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TITAN INTERNATIONAL INC

Form 10-Q

August 03, 2018

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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: June 30, 2018

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)

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 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, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging

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growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares of Titan International, Inc. outstanding: 59,897,619 shares common stock, \$0.0001 par value, as of July 25, 2018.

TITAN INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****TITAN INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(All amounts in thousands, except per share data)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net sales	\$428,904	\$364,399	\$854,286	\$721,900
Cost of sales	370,592	320,379	736,413	637,679
Gross profit	58,312	44,020	117,873	84,221
Selling, general and administrative expenses	36,699	34,463	72,620	75,801
Research and development expenses	2,754	2,608	5,631	5,451
Royalty expense	2,634	2,533	5,297	5,142
Income (loss) from operations	16,225	4,416	34,325	(2,173)
Interest expense	(7,672)	(7,320)	(15,190)	(15,041)
Foreign exchange loss	(3,610)	(5,257)	(8,042)	(767)
Other income	2,477	1,750	10,227	4,427
Income (loss) before income taxes	7,420	(6,411)	21,320	(13,554)
Provision for income taxes	1,683	126	897	3,568
Net income (loss)	5,737	(6,537)	20,423	(17,122)
Net income (loss) attributable to noncontrolling interests	40	(244)	(1,639)	624
Net income (loss) attributable to Titan	5,697	(6,293)	22,062	(17,746)
Redemption value adjustment	(4,678)	(4,040)	(7,021)	(3,099)
Net income (loss) applicable to common shareholders	\$1,019	\$(10,333)	\$15,041	\$(20,845)
Earnings per common share:				
Basic	\$0.02	\$(0.17)	\$0.25	\$(0.35)
Diluted	\$0.02	\$(0.17)	\$0.25	\$(0.35)
Average common shares and equivalents outstanding:				
Basic	59,750	59,577	59,731	59,067
Diluted	59,878	59,577	59,877	59,067
Dividends declared per common share:	\$0.005	\$0.005	\$0.010	\$0.010

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended	
	June 30,	
	2018	2017
Net income (loss)	\$5,737	\$(6,537)
Currency translation adjustment	(38,338)) 8,006
Pension liability adjustments, net of tax of \$10 and \$(97), respectively	690	989
Comprehensive (loss) income	(31,911)) 2,458
Net comprehensive loss attributable to redeemable and noncontrolling interests	(2,185)) (1,562)
Comprehensive (loss) income attributable to Titan	\$(29,726)) \$4,020

	Six months ended	
	June 30,	
	2018	2017
Net income (loss)	\$20,423	\$(17,122)
Currency translation adjustment	(30,276)) 19,025
Pension liability adjustments, net of tax of \$(44) and \$(111), respectively	1,573	1,722
Comprehensive (loss) income	(8,280)) 3,625
Net comprehensive (loss) income attributable to redeemable and noncontrolling interests	(3,225)) 1,221
Comprehensive (loss) income attributable to Titan	\$(5,055)) \$2,404

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 106,491	\$ 143,570
Accounts receivable, net	282,400	226,703
Inventories	372,732	339,836
Prepaid and other current assets	74,629	73,084
Total current assets	836,252	783,193
Property, plant and equipment, net	393,264	421,248
Deferred income taxes	2,325	3,779
Other assets	78,529	81,892
Total assets	\$ 1,310,370	\$ 1,290,112
Liabilities		
Current liabilities		
Short-term debt	\$ 52,358	\$ 43,651
Accounts payable	226,041	195,497
Other current liabilities	129,057	133,774
Total current liabilities	407,456	372,922
Long-term debt	409,613	407,171
Deferred income taxes	11,765	13,545
Other long-term liabilities	66,032	73,197
Total liabilities	894,866	866,835
Redeemable noncontrolling interest	117,546	113,193
Equity		
Titan shareholders' equity		
Common stock (\$0.0001 par value, 120,000,000 shares authorized, 60,715,356 issued, 59,852,781 outstanding at June 30, 2018 and 59,800,559 outstanding at December 31, 2017)	—	—
Additional paid-in capital	524,466	531,708
Retained deficit	(22,471)	(44,022)
Treasury stock (at cost, 862,575 and 914,797 shares, respectively)	(8,407)	(8,606)
Stock reserved for deferred compensation	—	(1,075)
Accumulated other comprehensive loss	(188,518)	(157,076)
Total Titan shareholders' equity	305,070	320,929
Noncontrolling interests	(7,112)	(10,845)
Total equity	297,958	310,084
Total liabilities and equity	\$ 1,310,370	\$ 1,290,112

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Number of common shares	Additional paid-in capital	Retained earnings (deficit)	Treasury stock	Stock reserved for deferred compensation	Accumulated other comprehensive income	Total Titan Equity	Noncontrol interest	Total Equity
Balance									
January 1, 2018	59,800,559	\$531,708	\$(44,022)	\$(8,606)	\$(1,075)	\$(157,076)	\$320,929	\$(10,845)	\$310,084
Net income (loss) *			22,062				22,062	(1,178)	20,884
Currency translation adjustment, net *						(28,690)	(28,690)	621	(28,069)
Pension liability adjustments, net of tax						1,573	1,573		1,573
Dividends declared			(599)				(599)		(599)
Accounting standards adoption			88				88	35	123
Restricted stock awards	30,000						—		—
Acquisition of additional interest		(1,032)				(4,325)	(5,357)	5,208	(149)
Redemption value adjustment		(7,021)					(7,021)		(7,021)
Stock-based compensation		618					618		618
VIE distributions							—	(953)	(953)
Deferred compensation transactions		113			1,075		1,188		1,188
Issuance of treasury stock under 401(k) plan	22,222	80		199			279		279
Balance June 30, 2018	59,852,781	\$524,466	\$(22,471)	\$(8,407)	\$—	\$(188,518)	\$305,070	\$(7,112)	\$297,958

* Net income (loss) excludes \$(461) of net loss attributable to redeemable noncontrolling interest. Currency translation adjustment excludes \$(2,207) of currency translation related to redeemable noncontrolling interest.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six months ended	
	June 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$20,423	\$(17,122)
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depreciation and amortization	30,175	29,486
Deferred income tax provision	287	1,324
Stock-based compensation	618	956
Issuance of treasury stock under 401(k) plan	279	270
Foreign currency translation loss	8,034	2,467
(Increase) decrease in assets:		
Accounts receivable	(70,633)	(34,879)
Inventories	(47,612)	(43,722)
Prepaid and other current assets	(4,555)	2,877
Other assets	(621)	3,620
Increase (decrease) in liabilities:		
Accounts payable	39,550	33,149
Other current liabilities	(660)	(4,922)
Other liabilities	(5,212)	(4,057)
Net cash used for operating activities	(29,927)	(30,553)
Cash flows from investing activities:		
Capital expenditures	(18,416)	(15,152)
Certificates of deposit	—	40,000
Other	884	1,038
Net cash (used for) provided by investing activities	(17,532)	25,886
Cash flows from financing activities:		
Proceeds from borrowings	40,078	27,742
Payment on debt	(24,527)	(29,077)
Dividends paid	(598)	(570)
Net cash provided by (used for) financing activities	14,953	(1,905)
Effect of exchange rate changes on cash	(4,573)	1,981
Net decrease in cash and cash equivalents	(37,079)	(4,591)
Cash and cash equivalents, beginning of period	143,570	147,827
Cash and cash equivalents, end of period	\$106,491	\$143,236
Supplemental information:		
Interest paid	\$15,801	\$17,916
Income taxes paid, net of refunds received	\$5,025	\$3,221
Noncash investing and financing information:		
Issuance of common stock for convertible debt payment	\$—	\$58,460

See accompanying Notes to Condensed Consolidated Financial Statements.

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TITAN INTERNATIONAL, INC.

**Notes to Condensed Consolidated Financial Statements
(Unaudited)**

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated interim financial statements include the accounts of Titan International, Inc. and its subsidiaries (Titan or the Company) and have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal, and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the Company's financial position as of June 30, 2018, and the results of operations and cash flows for the three and six months ended June 30, 2018 and 2017, and should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 23, 2018. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated interim financial statements include estimates and assumptions of management that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates.

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 6.50% senior secured notes due 2023 (senior secured notes) were carried at cost of \$394.7 million at June 30, 2018. The fair value of the senior secured notes at June 30, 2018, as obtained through an independent pricing source, was approximately \$397.0 million.

Cash dividends

The Company declared cash dividends of \$0.005 and \$0.010 per share of common stock for each of the three and six months ended June 30, 2018 and 2017. The second quarter 2018 cash dividend of \$0.005 per share of common stock was paid on July 16, 2018, to shareholders of record on June 29, 2018.

New accounting standards:

Adoption of new accounting standards

The Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers" (the New Revenue Standard), effective January 1, 2018, using the modified retrospective approach. ASC 606 prescribes 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. The guidance provides a five-step process to achieve that core principle:

- 1 Identify the contract(s) with a customer
- 2 Identify the performance obligations
- 3 Determine the transaction price
- 4 Allocate the transaction price
- 5 Recognize revenue when the performance obligations are met

The Company compared its current revenue recognition policies to the requirements of the New Revenue Standard. Titan recognizes revenue when the performance obligations specified in the Company's contracts have been satisfied. Titan's contracts typically contain a single performance obligation that is fulfilled on the date of delivery based on shipping terms stipulated in the contract. As of January 1, 2018, none of the Company's contracts contained a financing option and Titan did not have any contract assets or liabilities. The table below presents the cumulative effect of the adoption of the New Revenue Standard on select accounts of Titan's Condensed Consolidated Balance Sheet at January 1, 2018 (amounts in thousands):

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

	Balance at December 31, 2017	New Revenue Standard Adjustments	Balance at January 1, 2018
Assets			
Inventories	\$ 339,836	\$ (390)	\$ 339,446
Liabilities			
Other current liabilities	133,774	(513)	133,261
Equity			
Retained (deficit) earnings	(44,022)	88	(43,934)
Noncontrolling interests	(10,845)	35	(10,810)

Disaggregated Revenues

The following table presents revenues disaggregated by the major markets Titan serves (amounts in thousands):

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Net sales				
Agricultural	\$ 186,870	\$ 172,923	\$ 381,037	\$ 353,439
Earthmoving/construction	198,963	150,970	387,696	286,589
Consumer	43,071	40,506	85,553	81,872
	\$ 428,904	\$ 364,399	\$ 854,286	\$ 721,900

The Company adopted Accounting Standards Update (ASU) No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" on January 1, 2018, using the retrospective transition method. This standard changed the presentation of net periodic pension and postretirement benefit cost (net benefit cost) within the Statement of Operations. Under the previous guidance, net benefit cost was reported as an employee cost within operating income. The amendment requires the bifurcation of net benefit cost, with the service cost component to be presented with other employee compensation costs in operating income, while the other components will be reported separately outside of income from operations. The adoption of this accounting standard resulted in a change in certain previously reported amounts, whereby the Company reclassified \$0.4 million and \$0.9 million of non-service cost from cost of sales to other income on the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2017, respectively. See Note 11 - Employee Benefit Plans in Part I, Item 1 of this Form 10-Q for further discussion.

In March 2018, the FASB issued ASU No. 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." This ASU updates the income tax accounting in US GAAP to reflect the SEC's interpretive guidance released on December 22, 2017, when the 2017 Tax Cuts and Jobs Act (2017 TCJA) was enacted. See Note 15 for more information regarding the impact of the 2017 TCJA.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation (Topic 718): Scope of Modification Accounting." This update provides guidance about which changes to the terms or conditions of a share-based payment

award require an entity to apply modification accounting. Disclosure requirements under Topic 718 remain unchanged. The Company adopted ASU 2017-09 effective January 1, 2018. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements; no changes were made to the terms or conditions of share-based payments.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The Company adopted this guidance effective January 1, 2018, with no resulting changes to the Company's consolidated financial statements.

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

Accounting standards issued but not yet adopted

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 primary effect of adopting the new standard will be to record assets and obligations for the Company's operating leases. 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 evaluating the impact of ASU 2016-02.

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 TCJA. Consequently, the amendments eliminate the stranded tax effects resulting from the 2017 TCJA and will improve the usefulness of information reported to financial statement users. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2018-02.

2. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of the dates set forth below (amounts in thousands):

	June 30, 2018	December 31, 2017
Accounts receivable	\$285,712	\$ 229,677
Allowance for doubtful accounts	(3,312)	(2,974)
Accounts receivable, net	\$282,400	\$ 226,703

Accounts receivable are reduced by an estimated allowance for doubtful accounts, which is based on known risks and historical losses.

3. INVENTORIES

Inventories consisted of the following as of the dates set forth below (amounts in thousands):

	June 30, 2018	December 31, 2017
Raw material	\$99,198	\$ 83,541
Work-in-process	45,069	40,525
Finished goods	228,465	215,770
	\$372,732	\$ 339,836

Inventories are valued at the lower of cost or net realizable value. Net realizable value is estimated based on current selling prices. Inventory costs are calculated using the first-in, first-out (FIFO) method or average cost method. Estimated provisions are established for slow-moving and obsolete inventory.

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

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following as of the dates set forth below (amounts in thousands):

	June 30, 2018	December 31, 2017
Land and improvements	\$44,145	\$ 46,998
Buildings and improvements	255,716	264,078
Machinery and equipment	592,557	598,411
Tools, dies and molds	108,987	108,649
Construction-in-process	15,179	15,349
	1,016,584	1,033,485
Less accumulated depreciation	(623,320)	(612,237)
	\$393,264	\$ 421,248

Depreciation on property, plant and equipment for the six months ended June 30, 2018 and 2017, totaled \$28.3 million and \$27.4 million, respectively.

Capital leases included in property, plant, and equipment consisted of the following as of the dates set forth below (amounts in thousands):

	June 30, 2018	December 31, 2017
Buildings and improvements	\$3,897	\$ 4,056
Less accumulated amortization	(2,257)	(2,294)
	\$ 1,640	\$ 1,762
Machinery and equipment	\$31,633	\$ 32,379
Less accumulated amortization	(26,694)	(27,260)
	\$4,939	\$ 5,119

5. INTANGIBLE ASSETS

The components of intangible assets consisted of the following as of the dates set forth below (amounts in thousands):

	Weighted Average Useful Lives (in years)	June 30, 2018	June 30, 2018	December 31, 2017
Amortizable intangible assets:				
Customer relationships	9.2		\$13,609	\$ 13,922
Patents, trademarks and other	7.6		14,328	15,208
Total at cost			27,937	29,130
Less accumulated amortization			(14,614)	(13,855)
			\$13,323	\$ 15,275

Amortization related to intangible assets for the six months ended June 30, 2018 and 2017, totaled \$1.3 million and \$1.5 million, respectively. Intangible assets are included as a component of other assets in the Condensed Consolidated Balance Sheet.

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

The estimated aggregate amortization expense at June 30, 2018, for each of the years (or other periods) set forth below was as follows (amounts in thousands):

July 1 - December 31, 2018	\$ 1,203
2019	2,306
2020	2,285
2021	1,164
2022	1,067
Thereafter	5,298
	\$ 13,323

6. WARRANTY

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

	2018	2017
Warranty liability, January 1	\$ 18,612	\$ 17,926
Provision for warranty liabilities	4,213	3,112
Warranty payments made	(3,818)	(3,378)
Warranty liability, June 30	\$ 19,007	\$ 17,660

The Company provides limited warranties on workmanship on its products in all market segments. The majority of the Company's products are subject to a limited warranty that ranges between less than one year and ten years, with certain product warranties 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 Condensed Consolidated Balance Sheet.

7. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Long-term debt consisted of the following as of the dates set forth below (amounts in thousands):

	June 30, 2018		
	Principal Balance	Unamortized Debt Issuance	Net Carrying Amount
6.50% senior secured notes due 2023	\$ 400,000	\$ (5,304)	\$ 394,696
Titan Europe credit facilities	34,186	—	34,186
Other debt	32,569	—	32,569
Capital leases	520	—	520
Total debt	467,275	(5,304)	461,971
Less amounts due within one year	52,358	—	52,358
Total long-term debt	\$ 414,917	\$ (5,304)	\$ 409,613

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

	December 31, 2017		
	Principal Balance	Unamortized Debt Issuance	Net Carrying Amount
6.50% senior secured notes due 2023	\$400,000	\$ (5,716)	\$ 394,284
Titan Europe credit facilities	33,485	—	33,485
Other debt	22,564	—	22,564
Capital leases	489	—	489
Total debt	456,538	(5,716)	450,822
Less amounts due within one year	43,651	—	43,651
Total long-term debt	\$412,887	\$ (5,716)	\$ 407,171

Aggregate principal maturities of long-term debt at June 30, 2018, for each of the years (or other periods) set forth below were as follows (amounts in thousands):

July 1 - December 31, 2018	\$25,358
2019	29,832
2020	8,535
2021	2,921
2022	254
Thereafter	400,375
	\$467,275

6.50% senior secured notes due 2023

The senior secured notes are due November 2023. Including the impact of debt issuance costs, these notes had an effective yield of 6.79% at issuance. 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.

Titan Europe credit facilities

The Titan Europe credit facilities contain borrowings from various institutions totaling \$34.2 million in aggregate principal amount at June 30, 2018. 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 Titan's subsidiaries in Italy, Spain, Germany, and Brazil.

Revolving credit facility

The Company has a \$75 million revolving credit facility (credit facility) with agent BMO Harris Bank N.A. and other financial institutions party thereto. The credit facility is collateralized by accounts receivable and inventory of certain of the Company's domestic subsidiaries and is scheduled to mature in February 2022. From time to time Titan's availability under this credit facility may be less than \$75 million as a result of outstanding letters of credit and eligible accounts receivable and inventory balances at certain of its domestic subsidiaries. At June 30, 2018, an outstanding letter of credit under the credit facility totaled \$12.3 million and the amount available under the facility totaled \$62.7 million based upon eligible accounts receivable and inventory balances. During the first six months of 2018 and at June 30, 2018, there were no borrowings under the credit facility.

Other debt

The Company has working capital loans at Titan Pneus do Brasil Ltda and Voltyre-Prom at various interest rates, which totaled \$8.7 million and \$23.8 million at June 30, 2018, respectively. Maturity dates on this debt range from less than one year to three years.

TITAN INTERNATIONAL, INC.**Notes to Condensed Consolidated Financial Statements
(Unaudited)****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 and six months ended June 30, 2018, the Company recorded currency exchange gain related to these derivatives of \$0.4 million and \$0.2 million, respectively.

9. REDEEMABLE NONCONTROLLING INTEREST

The Company, in partnership with One Equity Partners (OEP) and the Russian Direct Investment Fund (RDIF), owns all of the equity interests in Voltyre-Prom, a leading producer of agricultural and industrial tires in Volgograd, Russia. The Company is party to a shareholders' agreement with OEP and RDIF which was entered into in connection with the acquisition of Voltyre-Prom. The agreement contains a settlement put option which is exercisable during a six-month period beginning July 9, 2018, and may require Titan to purchase the equity interests from OEP and RDIF in Voltyre-Prom 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 multiplied by 5.5 less net debt times the selling party's ownership percentage. As of June 30, 2018, the value of the redeemable noncontrolling interest held by OEP and RDIF was recorded at the aggregate of the investment of the selling party and an amount representing an internal rate of return of 8%.

The redemption features of the settlement put option are not solely within the Company's control and the noncontrolling interest is presented as a redeemable noncontrolling interest separately from total equity in the Condensed 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 in the redemption value 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.

The following is a reconciliation of redeemable noncontrolling interest as of June 30, 2018 and 2017 (amounts in thousands):

	2018	2017
Balance at January 1	\$ 113,193	\$ 104,809
Loss attributable to redeemable noncontrolling interest	(461)	(190)
Currency translation	(2,207)	1,121
Redemption value adjustment	7,021	3,099
Balance at June 30	\$ 117,546	\$ 108,839

This obligation approximates the cost to the Company if all remaining equity interests in the consortium were purchased by the Company on June 30, 2018, and is presented in the Condensed Consolidated Balance Sheet in redeemable noncontrolling interest, which is treated as mezzanine equity.

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

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, 2018, 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, 2018	\$4,177
2019	7,185
2020	5,050
2021	4,006
2022	3,034
Thereafter	6,831
Total future minimum lease payments	\$30,283

At June 30, 2018, the Company had assets held as capital leases with a net book value of \$6.6 million included in property, plant and equipment. At June 30, 2018, total future capital lease obligations relating to these leases were as follows (amounts in thousands):

July 1 - December 31, 2018	\$ 168
2019	159
2020	55
2021	41
2022	43
Thereafter	53
Total future capital lease obligation payments	519
Less amount representing interest	(4)
Present value of future capital lease obligation payments	\$515

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 \$1.7 million to the pension plans during the six months ended June 30, 2018, and expects to contribute approximately \$3.7 million to the pension plans during the remainder of 2018.

The components of net periodic pension cost consisted of the following for the periods set forth below (amounts in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Service cost	\$141	\$128	\$278	\$353
Interest cost	1,098	1,163	2,181	2,334

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Expected return on assets	(1,49)	(1,368)	(2,983)	(2,737)
Amortization of unrecognized prior service cost	50	34	100	68
Amortization of net unrecognized loss	690	655	1,366	1,329
Net periodic pension cost	\$488	\$612	\$942	\$1,347

Service cost is recorded as cost of sales in the Condensed Consolidated Statement of Operations while all other components are recorded in other income.

TITAN INTERNATIONAL, INC.**Notes to Condensed Consolidated Financial Statements
(Unaudited)****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. Titan is the 50% owner of one of these distribution facilities, which is located in Canada, and the 40% owner of the other such facility, which 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. Titan owns 43% of the consortium owning Voltyre-Prom, which is subject to a shareholder agreement containing a settlement put option which may require Titan to purchase the remaining equity interests in the consortium. See Note 9 for additional information.

The Company also holds a variable interest in five other entities for which Titan is the primary beneficiary. Each of these entities provides specific manufacturing related services at the Company's Tennessee facility. Titan's variable interest in these entities relates to financial support to the entities through providing many of the assets used by these entities in their business. The Company owns no equity in these entities.

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 income (loss) attributable to noncontrolling interests" in the Condensed Consolidated Statements of Operations and "Noncontrolling interests" in the Condensed Consolidated Balance Sheets.

The following table summarizes the carrying amount of the entities' assets and liabilities included in the Company's Condensed Consolidated Balance Sheets at June 30, 2018, and December 31, 2017 (amounts in thousands):

	June 30, December 31,	
	2018	2017
Cash and cash equivalents	\$8,911	\$ 10,621
Inventory	12,599	13,494
Other current assets	39,244	36,334
Property, plant and equipment, net	31,262	33,717
Other noncurrent assets	3,880	4,250
Total assets	\$95,896	\$ 98,416
Current liabilities	\$36,749	\$ 32,172
Noncurrent liabilities	7,613	8,291
Total liabilities	\$44,362	\$ 40,463

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.

The Company holds variable interests in certain VIEs which are not consolidated because Titan is not the primary beneficiary. The Company's involvement with these entities is in the form of direct equity interests and prepayments and purchases of materials. The maximum exposure to loss represents the loss of assets recognized by Titan relating to non-consolidated entities and amounts due to the non-consolidated assets. The assets and liabilities recognized in Titan's Condensed Consolidated Balance Sheets related to Titan's interest in these non-consolidated VIEs and the

Company's maximum exposure to loss relating to non-consolidated VIEs as of the dates set forth below were as follows (amounts in thousands):

	June 30, December 31,	
	2018	2017
Investments	\$ 4,034	\$ 3,823
Other current assets	1,267	1,261
Total VIE assets	5,301	5,084
Accounts payable	1,972	1,413
Maximum exposure to loss	\$ 7,273	\$ 6,497

TITAN INTERNATIONAL, INC.**Notes to Condensed Consolidated Financial Statements
(Unaudited)****13. ROYALTY EXPENSE**

The Company has trademark license agreements with The Goodyear Tire & Rubber Company 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. Each of these agreements expire in 2025. The Company also has a trademark license agreement with Goodyear to manufacture and sell certain non-farm tire products in Latin America which expires in June 2019. Royalty expenses recorded were \$2.6 million and \$2.5 million for the three months ended June 30, 2018 and 2017, respectively. Royalty expenses recorded were \$5.3 million and \$5.1 million for the six months ended June 30, 2018 and 2017, respectively.

14. OTHER INCOME

Other income consisted of the following for the periods set forth below (amounts in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Equity investment income	\$1,067	\$530	\$2,183	\$1,350
Interest income	532	801	1,149	1,774
Building rental income	410	595	988	1,195
Investment gain related to investments for deferred compensation	567	497	688	1,347
Other (expense) income	(99)	(673)	5,219	(1,239)
	\$2,477	\$1,750	\$10,227	\$4,427

15. INCOME TAXES

The Company recorded income tax expense of \$1.7 million and \$0.1 million for the quarters ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, the Company recorded income tax expense of \$0.9 million and \$3.6 million, respectively. The Company's effective income tax rate was 23% and (2)% for the quarters ended June 30, 2018 and 2017, and 4% and (26)% for the six months ended June 30, 2018 and 2017, respectively.

The Company's 2018 income tax expense and rate differed 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 reduction of the liability for unrecognized tax positions and U.S. and certain foreign jurisdictions that incurred a full valuation allowance on deferred tax assets created by current year projected losses. In addition, there were non-deductible royalty expenses and statutorily required income adjustments made in certain foreign jurisdictions that negatively impacted the tax rate for the six months ended June 30, 2018.

The Company's 2017 income tax expense and rate differed 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, there were non-deductible royalty expenses and statutorily required income adjustments made in certain foreign jurisdictions that negatively impacted the tax rate for the period. During the second quarter of 2017, the IRS income tax audit for tax years 2010 through 2014 was settled, which did not result in any material change to the Company's income tax expense.

The Company continues to monitor the realization of its deferred tax assets and assesses 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 primarily includes the past three years' profit and loss positions. This process requires management to make estimates, assumptions, and judgments that are uncertain in nature. The Company has established valuation allowances with respect to deferred tax assets in U.S. and certain foreign jurisdictions and continues to monitor and assess potential valuation allowances in all its jurisdictions.

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

The 2017 TCJA was enacted on December 22, 2017, and includes a number of changes to the Internal Revenue Code including a one-time transition tax on the mandatory deemed repatriation of cumulative undistributed foreign earnings and a permanent reduction in the U.S. federal statutory income tax rate from 35% to 21% effective on January 1, 2018. The 2017 TCJA also created a new requirement that certain income (i.e., global intangible low taxed income, or GILTI) earned by foreign subsidiaries must be included currently in the gross income of the U.S. shareholder.

Consistent with guidance issued by SEC Staff Accounting Bulletin (SAB) No. 118, which provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the 2017 TCJA, the Company has provisionally recorded no additional income tax expense related to the one-time mandatory deemed repatriation provision of the 2017 TCJA. For 2018, the Company has estimated an amount of GILTI income which is included in the calculation of 2018 income tax expense. This GILTI income inclusion, however, is fully offset by a change in the valuation allowance. The remeasurement of the U.S. net deferred asset from the 2017 corporate income tax rate change was fully offset by a change in the valuation allowance in 2017.

16. EARNINGS PER SHARE

Earnings per share (EPS) were as follows for the periods presented below (amounts in thousands, except per share data):

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Net income (loss) attributable to Titan	\$5,697	\$(6,293)	\$22,062	\$(17,746)
Redemption value adjustment	(4,678)	(4,040)	(7,021)	(3,099)
Net income (loss) applicable to common shareholders	\$1,019	\$(10,333)	\$15,041	\$(20,845)
Determination of shares:				
Weighted average shares outstanding (basic)	59,750	59,577	59,731	59,067
Effect of stock options/trusts	128	—	146	—
Weighted average shares outstanding (diluted)	59,878	59,577	59,877	59,067
Earnings per share:				
Basic and diluted	0.02	(0.17)	0.25	(0.35)

The effect of stock options, shares held by certain trusts, and convertible notes has been excluded from the calculation of EPS for the three and six months ended June 30, 2017, as the effect would have been antidilutive. The weighted average share amount excluded for stock options and shares held by certain trusts was 0.2 million for each of the three and six months ended June 30, 2017. The weighted average share amount excluded for convertible notes totaled 0.5 million shares for the six months ended June 30, 2017.

TITAN INTERNATIONAL, INC.

**Notes to Condensed Consolidated Financial Statements
(Unaudited)**

17. LITIGATION

The Company is a party to routine legal proceedings arising out of the normal course of business. 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 liabilities pertaining to, legal judgments.

At June 30, 2018, two of Titan's subsidiaries were involved in litigation concerning environmental laws and regulations.

In June 2015, Titan Tire Corporation (Titan Tire) and Dico, Inc. (Dico) appealed a U.S. District Court order granting the U.S. motion for summary judgment that found Dico liable for violating the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) and an Environmental Protection Agency (EPA) Administrative Order and awarded response costs, civil penalties, and punitive damages.

In December 2015, the United States Court of Appeals for the Eighth Circuit reversed the District Court's summary judgment order with respect to "arranger" liability for Titan Tire and Dico under CERCLA and the imposition of punitive damages against Dico for violating the EPA Administrative Order, but affirmed the summary judgment order imposing civil penalties in the amount of \$1.62 million against Dico for violating the EPA Administrative Order. The case was remanded to the District Court for a new trial on the remaining issues.

The trial occurred in April 2017. On September 5, 2017, the District Court issued an order: (a) concluding Titan Tire and Dico arranged for the disposal of a hazardous substance in violation of 42 U.S.C. § 9607(a); (b) holding Titan Tire and Dico jointly and severally liable for \$5.45 million in response costs previously incurred and reported by the United States relating to the alleged violation, including enforcement costs and attorney's fees; and (c) awarding a declaratory judgment holding Titan Tire and Dico jointly and severally liable for all additional response costs previously incurred but not yet reported or to be incurred in the future, including enforcement costs and attorney's fees. The District Court also held Dico liable for \$5.45 million in punitive damages under 42 U.S.C. § 9607(c)(3) for violating a unilateral administrative order. The punitive damages award does not apply to Titan Tire. The Company accrued a contingent liability of \$6.5 million, representing \$5.45 million in costs incurred by the United States and \$1.05 million of additional response costs, for this order in the quarter ended September 30, 2017.

Titan Tire and Dico are appealing the case to the United States Court of Appeals for the Eighth Circuit. The Notice of Appeal was filed on November 2, 2017, and the Appellants' brief was filed on February 26, 2018. The Appellee's brief was filed on May 30, 2018, and the Appellants' reply was filed on July 9, 2018. While the Company believes it has meritorious arguments, the outcome of this appeal cannot be predicted. An appeal bond was secured to stay the execution of any collection actions underlying judgment pending the outcome of the appeal.

TITAN INTERNATIONAL, INC.**Notes to Condensed Consolidated Financial Statements
(Unaudited)****18. SEGMENT INFORMATION**

The Company has aggregated its operating units into reportable segments based on its three customer markets: agricultural, earthmoving/construction, and consumer. These segments are based on the information used by the Chief Executive Officer to make certain operating decisions, allocate portions of capital expenditures, and assess segment performance. Segment external sales, expenses, and income from operations are determined based on the results of operations for the operating units of the Company's manufacturing facilities. Expenses and income from operations are allocated to appropriate segments based on the sales of operating units of manufacturing facilities. Segment assets are generally determined on the basis of the tangible assets located at such operating units' manufacturing facilities and the intangible assets associated with the acquisitions of such operating units. However, certain operating units' property, plant and equipment balances are carried at the corporate level. Titan is organized primarily on the basis of products being included in three market segments, with each reportable segment including wheels, tires, wheel/tire assemblies, and undercarriage systems and components.

The table below presents information about certain operating results, separated by market segments, for each of the three and six months ended June 30, 2018 and 2017 (amounts in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net sales				
Agricultural	\$186,870	\$172,923	\$381,037	\$353,439
Earthmoving/construction	198,963	150,970	387,696	286,589
Consumer	43,071	40,506	85,553	81,872
	\$428,904	\$364,399	\$854,286	\$721,900
Gross profit				
Agricultural	\$27,270	\$23,037	\$57,231	\$44,916
Earthmoving/construction	24,260	14,254	46,722	27,152
Consumer	6,782	6,729	13,920	12,153
	\$58,312	\$44,020	\$117,873	\$84,221
Income (loss) from operations				
Agricultural	\$19,002	\$14,224	\$40,323	\$26,969
Earthmoving/construction	11,575	2,322	21,528	3,384
Consumer	3,651	3,536	7,598	5,051
Corporate & Unallocated	(18,003)	(15,666)	(35,124)	(37,577)
Income (loss) from operations	16,225	4,416	34,325	(2,173)
Interest expense	(7,672)	(7,320)	(15,190)	(15,041)
Foreign exchange loss	(3,610)	(5,257)	(8,042)	(767)
Other income, net	2,477	1,750	10,227	4,427
Income (loss) before income taxes	\$7,420	\$(6,411)	\$21,320	\$(13,554)

Assets by segment were as follows as of the dates set forth below (amounts in thousands):

	June 30,	December 31,
	2018	2017
Total assets		

Agricultural	\$470,466	\$ 444,783
Earthmoving/construction	576,842	537,855
Consumer	131,943	157,133
Corporate & Unallocated	131,119	150,341
	\$1,310,370	\$ 1,290,112

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 as of the dates set forth below (amounts in thousands):

	June 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Contractual obligation investments	\$ 14,268	\$ 14,268	\$ —	\$ —	\$ 12,393	\$ 12,393	\$ —	\$ —
Derivative financial instruments asset	600	—	600	—	458	—	458	—
Preferred stock	111	—	—	111	154	—	—	154
Total	\$ 14,979	\$ 14,268	\$ 600	\$ 111	\$ 13,005	\$ 12,393	\$ 458	\$ 154

The following table presents the changes, during the six months ended June 30, 2018, 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, 2017	\$ 154
Total unrealized losses	(43)
Balance as of June 30, 2018	\$ 111

20. RELATED PARTY TRANSACTIONS

The Company sells products and pays commissions to companies controlled by persons related to the Chairman of the Board of Directors of the Company, Mr. Maurice Taylor. The related party is Mr. Fred Taylor, who is Mr. Maurice Taylor's brother. The companies with which Mr. Fred Taylor is associated that do business with Titan include the following: Blackstone OTR, LLC; F.B.T. Enterprises, Inc.; Green Carbon, Inc.; Silverstone, Inc.; and OTR Wheel Engineering, Inc. Sales of Titan products to these companies were approximately \$0.3 million and \$0.6 million for the three and six months ended June 30, 2018, respectively, as compared to \$0.5 million and \$1.0 million for the three and six months ended June 30, 2017, respectively. Titan had trade receivables due from these companies of approximately \$0.2 million at June 30, 2018, and approximately \$0.4 million at December 31, 2017. Titan had product purchases from these companies of approximately \$0.0 million and \$0.3 million for the three and six months ended June 30, 2018, respectively, as compared to purchases of approximately \$0.1 million for the each of the three and six months ended June 30, 2017. Sales commissions paid to the above companies were approximately \$0.5 million and \$1.0 million for the three and six months ended June 30, 2018, respectively, as compared to \$0.3 million and \$0.7 million for the three and six months ended June 30, 2017, respectively.

The Company sells products to Valuepart and Track Solutions Pty Ltd., which is controlled by relatives of a member of management of a Titan subsidiary. Sales of Titan products to this company were approximately \$0.1 million and \$0.2 million for the three and six months ended June 30, 2018, respectively.

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

In July 2013, the Company entered into a Shareholders' Agreement between OEP and RDIF to acquire Voltyre-Prom. Mr. Richard M. Cashin Jr., a director of the Company, is the President of OEP, which owns 21.4% of the joint venture. The Shareholders' Agreement contains a settlement put option which may require the Company to purchase equity interests in the joint venture from OEP and RDIF at a value set by the agreement. See Note 9 for additional information.

21. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consisted of the following for the periods presented below (amounts in thousands):

	Currency Translation Adjustments	Unrecognized Losses and Prior Service Cost	Total
Balance at April 1, 2018	\$ (125,526)	\$ (23,244)	\$ (148,770)
Currency translation adjustments	(36,113)	—	(36,113)
Defined benefit pension plan entries:			
Amortization of unrecognized losses and prior service cost, net of tax of \$10	—	690	690
Reclassification as a result of ownership change	(4,325)	—	(4,325)
Balance at June 30, 2018	\$ (165,964)	\$ (22,554)	\$ (188,518)
	Currency Translation Adjustments	Unrecognized Losses and Prior Service Cost	Total
Balance at January 1, 2018	\$ (132,949)	\$ (24,127)	\$ (157,076)
Currency translation adjustments	(28,690)	—	(28,690)
Defined benefit pension plan entries:			
Amortization of unrecognized losses and prior service cost, net of tax of \$(44)	—	1,573	1,573
Reclassification as a result of ownership change	(4,325)	—	(4,325)
Balance at June 30, 2018	\$ (165,964)	\$ (22,554)	\$ (188,518)

22. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION

The senior secured notes are guaranteed by the following wholly-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 governing the senior secured notes 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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TITAN INTERNATIONAL, INC.**Notes to Condensed Consolidated Financial Statements
(Unaudited)**

	Condensed Consolidating Statements of Operations For the Three Months Ended June 30, 2018				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(Amounts in thousands)					
Net sales	\$—	\$ 166,757	\$ 262,147	\$ —	\$ 428,904
Cost of sales	138	140,208	230,246	—	370,592
Gross (loss) profit	(138)	26,549	31,901	—	58,312
Selling, general and administrative expenses	1,678	16,985	18,036	—	36,699
Research and development expenses	253	983	1,518	—	2,754
Royalty expense	628	940	1,066	—	2,634
(Loss) income from operations	(2,697)	7,641	11,281	—	16,225
Interest expense	(6,826)	—	(846)	—	(7,672)
Intercompany interest income (expense)	628	909	(1,537)	—	—
Foreign exchange loss	—	(662)	(2,948)	—	(3,610)
Other income (expense)	959	(147)	1,665	—	2,477
(Loss) income before income taxes	(7,936)	7,741	7,615	—	7,420
(Benefit) provision for income taxes	(2,390)	3,044	1,029	—	1,683
Equity in earnings of subsidiaries	11,283	—	209	(11,492)	—
Net income (loss)	5,737	4,697	6,795	(11,492)	5,737
Net income attributable to noncontrolling interests	—	—	40	—	40
Net income (loss) attributable to Titan	\$5,737	\$ 4,697	\$ 6,755	\$ (11,492)	\$ 5,697

	Condensed Consolidating Statements of Operations For the Three Months Ended June 30, 2017			
	Titan Intl. Inc. (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations
(Amounts in thousands)				