TITAN INTERNATIONAL INC
Form 10-Q
August 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For Quarterly Period Ended: June 30, 2016

or

o 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)

| | |
|---|---|
| Delaware | 36-3228472 |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

2701 Spruce Street, Quincy, IL 62301
(Address of principal executive offices, including Zip Code)

(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 þ No o

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

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 þ |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |

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

Indicate the number of shares of Titan International, Inc. outstanding: 54,046,512 shares common stock, $0.0001 par value, as of July 20, 2016.

TITAN INTERNATIONAL, INC.

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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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | $330,214 | $376,067 | $652,008 | $778,126 |
| Cost of sales | 285,139 | 325,014 | 575,045 | 684,279 |
| Gross profit | 45,075 | 51,053 | 76,963 | 93,847 |
| Selling, general and administrative expenses | 36,302 | 37,848 | 71,364 | 73,522 |
| Research and development expenses | 2,714 | 2,779 | 5,193 | 5,865 |
| Royalty expense | 2,109 | 2,895 | 4,403 | 6,120 |
| Income (loss) from operations | 3,950 | 7,531 | (3,997) | 8,340 |
| Interest expense | (7,982) | (8,642) | (16,494) | (17,398) |
| Foreign exchange gain | 2,182 | 3,647 | 7,005 | 9,613 |
| Other income | 3,049 | 3,259 | 6,954 | 5,576 |
| Income (loss) before income taxes | 1,199 | 5,795 | (6,532) | 6,131 |
| Provision for income taxes | 3,648 | 1,515 | 4,652 | 2,911 |
| Net income (loss) | (2,449) | 4,280 | (11,184) | 3,220 |
| Net loss attributable to noncontrolling interests | (550) | (2,491) | (133) | (3,783) |
| Net income (loss) attributable to Titan | (1,899) | 6,771 | (11,051) | 7,003 |
| Redemption value adjustment | (1,900) | 2,580 | (7,108) | (350) |
| Net income (loss) applicable to common shareholders | $(3,799) | $9,351 | $(18,159) | $6,653 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $(.07) | $.17 | $(.34) | $.12 |
| Diluted | $(.07) | $.17 | $(.34) | $.12 |
| Average common shares and equivalents outstanding: | | | | |
| Basic | 53,884 | 53,686 | 53,869 | 53,674 |
| Diluted | 53,884 | 59,489 | 53,869 | 53,858 |
| | | | | |
| Dividends declared per common share: | $.005 | $.005 | $.010 | $.010 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Three months ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Net income (loss) | $(2,449) | $4,280 |
| Currency translation adjustment, net | 4,346 | 4,436 |
| Pension liability adjustments, net of tax of $(133) and $(706), respectively | 448 | 1,488 |
| Comprehensive income | 2,345 | 10,204 |
| Net comprehensive income (loss) attributable to redeemable and noncontrolling interests | 706 | (1,904) |
| Comprehensive income attributable to Titan | $1,639 | $12,108 |

| | Six months ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Net income (loss) | $(11,184) | $3,220 |
| Currency translation adjustment, net | 21,931 | (40,950) |
| Pension liability adjustments, net of tax of $(304) and $(806), respectively | 735 | 1,497 |
| Comprehensive income (loss) | 11,482 | (36,233) |
| Net comprehensive income (loss) attributable to redeemable and noncontrolling interests | 6,106 | (4,917) |
| Comprehensive income (loss) attributable to Titan | $5,376 | $(31,316) |

See accompanying Notes to Consolidated Financial Statements.

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

| | June 30, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $207,238 | $200,188 |
| Accounts receivable, net | 196,718 | 177,389 |
| Inventories | 273,744 | 269,791 |
| Prepaid and other current assets | 72,352 | 62,633 |
| Total current assets | 750,052 | 710,001 |
| Property, plant and equipment, net | 449,472 | 450,020 |
| Deferred income taxes | 7,158 | 5,967 |
| Other assets | 101,790 | 104,242 |
| Total assets | $1,308,472 | $1,270,230 |
| | | |
| Liabilities | | |
| Current liabilities | | |
| Short-term debt | $89,038 | $31,222 |
| Accounts payable | 145,568 | 123,154 |
| Other current liabilities | 122,252 | 115,721 |
| Total current liabilities | 356,858 | 270,097 |
| Long-term debt | 414,570 | 475,443 |
| Deferred income taxes | 16,852 | 14,509 |
| Other long-term liabilities | 86,180 | 88,324 |
| Total liabilities | 874,460 | 848,373 |
| | | |
| Redeemable noncontrolling interest | 100,777 | 77,174 |
| | | |
| Equity | | |
| Titan stockholders' equity | | |
| Common stock ($0.0001 par value, 120,000,000 shares authorized, 55,253,092 issued, 53,984,344 outstanding) | — | — |
| Additional paid-in capital | 481,930 | 497,008 |
| Retained earnings | 37,746 | 49,297 |
| Treasury stock (at cost, 1,268,748 and 1,339,583 shares, respectively) | (11,784) | (12,420) |
| Treasury stock reserved for deferred compensation | (1,075) | (1,075) |
| Accumulated other comprehensive loss | (171,324) | (187,751) |
| Total Titan stockholders’ equity | 335,493 | 345,059 |
| Noncontrolling interests | (2,258) | (376) |
| Total equity | 333,235 | 344,683 |
| Total liabilities and equity | $1,308,472 | $1,270,230 |

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 common shares | Additional paid-in capital | Retained earnings | Treasury stock | Treasury stock reserved for deferred compensation | Accumulated other comprehensive income (loss) | Total Titan Equity | Noncontrolling interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance January 1, 2016 | 53,913,509 | $497,008 | $49,297 | $(12,420) | $(1,075) | $(187,751) | $345,059 | $(376) | $344,683 |
| Net loss * | | | (11,051) | | | | (11,051) | (1,665) | (12,716) |
| Currency translation adjustment, net of tax * | | | | | | 19,183 | 19,183 | (177) | 19,006 |
| Pension liability adjustments, net of tax | | | | | | 735 | 735 | | 735 |
| Dividends on common stock | | | (540) | | | | (540) | | (540) |
| Restricted stock awards | 8,750 | (79) | | 79 | | | — | | — |
| Acquisition of additional interest | | (8,548) | 40 | | | (3,491) | (11,999) | (40) | (12,039) |
| Redemption value adjustment | | (7,108) | | | | | (7,108) | | (7,108) |
| Stock-based compensation | | 931 | | | | | 931 | | 931 |
| Issuance of treasury stock under 401(k) plan | 62,085 | (274) | | 557 | | | 283 | | 283 |
| Balance June 30, 2016 | 53,984,344 | $481,930 | $37,746 | $(11,784) | $(1,075) | $(171,324) | $335,493 | $(2,258) | $333,235 |

* Net loss excludes $1,532 of net gain attributable to redeemable noncontrolling interest. Currency translation adjustment excludes $2,924 of currency translation related to redeemable noncontrolling interest.

See accompanying Notes to Consolidated Financial Statements.

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

| | Six months ended June 30, | |
|---|---|---|
| Cash flows from operating activities: | 2016 | 2015 |
| Net income (loss) | $(11,184) | $3,220 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 30,615 | 36,604 |
| Deferred income tax provision | 600 | (5,602) |
| Stock-based compensation | 931 | 1,339 |
| Excess tax benefit from stock-based compensation | — | 538 |
| Issuance of treasury stock under 401(k) plan | 283 | 304 |
| Foreign currency translation loss | 6,740 | 9,366 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (9,789) | (37,149) |
| Inventories | 5,258 | 8,721 |
| Prepaid and other current assets | (7,583) | 2,868 |
| Other assets | (1,318) | (688) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 15,007 | 4,423 |
| Other current liabilities | 3,523 | (1,988) |
| Other liabilities | (3,411) | (14,114) |
| Net cash provided by operating activities | 29,672 | 7,842 |
| Cash flows from investing activities: | | |
| Capital expenditures | (18,050) | (22,505) |
| Other | 1,294 | 2,708 |
| Net cash used for investing activities | (16,756) | (19,797) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 1,559 | 13,239 |
| Payment on debt | (10,248) | (8,517) |
| Proceeds from exercise of stock options | — | 144 |
| Excess tax benefit from stock-based compensation | — | (538) |
| Dividends paid | (540) | (538) |
| Net cash provided by (used for) financing activities | (9,229) | 3,790 |
| Effect of exchange rate changes on cash | 3,363 | (5,802) |
| Net increase (decrease) in cash and cash equivalents | 7,050 | (13,967) |
| Cash and cash equivalents, beginning of period | 200,188 | 201,451 |
| Cash and cash equivalents, end of period | $207,238 | $187,484 |
| | | |
| Supplemental information: | | |
| Interest paid | $16,510 | $20,063 |
| Income taxes paid, net of refunds received | $3,367 | $(884) |

See accompanying Notes to Consolidated Financial Statements.

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 June 30, 2016, and the results of operations and cash flows for the three and six months ended June 30, 2016 and 2015.

Accounting policies have continued without significant change and are described in the Description of Business and Significant Accounting Policies contained in the Company's 2015 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 2015 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, and other accruals 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 6.875% senior secured notes due 2020 (senior secured notes) and 5.625% convertible senior subordinated notes due 2017 (convertible notes) are carried at cost of $395.4 million and $60.0 million at June 30, 2016, respectively. The fair value of the senior secured notes at June 30, 2016, as obtained through an independent pricing source, was approximately $348.0 million.

Cash dividends
The Company declared cash dividends of $.005 and $.010 per share of common stock for each of the three and six months ended June 30, 2016 and 2015. The second quarter 2016 cash dividend of $.005 per share of common stock was paid July 15, 2016, to stockholders of record on June 30, 2016.

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.

Recently issued accounting standards
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also

requires disclosure about the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update were deferred by ASU No. 2015-14, "Revenue form Contracts with Customers (Topic 606) Deferral of Effective Date", and are now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company will adopt the guidance in the year beginning on January 1, 2018, and is currently assessing the impact that adopting this new accounting guidance will have on the Company's consolidated financial statements.

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

In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing." This ASU clarifies the following aspects of Topic 606: identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients." This ASU affects only narrow aspects of Topic 606 related to: assessing the collectability criterion; presentation of sales tax; noncash consideration; and contract modifications and completed contracts at transition. The amendments in these updates affect the guidance in ASU 2014-09, and the effective dates are the same as those for ASU No. 2014-09.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This update amends existing guidance to require that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this update were effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. As a result of adopting this update, $5.0 million of debt issuance cost was reclassified from other long-term assets to long-term debt as of December 31, 2015.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This update was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact that adopting this new accounting guidance will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Simplifying the Transition to Equity Method of Accounting." This update eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for use of the equity method as a result of the increase in the level of ownership. The amendments in this update are effective for fiscal years, including interim periods within those years, beginning after December 15, 2016. Early application is permitted. The Company is currently assessing the impact that adopting this new accounting guidance will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This update involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. The Company is currently assessing the impact that adopting this new accounting guidance will have on the Company's consolidated financial statements.

Reclassification
Certain amounts from prior years have been reclassified to conform to the current year's presentation. The Company has implemented new technology resources which allow for more accurate segregation of sales and profit by segment. The previous year segment information has been updated to be consistent.

## 2. ACCOUNTS RECEIVABLE

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Accounts receivable | $201,014 | $ 181,916 |
| Allowance for doubtful accounts | (4,296 ) | (4,527 ) |
| Accounts receivable, net | $196,718 | $ 177,389 |

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

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

3. INVENTORIES

Inventories consisted of the following (amounts in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw material | $72,516 | $ 85,490 |
| Work-in-process | 31,582 | 31,866 |
| Finished goods | 171,261 | 158,997 |
| | 275,359 | 276,353 |
| Adjustment to LIFO | (1,615 ) | (6,562 ) |
| | $273,744 | $ 269,791 |

Inventories are valued at lower of cost or market. The majority of inventories are valued under the first-in, first-out (FIFO) method or average cost method. At June 30, 2016, approximately 7% of the Company's inventories were valued under the last-in, first-out (LIFO) method compared to 8% at December 31, 2015.

4. PROPERTY, PLANT AND EQUIPMENT

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Land and improvements | $46,017 | $ 46,776 |
| Buildings and improvements | 234,649 | 241,666 |
| Machinery and equipment | 568,519 | 540,549 |
| Tools, dies and molds | 106,618 | 102,723 |
| Construction-in-process | 40,695 | 36,500 |
| | 996,498 | 968,214 |
| Less accumulated depreciation | (547,026 ) | (518,194 ) |
| | $449,472 | $ 450,020 |

Depreciation on fixed assets for the six months ended June 30, 2016 and 2015, totaled $28.9 million and $34.0 million, respectively.

Included in the total building and improvements are capital leases of $3.1 million and $3.7 million at June 30, 2016, and December 31, 2015, respectively. Included in the total of machinery and equipment are capital leases of $28.2 million and $33.0 million at June 30, 2016, and December 31, 2015, respectively.

As a result of continued downturns in the Company's markets and operating loss, the Company determined in the second quarter of 2016 that events and circumstances indicated that the carrying value of fixed assets at the Bryan, Ohio, location may not be recoverable. Certain fixed assets were reviewed for recoverability. No impairment was identified.

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

## 5. INTANGIBLE ASSETS

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

| | Weighted Average Useful Lives (in Years) | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Customer relationships | 11.2 | $13,671 | $ 13,413 |
| Patents, trademarks and other | 8.3 | 14,278 | 13,237 |
| Total at cost | | 27,949 | 26,650 |
| Less accumulated amortization | | (10,377 ) | (8,852 ) |
| | | $17,572 | $ 17,798 |

Amortization related to intangible assets for the six months ended June 30, 2016 and 2015, totaled $1.1 million and $1.8 million, respectively. Intangible assets are included as a component of other assets in the Consolidated Condensed Balance Sheet.

The estimated aggregate amortization expense at June 30, 2016, is as follows (amounts in thousands):

| | |
|---|---|
| July 1 - December 31, 2016 | $1,228 |
| 2017 | 2,153 |
| 2018 | 2,153 |
| 2019 | 2,153 |
| 2020 | 2,153 |
| Thereafter | 7,732 |
| | $17,572 |

## 6. WARRANTY

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

| | 2016 | 2015 |
|---|---|---|
| Warranty liability, January 1 | $23,120 | $28,144 |
| Provision for warranty liabilities | 3,373 | 5,558 |
| Warranty payments made | (6,205 ) | (7,171 ) |
| Warranty liability, June 30 | $20,288 | $26,531 |

The Company provides limited warranties on workmanship of 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)

7. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

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

| | June 30, 2016 | | |
|---|---|---|---|
| | Principal Balance | Unamortized Discount | Net Carrying Amount |
| 6.875% senior secured notes due 2020 | $400,000 | $ (4,623) | $395,377 |
| 5.625% convertible senior subordinated notes due 2017 | 60,161 | (167) | 59,994 |
| Titan Europe credit facilities | 38,818 | — | 38,818 |
| Other debt | 8,017 | — | 8,017 |
| Capital leases | 1,402 | — | 1,402 |
| Total debt | 508,398 | (4,790) | 503,608 |
| Less amounts due within one year | 89,205 | (167) | 89,038 |
| Total long-term debt | $419,193 | $ (4,623) | $414,570 |

| | December 31, 2015 | | |
|---|---|---|---|
| | Principal Balance | Unamortized Discount | Net Carrying Amount |
| 6.875% senior secured notes due 2020 | $400,000 | $ (4,640) | $395,360 |
| 5.625% convertible senior subordinated notes due 2017 | 60,161 | (321) | 59,840 |
| Titan Europe credit facilities | 38,059 | — | 38,059 |
| Other debt | 11,531 | — | 11,531 |
| Capital leases | 1,875 | — | 1,875 |
| Total debt | 511,626 | (4,961) | 506,665 |
| Less amounts due within one year | 31,222 | — | 31,222 |
| Total long-term debt | $480,404 | $ (4,961) | $475,443 |

Aggregate maturities of long-term debt at June 30, 2016, were as follows (amounts in thousands):

| | |
|---|---|
| July 1 - December 31, 2016 | $28,801 |
| 2017 | 71,082 |
| 2018 | 4,952 |
| 2019 | 1,978 |
| 2020 | 401,499 |
| Thereafter | 86 |
| | $508,398 |

6.875% senior secured notes due 2020
The Company’s 6.875% senior secured notes (senior secured notes) are due October 2020. 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.

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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. See the indenture incorporated by reference to the Company's most recent Form 10-K for additional information.

Titan Europe credit facilities
The Titan Europe credit facilities contain borrowings from various institutions totaling $38.8 million at June 30, 2016. Maturity dates on this debt range from less than one year to nine years and interest rates range from 5% to 6.9%. The Titan Europe facilities are secured by the assets of its subsidiaries in Italy, Spain, Germany and Brazil.

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. Titan's availability under this domestic facility may be less than $150 million as a result of eligible accounts receivable and inventory balances at certain of its domestic subsidiaries. At June 30, 2016, the amount available was $47.4 million as a result of the outstanding letters of credit and the Company's decrease in sales, which impacted both accounts receivable and inventory balances. During the first six months of 2016 and at June 30, 2016, there were no borrowings under the credit facility.

Other debt
Titan Brazil has working capital loans for the Sao Paulo, Brazil manufacturing facility totaling $6.9 million at June 30, 2016. Maturity dates on this debt range from less than one year to two years and interest rates range from 5.5% to 8%.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses financial derivatives to mitigate its exposure to volatility in foreign currency exchange rates. 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 recorded as an offset to currency exchange gain/loss. For the three months ended June 30, 2016, the Company recorded currency exchange gain of $0.5 million related to these derivatives. For the six months ended June 30, 2016, the Company recorded currency exchange gain of $0.7 million related to these derivatives.

## 9. REDEEMABLE NONCONTROLLING INTEREST

The Company has a shareholders’ agreement with One Equity Partners (OEP) and the Russian Direct Investment Fund (RDIF) which was used for the acquisition of Voltyre-Prom, a leading producer of agricultural and industrial tires in Volgograd, Russia. The agreement contains a settlement put option which is exercisable July through December of 2018 and may require Titan to purchase the shares of OEP and RDIF, with cash or Titan common stock, at a value set by the agreement. The value set by the agreement is the greater of: the aggregate of the investment of the selling party and an amount representing an internal rate of return of 8%; or the last twelve months of EBITDA times 5.5 less net debt times the ownership percentage. The value of the redeemable noncontrolling interest has been recorded at the aggregate of the investment of the selling party and an amount representing an internal rate of return of 8%, which is currently greater.

The redemption features of the settlement put option are not solely within the Company’s control and the noncontrolling interest is presented as redeemable noncontrolling interest separately from total equity in the Consolidated Balance Sheet at the redemption value of the settlement put option. If the redemption value is greater than the carrying value of the noncontrolling interest, the increase is adjusted directly to retained earnings of the affected entity, or additional paid-in capital if there are no available retained earnings applicable to the redeemable noncontrolling interest.

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In the first quarter of 2016, the Company acquired $25 million of additional shares in the consortium owning Voltyre-Prom, increasing Titan's ownership to 43% from 30%. The acquisition of shares was transacted through the conversion of an intercompany note previously held by Titan. As a result of the ownership change, the balance of the redeemable noncontrolling interest increased by $12 million which is comprised of a $3.5 million reclassification of currency translation and an $8.5 million reclassification of other equity.
The following is a reconciliation of redeemable noncontrolling interest as of June 30, 2016 and 2015 (amounts in thousands):

| | 2016 | 2015 |
|---|---|---|
| Balance at January 1 | $77,174 | $71,192 |
| Reclassification as a result of ownership change | 12,039 | — |
| Income attributable to redeemable noncontrolling interest | 1,532 | 37 |
| Currency translation | 2,924 | (1,068 ) |
| Redemption value adjustment | 7,108 | 350 |
| Balance at June 30 | $100,777 | $70,511 |

This obligation approximates the cost if all remaining shares were purchased by the Company on June 30, 2016, and is presented in the Consolidated Condensed Balance Sheet in redeemable noncontrolling interest, which is treated as mezzanine equity.

## 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 June 30, 2016, future minimum rental commitments under noncancellable operating leases with initial terms of at least one year were as follows (amounts in thousands):

| | |
|---|---|
| July 1 - December 31, 2016 | $2,909 |
| 2017 | 3,279 |
| 2018 | 2,032 |
| 2019 | 1,588 |
| 2020 | 1,074 |
| Thereafter | 449 |
| Total future minimum lease payments | $11,331 |

At June 30, 2016, the Company had assets held as capital leases with a net book value of $7.6 million included in property, plant and equipment. Total future capital lease obligations relating to these leases are as follows (amounts in thousands):

| | |
|---|---|
| July 1 - December 31, 2016 | $615 |
| 2017 | 441 |
| 2018 | 196 |
| 2019 | 128 |
| 2020 | 20 |
| Thereafter | 2 |

| | |
|---|---|
| Total future capital lease obligation payments | 1,402 |
| Less amount representing interest | (28 ) |
| Present value of future capital lease obligation payments | $1,374 |

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## 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 a number of defined contribution plans in the U.S. and at foreign subsidiaries. The Company contributed approximately $1.9 million to the pension plans during the six months ended June 30, 2016, and expects to contribute approximately $2.3 million to the pension plans during the remainder of 2016.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Service cost | $206 | $179 | $312 | $172 |
| Interest cost | 1,233 | 1,306 | 2,470 | 1,224 |
| Expected return on assets | (1,395) | (1,531) | (2,788) | (1,519) |
| Amortization of unrecognized prior service cost | 34 | 34 | 68 | 34 |
| Amortization of net unrecognized loss | 762 | 729 | 1,527 | 729 |
| Net periodic pension cost | $840 | $717 | $1,589 | $640 |

## 12. VARIABLE INTEREST ENTITIES

The Company holds a variable interest in three joint ventures for which the Company is the primary beneficiary. Two of the joint ventures operate distribution facilities which primarily distribute mining products. One of these facilities is located in Canada and the other is located in Australia. The Company’s variable interest in these joint ventures relates to sales of Titan product to these entities, consigned inventory and working capital loans. The third joint venture is the consortium which owns Voltyre-Prom, a leading producer of agricultural and industrial tires in Volgograd, Russia. Titan is acting as operating partner with responsibility for Voltyre-Prom’s daily operations. The Company has also provided working capital loans to Voltyre-Prom.

As the primary beneficiary of these variable interest entities (VIEs), the entities’ assets, liabilities and results of operations are included in the Company’s consolidated financial statements. The other equity holders’ interests are reflected in “Net loss attributable to noncontrolling interests” in the Consolidated Condensed Statements of Operations and “Noncontrolling interests” in the Consolidated Condensed Balance Sheets.

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The following table summarizes the carrying amount of the entities' assets and liabilities included in the Company's Consolidated Condensed Balance Sheets at June 30, 2016 and December 31, 2015 (amounts in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | $16,472 | $ 9,245 |
| Inventory | 10,866 | 7,993 |
| Other current assets | 8,722 | 13,763 |
| Property, plant and equipment, net | 27,430 | 25,181 |
| Other noncurrent assets | 5,313 | 5,179 |
| Total assets | $68,803 | $ 61,361 |
| | | |
| Current liabilities | $15,178 | $ 12,850 |
| Noncurrent liabilities | 4,377 | 2,865 |
| Total liabilities | $19,555 | $ 15,715 |

All assets in the above table can only be used to settle obligations of the consolidated VIE to which the respective assets relate. Liabilities are nonrecourse obligations. Amounts presented in the table above are adjusted for intercompany eliminations.

## 13. ROYALTY EXPENSE

The Company has trademark license agreements with Goodyear to manufacture and sell certain farm tires under the Goodyear name. These agreements cover sales in North America, Latin America, Europe, the Middle East, Africa, Russia and other Commonwealth of Independent States countries. 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. The Company also has a trademark license agreement with Goodyear to manufacture and sell certain non-farm tire products in Latin America. Royalty expenses recorded were $2.1 million and $2.9 million for the quarters ended June 30, 2016 and 2015, respectively. Royalty expenses were $4.4 million and $6.1 million for the six months ended June 30, 2016 and 2015, respectively.

## 14. OTHER INCOME

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Gain on sale of assets | $— | $58 | $2,342 | $57 |
| Wheels India Limited equity income | 1,152 | 867 | 1,649 | 860 |
| Interest income | 842 | 956 | 1,253 | 1,564 |
| Building rental income | 609 | 258 | 971 | 498 |
| Discount amortization on prepaid royalty | 320 | 472 | 779 | 1,083 |
| Other income (expense) | 126 | 648 | (40) | 1,514 |

| | | | |
|---|---|---|---|
| $3,049 | $3,259 | $6,954 | $5,576 |

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15. INCOME TAXES

The Company recorded income tax expense of $3.6 million and $1.5 million for the quarters ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, the Company recorded income tax expense of $4.7 million and $2.9 million. The Company's effective income tax rate was 304% and 26% for the quarters ended June 30, 2016 and 2015, and (71%) and 47% for the six months ended June 30, 2016 and 2015, respectively.

The Company’s 2016 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 U.S. and certain foreign jurisdictions that incurred a full valuation allowance on deferred tax assets created by current year projected losses. In addition, tax expense was recorded on certain profitable foreign jurisdictions that included non-deductible expenses for tax purposes.

The Company's 2015 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 certain foreign jurisdictions that incurred a full valuation allowance on deferred tax assets created by current year projected losses and foreign income taxed in the U.S. offset by net discrete benefits related to a U.S. check the box election and tax law enactments. In addition, the Company’s high effective tax rate is driven by a modest or almost break even consolidated pre-tax accounting income for the period.

The Company continues to monitor the realization of its deferred tax assets and assess the need for a valuation allowance. The Company analyzes available positive and negative evidence to determine if a valuation allowance is needed based on the weight of the evidence. This objectively verifiable evidence includes profit and loss positions and weighs this analysis to determine if a valuation allowance is needed. This process requires management to make estimates, assumptions and judgments that are uncertain in nature. The Company has established valuation allowances on U.S. and certain foreign jurisdictions and continues to monitor and assess potential valuation allowances in all its jurisdictions.

The Company is involved in various tax matters, some of which the outcome is uncertain. These audits may result in the assessment of additional taxes that are subsequently resolved with authorities or potentially through the courts. The IRS issued an audit report on July 15, 2016 for the tax years 2010 through 2014 and a notice of proposed adjustment. Although the Company believes that it will ultimately be successful in defending these matters, a settlement of 10% of the proposed adjustment would result in $0.6 million of additional tax liability.

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## 16. EARNINGS PER SHARE

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

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net income (loss) attributable to Titan | $(1,899) | $6,771 | $(11,051) | $7,003 |
| Redemption value adjustment | (1,900 ) | 2,580 | (7,108 ) | (350 ) |
| Net income (loss) applicable to common shareholders | (3,799 ) | 9,351 | (18,159 ) | 6,653 |
| Effect of convertible notes | — | 609 | — | — |
| Net income (loss) applicable to common shareholders and assumed conversions | $(3,799) | $9,960 | $(18,159) | $6,653 |
| Determination of Shares: | | | | |
| Weighted average shares outstanding (basic) | 53,884 | 53,686 | 53,869 | 53,674 |
| Effect of stock options/trusts | — | 208 | — | 184 |
| Effect of convertible notes | — | 5,595 | — | — |
| Weighted average shares outstanding (diluted) | 53,884 | 59,489 | 53,869 | 53,858 |
| Earnings per share: | | | | |
| Basic | (0.07 ) | 0.17 | (0.34 ) | 0.12 |
| Diluted | (0.07 ) | 0.17 | (0.34 ) | 0.12 |

The effect of stock options/trusts has been excluded for the three and six months ended June 30, 2016, as the effect would have been antidilutive. The weighted average share amount excluded was 0.3 million for the three months ended June 30, 2016 and and 0.2 million for the six months ended June 30, 2016.

The effect of convertible notes has been excluded for the three months ended June 30, 2016, and the six months ended June 30, 2016 and 2015, as the effect would have been antidilutive. The weighted average share amount excluded for convertible notes totaled 5.6 million shares for the three months ended June 30, 2016, and the six months ended June 30, 2016 and 2015.

## 17. 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.

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## 18. SEGMENT INFORMATION

The table below presents information about certain operating results of segments for the three and six months ended June 30, 2016 and 2015 (amounts in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues from external customers | | | | |
| Agricultural | $146,715 | $175,150 | $299,540 | $368,878 |
| Earthmoving/construction | 141,029 | 153,277 | 272,733 | 311,803 |
| Consumer | 42,470 | 47,640 | 79,735 | 97,445 |
| | $330,214 | $376,067 | $652,008 | $778,126 |
| Gross profit | | | | |
| Agricultural | $24,051 | $28,809 | $43,328 | $51,617 |
| Earthmoving/construction | 15,589 | 15,766 | 25,367 | 28,723 |
| Consumer | 5,435 | 6,478 | 8,268 | 13,507 |
| | $45,075 | $51,053 | $76,963 | $93,847 |
| Income (loss) from operations | | | | |
| Agricultural | $15,706 | $19,847 | $27,063 | $33,014 |
| Earthmoving/construction | 4,487 | 3,988 | 3,820 | 4,706 |
| Consumer | 1,631 | 2,519 | 886 | 5,966 |
| Corporate | (17,874) | (18,823) | (35,766) | (35,346) |
| Income (loss) from operations | 3,950 | 7,531 | (3,997) | 8,340 |
| | | | | |
| Interest expense | (7,982) | (8,642) | (16,494) | (17,398) |
| Foreign exchange gain | 2,182 | 3,647 | 7,005 | 9,613 |
| Other income, net | 3,049 | 3,259 | 6,954 | 5,576 |
| Income (loss) before income taxes | $1,199 | $5,795 | $(6,532) | $6,131 |

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Total assets | | |
| Agricultural | $427,236 | $ 426,498 |
| Earthmoving/construction | 471,147 | 432,616 |
| Consumer | 136,180 | 137,227 |
| Unallocated corporate | 273,909 | 273,889 |
| | $1,308,472 | $ 1,270,230 |

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## 19. 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):

| | June 30, 2016 | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Contractual obligation investments | $8,969 | $8,969 | $— | $— | $9,480 | $9,480 | $— | $— |
| Derivative financial instruments asset | 709 | — | 709 | — | 66 | — | 66 | — |
| Preferred stock | 250 | — | — | 250 | 250 | — | — | 250 |
| Derivative financial instruments liability | — | — | — | — | (8) | — | (8) | — |
| Total | $9,928 | $8,969 | $709 | $250 | $9,788 | $9,480 | $58 | $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):

| | Preferred stock |
|---|---|
| Balance at December 31, 2015 | $ 250 |
| Total realized and unrealized gains and losses | — |
| Balance as of June 30, 2016 | $ 250 |

## 20. 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, 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 $0.2 million and $0.5 million for the for the three and six months ended June 30, 2016, respectively, as compared to $0.8 million and $1.5 million for the three and six months ended June 30, 2015, respectively. Titan had trade receivables due from these companies of approximately $0.0 million at June 30, 2016, and approximately $0.4 million at December 31, 2015. Sales commissions paid to above companies were approximately $0.4 million and $1.0 million for each of the three and six months ended June 30, 2016, respectively, as compared to $0.5 million and $1.1 million for the three and six months ended June 30, 2015, respectively.

Mr. Fred Taylor is also associated with Green Carbon, Inc. Titan owns 60% and Green Carbon, Inc. owns 10% in Titan Tire Reclamation Corporation, which is located in Alberta Canada. Titan had purchases from Green Carbon, Inc. of $2.1 million for the three and six months ended June 30, 2015. Titan has made no purchases is 2016.

In July 2013, the Company entered into a Shareholders' Agreement between One Equity Partners (OEP) and the Russian Direct Investment Fund (RDIF) to acquire Voltyre-Prom, a leading producer of agricultural and industrial tires located in Volgograd, Russia. Mr. Richard M. Cashin, a director of the Company, is President of OEP which owns 21.4% of the joint venture. The Shareholder's agreement contains a settlement put option which may require the Company to purchase shares from OEP and RDIF at a value set by the agreement. See Note 9 for additional information.

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The Company has a 34.2% equity stake in Wheels India Limited, a company incorporated in India and listed on the National Stock Exchange in India. The Company has a 19.5% equity stake in Titan-Yuxiang Wheel (Liuzhou) Co., Ltd, a company incorporated in China. The Company has a 49% equity stake in Central Iowa Training and Enrichment Center, LLC, a commercial building located in Boone, IA.

## 21. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| | Currency Translation Adjustments | Unrecognized Losses and Prior Service Cost | Total |
|---|---|---|---|
| Balance at April 1, 2016 | $(148,429) | $(26,434) | $(174,863) |
| Currency translation adjustments | 3,091 | — | 3,091 |
| Defined benefit pension plan entries: | | | |
| Amortization of unrecognized losses and prior service cost, net of tax of $(133) | | 448 | 448 |
| Balance at June 30, 2016 | $(145,338) | $(25,986) | $(171,324) |

| | Currency Translation Adjustments | Unrecognized Losses and Prior Service Cost | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $(161,030) | $(26,721) | $(187,751) |
| Currency translation adjustments | 19,183 | — | 19,183 |
| Defined benefit pension plan entries: | | | |
| Amortization of unrecognized losses and prior service cost, net of tax of $(304) | — | 735 | 735 |
| Reclassification as a result of ownership change | (3,491) | | (3,491) |
| Balance at June 30, 2016 | $(145,338) | $(25,986) | $(171,324) |

## 22. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION

The Company's 6.875% senior secured notes due 2020 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. See the indenture incorporated by reference to the Company's most recent Form 10-K for additional information. The following condensed consolidating financial statements are presented using the equity method of accounting. Certain sales and marketing expenses recorded by non-guarantor subsidiaries have not been allocated to the guarantor subsidiaries.

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| (Amounts in thousands) | Consolidating Condensed Statements of Operations For the Three Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $— | $ 126,140 | $ 204,074 | $ — | $ 330,214 |
| Cost of sales | 77 | 104,378 | 180,684 | — | 285,139 |
| Gross profit (loss) | (77 ) | 21,762 | 23,390 | — | 45,075 |
| Selling, general and administrative expenses | 2,969 | 15,787 | 17,546 | — | 36,302 |
| Research and development expenses | — | 677 | 2,037 | — | 2,714 |
| Royalty expense | 125 | 1,080 | 904 | — | 2,109 |
| Income (loss) from operations | (3,171 ) | 4,218 | 2,903 | — | 3,950 |
| Interest expense | (7,811 ) | — | (171 ) | — | (7,982 ) |
| Intercompany interest income (expense) | 363 | — | (363 ) | — | — |
| Foreign exchange gain | — | 204 | 1,978 | — | 2,182 |
| Other income | 245 | 74 | 2,730 | — | 3,049 |
| Income (loss) before income taxes | (10,374 ) | 4,496 | 7,077 | — | 1,199 |
| Provision (benefit) for income taxes | (648 ) | 1,674 | 2,622 | — | 3,648 |
| Equity in earnings of subsidiaries | 7,277 | — | (200 ) | (7,077 ) | — |
| Net income (loss) | (2,449 ) | 2,822 | 4,255 | (7,077 ) | (2,449 ) |
| Net loss noncontrolling interests | — | — | (550 ) | — | (550 ) |
| Net income (loss) attributable to Titan | $(2,449) | $ 2,822 | $ 4,805 | $ (7,077 ) | $ (1,899 ) |

| (Amounts in thousands) | Consolidating Condensed Statements of Operations For the Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $— | $ 173,334 | $ 202,733 | $ — | $ 376,067 |
| Cost of sales | 207 | 141,328 | 183,479 | — | 325,014 |
| Gross profit (loss) | (207 ) | 32,006 | 19,254 | — | 51,053 |
| Selling, general and administrative expenses | 2,617 | 16,757 | 18,474 | — | 37,848 |
| Research and development expenses | — | 805 | 1,974 | — | 2,779 |
| Royalty expense | — | 1,832 | 1,063 | — | 2,895 |
| Income (loss) from operations | (2,824 ) | 12,612 | (2,257 ) | — | 7,531 |
| Interest expense | (8,094 ) | (1 ) | (547 ) | — | (8,642 ) |
| Intercompany interest income (expense) | 248 | — | (248 ) | — | — |
| Foreign exchange gain (loss) | (1,425 ) | (80 ) | 5,152 | | 3,647 |
| Other income | 1,032 | 83 | 2,144 | — | 3,259 |
| Income (loss) before income taxes | (11,063) | 12,614 | 4,244 | — | 5,795 |
| Provision (benefit) for income taxes | (5,787 ) | 4,796 | 2,506 | — | 1,515 |
| Equity in earnings of subsidiaries | 9,556 | — | 3,535 | (13,091 ) | — |

| | | | | | |
|---|---|---|---|---|---|
| Net income (loss) | 4,280 | 7,818 | 5,273 | (13,091) | 4,280 |
| Net loss noncontrolling interests | — | — | (2,491) | — | (2,491) |
| Net income (loss) attributable to Titan | $4,280 | $ 7,818 | $ 7,764 | $ (13,091) | $ 6,771 |

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| (Amounts in thousands) | Consolidating Condensed Statements of Operations For the Six Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $— | $ 270,174 | $ 381,834 | $ — | $ 652,008 |
| Cost of sales | 572 | 229,524 | 344,949 | — | 575,045 |
| Gross profit (loss) | (572 ) | 40,650 | 36,885 | — | 76,963 |
| Selling, general and administrative expenses | 5,351 | 32,473 | 33,540 | — | 71,364 |
| Research and development expenses | — | 1,445 | 3,748 | — | 5,193 |
| Royalty expense | 417 | 2,276 | 1,710 | — | 4,403 |
| Income (loss) from operations | (6,340 ) | 4,456 | (2,113 ) | — | (3,997 ) |
| Interest expense | (16,094 ) | — | (400 ) | — | (16,494 ) |
| Intercompany interest income (expense) | 652 | — | (652 ) | — | — |
| Foreign exchange gain | — | 203 | 6,802 | — | 7,005 |
| Other income | 608 | 158 | 6,188 | — | 6,954 |
| Income (loss) before income taxes | (21,174 ) | 4,817 | 9,825 | — | (6,532 ) |
| Provision (benefit) for income taxes | (270 ) | 1,865 | 3,057 | — | 4,652 |
| Equity in earnings of subsidiaries | 9,720 | — | (2,206 ) | (7,514 ) | — |
| Net income (loss) | (11,184 ) | 2,952 | 4,562 | (7,514 ) | (11,184 ) |
| Net loss noncontrolling interests | — | — | (133 ) | — | (133 ) |
| Net income (loss) attributable to Titan | $(11,184) | $ 2,952 | $ 4,695 | $ (7,514 ) | $ (11,051 ) |

| (Amounts in thousands) | Consolidating Condensed Statements of Operations For the Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $— | $ 367,307 | $ 410,819 | $ — | $ 778,126 |
| Cost of sales | 438 | 309,279 | 374,562 | — | 684,279 |
| Gross profit (loss) | (438 ) | 58,028 | 36,257 | — | 93,847 |
| Selling, general and administrative expenses | 5,251 | 32,136 | 36,135 | — | 73,522 |
| Research and development expenses | — | 1,805 | 4,060 | — | 5,865 |
| Royalty expense | — | 3,756 | 2,364 | — | 6,120 |
| Income (loss) from operations | (5,689 ) | 20,331 | (6,302 ) | — | 8,340 |
| Interest expense | (16,209) | (1 ) | (1,188 ) | — | (17,398 ) |
| Intercompany interest income (expense) | 390 | — | (390 ) | — | — |
| Foreign exchange gain (loss) | 3,090 | (421 ) | 6,944 | | 9,613 |
| Other income | 1,914 | 45 | 3,617 | — | 5,576 |
| Income (loss) before income taxes | (16,504) | 19,954 | 2,681 | — | 6,131 |
| Provision (benefit) for income taxes | (3,398 ) | 7,489 | (1,180 ) | — | 2,911 |
| Equity in earnings of subsidiaries | 16,326 | — | 3,372 | (19,698 ) | — |
| Net income (loss) | 3,220 | 12,465 | 7,233 | (19,698 ) | 3,220 |

| | | | | | |
|---|---|---|---|---|---|
| Net loss noncontrolling interests | — | — | (3,783) | — | (3,783) |
| Net income (loss) attributable to Titan | $3,220 | $12,465 | $11,016 | $(19,698) | $7,003 |

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

| (Amounts in thousands) | Consolidating Condensed Statements of Comprehensive Income (Loss) For the Three Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net income (loss) | $(2,449) | $ 2,822 | $ 4,255 | $ (7,077) | $ (2,449) |
| Currency translation adjustment, net | 4,346 | — | 4,346 | (4,346) | 4,346 |
| Pension liability adjustments, net of tax | 448 | 734 | (447) | (287) | 448 |
| Comprehensive income (loss) | 2,345 | 3,556 | 8,154 | (11,710) | 2,345 |
| Net comprehensive income attributable to redeemable and noncontrolling interests | — | — | 706 | — | 706 |
| Comprehensive income (loss) attributable to Titan | $2,345 | $ 3,556 | $ 7,448 | $ (11,710) | $ 1,639 |

| (Amounts in thousands) | Consolidating Condensed Statements of Comprehensive Income (Loss) For the Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net income (loss) | $4,280 | $ 7,818 | $ 5,273 | $ (13,091) | $ 4,280 |
| Currency translation adjustment, net | 4,436 | — | 4,436 | (4,436) | 4,436 |
| Pension liability adjustments, net of tax | 1,488 | 427 | 1,061 | (1,488) | 1,488 |
| Comprehensive income (loss) | 10,204 | 8,245 | 10,770 | (19,015) | 10,204 |
| Net comprehensive loss attributable to redeemable and noncontrolling interests | — | — | (1,904) | — | (1,904) |
| Comprehensive income (loss) attributable to Titan | $10,204 | $ 8,245 | $ 12,674 | $ (19,015) | $ 12,108 |

| (Amounts in thousands) | Consolidating Condensed Statements of Comprehensive Income (Loss) For the Six Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net income (loss) | $(11,184) | $ 2,952 | $ 4,562 | $ (7,514) | $ (11,184) |
| Currency translation adjustment, net | 21,931 | — | (21,931) | 21,931 | 21,931 |
| Pension liability adjustments, net of tax | 735 | 1,469 | (734) | (735) | 735 |
| Comprehensive income (loss) | 11,482 | 4,421 | (18,103) | 13,682 | 11,482 |
| Net comprehensive income attributable to redeemable and noncontrolling interests | — | — | 6,106 | — | 6,106 |
| Comprehensive income (loss) attributable to Titan | $11,482 | $ 4,421 | $ (24,209) | $ 13,682 | $ 5,376 |

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

| (Amounts in thousands) | Consolidating Condensed Statements of Comprehensive Income (Loss) For the Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net income (loss) | $3,220 | $ 12,465 | $ 7,233 | $ (19,698 ) | $ 3,220 |
| Currency translation adjustment, net | (40,950 ) | — | (40,950 ) | 40,950 | (40,950 ) |
| Pension liability adjustments, net of tax | 1,497 | 854 | 643 | (1,497 ) | 1,497 |
| Comprehensive income (loss) | (36,233 ) | 13,319 | (33,074 ) | 19,755 | (36,233 ) |
| Net comprehensive loss attributable to redeemable and noncontrolling interests | — | — | (4,917 ) | — | (4,917 ) |
| Comprehensive income (loss) attributable to Titan | $(36,233) | $ 13,319 | $ (28,157 ) | $ 19,755 | $ (31,316 ) |

| (Amounts in thousands) | Consolidating Condensed Balance Sheets June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | $135,227 | $ 4 | $ 72,007 | $— | $207,238 |
| Accounts receivable, net | (6 ) | 54,413 | 142,311 | — | 196,718 |
| Inventories | — | 69,592 | 204,152 | — | 273,744 |
| Prepaid and other current assets | 8,879 | 22,197 | 41,276 | — | 72,352 |
| Total current assets | 144,100 | 146,206 | 459,746 | — | 750,052 |
| Property, plant and equipment, net | 6,198 | 130,394 | 312,880 | — | 449,472 |
| Investment in subsidiaries | 750,948 | — | 95,657 | (846,605 ) | — |
| Other assets | 24,825 | 1,118 | 83,005 | — | 108,948 |
| Total assets | $926,071 | $ 277,718 | $ 951,288 | $ (846,605 ) | $ 1,308,472 |
| Liabilities and Stockholders’ Equity | | | | | |
| Short-term debt | $59,994 | $ — | $ 29,044 | $— | $89,038 |
| Accounts payable | 1,549 | 14,075 | 129,944 | — | 145,568 |
| Other current liabilities | 28,377 | 36,855 | 57,020 | — | 122,252 |
| Total current liabilities | 89,920 | 50,930 | 216,008 | — | 356,858 |
| Long-term debt | 395,377 | — | 19,193 | — | 414,570 |
| Other long-term liabilities | 28,977 | 18,711 | 55,344 | — | 103,032 |
| Intercompany accounts | 67,758 | (293,862 ) | 226,104 | — | — |
| Redeemable noncontrolling interest | — | — | 100,777 | — | 100,777 |
| Titan stockholders' equity | 344,039 | 501,939 | 336,120 | (846,605 ) | 335,493 |
| Noncontrolling interests | — | — | (2,258 ) | — | (2,258 ) |
| Total liabilities and stockholders’ equity | $926,071 | $ 277,718 | $ 951,288 | $ (846,605 ) | $ 1,308,472 |

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

| (Amounts in thousands) | Consolidating Condensed Balance Sheets December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | $142,401 | $4 | $ 57,783 | $— | $200,188 |
| Accounts receivable, net | — | 59,933 | 117,456 | — | 177,389 |
| Inventories | — | 81,993 | 187,798 | — | 269,791 |
| Prepaid and other current assets | 11,101 | 21,133 | 30,399 | — | 62,633 |
| Total current assets | 153,502 | 163,063 | 393,436 | — | 710,001 |
| Property, plant and equipment, net | 8,015 | 138,351 | 303,654 | — | 450,020 |
| Investment in subsidiaries | 724,676 | — | 98,660 | (823,336) | — |
| Other assets | 29,180 | 1,181 | 79,848 | — | 110,209 |
| Total assets | $915,373 | $ 302,595 | $ 875,598 | $(823,336) | $1,270,230 |
| Liabilities and Stockholders’ Equity | | | | | |
| Short-term debt | $— | $— | $ 31,222 | $— | $31,222 |
| Accounts payable | 2,215 | 12,386 | 108,553 | — | 123,154 |
| Other current liabilities | 30,466 | 41,818 | 43,437 | — | 115,721 |
| Total current liabilities | 32,681 | 54,204 | 183,212 | — | 270,097 |
| Long-term debt | 455,200 | — | 20,243 | — | 475,443 |
| Other long-term liabilities | 29,881 | 20,628 | 52,324 | — | 102,833 |
| Intercompany accounts | 52,552 | (271,930) | 219,378 | — | — |
| Redeemable noncontrolling interest | — | — | 77,174 | — | 77,174 |
| Titan stockholders' equity | 345,059 | 499,693 | 323,643 | (823,336) | 345,059 |
| Noncontrolling interests | — | — | (376) | — | (376) |
| Total liabilities and stockholders’ equity | $915,373 | $ 302,595 | $ 875,598 | $(823,336) | $1,270,230 |

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

| (Amounts in thousands) | Consolidating Condensed Statements of Cash Flows For the Six Months Ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
| Net cash provided by (used for) operating activities | $(7,085) | $ 4,255 | $ 32,502 | $ 29,672 |
| Cash flows from investing activities: | | | | |
| Capital expenditures | 451 | (4,304) | (14,197) | (18,050) |
| Other, net | — | 49 | 1,245 | 1,294 |
| Net cash provided by (used for) investing activities | 451 | (4,255) | (12,952) | (16,756) |
| Cash flows from financing activities: | | | | |
| Proceeds from borrowings | — | — | 1,559 | 1,559 |
| Payment on debt | — | — | (10,248) | (10,248) |
| Dividends paid | (540) | — | — | (540) |
| Net cash used for financing activities | (540) | — | (8,689) | (9,229) |
| Effect of exchange rate change on cash | — | — | 3,363 | 3,363 |
| Net increase (decrease) in cash and cash equivalents | (7,174) | — | 14,224 | 7,050 |
| Cash and cash equivalents, beginning of period | 142,401 | 4 | 57,783 | 200,188 |
| Cash and cash equivalents, end of period | $135,227 | $ 4 | $ 72,007 | $ 207,238 |

| (Amounts in thousands) | Consolidating Condensed Statements of Cash Flows For the Six Months Ended June 30, 2015 | | | |
|---|---|---|---|---|
| | Titan Intl., Inc. (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidated |
| Net cash provided by (used for) operating activities | $(478) | $ 2,769 | $ 5,551 | $ 7,842 |
| Cash flows from investing activities: | | | | |
| Capital expenditures | (412) | (2,799) | (19,294) | (22,505) |
| Other, net | — | 30 | 2,678 | 2,708 |
| Net cash used for investing activities | (412) | (2,769) | (16,616) | (19,797) |
| Cash flows from financing activities: | | | | |
| Proceeds from borrowings | — | — | 13,239 | 13,239 |
| Payment on debt | — | — | (8,517) | (8,517) |
| Proceeds from exercise of stock options | 144 | — | — | 144 |
| Excess tax benefit from stock-based compensation | (538) | — | — | (538) |
| Dividends paid | (538) | — | — | (538) |
| Net cash provided by (used for) financing activities | (932) | — | 4,722 | 3,790 |
| Effect of exchange rate change on cash | — | — | (5,802) | (5,802) |
| Net decrease in cash and cash equivalents | (1,822) | — | | |