

TITAN INTERNATIONAL INC
Form 10-Q
October 28, 2008

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

FORM 10-Q

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

For Quarterly Period Ended: September 30, 2008

OR

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

Commission File Number: 1-12936

TITAN INTERNATIONAL, INC.

(Exact name of Registrant as specified in its Charter)

Illinois
(State of Incorporation)

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 ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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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 24, 2008
Common stock, no par value per share	34,519,044

TITAN INTERNATIONAL, INC.

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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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 255,463	\$ 195,472	\$ 778,102	\$ 632,083
Cost of sales	218,040	177,178	666,389	559,287
Gross profit	37,423	18,294	111,713	72,796
Selling, general & administrative expenses	13,789	14,123	43,155	38,090
Royalty expense	2,371	1,474	6,786	4,490
Income from operations	21,263	2,697	61,772	30,216
Interest expense	(3,734)	(4,472)	(11,426)	(14,651)
Noncash convertible debt conversion charge	0	0	0	(13,376)
Other (expense) income	(358)	975	2,559	2,521
Income (loss) before income taxes	17,171	(800)	52,905	4,710
Provision for income taxes	6,868	78	21,162	3,109
Net income (loss)	\$ 10,303	\$ (878)	\$ 31,743	\$ 1,601
Earnings per common share *:				
Basic	\$.30	\$ (.03)	\$.92	\$.05
Diluted	.30	(.03)	.91	.05
Average common shares outstanding *:				
Basic	34,499	34,139	34,373	31,421
Diluted	34,883	34,139	34,798	31,988

* Adjusted to reflect August 15, 2008, five-for-four stock split.

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	September 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 35,639	\$ 58,325
Accounts receivable	148,474	98,394
Inventories	143,699	128,048
Deferred income taxes	17,622	25,159
Prepaid and other current assets	21,616	17,839
Total current assets	367,050	327,765
Property, plant and equipment, net	236,737	196,078
Investment in Titan Europe Plc	11,623	34,535
Goodwill	11,702	11,702
Other assets	18,361	20,415
Total assets	\$ 645,473	\$ 590,495
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 84,946	\$ 43,992
Other current liabilities	45,775	43,788
Total current liabilities	130,721	87,780
Long-term debt	200,000	200,000
Deferred income taxes	6,025	14,044
Other long-term liabilities	11,029	16,149
Total liabilities	347,775	317,973
Stockholders' equity		
Common stock (no par, 60,000,000 shares authorized, 37,475,288 issued *)	30	30
Additional paid-in capital	309,519	303,908
Retained earnings	60,307	29,012
Treasury stock (at cost, 2,963,160 and 3,229,055 shares, respectively)	(26,997)	(29,384)
Accumulated other comprehensive loss	(45,161)	(31,044)
Total stockholders' equity	297,698	272,522
Total liabilities and stockholders' equity	\$ 645,473	\$ 590,495

* Adjusted to reflect August 15, 2008, five-for-four stock split.

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, 2008	#34,183,484	\$ 30	\$ 303,908	\$ 29,012	\$ (29,384)	\$ (31,044)	\$ 272,522
Comprehensive income:							
Net income				31,743			31,743
Amortization of pension adjustments, net of tax						776	776
Unrealized loss on investment, net of tax						(14,893)	(14,893)
Comprehensive income				31,743		(14,117)	17,626
Dividends paid on common stock				(448)			(448)
Cash paid for fractional shares resulting from stock split			(70)				(70)
Exercise of stock options	313,463		5,389		2,278		7,667
Issuance of treasury stock under 401(k) plan	15,181		292		109		401
Balance September 30, 2008	#34,512,128	\$ 30	\$ 309,519	\$ 60,307	\$ (26,997)	\$ (45,161)	\$ 297,698

* Adjusted to reflect August 15, 2008, five-for-four stock split.

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,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 31,743	\$ 1,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,543	21,467
Deferred income tax provision	7,537	1,907
Noncash convertible debt conversion charge	0	13,376
Excess tax benefit from stock options exercised	(4,131)	(849)
Issuance of treasury stock under 401(k) plan	400	342
(Increase) decrease in assets:		
Accounts receivable	(50,080)	(43,577)
Inventories	(15,651)	22,051
Prepaid and other current assets	(4,252)	(1,883)
Other assets	(108)	(357)
Increase (decrease) in liabilities:		
Accounts payable	40,954	28,762
Other current liabilities	6,082	9,737
Other liabilities	(3,869)	2,558
Net cash provided by operating activities	30,168	55,135
Cash flows from investing activities:		
Capital expenditures	(60,144)	(20,869)
Acquisition off-the-road (OTR) assets	0	(8,900)
Other	104	453
Net cash used for investing activities	(60,040)	(29,316)
Cash flows from financing activities:		
Payment on debt	0	(10,164)
Proceeds from exercise of stock options	3,537	6,103
Excess tax benefit from stock options exercised	4,131	849
Payment of financing fees	0	(313)
Dividends paid	(412)	(369)
Other	(70)	0
Net cash provided by (used for) financing activities	7,186	(3,894)
Net (decrease) increase in cash and cash equivalents	(22,686)	21,925
Cash and cash equivalents at beginning of period	58,325	33,412
Cash and cash equivalents at end of period	\$ 35,639	\$ 55,337

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, 2008, the results of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months ended September 30, 2008 and 2007.

Accounting policies have continued without significant change and are described in the Summary of Significant Accounting Policies contained in the Company’s 2007 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 2007 Annual Report on Form 10-K. Certain amounts from prior periods have been reclassified to conform to the current period financial presentation.

Stock split

In June 2008, Titan’s Board of Directors approved a five-for-four stock split with a record date of July 31, 2008, and a payable date of August 15, 2008. The Company gave five shares for every four shares held as of the record date. Stockholders received one additional share for every four shares owned as of the record date and received cash in lieu of fractional shares. All share and per share data, except shares authorized, have been adjusted to reflect the effect of the stock split for all periods presented.

2. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following (in thousands):

	September 30, 2008	December 31, 2007
Accounts receivable	\$ 154,515	\$ 103,652
Allowance for doubtful accounts	(6,041)	(5,258)
Accounts receivable, net	\$ 148,474	\$ 98,394

The Company had net accounts receivable balance of \$148.5 million at September 30, 2008, and \$98.4 million at December 31, 2007. These amounts are net of allowance for doubtful accounts of \$6.0 million at September 30, 2008, and \$5.3 million at December 31, 2007.

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

3. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2008	December 31, 2007
Raw materials	\$ 73,618	\$ 50,368
Work-in-process	28,545	21,533
Finished goods	53,047	61,880
	155,210	133,781
Adjustment to LIFO basis	(11,511)	(5,733)
	\$ 143,699	\$ 128,048

Inventories were \$143.7 million at September 30, 2008, and \$128.0 million at December 31, 2007. At September 30, 2008, cost is determined using the first-in, first-out (FIFO) method for approximately 63% of inventories and the last-in, first-out (LIFO) method for approximately 37% of the inventories. At December 31, 2007, the FIFO method was used for approximately 67% of inventories and LIFO was used for approximately 33% of the inventories. Included in the inventory balances were reserves for slow-moving and obsolete inventory of \$4.3 million at September 30, 2008, and \$4.7 million at December 31, 2007.

4. PROPERTY, PLANT AND EQUIPMENT, NET

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

	September 30, 2008	December 31, 2007
Land and improvements	\$ 3,343	\$ 3,098
Buildings and improvements	91,649	78,462
Machinery and equipment	298,946	276,326
Tools, dies and molds	56,744	53,873
Construction-in-process	51,782	31,801
	502,464	443,560
Less accumulated depreciation	(265,727)	(247,482)
	\$ 236,737	\$ 196,078

Depreciation on fixed assets for the nine months ended September 30, 2008 and 2007, totaled \$19.4 million and \$19.5 million, respectively.

5. INVESTMENT IN TITAN EUROPE PLC

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

	September 30, 2008	December 31, 2007
Investment in Titan Europe Plc	\$ 11,623	\$ 34,535

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, net of tax.

The Company's investment in Titan Europe Plc was \$11.6 million at September 30, 2008, and \$34.5 million at December 31, 2007. Titan Europe Plc is publicly traded on the AIM market in London, England.

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

6. GOODWILL

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

	September 30, 2008	December 31, 2007
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 2008 or 2007. There can be no assurance that future goodwill tests will not result in a charge to earnings.

7. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

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

	September 30, 2008	December 31, 2007
Senior unsecured notes	\$ 200,000	\$ 200,000
Less: Amounts due within one year	0	0
	\$ 200,000	\$ 200,000

Aggregate maturities of long-term debt at September 30, 2008, were as follows (in thousands):

October 1 – December 31, 2008	\$ 0
2009	0
2010	0
2011	0
2012	200,000
Thereafter	0
	\$ 200,000

Senior unsecured notes

The Company's \$200 million 8% senior unsecured notes are due 2012.

Revolving credit facility

The Company's \$250 million revolving credit facility (Credit Facility) with agent LaSalle Bank National Association (a Bank of America company) has an October 2009 termination date and is collateralized by a first priority security interest in certain assets of Titan and its domestic subsidiaries. At September 30, 2008, any borrowings under the Credit Facility would have borne interest at a floating rate of prime rate plus 0% to 1% or LIBOR plus 1% to 2%.

There were no cash borrowings under this Credit Facility at September 30, 2008. Outstanding letters of credit on the facility were \$6.1 million at September 30, 2008, leaving \$243.9 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 is in compliance with these covenants and restrictions as of September 30, 2008.

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

8. WARRANTY

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

	2008	2007
Warranty liability, January 1	\$ 5,854	\$ 4,688
Provision for warranty liabilities	8,574	5,803
Warranty payments made	(8,005)	(4,756)
Warranty liability, September 30	\$ 6,423	\$ 5,735

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

9. EMPLOYEE BENEFIT PLANS

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest cost	\$ 1,324	\$ 941	\$ 3,972	\$ 2,823
Expected return on assets	(1,954)	(1,256)	(5,862)	(3,768)
Amortization of unrecognized prior service cost	34	34	102	102
Amortization of unrecognized deferred taxes	(14)	(14)	(42)	(42)
Amortization of net unrecognized loss	397	398	1,191	1,194
Net periodic pension (income) cost	\$ (213)	\$ 103	\$ (639)	\$ 309

During the first nine months of 2008, the Company contributed cash funds of \$0.1 million to the frozen defined pension plans. The Company expects to contribute approximately \$0.1 million to the pension plans during the remainder of 2008.

10. LEASE COMMITMENTS

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

At September 30, 2008, future minimum commitments under noncancellable operating leases with initial or remaining terms of at least one year were as follows (in thousands):

October 1 – December 31, 2008	\$ 542
2009	1,306
2010	930
2011	580
2012	39
Thereafter	0
Total future minimum lease payments	\$ 3,397

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

11. ROYALTY EXPENSE

Royalty expense consisted of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Royalty expense	\$ 2,371	\$ 1,474	\$ 6,786	\$ 4,490

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 \$2.4 million and \$1.5 million for the three months ended September 30, 2008 and 2007, respectively. Royalty expenses were \$6.8 million and \$4.5 million for the nine months ended September 30, 2008 and 2007, respectively.

12. NONCASH CONVERTIBLE DEBT CONVERSION CHARGE

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. Stockholders' equity increased by \$80.9 million in total as a result of this exchange.

13. OTHER (EXPENSE) INCOME

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest income	\$ 338	\$ 835	\$ 1,212	\$ 2,040
Dividend income – Titan Europe Plc	0	0	1,234	1,132
Other (expense) income	(696)	140	113	(651)
	\$ (358)	\$ 975	\$ 2,559	\$ 2,521

Other (expense) income was \$(0.4) million and \$1.0 million for the three months ended September 30, 2008 and 2007, respectively. Other income was \$2.6 million and \$2.5 million for the nine months ended September 30, 2008 and 2007, respectively.

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

14. INCOME TAXES

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Income tax expense	\$ 6,868	\$ 78	\$ 21,162	\$ 3,109

The Company recorded income tax expense of \$6.9 million and \$21.2 million for the three and nine months ended September 30, 2008, respectively, as compared to \$0.1 million and \$3.1 million for the three and nine months ended September 30, 2007. The Company's effective income tax rate was 40% and 66% for the nine months ended September 30, 2008 and 2007, respectively.

The Company's income tax expense and rate for the nine months ended September 30, 2007, 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 charge is not deductible for income tax purposes.

15. EARNINGS PER SHARE

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

	Three months ended, September 30, 2008			September 30, 2007		
	Net Income	Weighted average shares	Per share amount	Net Loss	Weighted average shares	Per share amount
Basic EPS	\$ 10,303	34,499	\$.30	\$ (878)	34,139	\$ (.03)
Effect of stock options/trusts	0	384		0	0	
Diluted EPS	\$ 10,303	34,883	\$.30	\$ (878)	34,139	\$ (.03)

	Nine months ended, September 30, 2008			September 30, 2007		
	Net Income	Weighted average shares	Per share amount	Net Income	Weighted average shares	Per share amount
Basic EPS	\$ 31,743	34,373	\$.92	\$ 1,601	31,421	\$.05
Effect of stock options/trusts	0	425		0	567	
Diluted EPS	\$ 31,743	34,798	\$.91	\$ 1,601	31,988	\$.05

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 533,000 shares. The effect of convertible notes has been excluded for the nine months ended September 30, 2007, as the effect would have been antidilutive. The weighted average share amount excluded was 2,176,000 shares.

All share data has been adjusted to reflect the August 15, 2008, five-for-four stock split.

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

16. 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, 2008 and 2007 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues from external customers				
Agricultural	\$ 179,162	\$ 118,530	\$ 538,263	\$ 377,930
Earthmoving/construction	71,287	69,431	221,591	216,891
Consumer	5,014	7,511	18,248	37,262
Consolidated totals	\$ 255,463	\$ 195,472	\$ 778,102	\$ 632,083
Gross profit				
Agricultural	\$ 23,633	\$ 7,050	\$ 68,714	\$ 30,051
Earthmoving/construction	11,072	10,916	38,658	41,108
Consumer	1,008	584	3,438	2,906
Reconciling items (a)	1,710	(256)	903	(1,269)
Consolidated totals	\$ 37,423	\$ 18,294	\$ 111,713	\$ 72,796
Income from operations				
Agricultural	\$ 19,465	\$ 4,242	\$ 57,918	\$ 22,338
Earthmoving/construction	9,454	8,955	32,649	35,694
Consumer	854	371	2,913	2,201
Reconciling items (a)	(8,510)	(10,871)	(31,708)	(30,017)
Consolidated totals	\$ 21,263	\$ 2,697	\$ 61,772	\$ 30,216

Assets by segment were as follows (in thousands):

	September 30, 2008	December 31, 2007
Total Assets		
Agricultural segment	\$ 376,656	\$ 257,005
Earthmoving/construction segment	178,465	176,144
Consumer segment	16,469	22,515
Reconciling items (b)	73,883	134,831
Consolidated totals	\$ 645,473	\$ 590,495

(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 carried at the corporate level and other corporate assets.

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

17. COMPREHENSIVE INCOME (LOSS)

The Company's quarterly comprehensive loss consisted of the following: (i) for the quarter ended September 30, 2008, net income of \$10.3 million, amortization of pension adjustments of \$0.3 million and unrealized loss on the Titan Europe Plc investment of \$(19.0) million for a total comprehensive loss of \$(8.4) million; (ii) for the quarter ended September 30, 2007, 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 for a total comprehensive loss of \$(0.3) million.

The Company's year-to-date comprehensive income consisted of the following: (i) for the nine months ended September 30, 2008, net income of \$31.7 million, amortization of pension adjustments of \$0.8 million and unrealized loss on the Titan Europe Plc investment of \$(14.9) million for a total comprehensive income of \$17.6 million; (ii) for the nine months ended September 30, 2007, 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 for a total comprehensive income of \$0.6 million.

18. LITIGATION

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

19. FAIR VALUE MEASUREMENTS

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. FASB Staff Position (FSP) 157-2 amended SFAS No. 157 to delay the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are measured at fair value on a recurring basis, to fiscal years beginning after November 15, 2008.

The adoption of SFAS No. 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on Titan's consolidated financial position, results of operations or cash flows. The Company is evaluating the effect the adoption of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities will have on its consolidated financial position, results of operations and cash flows.

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1 – defined as quoted prices in active markets for identical instruments; Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 – defined as 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 (in thousands):

Fair Value Measurements as of September 30, 2008			
Total	Level 1	Level 2	Level 3

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Investment in Titan Europe Plc	\$	11,623	\$	11,623	\$	0	\$	0
Investments for contractual obligations		5,221		5,221		0		0
Total	\$	16,844	\$	16,844	\$	0	\$	0

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

20 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 full and unconditional, 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, 2008

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 0	\$ 255,463	\$ 0	\$ 0	\$ 255,463
Cost of sales	(1,988)	220,028	0	0	218,040
Gross profit	1,988	35,435	0	0	37,423
Selling, general and administrative expenses	4,461	9,323	5	0	13,789
Royalty expense	0	2,371	0	0	2,371
(Loss) income from operations	(2,473)	23,741	(5)	0	21,263
Interest expense	(3,734)	0	0	0	(3,734)
Other (expense) income	(398)	40	0	0	(358)
(Loss) income before income taxes	(6,605)	23,781	(5)	0	17,171
(Benefit) provision for income taxes	(2,642)	9,512	(2)	0	6,868
Equity in earnings of subsidiaries	14,266	0	0	(14,266)	0
Net income (loss)	\$ 10,303	\$ 14,269	\$ (3)	\$ (14,266)	\$ 10,303

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

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Equity in earnings of subsidiaries	(3,479)	0	0	3,479	0
Net loss	\$ (878)	\$ (3,352)	\$ (127)	\$ 3,479	\$ (878)

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, 2008

	Titan Intl., Inc. (Parent)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 0	\$ 778,102	\$ 0	\$ 0	\$ 778,102
Cost of sales	(1,674)	668,063	0	0	666,389
Gross profit	1,674	110,039	0	0	111,713
Selling, general and administrative expenses	15,672	27,417	66	0	43,155
Royalty expense	0	6,786	0	0	6,786
(Loss) income from operations	(13,998)	75,836	(66)	0	61,772
Interest expense	(11,426)	0	0	0	(11,426)
Other income (expense)	1,488	(163)	1,234	0	2,559
(Loss) income before income taxes	(23,936)	75,673	1,168	0	52,905
(Benefit) provision for income taxes	(9,574)	30,268	468	0	21,162
Equity in earnings of subsidiaries	46,105	0	0	(46,105)	0
Net income	\$ 31,743	\$ 45,405	\$ 700	\$ (46,105)	\$ 31,743

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