

TITAN INTERNATIONAL INC
Form 10-Q
October 29, 2007

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

FORM 10-Q

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

For Quarterly Period Ended: September 30, 2007

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)

Illinois
(State of Incorporation)

36-3228472

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

Class	Shares Outstanding at October 26, 2007
Common stock, no par value per share	27,339,301

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

(Amounts in thousands, except earnings per share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net sales	\$ 195,472	\$ 156,120	\$ 632,083	\$ 513,891
Cost of sales	177,178	139,040	559,287	443,255
Gross profit	18,294	17,080	72,796	70,636
Selling, general & administrative expenses	14,123	11,260	38,090	33,034
Royalty expense	1,474	1,113	4,490	3,952
Income from operations	2,697	4,707	30,216	33,650
Interest expense	(4,472)	(4,565)	(14,651)	(11,997)
Noncash convertible debt conversion charge	0	0	(13,376)	0
Other income	975	671	2,521	2,820
(Loss) income before income taxes	(800)	813	4,710	24,473
Provision for income taxes	78	325	3,109	9,789
Net (loss) income	\$ (878)	\$ 488	\$ 1,601	\$ 14,684
Earnings per common share:				
Basic	\$ (.03)	\$.02	\$.06	\$.75
Diluted	(.03)	.02	.06	.65
Average common shares outstanding:				
Basic	27,311	19,731	25,137	19,670
Diluted	27,311	20,060	25,591	26,027

See accompanying Notes to Consolidated Condensed Financial Statements.

TITAN INTERNATIONAL, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except share data)

	September 30, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 55,337	\$ 33,412
Accounts receivable	117,459	73,882
Inventories	132,553	154,604
Deferred income taxes	27,699	29,234
Prepaid and other current assets	20,684	18,801
Total current assets	353,732	309,933
Property, plant and equipment, net	185,490	184,616
Investment in Titan Europe Plc	63,140	65,881
Goodwill	11,702	11,702
Other assets	16,598	12,994
Total assets	\$ 630,662	\$ 585,126
Liabilities and Stockholders' Equity		
Current liabilities		
Short-term debt	\$ 0	\$ 98
Accounts payable	54,646	25,884
Other current liabilities	36,858	36,942
Total current liabilities	91,504	62,924
Long-term debt	200,000	291,266
Deferred income taxes	25,650	27,924
Other long-term liabilities	13,068	15,835
Total liabilities	330,222	397,949
Stockholders' equity		
Common stock (no par, 60,000,000 shares authorized, 30,577,356 issued)	30	30
Additional paid-in capital	304,588	258,071
Retained earnings	37,996	36,802
Treasury stock (at cost, 3,265,015 and 10,678,454 shares, respectively)	(29,707)	(96,264)
Accumulated other comprehensive loss	(12,467)	(11,462)
Total stockholders' equity	300,440	187,177
Total liabilities and stockholders' equity	\$ 630,662	\$ 585,126

See accompanying Notes to Consolidated Condensed Financial Statements.

TITAN INTERNATIONAL, INC.
CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(All amounts in thousands, except share data)

	Number of common shares	Common Stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total
Balance January 1, 2007	#19,898,902	\$ 30	\$ 258,071	\$ 36,802	\$ (96,264)	\$ (11,462)	\$ 187,177
Comprehensive income:							
Net income				1,601			1,601
Amortization of pension adjustments, net of tax						777	777
Unrealized loss on investment, net of tax						(1,782)	(1,782)
Comprehensive income				1,601		(1,005)	596
Dividends paid on common stock				(407)			(407)
Note conversion	6,577,200		35,240		59,049		94,289
Exercise of stock options	409,120		3,279		3,673		6,952
Issuance of treasury stock for funding contractual obligations on employee contracts	214,000		4,184		1,921		6,105
Issuance of treasury stock for pension plans	200,000		3,590		1,796		5,386
Issuance of treasury stock under 401(k) plan	13,119		224		118		342
Balance September 30, 2007	#27,312,341	\$ 30	\$ 304,588	\$ 37,996	\$ (29,707)	\$ (12,467)	\$ 300,440

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Nine months ended	
	September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 1,601	\$ 14,684
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,467	19,460
Deferred income tax provision	1,907	8,745
Noncash convertible debt conversion charge	13,376	0
Excess tax benefit from stock options exercised	(849)	(379)
Issuance of treasury stock under 401(k) plan	342	161
(Increase) decrease in current assets:		
Accounts receivable	(43,577)	(50,314)
Inventories	22,051	(38,390)
Prepaid and other current assets	(1,883)	(3,016)
Increase in current liabilities:		
Accounts payable	28,762	25,145
Other current liabilities	9,737	15,739
Other, net	2,201	(5,036)
Net cash provided by (used for) operating activities	55,135	(13,201)
Cash flows from investing activities:		
Capital expenditures	(20,869)	(4,844)
Acquisition off-the-road (OTR) assets	(8,900)	(44,000)
Other	453	36
Net cash used for investing activities	(29,316)	(48,808)
Cash flows from financing activities:		
Proceeds on revolving credit facility, net	0	68,200
Payment on debt	(10,164)	(9,814)
Proceeds from exercise of stock options	6,103	3,453
Excess tax benefit from stock options exercised	849	379
Payment of financing fees	(313)	(225)
Dividends paid	(369)	(295)
Net cash (used for) provided by financing activities	(3,894)	61,698
Net increase (decrease) in cash and cash equivalents	21,925	(311)
Cash and cash equivalents at beginning of period	33,412	592
Cash and cash equivalents at end of period	\$ 55,337	\$ 281

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See accompanying Notes to Consolidated Condensed 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 to present fairly the Company’s financial position as of September 30, 2007, the results of operations for the three and nine months ended September 30, 2007 and 2006, and cash flows for the nine months ended September 30, 2007 and 2006.

Accounting policies have continued without significant change and are described in the Summary of Significant Accounting Policies contained in the Company’s 2006 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 2006 Annual Report on Form 10-K. Certain amounts from prior periods have been reclassified to conform to the current period financial presentation.

2. ACQUISITION OF CONTINENTAL’S OTR ASSETS

On July 31, 2006, Titan Tire Corporation of Bryan, a subsidiary of Titan International, Inc., acquired the off-the-road (OTR) tire assets of Continental Tire North America, Inc. (Continental) in Bryan, Ohio. Titan Tire Corporation of Bryan purchased the assets of Continental’s OTR tire facility for approximately \$53 million in cash proceeds. Titan paid approximately \$44 million at closing and the remaining amount due of approximately \$9 million in the third quarter of 2007. The assets purchased included Continental’s OTR plant, property and equipment located in Bryan, Ohio, inventory and other current assets. The acquisition included an agreement with Continental to use the Continental and General trademarks on OTR tires. As of August 1, 2007, Titan discontinued the Continental brand and is now concentrating on building market share with Titan and General branded OTR tires. In addition, the Company recorded intangibles related to the acquisition as noncurrent assets and assumed warranty liabilities. This acquisition expanded Titan’s product offering into larger earthmoving, construction and mining tires and added the manufacturing capacity of the Bryan facility.

Pro forma information for the three months and nine months ended is as follows (in thousands, except per share data):

	Three months ended September 30,			Nine months ended September 30,		
	Actual 2007	Actual 2006	Pro forma 2006 (a)	Actual 2007	Actual 2006	Pro forma 2006 (a)
Net sales	\$ 195,472	\$ 156,120	\$ 167,883	\$ 632,083	\$ 513,891	\$ 596,233
Net (loss) income	(878)	488	1,620	1,601	14,684	22,611
Diluted earnings per share	(.03)	.02	.08	.06	.65	.95

- (a) The unaudited pro forma financial information gives effect to the acquisition of the Continental OTR assets as if the acquisition had taken place on January 1, 2006, versus the actual acquisition date of July 31, 2006. The pro forma information for the Bryan, Ohio, facility was derived from a carve-out of Continental’s OTR historical accounting records.

The pro forma information is presented for illustrative purposes only and may not be indicative of the results that would have been obtained had the acquisition of assets actually occurred on January 1, 2006, nor is it necessarily indicative of Titan's future consolidated results of operations or financial position.

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

3. ACCOUNTS RECEIVABLE

Accounts receivable net of allowance for doubtful accounts consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Accounts receivable, net	\$ 117,459	\$ 73,882

The Company had net accounts receivable of \$117.5 million at September 30, 2007, and \$73.9 million at December 31, 2006. These amounts are net of allowance for doubtful accounts of \$5.7 million at September 30, 2007, and \$4.8 million at December 31, 2006.

4. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Raw materials	\$ 48,855	\$ 57,814
Work-in-process	20,309	16,738
Finished goods	67,468	84,863
	136,632	159,415
Reduction to LIFO basis	(4,079)	(4,811)
	\$ 132,553	\$ 154,604

Inventories were \$132.6 million at September 30, 2007, and \$154.6 million at December 31, 2006. At September 30, 2007, cost is determined using the first-in, first-out (FIFO) method for approximately 70% of inventories and the last-in, first-out (LIFO) method for approximately 30% of the inventories. At December 31, 2006, the FIFO method was used for approximately 74% of inventories LIFO was used for approximately 26% of the inventories. Included in the inventory balances were reserves for slow-moving and obsolete inventory of \$3.0 million at September 30, 2007, and \$3.2 million at December 31, 2006.

5. PROPERTY, PLANT AND EQUIPMENT, NET

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

	September 30, 2007	December 31, 2006
Land and improvements	\$ 3,088	\$ 3,088
Buildings and improvements	78,258	78,230
Machinery and equipment	272,360	269,730
Tools, dies and molds	53,078	52,205
Construction-in-process	20,005	4,587
	426,789	407,840
Less accumulated depreciation	(241,299)	(223,224)

\$ 185,490 \$ 184,616

Property, plant and equipment, net was \$185.5 million at September 30, 2007, and \$184.6 million at December 31, 2006. Depreciation for the nine months ended September 30, 2007 and 2006, totaled \$19.5 million and \$17.6 million, respectively.

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

6. INVESTMENT IN TITAN EUROPE PLC

Investment in unconsolidated affiliate consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Investment in Titan Europe Plc	\$ 63,140	\$ 65,881

The Company owns a 17.3% ownership interest in Titan Europe Plc. In accordance with SFAS No. 115, the Company records the Titan Europe Plc investment as an available-for-sale security and reports the investment at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. The Company's investment in Titan Europe Plc was \$63.1 million at September 30, 2007, and \$65.9 million at December 31, 2006. Titan Europe Plc is publicly traded on the AIM market in London, England.

7. GOODWILL

The carrying amount of goodwill by segment consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Agricultural segment	\$ 6,912	\$ 6,912
Earthmoving/construction segment	3,552	3,552
Consumer segment	1,238	1,238
	\$ 11,702	\$ 11,702

The Company reviews goodwill to assess recoverability from future operations during the fourth quarter of each annual reporting period, and whenever events and circumstances indicate that the carrying values may not be recoverable. No goodwill charges were recorded in the first nine months of 2007 or 2006. There can be no assurance that future goodwill tests will not result in a charge to earnings.

8. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

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

	September 30, 2007	December 31, 2006
Senior unsecured notes	\$ 200,000	\$ 200,000
Senior unsecured convertible notes	0	81,200
Industrial revenue bonds and other	0	10,164
	200,000	291,364
Less: Amounts due within one year	0	98
	\$ 200,000	\$ 291,266

Aggregate maturities of long-term debt at September 30, 2007, were as follows (in thousands):

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October 1 – December 31, 2007	\$	0
2008		0
2009		0
2010		0
2011		0
Thereafter		200,000
	\$	200,000

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

Senior unsecured notes

In December 2006, the Company closed its offering of \$200 million 8% senior unsecured notes. The notes were sold at par and are due January 2012. Titan used the net proceeds from this offering to repay outstanding existing debt, excluding the 5.25% senior unsecured convertible notes, and for general corporate purposes.

Revolving credit facility

The Company's \$125 million revolving credit facility with agent LaSalle Bank National Association has a 2009 termination date and is collateralized by a first priority security interest in certain assets of Titan and its domestic subsidiaries. In February 2007, the Company amended the revolving credit facility. The amendment extended the termination date to October 2009 (previously October 2008). The amendment also lowered borrowing rates, which are now based on a pricing grid that varies with amount borrowed. The borrowings under the facility bear interest at a floating rate of LIBOR plus 1% to 2% (previously 2.75%). The amendment allows the Company the ability to request an increase from the current \$125 million up to \$250 million of availability.

At September 30, 2007, there were no cash borrowings on the revolver. Outstanding letters of credit on the facility were \$6.1 million at September 30, 2007, leaving \$118.9 million of unused availability on the revolving credit facility. The facility contains certain financial covenants, restrictions and other customary affirmative and negative covenants. The Company was in compliance with these covenants and restrictions as of September 30, 2007.

Senior unsecured convertible notes conversion

In January 2007, the Company filed a registration statement relating to an offer to the holders of its 5.25% senior unsecured convertible notes due 2009 to convert their notes into Titan's common stock at an increased conversion rate (the "Offer"). Per the Offer, each \$1,000 principal amount of notes was convertible into 81.0000 shares of common stock, which is equivalent to a conversion price of approximately \$12.35 per share. Prior to the Offer, each \$1,000 principal amount of notes was convertible into 74.0741 shares of common stock, which was equivalent to a conversion price of approximately \$13.50 per share.

The registration statement relating to the shares of common stock to be offered was declared effective February 2007. In March 2007, the Company announced 100% acceptance of the conversion offer and the \$81.2 million of accepted notes were converted into 6,577,200 shares of Titan common stock. Titan recognized a noncash charge of \$13.4 million in connection with this exchange in accordance with SFAS No. 84, "Induced Conversions of Convertible Debt."

Industrial revenue bonds and other

Other debt primarily consisted of industrial revenue bonds, loans from local and state entities, and other long-term notes. All industrial revenue bonds and other debt were fully paid off in the first quarter of 2007.

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

9. WARRANTY

The Company provides limited warranties on workmanship on its products in all market segments. The majority of the Company's products have a limited warranty that ranges from zero to ten years, with certain products being prorated after the first year. The Company calculates a provision for warranty expense based on past warranty experience. The warranty amount increases in the first nine months of 2007 were related to the Company's higher sales levels. Warranty accruals are included as a component of other current liabilities on the Consolidated Condensed Balance Sheets. Changes in the warranty liability consisted of the following (in thousands):

	2007	2006
Warranty liability, January 1	\$ 4,688	\$ 1,838
Provision for and assumption of warranty liabilities	5,803	4,851
Warranty payments made	(4,756)	(2,759)
Warranty liability, September 30	\$ 5,735	\$ 3,930

10. EMPLOYEE BENEFIT PLANS

The Company has two frozen defined benefit pension plans and one defined benefit plan that purchased a final annuity settlement in 2002. The Company currently sponsors five 401(k) retirement savings plans.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Interest cost	\$ 941	\$ 983	\$ 2,823	\$ 2,949
Expected return on assets	(1,256)	(1,168)	(3,768)	(3,504)
Amortization of unrecognized prior service cost	34	34	102	102
Amortization of unrecognized deferred taxes	(14)	(14)	(42)	(42)
Amortization of net unrecognized loss	398	462	1,194	1,386
Net periodic pension cost	\$ 103	\$ 297	\$ 309	\$ 891

During the first nine months of 2007, the Company contributed cash funds of approximately \$1 million to the frozen defined benefit pension plans. In addition, in April 2007 the Company contributed Titan common stock with an approximate value of \$5 million to the frozen defined benefit pension plans. The Company anticipates making no further contributions to these plans during the remainder of 2007.

11. LEASE COMMITMENTS

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

At September 30, 2007, future minimum commitments under noncancellable operating leases with initial or remaining terms of at least one year were as follows (in thousands):

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October 1 – December 31, 2007	\$	661
2008		1,605
2009		1,176
2010		874
2011		527
Thereafter		0
Total future minimum lease payments	\$	4,843

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

12. SEGMENT INFORMATION

The table below presents information about certain revenues and income from operations used by the chief operating decision maker of the Company for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues from external customers				
Agricultural	\$ 118,530	\$ 89,014	\$ 377,930	\$ 329,708
Earthmoving/construction	69,431	56,683	216,891	117,489
Consumer	7,511	10,423	37,262	66,694
Consolidated totals	\$ 195,472	\$ 156,120	\$ 632,083	\$ 513,891
Income from operations				
Agricultural	\$ 4,242	\$ 2,445	\$ 22,338	\$ 34,412
Earthmoving/construction	8,955	8,643	35,694	18,344
Consumer	371	401	2,201	2,076
Reconciling items ^(a)	(10,871)	(6,782)	(30,017)	(21,182)
Consolidated totals	\$ 2,697	\$ 4,707	\$ 30,216	\$ 33,650

Assets by segment were as follows (in thousands):

	September 30, 2007	December 31, 2006
Total assets		
Agricultural segment	\$ 267,079	\$ 273,787
Earthmoving/construction segment	193,978	145,964
Consumer segment	21,155	22,678
Reconciling items ^(b)	148,450	142,697
Consolidated totals	\$ 630,662	\$ 585,126

(a) Represents corporate expenses and depreciation and amortization expense related to property, plant and equipment

carried at the corporate level.

(b) Represents property, plant and equipment and other corporate assets.

13. ROYALTY EXPENSE

Royalty expense consisted of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006

Royalty expense	\$	1,474	\$	1,113	\$	4,490	\$	3,952
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The Goodyear North American farm tire asset acquisition included a license agreement with The Goodyear Tire & Rubber Company to manufacture and sell certain off-highway tires in North America under the Goodyear name. Royalty expenses recorded were \$1.5 million and \$1.1 million for the three months ended September 30, 2007 and 2006, respectively. Royalty expenses were \$4.5 million and \$4.0 million for the nine months ended September 30, 2007 and 2006, respectively.

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

14. NONCASH CONVERTIBLE DEBT CONVERSION CHARGE

Noncash convertible debt conversion charge consisted of the following (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Noncash convertible debt conversion charge	\$ 0	\$ 0	\$ 13,376	\$ 0

In January 2007, the Company filed a registration statement relating to an offer to the holders of its 5.25% senior unsecured convertible notes due 2009 to convert their notes into Titan's common stock at an increased conversion rate (the "Offer"). Per the Offer, each \$1,000 principal amount of notes was convertible into 81.0000 shares of common stock, which is equivalent to a conversion price of approximately \$12.35 per share.

Prior to the Offer, each \$1,000 principal amount of notes was convertible into 74.0741 shares of common stock, which was equivalent to a conversion price of approximately \$13.50 per share. The registration statement relating to the shares of common stock to be offered was declared effective February 2007. In March 2007, the Company announced 100% acceptance of the conversion offer and the \$81.2 million of accepted notes were converted into 6,577,200 shares of Titan common stock.

The Company recognized a noncash charge of \$13.4 million in connection with this exchange in accordance with Statement of Financial Accounting Standards (SFAS) No. 84, "Induced Conversions of Convertible Debt." This charge does not reflect \$1.0 million of interest previously accrued on the notes. The shares issued for the conversion were issued out of treasury shares. The exchange resulted in a decrease in treasury stock of \$59.0 million and an increase to additional paid-in capital of approximately \$35.2 million. Stockholder's equity increased by \$94.3 million in total as a result of this exchange.

15. OTHER INCOME

Other income consisted of the following (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Interest income	\$ 835	\$ 162	\$ 2,040	\$ 1,518
Dividend income – Titan Europe Plc	0	470	1,132	1,281
Debt termination expense	0	0	(688)	0
Other income	140	39	37	21
	\$ 975	\$ 671	\$ 2,521	\$ 2,820

Debt termination expense of \$0.7 million related to fees and expenses for the March 2007 conversion of 100% of the Company's 5.25% senior unsecured convertible notes. Interest income increased as a result of higher cash balances.

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

16. INCOME TAXES

Income tax expense consisted of the following (in thousands):

	Three months ended September 30, 2007		September 30, 2006	
Income tax expense	\$ 78	\$ 325	\$ 3,109	\$ 9,789

The Company recorded income tax expense of \$0.1 million for the three months ended September 30, 2007, as compared to \$0.3 million in 2006. Income tax expense was \$3.1 million for nine months ended September 30, 2007, as compared to \$9.8 million in 2006. The Company's effective income tax rate was 66% and 40% for the nine months ended September 30, 2007 and 2006, respectively. The Company's income tax expense and rate differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income primarily as a result of the \$13.4 million noncash charge taken in connection with the 100% conversion of the Company's convertible debt. This noncash debt charge is not deductible for income tax purposes.

The Company has applied the provisions of FIN 48 for the period ended September 30, 2007. Titan has identified its federal tax return and its Illinois state tax return as "major" tax jurisdictions. The Company is subject to (i) federal tax examinations for periods 2003 to 2006 and (ii) Illinois state income tax examinations for years 2005 and 2006.

17. EARNINGS PER SHARE

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

	September 30, 2007		September 30, 2006	
	Net Loss	Weighted average shares	Per share amount	Net Income
Basic EPS	\$ (878)	27,311	\$ (.03)	\$ 488
Effect of stock options	0	0		0
Diluted EPS	\$ (878)	27,311	\$ (.03)	\$ 488

	September 30, 2007		September 30, 2006	
	Net Income	Weighted average shares	Per share amount	Net Income
Basic EPS	\$ 1,601	25,137	\$.06	\$ 14,684
Effect of stock options/trusts	0	454		0
Effect of convertible notes	0	0		2,156
Diluted EPS	\$ 1,601	25,591	\$.06	\$ 16,840

The effect of stock options has been excluded for the three months ended September 30, 2007, as the effect would have been antidilutive. The weighted average share amount excluded was 427,000 shares. The effect of convertible

notes has been excluded for the three months ended September 30, 2006, and for the nine months ended September 30, 2007, as the effect would have been antidilutive. The weighted average share amount excluded was 6,015,000 shares for the three months ended September 30, 2006, and 1,741,000 shares for the nine months ended September 30, 2007.

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

18. COMPREHENSIVE INCOME (LOSS)

Comprehensive loss for the third quarter of 2007 totaled \$(0.3) million, compared to \$(1.5) million in the third quarter of 2006. Comprehensive loss for the third quarter of 2007 included net loss of \$(0.9) million, amortization of pension adjustments of \$0.3 million and unrealized gain on the Titan Europe Plc investment of \$0.3 million. Comprehensive loss for the third quarter of 2006 included net income of \$0.5 million and unrealized loss on the Titan Europe Plc investment of \$(1.9) million.

Comprehensive income for the nine months ended September 30, 2007, was \$0.6 million, compared to \$15.2 million in 2006. Comprehensive income for the nine months ended September 30, 2007, included net income of \$1.6 million, amortization of pension adjustments of \$0.8 million and unrealized loss on the Titan Europe Plc investment of \$(1.8) million. Comprehensive income for the nine months ended September 30, 2006, included net income of \$14.7 million and unrealized gain on the Titan Europe Plc investment of \$0.5 million.

19. 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 financial condition, results of operations or cash flows of the Company. However, due to the difficult nature of predicting future legal claims, the Company cannot anticipate or predict the material adverse effect on its financial condition, results of operations or cash flows as a result of efforts to comply with or its liabilities pertaining to legal judgments.

20. RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards Number 157

In September 2006, Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," was issued. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is evaluating the effect the adoption of this standard will have on its consolidated financial position, results of operations and cash flows.

Statement of Financial Accounting Standards Number 159

In February 2007, SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," was issued. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company is evaluating the effect the adoption of this standard will have on its consolidated financial position, results of operations and cash flows.

21. RECENT DEVELOPMENT

On October 1, 2007, the Titan Tire Bryan pension plan, adopted at the date of the Continental OTR asset acquisition and frozen from its inception, received a cash transfer of approximately \$24 million from Continental Tire North America's frozen pension plan for the Bryan, Ohio, location. The amount transferred into the frozen plan was actuarially approved to be a fully funded plan.

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

22. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION

The Company's \$200 million 8% senior unsecured notes are guaranteed by each of Titan's current and future wholly owned domestic subsidiaries other than its immaterial subsidiaries (subsidiaries with total assets less than \$250,000 and total revenues less than \$250,000). The note guarantees are joint and several obligations of the guarantors. Non-guarantors consist primarily of foreign subsidiaries of the Company, which are organized outside the United States of America. The following condensed consolidating financial statements are presented using the equity method of accounting.

Consolidating Condensed Statements of Operations

(Amounts in thousands)

For the Three Months Ended September 30, 2007

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 0	\$ 195,472	\$ 0	\$ 0	\$ 195,472
Cost of sales	12	177,166	0	0	177,178
Gross (loss) profit	(12)	18,306	0	0	18,294
Selling, general and administrative expenses	3,672	10,412	39	0	14,123
Royalty expense	0	1,474	0	0	1,474
(Loss) income from operations	(3,684)	6,420	(39)	0	2,697
Interest expense	(4,473)	1	0	0	(4,472)
Intercompany interest income (expense)	2,371	(2,666)	295	0	0
Other income (expense)	1,178	(204)	1	0	975
(Loss) income before income taxes	(4,608)	3,551	257	0	(800)
(Benefit) provision for income taxes	(7,209)	6,903	384	0	78
Equity in earnings of subsidiaries	(3,479)	0	0	3,479	0
Net loss	\$ (878)	\$ (3,352)	\$ (127)	\$ 3,479	\$ (878)

For the Three Months Ended September 30, 2006

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 0	\$ 156,120	\$ 0	\$ 0	\$ 156,120
Cost of sales	80	138,960	0	0	139,040
Gross (loss) profit	(80)	17,160	0	0	17,080
Selling, general and administrative expenses	3,348	7,872	40	0	11,260
Royalty expense	0	1,113	0	0	1,113
(Loss) income from operations	(3,428)	8,175	(40)	0	4,707
Interest expense	(4,483)	(82)	0	0	(4,565)
Intercompany interest income (expense)	1,121	(1,387)	266	0	0
Other (expense) income	(177)	84	764	0	671

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(Loss) income before income taxes	(6,967)	6,790	990	0	813
(Benefit) provision for income taxes	(2,787)	2,716	396	0	325
Equity in earnings of subsidiaries	4,668	0	0	(4,668)	0
Net income	\$ 488	\$ 4,074	\$ 594	\$ (4,668)	\$ 488

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

Consolidating Condensed Statements of Operations

(Amounts in thousands)

For the Nine Months Ended September 30, 2007

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 0	\$ 632,083	\$ 0	\$ 0	\$ 632,083
Cost of sales	545	558,742	0	0	559,287
Gross (loss) profit	(545)	73,341	0	0	72,796
Selling, general and administrative expenses	13,193	24,739	158	0	38,090
Royalty expense	0	4,490	0	0	4,490
(Loss) income from operations	(13,738)	44,112	(158)	0	30,216
Interest expense	(14,648)	(3)	0	0	(14,651)
Intercompany interest income (expense)	8,767	(9,607)	840	0	0
Noncash convertible debt conversion charge	(13,376)	0	0	0	(13,376)
Other income (expense)	1,560	(176)	1,137	0	2,521
(Loss) income before income taxes	(31,435)	34,326	1,819	0	4,710
(Benefit) provision for income taxes	(20,747)	22,655	1,201	0	3,109
Equity in earnings of subsidiaries	12,289	0	0	(12,289)	0
Net income	\$ 1,601	\$ 11,671	\$ 618	\$ (12,289)	\$ 1,601

For the Nine Months Ended September 30, 2006

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 0	\$ 513,891	\$ 0	\$ 0	\$ 513,891
Cost of sales	239	443,016	0	0	443,255
Gross (loss) profit	(239)	70,875	0	0	70,636
Selling, general and administrative expenses	10,998	21,905	131	0	33,034
Royalty expense	0	3,952	0	0	3,952
(Loss) income from operations	(11,237)	45,018	(131)	0	33,650
Interest expense	(11,564)	(433)	0	0	(11,997)
Intercompany interest income (expense)	3,359	(4,044)	685	0	0
Other income	482	282	2,056	0	2,820
(Loss) income before income taxes	(18,960)	40,823	2,610	0	24,473
(Benefit) provision for income taxes	(7,584)	16,328	1,045	0	9,789
Equity in earnings of subsidiaries	26,060	0	0	(26,060)	0
Net income	\$ 14,684	\$ 24,495	\$ 1,565	\$ (26,060)	\$ 14,684

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

Consolidating Condensed Balance Sheets

(Amounts in thousands)

	September 30, 2007				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 55,111	\$ 21	\$ 205	\$ 0	\$ 55,337
Accounts receivable	0	117,459	0	0	117,459
Inventories	0	132,553	0	0	132,553
Prepaid and other current assets	30,419	17,964	0	0	48,383
Total current assets	85,530	267,997	205	0	353,732
Property, plant and equipment, net	1,731	183,759	0	0	185,490
Investment in Titan Europe Plc	22,793	0	40,347	0	63,140
Investment in subsidiaries	23,241	0	0	(23,241)	0
Other assets	12,840	15,460	0	0	28,300
Total assets	\$ 146,135	\$ 467,216	\$ 40,552	\$ (23,241)	\$ 630,662
Liabilities and Stockholders' Equity					
Accounts payable	\$ 2,223	\$ 52,423	\$ 0	\$ 0	\$ 54,646
Other current liabilities	3,011	33,899	(52)	0	36,858
Total current liabilities	5,234	86,322	(52)	0	91,504
Long-term debt	200,000	0	0	0	200,000
Other long-term liabilities	32,169	6,542	7	0	38,718
Intercompany accounts	(391,708)	382,324	9,384	0	0
Stockholders' equity	300,440	(7,972)	31,213	(23,241)	300,440
Total liabilities and stockholders' equity	\$ 146,135	\$ 467,216	\$ 40,552	\$ (23,241)	\$ 630,662

	December 31, 2006				
	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 33,220	\$ 69	\$ 123	\$ 0	\$ 33,412
Accounts receivable	(38)	73,920	0	0	73,882
Inventories	0	154,604	0	0	154,604
Prepaid and other current assets	3,937	44,036	62	0	48,035
Total current assets	37,119	272,629	185	0	309,933
Property, plant and equipment, net	1,279	183,337	0	0	184,616
Investment in Titan Europe Plc	25,534	0	40,347	0	65,881
Investment in subsidiaries	14,517	0	0	(14,517)	0
Other assets	8,802	15,894	0	0	24,696
Total assets	\$ 87,251	\$ 471,860	\$ 40,532	\$ (14,517)	\$ 585,126

Liabilities and Stockholders' Equity

Accounts payable	\$	1,058	\$	24,826	\$	0	\$	0	\$	25,884
Other current liabilities		3,437								