the products at below market prices.

Income from Operations

Income from operations was as follows (amounts in thousands):

|                         | Three months ended |          | Nine months ended |           |
|-------------------------|--------------------|----------|-------------------|-----------|
|                         | September 30,      |          | September 30,     |           |
|                         | 2013               | 2012     | 2013              | 2012      |
| Income from operations  | \$17,055           | \$36,166 | \$101,844         | \$175,806 |
| Percentage of net sales | 3.4                | % 8.9    | % 6.1             | % 13.2    |

Quarter: Income from operations for the third quarter of 2013, was \$17.1 million, or 3.4% of net sales, compared to \$36.2 million, or 8.9% of net sales, in 2012. This decrease was the net result of the items previously discussed.

Year-to-date: Income from operations for the nine months ended September 30, 2013, was \$101.8 million, or 6.1% of net sales, compared to \$175.8 million, or 13.2% of net sales, in 2012. This decrease was the net result of the items previously discussed.

Interest Expense

Interest expense was as follows (amounts in thousands):

|                  | Three months ended |         | Nine months ended |          |
|------------------|--------------------|---------|-------------------|----------|
|                  | September 30,      |         | September 30,     |          |
|                  | 2013               | 2012    | 2013              | 2012     |
| Interest expense | \$12,414           | \$6,187 | \$35,924          | \$18,699 |

Quarter: Interest expense was \$12.4 million and \$6.2 million for the quarters ended September 30, 2013, and 2012, respectively. Interest expense for the third quarter of 2013 increased primarily as a result of approximately \$5 million of interest recorded for the additional 7.875% senior secured notes issued in the first quarter of 2013. Interest expense at the recently acquired Titan Europe Plc of approximately \$1 million also contributed to the increase.

Year-to-date: Year-to-date interest expense was \$35.9 million and \$18.7 million for the nine months ended September 30, 2013, and 2012, respectively. Interest expense for the first nine months of 2013 increased primarily as a result of approximately \$12 million of interest recorded for the additional 7.875% senior secured notes issued in the first quarter of 2013. Interest expense at the recently acquired Titan Europe Plc of approximately \$6 million also contributed to the increase.



TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

Convertible Debt Conversion Charge

Convertible debt conversion charge was as follows (amounts in thousands):

|                                    | Three months ended |      | Nine months ended |      |
|------------------------------------|--------------------|------|-------------------|------|
|                                    | September 30,      |      | September 30,     |      |
|                                    | 2013               | 2012 | 2013              | 2012 |
| Convertible debt conversion charge | \$—                | \$—  | 7,273             | \$—  |

In the first quarter of 2013, the Company closed an Exchange Agreement with a note holder of the convertible notes. The two parties privately negotiated an agreement to exchange approximately \$52.7 million in aggregate principal amount of the convertible notes for approximately 4.9 million shares of the Company's common stock plus a cash payment totaling \$14.2 million. In connection with this exchange, the Company recognized a charge of \$7.3 million in accordance with accounting standards for debt conversion.

Gain on Earthquake Insurance Recovery

Gain on earthquake insurance recovery (amounts in thousands):

|                                       | Three months ended |      | Nine months ended |      |
|---------------------------------------|--------------------|------|-------------------|------|
|                                       | September 30,      |      | September 30,     |      |
|                                       | 2013               | 2012 | 2013              | 2012 |
| Gain on earthquake insurance recovery | \$—                | \$—  | 22,451            | \$—  |

Titan Europe's wheel manufacturing facility in Finale Emilia, Italy experienced damage from an earthquake in May of 2012 prior to Titan's acquisition of Titan Europe. The plant was closed for production during initial remedial work. This resulted in a limited transfer of production to other facilities within Titan Europe as well as sourcing product from facilities in the US owned by Titan and competitors. In the second quarter of 2013, Titan received a final insurance settlement payment of \$38.7 million, which offset the earthquake insurance receivable and resulted in a gain of \$22.5 million.

Other Income

Other income was as follows (amounts in thousands):

|              | Three months ended |         | Nine months ended |         |
|--------------|--------------------|---------|-------------------|---------|
|              | September 30,      |         | September 30,     |         |
|              | 2013               | 2012    | 2013              | 2012    |
| Other income | \$8,722            | \$2,439 | \$7,712           | \$6,163 |

Quarter: Other income was \$8.7 million for the quarter ended September 30, 2013, as compared to other income of \$2.4 million in 2012. The Company recorded currency exchange gain of \$5.7 million, \$0.8 million in discount amortization on prepaid royalty and interest income of \$0.6 million for the quarter ended September 30, 2013. The Company recorded \$0.9 million in discount amortization on prepaid royalty and a \$0.5 million gain on contractual obligation investments for the quarter ended September 30, 2012.

Year-to-date: Other income was \$7.7 million and \$6.2 million for the nine months ended September 30, 2013 and 2012, respectively. For the first nine months of 2013, the Company recorded interest income of \$2.5 million and \$2.5 million in discount amortization on prepaid royalty, offset by currency exchange loss of \$1.0 million. The Company recorded \$2.9 million in discount amortization on prepaid royalty and a \$1.3 million gain on contractual obligation

investments for the nine months ended September 30, 2012.

35

---

TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

Income Taxes

Income taxes were as follows (amounts in thousands):

|                    | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--------------------|-------------------------------------|----------|------------------------------------|----------|
|                    | 2013                                | 2012     | 2013                               | 2012     |
| Income tax expense | \$5,711                             | \$13,589 | \$38,913                           | \$64,722 |

Quarter: The Company recorded income tax expense of \$5.7 million for the quarter ended September 30, 2013, as compared to \$13.6 million in 2012. The Company's effective income tax rate was 43% and 42% for the three months ended September 30, 2013 and 2012, respectively.

Year-to-date: Income tax expense for the nine months ended September 30, 2013 and 2012, was \$38.9 million and \$64.7 million, respectively. The Company's effective income tax rate was 44% and 40% for the nine months ended September 30, 2013 and 2012, respectively.

The Company's 2013 income tax expense and rate differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income primarily as a result of a change in Italian law making the insurance proceeds from the earthquake non-taxable. In addition, as a result of the reassessment of the realizability of the deferred tax assets due to the Italian law change, a valuation allowance was established on the Italy net deferred tax assets. Other items contributing to the rate difference are state income tax expense, unrecognized tax benefits, foreign earnings, domestic production activities deduction, and tax deductible expenses related to the convertible bond repurchase.

The Company's 2012 income tax expense and rate differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income primarily as a result of the supply agreement termination income and related income tax effects and the liability for unrecognized tax benefits recorded during the three months ended June 30, 2012.

Net Income

Net income was as follows (amounts in thousands):

|            | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|------------|-------------------------------------|----------|------------------------------------|----------|
|            | 2013                                | 2012     | 2013                               | 2012     |
| Net income | \$7,652                             | \$18,829 | \$49,897                           | \$98,548 |

Quarter: Net income for the third quarter of September 30, 2013, was \$7.7 million, compared to \$18.8 million in 2012. For the quarters ended September 30, 2013 and 2012, basic earnings per share were \$.15 and \$.46, respectively, and diluted earnings per share were \$.15 and \$.39, respectively. The Company's net income and earnings per share were lower due to the items previously discussed.

Year-to-date: Net income for the nine months ended September 30, 2013 and 2012, was \$49.9 million and \$98.5 million, respectively. For the nine months ended September 30, 2013 and 2012, basic earnings per share were \$0.96 and \$2.35, respectively, and diluted earnings per share were \$0.89 and \$1.92, respectively. The Company's net income and earnings per share were lower due to the items previously discussed.



TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

Agricultural Segment Results

Agricultural segment results were as follows (amounts in thousands):

|                        | Three months ended |           | Nine months ended |           |
|------------------------|--------------------|-----------|-------------------|-----------|
|                        | September 30,      |           | September 30,     |           |
|                        | 2013               | 2012      | 2013              | 2012      |
| Net sales              | \$273,301          | \$246,578 | \$907,797         | \$831,376 |
| Gross profit           | 48,346             | 48,091    | 158,566           | 173,684   |
| Income from operations | 37,762             | 41,740    | 125,063           | 156,965   |

Quarter: Net sales in the agricultural market were \$273.3 million for the quarter ended September 30, 2013, as compared to \$246.6 million in 2012, an increase of 11%. Sales increased approximately 16% from the inclusion of recently acquired entities. Sales volume was approximately 8% higher as the result of increased demand in the Company's agricultural segment. The increase in net sales was partially offset by a price/mix reduction which resulted largely from decreased raw material costs passed through to customers that decreased sales approximately 11%, and unfavorable currency translation which decreased sales by approximately 2%.

Gross profit in the agricultural market was \$48.3 million for the quarter ended September 30, 2013, as compared to \$48.1 million in 2012. Income from operations in the agricultural market was \$37.8 million for the quarter ended September 30, 2013, as compared to \$41.7 million in 2012. The Company's gross profit, as a percentage of net sales, and income from operations decreased as a result of the Titan Europe acquisition and lower raw material costs that were passed on to customers before being fully realized by the Company. Titan Europe provided gross profit of \$4.4 million, or 12.3% of net sales. Titan Europe margins were negatively affected by decreased agriculture demand.

Year-to-date: Net sales in the agricultural market were \$907.8 million for the nine months ended September 30, 2013, as compared to \$831.4 million in 2012, an increase of 9%. Sales increased approximately 16% from the inclusion of recently acquired entities. Sales volume was approximately 6% higher as the result of increased demand in the Company's agricultural segment. The increase in net sales was partially offset by a price/mix reduction which resulted largely from decreased raw material costs passed through to customers that decreased sales approximately 11%, and unfavorable currency translation which decreased sales by approximately 2%.

Gross profit in the agricultural market was \$158.6 million for the nine months ended September 30, 2013, as compared to \$173.7 million in 2012. Income from operations in the agricultural market was \$125.1 million for the nine months ended September 30, 2013, as compared to \$157.0 million in 2012. The Company's gross profit, as a percentage of net sales, and income from operations decreased as a result of the Titan Europe acquisition and lower raw material costs that were passed on to customers before being fully realized by the Company. Titan Europe provided gross profit of \$14.8 million, or 11.5% of net sales. Titan Europe margins were negatively affected by decreased agriculture demand.

Earthmoving/Construction Segment Results

Earthmoving/construction segment results were as follows (amounts in thousands):

|              | Three months ended |           | Nine months ended |           |
|--------------|--------------------|-----------|-------------------|-----------|
|              | September 30,      |           | September 30,     |           |
|              | 2013               | 2012      | 2013              | 2012      |
| Net sales    | \$168,964          | \$103,135 | \$586,806         | \$318,244 |
| Gross profit | 11,283             | 18,689    | 75,598            | 60,598    |

|                               |        |          |        |        |
|-------------------------------|--------|----------|--------|--------|
| Income (loss) from operations | (1,833 | ) 13,468 | 27,365 | 51,385 |
|-------------------------------|--------|----------|--------|--------|

37

---

## TITAN INTERNATIONAL, INC.

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Quarter: The Company's earthmoving/construction market net sales were \$169.0 million for the quarter ended September 30, 2013, as compared to \$103.1 million in 2012, an increase of 64%. Sales increased approximately 96% from the inclusion of recently acquired entities, primarily Titan Europe which recorded earthmoving/construction sales of \$91.2 million. The increase in net sales was partially offset by a price/mix reduction which resulted largely from decreased demand for larger products used in the mining industry that decreased sales approximately 25%, decreased volume of 6%, and unfavorable currency translation which decreased sales by approximately 2%.

Gross profit in the earthmoving/construction market was \$11.3 million for the quarter ended September 30, 2013, as compared to \$18.7 million in 2012. The Company's earthmoving/construction market loss from operations was \$1.8 million for the quarter ended September 30, 2013, as compared to income from operations of \$13.5 million in 2012. Gross profit and income from operations were negatively affected by decreased demand in the earthmoving/construction market and increased warranty provisions relating to earthmoving tires.

Year-to-date: The Company's earthmoving/construction market net sales were \$586.8 million for the nine months ended September 30, 2013, as compared to \$318.2 million in 2012, an increase of 84%. Sales increased approximately 103% from the inclusion of recently acquired entities, primarily Titan Europe which recorded earthmoving/construction sales of \$295.6 million. Sales increased approximately 3% as the result of price/mix improvements. The increase in net sales was partially offset by decreased volume of 22%.

Gross profit in the earthmoving/construction market was \$75.6 million for the nine months ended September 30, 2013, as compared to \$60.6 million in 2012. The Company's earthmoving/construction market income from operations was \$27.4 million for the nine months ended September 30, 2013, as compared to \$51.4 million in 2012. The Company's gross profit and income from operations increased from recently acquired facilities. Gross profit and income from operations were negatively affected by decreased demand in the earthmoving/construction market and increased warranty provisions relating to earthmoving tires.

## Consumer Segment Results

Consumer segment results were as follows (amounts in thousands):

|                               | Three months ended |          | Nine months ended |           |
|-------------------------------|--------------------|----------|-------------------|-----------|
|                               | September 30,      |          | September 30,     |           |
|                               | 2013               | 2012     | 2013              | 2012      |
| Net sales                     | \$55,245           | \$55,006 | \$174,585         | \$177,420 |
| Gross profit                  | 3,363              | 1,016    | 13,841            | 10,488    |
| Income (loss) from operations | 55                 | (234)    | 4,224             | 30,284    |

Quarter: Consumer market net sales were \$55.2 million for quarter ended September 30, 2013, as compared to \$55.0 million in 2012.

Gross profit from the consumer market was \$3.4 million for the quarter ended September 30, 2013, as compared to \$1.0 million in 2012. Consumer market income from operations was \$0.1 million for the quarter ended September 30, 2013, as compared to loss from operations of \$(0.2) million in 2012.

Year-to-date: Consumer market net sales were \$174.6 million for the nine months ended September 30, 2013, as compared to \$177.4 million in 2012, a decrease of 2%.

Gross profit from the consumer market was \$13.8 million for the nine months ended September 30, 2013, as compared to \$10.5 million in 2012. Consumer market income from operations was \$4.2 million for the nine months ended September 30, 2013, as compared to income from operations of \$30.3 million in 2012. The Company's decrease in income from operations was primarily the result of the supply agreement termination income of \$26.1 million recorded in the second quarter of 2012.



TITAN INTERNATIONAL, INC.  
Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Segment Summary (Amounts in thousands)

| Quarter                               |              |                              |           |                       |                        |
|---------------------------------------|--------------|------------------------------|-----------|-----------------------|------------------------|
| Three months ended September 30, 2013 | Agricultural | Earthmoving/<br>Construction | Consumer  | Corporate<br>Expenses | Consolidated<br>Totals |
| Net sales                             | \$273,301    | \$168,964                    | \$55,245  | \$—                   | \$497,510              |
| Gross profit (loss)                   | 48,346       | 11,283                       | 3,363     | (486                  | ) 62,506               |
| Income (loss) from operations         | 37,762       | (1,833                       | ) 55      | (18,929               | ) 17,055               |
| Three months ended September 30, 2012 |              |                              |           |                       |                        |
| Net sales                             | \$246,578    | 103,135                      | \$55,006  | \$—                   | \$404,719              |
| Gross profit (loss)                   | 48,091       | 18,689                       | 1,016     | (635                  | ) 67,161               |
| Income (loss) from operations         | 41,740       | 13,468                       | (234      | ) (18,808             | ) 36,166               |
| Year-to-Date                          |              |                              |           |                       |                        |
| Nine months ended September 30, 2013  | Agricultural | Earthmoving/<br>Construction | Consumer  | Corporate<br>Expenses | Consolidated<br>Totals |
| Net sales                             | \$907,797    | \$586,806                    | \$174,585 | \$—                   | \$1,669,188            |
| Gross profit (loss)                   | 158,566      | 75,598                       | 13,841    | (2,093                | ) 245,912              |
| Income (loss) from operations         | 125,063      | 27,365                       | 4,224     | (54,808               | ) 101,844              |
| Nine months ended September 30, 2012  |              |                              |           |                       |                        |
| Net sales                             | \$831,376    | 318,244                      | \$177,420 | \$—                   | \$1,327,040            |
| Gross profit (loss)                   | 173,684      | 60,598                       | 10,488    | (2,160                | ) 242,610              |
| Income (loss) from operations         | 156,965      | 51,385                       | 30,284    | (62,828               | ) 175,806              |

Corporate Expenses

Quarter: Income from operations on a segment basis does not include corporate expenses totaling \$18.9 million for the quarter ended September 30, 2013, as compared to \$18.8 million for 2012.

Corporate expenses for the quarter ended September 30, 2013 were composed of selling and marketing expenses of approximately \$8 million and administrative expenses of approximately \$11 million.

Corporate expenses for the quarter ended September 30, 2012 were composed of selling and marketing expenses of approximately \$7 million and administrative expenses of approximately \$12 million.

Year-to-date: Income from operations on a segment basis does not include corporate expenses totaling \$54.8 million for the nine months ended September 30, 2013, as compared to \$62.8 million for 2012.

Corporate expenses for the nine months ended September 30, 2013 were composed of selling and marketing expenses of approximately \$24 million and administrative expenses of approximately \$31 million.

Corporate expenses for the nine months ended September 30, 2012 were composed of selling and marketing expenses of approximately \$24 million and administrative expenses of approximately \$39 million.

Corporate administrative expenses were approximately \$8 million lower for the nine months ended September 30, 2013 primarily due to a decrease in incentive compensation of approximately \$9 million.

TITAN INTERNATIONAL, INC.  
 Management's Discussion and Analysis of  
 Financial Condition and Results of Operations

#### MARKET RISK SENSITIVE INSTRUMENTS

The Company's risks related to foreign currencies, commodity prices and interest rates are consistent with those for 2012. For more information, see the "Market Risk Sensitive Instruments" discussion in the Company's Form 10-K for the fiscal year ended December 31, 2012.

#### PENSIONS

The Company has three frozen defined benefit pension plans covering certain employees or former employees of three U.S. subsidiaries. The Company also has pension plans covering certain employees of several foreign subsidiaries. These plans are described in Note 25 of the Company's Notes to Consolidated Financial Statements in the 2012 Annual Report on Form 10-K.

The Company's recorded liability for pensions is based on a number of assumptions, including discount rates, rates of return on investments, mortality rates and other factors. Certain of these assumptions are determined by the Company with the assistance of outside actuaries. Assumptions are based on past experience and anticipated future trends. These assumptions are reviewed on a regular basis and revised when appropriate. Revisions in assumptions and actual results that differ from the assumptions affect future expenses, cash funding requirements and the carrying value of the related obligations. Titan expects to contribute approximately \$1.7 million to these pension plans during the remainder of 2013.

#### LIQUIDITY AND CAPITAL RESOURCES

##### Cash Flows

As of September 30, 2013, the Company had \$447.5 million of cash within various bank accounts.

| (amounts in thousands) | September 30,<br>2013 | December 31,<br>2012 | Change    |
|------------------------|-----------------------|----------------------|-----------|
| Cash                   | \$447,456             | \$189,114            | \$258,342 |

The cash balance increased by \$258.3 million from December 31, 2012, due to the following items.

##### Operating Cash Flows

Summary of cash flows from operating activities:

| (Amounts in thousands)                | Nine months ended September 30, |          |            |
|---------------------------------------|---------------------------------|----------|------------|
|                                       | 2013                            | 2012     | Change     |
| Net income                            | \$49,897                        | \$98,548 | \$(48,651) |
| Depreciation and amortization         | 56,333                          | 35,865   | 20,468     |
| Convertible debt conversion charge    | 7,273                           | —        | 7,273      |
| Gain on earthquake insurance recovery | (22,451)                        | —        | (22,451)   |
| Insurance proceeds                    | 35,808                          | —        | 35,808     |
| Deferred income tax provision         | (6,860)                         | 6,906    | (13,766)   |
| Supply agreement termination income   | —                               | (26,134) | 26,134     |
| Accounts receivable                   | (1,022)                         | (24,099) | 23,077     |
| Inventories                           | (18,599)                        | (36,921) | 18,322     |
| Accounts payable                      | 23,302                          | 25,893   | (2,591)    |

Edgar Filing: TITAN INTERNATIONAL INC - Form 10-Q

|                                       |           |           |          |
|---------------------------------------|-----------|-----------|----------|
| Other current liabilities             | 23,218    | 4,786     | 18,432   |
| Other liabilities                     | 1,968     | 10,937    | (8,969 ) |
| Other operating activities            | (16,678 ) | (10,693 ) | (5,985 ) |
| Cash provided by operating activities | \$132,189 | \$85,088  | \$47,101 |

40

---

TITAN INTERNATIONAL, INC.  
Management's Discussion and Analysis of  
Financial Condition and Results of Operations

In the first nine months of 2013, operating activities provided cash of \$132.2 million, which included net income of \$49.9 million and an increase in accounts payable of \$23.3 million and other current liabilities of \$23.2 million. Net income included \$56.3 million of noncash charges for depreciation and amortization. Insurance proceeds less gain on earthquake insurance recovery provided cash of \$13.4 million. Positive cash inflows were offset by an increase in inventory of \$18.6 million.

In the first nine months of 2012, operating activities provided cash of \$85.1 million, which included net income of \$98.5 million and an increase in accounts payable and other liabilities of \$25.9 million and \$10.9 million, respectively. Net income included \$35.9 million of noncash charges for depreciation and amortization. Positive cash inflows were offset by increases in accounts receivable and inventory of \$24.1 million and \$36.9 million, respectively, and noncash supply agreement income of \$26.1 million.

Operating cash flows increased \$47.1 million when comparing the nine months ended September 30, 2013, to the nine months ended September 30, 2012. Net income in the first nine months of 2013 was \$48.7 million lower than the net income in the first nine months of 2012. Partially contributing to this was increased depreciation and amortization of \$20.5 million and a convertible debt conversion charge of \$7.3 million. When comparing the first nine months of 2013 to the first nine months of 2012, cash flows from inventories and other current liabilities increased \$18.3 million and \$18.4 million, respectively, which was partially offset by decreased cash flows from other liabilities of \$9.0 million.

The Company's inventory balance was higher at September 30, 2013, as compared to December 31, 2012. The Company's accounts receivable balance was lower at September 30, 2013, as compared to December 31, 2012. Days sales in inventory decreased to 73 days at September 30, 2013, compared to 86 days at December 31, 2012. Days sales outstanding decreased to 53 days at September 30, 2013, from 54 days at December 31, 2012.

#### Investing Cash Flows

##### Summary of cash flows from investing activities:

(Amounts in thousands)

|  | Nine months ended September 30, |             |             |
|--|---------------------------------|-------------|-------------|
|  | 2013                            | 2012        | Change      |
| Acquisitions, net of cash acquired           | \$(1,670                        | ) \$(32,760 | ) \$31,090  |
| Additional equity investment in Wheels India | (8,017                          | ) —         | (8,017 )    |
| Capital expenditures                         | (54,956                         | ) (36,319   | ) (18,637 ) |
| Other investing activities                   | 4,221                           | 636         | 3,585       |
| Cash used for investing activities           | \$(60,422                       | ) \$(68,443 | ) \$8,021   |

Net cash used for investing activities was \$60.4 million in the first nine months of 2013, as compared to \$68.4 million in the first nine months of 2012. The Company invested a total of \$55.0 million in capital expenditures in the first nine months of 2013, compared to \$36.3 million in 2012. The 2013 and 2012 expenditures represent various equipment purchases and improvements to enhance production capabilities of Titan's existing business and maintaining existing equipment. The Company invested a total of \$1.7 million in acquisitions in the first nine months of 2013, as compared to \$32.8 million in the first nine months of 2012. The Company also used \$8.0 million for additional equity investment in Wheels India in the first nine months of 2013.

TITAN INTERNATIONAL, INC.  
Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Financing Cash Flows

Summary of cash flows from financing activities:

(Amounts in thousands)

|  | Nine months ended September 30, |           |              |
|--|---------------------------------|-----------|--------------|
|  | 2013                            | 2012      | Change       |
| Proceeds from borrowings                         | \$345,313                       | \$—       | \$345,313    |
| Term loan borrowing                              | 25,880                          | 4,378     | 21,502       |
| Proceeds from exercise of stock options          | 863                             | 925       | (62 )        |
| Convertible note conversion                      | (14,090                         | ) —       | (14,090 )    |
| Payment of financing fees                        | (5,520                          | ) —       | (5,520 )     |
| Payment on debt                                  | (162,040                        | ) (14,434 | ) (147,606 ) |
| Excess tax benefit from stock options exercised  | (46                             | ) 185     | (231 )       |
| Dividends paid                                   | (778                            | ) (634    | ) (144 )     |
| Cash provided by (used for) financing activities | \$189,582                       | \$(9,580  | ) \$199,162  |

In the first nine months of 2013, \$189.6 million of cash was provided by financing activities. This cash was primarily provided by proceeds from the issuance of \$345.3 million of additional 7.875% senior secured notes due 2017. This was partially offset by payment on debt of \$162.0 million, primarily at the Company's European facilities.

In the first nine months of 2012, \$9.6 million of cash was used for financing activities. This cash was primarily used for the payment on term loan borrowings of \$14.4 million that was originally borrowed to provide working capital for Titan's Latin American operations. This was partially offset by \$4.4 million of additional term loan borrowings for Titan's Latin American operations.

Financing cash flows increased by \$199.2 million when comparing the first nine months of 2013 to 2012. This increase was primarily the result of the additional issuance of 7.875% senior secured notes due 2017.

Other Issues

The Company's business is subject to seasonal variations in sales that affect inventory levels and accounts receivable balances. Historically, Titan tends to have higher production levels in the first and second quarters.

Debt Restrictions

The Company's revolving credit facility (credit facility) contains various restrictions, including:

- Limits on dividends and repurchases of the Company's stock.
- Restrictions on the ability of the Company to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company.
- Limitations on investments, dispositions of assets and guarantees of indebtedness.
- Other customary affirmative and negative covenants.

These restrictions could limit the Company's ability to respond to market conditions, to provide for unanticipated capital investments, to raise additional debt or equity capital, to pay dividends or to take advantage of business opportunities, including future acquisitions.

Liquidity Outlook

At September 30, 2013, the Company had \$447.5 million of cash and cash equivalents and no outstanding borrowings on the Company's \$150 million credit facility. The cash and cash equivalents balance of \$447.5 million includes \$96.7

million held in foreign countries. The Company's current plans do not demonstrate a need to repatriate the foreign amounts to fund U.S. operations, with the exception of intercompany loans to foreign subsidiaries totaling \$149.3 million at September 30, 2013. However, if foreign funds were needed for U.S. operations, the Company would be required to accrue and pay taxes to repatriate the funds.

TITAN INTERNATIONAL, INC.

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

In October 2013, Titan paid approximately \$19 million in connection with the tender offer for the Company's 7.875% senior secured notes due 2017. This amount represents payments for principal, tender and consent payments, and accrued interest which were not covered by the net proceeds of the offering of 6.875% senior secured notes due 2020. In November 2013, the Company expects to pay approximately \$147 million for the redemption of the remaining 7.875% senior secured notes due 2017. This amount represents principal, redemption premium and interest.

Capital expenditures for the remainder of 2013 are forecasted to be approximately \$15 million to \$20 million. Cash payments for interest are currently forecasted to be approximately \$23 million for the remainder of 2013 based on September 30, 2013 debt balances. The forecasted interest payments are comprised primarily of a semi-annual payment of \$20.7 million for the 7.875% senior secured notes paid on October 1.

In the future, Titan may seek to grow by making acquisitions which will depend on the ability to identify suitable acquisition candidates, to negotiate acceptable terms for their acquisition and to finance those acquisitions.

Subject to the terms of indebtedness, the Company may finance future acquisitions with cash on hand, cash from operations, additional indebtedness and/or by issuing additional equity securities.

Cash on hand, anticipated internal cash flows from operations and utilization of remaining available borrowings are expected to provide sufficient liquidity for working capital needs, capital expenditures and potential acquisitions.

#### MARKET CONDITIONS AND OUTLOOK

In the first nine months of 2013, Titan experienced higher sales when compared to the sales levels in the first nine months of 2012. The higher sales were primarily the result of increased demand in the Company's agricultural segment, as well as recent acquisitions including the August 2012 acquisition of the Planet Group of companies based in Perth, Australia, and the October 2012 acquisition of Titan Europe. For the remainder of 2013, the Company expects demand to remain weak in the earthmoving/construction market.

Energy, raw material and petroleum-based product costs have been volatile and may negatively impact the Company's margins. Many of Titan's overhead expenses are fixed; therefore, lower seasonal trends may cause negative fluctuations in quarterly profit margins and affect the financial condition of the Company.

#### AGRICULTURAL MARKET OUTLOOK

Agricultural market sales were higher in the first nine months of 2013 when compared to the first nine months of 2012. The Titan Europe acquisition and continued strong demand contributed to the higher sales levels. The increase in the global population may help grow future demand. The gradual increase in the use of biofuels may help sustain future production. Many variables, including weather, grain prices, export markets and future government policies and payments can greatly influence the overall health of the agricultural economy.

#### EARTHMOVING/CONSTRUCTION MARKET OUTLOOK

Earthmoving and mining sales were significantly higher in the first nine months of 2013 when compared to the first nine months of 2012. Recent acquisitions contributed to the higher sales levels. Although metals, oil and gas prices may fluctuate in the short-term, in the long-term, these prices are expected to remain at levels that are attractive for continued investment, which should help support future earthmoving and mining sales. The earthmoving/construction segment is affected by many variables, including commodity prices, road construction, infrastructure, government



appropriations, housing starts and the on-going banking and credit issues. For the remainder of 2013, the Company expects earthmoving/construction market demand to remain weak.

#### CONSUMER MARKET OUTLOOK

Consumer market sales were slightly lower in the first nine months of 2013, when compared to the first nine months of 2012. The decrease in net sales was primarily the result of unfavorable currency translation on consumer product sales in Latin America, partially offset by the inclusion of recently acquired entities. Consumer market sales may fluctuate from period to period.

TITAN INTERNATIONAL, INC.

PART I. FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See the Company's 2012 Annual Report filed on Form 10-K (Item 7A). There has been no material change in this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's principal executive officer and principal financial officer have concluded the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) are effective as of the end of the period covered by this Form 10-Q based on an evaluation of the effectiveness of disclosure controls and procedures.

Changes in Internal Controls

There were no material changes in internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the third quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of the effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TITAN INTERNATIONAL, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to routine legal proceedings arising out of the normal course of business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, the Company believes at this time that none of these actions, individually or in the aggregate, will have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company. However, due to the difficult nature of predicting unresolved and future legal claims, the Company cannot anticipate or predict the material adverse effect on its consolidated financial condition, results of operations or cash flows as a result of efforts to comply with or its liabilities pertaining to legal judgments.

Item 1A. Risk Factors

See the Company's 2012 Annual Report filed on Form 10-K (Item 1A). There has been no material change in this information.

Item 6. Exhibits

- 31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

TITAN INTERNATIONAL, INC.  
(Registrant)

Date: October 29, 2013

By: /s/ MAURICE M. TAYLOR JR.  
Maurice M. Taylor Jr.  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ PAUL G. REITZ  
Paul G. Reitz  
Chief Financial Officer  
(Principal Financial Officer)

