

TITAN INTERNATIONAL INC  
Form 10-Q  
July 26, 2012

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, 2012

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

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, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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

| Class | Shares Outstanding at<br>July 23, 2012 |
|-------|--|
|-------|--|

|                                      |            |
|--------------------------------------|------------|
| Common stock, no par value per share | 42,294,570 |
|--------------------------------------|------------|



TITAN INTERNATIONAL, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## TITAN INTERNATIONAL, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

(All amounts in thousands, except per share data)

|  | Three months ended |           | Six months ended |            |
|--|--------------------|-----------|------------------|------------|
|  | June 30,<br>2012   | 2011      | June 30,<br>2012 | 2011       |
| Net sales  | \$459,233          | \$404,447 | \$922,321        | \$685,276  |
| Cost of sales  | 377,147            | 340,113   | 746,872          | 564,670    |
| Gross profit   | 82,086             | 64,334    | 175,449          | 120,606    |
| Selling, general and administrative expenses               | 23,410             | 16,573    | 54,245           | 41,866     |
| Research and development expenses                          | 1,189              | 1,014     | 2,697            | 2,197      |
| Royalty expense  | 2,652              | 2,350     | 5,001            | 5,267      |
| Supply agreement termination income                        | (26,134)           | ) —       | (26,134)         | ) —        |
| Income from operations                                     | 80,969             | 44,397    | 139,640          | 71,276     |
| Interest expense   | (6,217)            | ) (6,149) | ) (12,512)       | ) (12,429) |
| Noncash convertible debt conversion charge                 | —                  | —         | —                | (16,135)   |
| Other income   | 613                | 2,270     | 3,724            | 2,463      |
| Income before income taxes                                 | 75,365             | 40,518    | 130,852          | 45,175     |
| Provision for income taxes                                 | 31,040             | 14,962    | 51,133           | 22,655     |
| Net income   | 44,325             | 25,556    | 79,719           | 22,520     |
| Net income (loss) attributable to noncontrolling interests | 269                | (8)       | ) 244            | (8)        |
| Net income attributable to Titan                           | \$44,056           | \$25,564  | \$79,475         | \$22,528   |
| Earnings per common share:                                 |                    |           |                  |            |
| Basic  | \$1.05             | \$.61     | \$1.89           | \$.55      |
| Diluted  | \$.84              | \$.50     | \$1.53           | \$.47      |
| Average common shares and equivalents outstanding:         |                    |           |                  |            |
| Basic  | 42,158             | 41,981    | 42,132           | 41,250     |
| Diluted  | 53,516             | 53,394    | 53,492           | 53,229     |
| Dividends declared per common share:                       | \$.005             | \$.005    | \$.010           | \$.010     |

See accompanying Notes to Consolidated Financial Statements.



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

|  | Three months ended<br>June 30, |          |   |
|--|--------------------------------|----------|---|
|  | 2012                           | 2011     |   |
| Net income   | \$44,325                       | \$25,556 |   |
| Unrealized gain (loss) on investments, net of tax of \$3,276 and \$7,886, respectively | (5,580                         | ) 14,645 |   |
| Currency translation adjustment  | (8,136                         | ) 2,932  |   |
| Pension liability adjustments, net of tax of \$491 and \$364, respectively             | 836                            | 592      |   |
| Comprehensive income   | 31,445                         | 43,725   |   |
| Net comprehensive income (loss) attributable to noncontrolling interests               | 269                            | (8       | ) |
| Comprehensive income attributable to Titan   | \$31,176                       | \$43,733 |   |
|  | Six months ended<br>June 30,   |          |   |
|  | 2012                           | 2011     |   |
| Net income   | \$79,719                       | \$22,520 |   |
| Unrealized gain on investments, net of tax of \$199 and \$7,351, respectively          | 337                            | 13,652   |   |
| Currency translation adjustment  | (4,569                         | ) 2,932  |   |
| Pension liability adjustments, net of tax of \$982 and \$727, respectively             | 1,672                          | 1,185    |   |
| Comprehensive income   | 77,159                         | 40,289   |   |
| Net comprehensive income (loss) attributable to noncontrolling interests               | 244                            | (8       | ) |
| Comprehensive income attributable to Titan   | \$76,915                       | \$40,297 |   |

See accompanying Notes to Consolidated Financial Statements.



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

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Assets  |                  |                      |
| Current assets  |                  |                      |
| Cash and cash equivalents   | \$149,450        | \$129,170            |
| Accounts receivable, net  | 237,418          | 189,527              |
| Inventories   | 214,858          | 190,872              |
| Deferred income taxes   | 29,773           | 26,775               |
| Prepaid and other current assets  | 38,637           | 28,249               |
| Total current assets  | 670,136          | 564,593              |
| Property, plant and equipment, net                                      | 324,676          | 334,742              |
| Other assets  | 99,187           | 110,951              |
| Total assets  | \$1,093,999      | \$1,010,286          |
| Liabilities and Equity  |                  |                      |
| Current liabilities   |                  |                      |
| Short-term debt   | \$7,596          | \$11,723             |
| Accounts payable  | 109,555          | 76,574               |
| Other current liabilities   | 70,464           | 87,469               |
| Total current liabilities   | 187,615          | 175,766              |
| Long-term debt  | 312,881          | 317,881              |
| Deferred income taxes   | 43,243           | 38,691               |
| Other long-term liabilities   | 73,184           | 81,069               |
| Total liabilities   | 616,923          | 613,407              |
| Equity:   |                  |                      |
| Titan stockholder's equity  |                  |                      |
| Common stock (no par, 120,000,000 shares authorized, 44,092,997 issued) | 37               | 37                   |
| Additional paid-in capital  | 383,102          | 380,295              |
| Retained earnings   | 146,105          | 67,053               |
| Treasury stock (at cost, 1,805,065 and 1,887,316 shares, respectively)  | (16,600)         | (17,338)             |
| Treasury stock reserved for deferred compensation                       | (1,233)          | (1,233)              |
| Accumulated other comprehensive loss                                    | (36,135)         | (33,575)             |
| Total Titan stockholders' equity  | 475,276          | 395,239              |
| Noncontrolling interests  | 1,800            | 1,640                |
| Total equity  | 477,076          | 396,879              |
| Total liabilities and equity  | \$1,093,999      | \$1,010,286          |

See accompanying Notes to Consolidated Financial Statements.





## TITAN INTERNATIONAL, INC.

## CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(All amounts in thousands, except share data)

|  | Number<br>of<br>common<br>shares | Common<br>Stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Treasury<br>stock | Treasury<br>stock<br>reserved<br>for<br>contractual<br>obligations | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Total<br>Titan<br>Equity | Noncontrolling<br>interest | Total<br>Equity |
|--|----------------------------------|-----------------|----------------------------------|----------------------|-------------------|--|---|--------------------------|----------------------------|-----------------|
| Balance<br>January 1,<br>2012                            | 42,205,681                       | \$37            | \$380,295                        | \$67,053             | \$(17,338)        | \$(1,233)  | \$(33,575)  | \$395,239                | \$1,640                    | \$396,879       |
| Net income   |                                  |                 |                                  | 79,475               |                   |  |   | 79,475                   | 244                        | 79,719          |
| Currency<br>translation<br>adjustment                    |                                  |                 |                                  |                      |                   |  | (4,569 )  | (4,569 )                 |                            | (4,569 )        |
| Pension<br>liability<br>adjustments,<br>net of tax       |                                  |                 |                                  |                      |                   |  | 1,672   | 1,672                    |                            | 1,672           |
| Unrealized<br>gain on<br>investment,<br>net of tax       |                                  |                 |                                  |                      |                   |  | 337   | 337                      |                            | 337             |
| Dividends on<br>common stock                             |                                  |                 |                                  | (423 )               |                   |  |   | (423 )                   |                            | (423 )          |
| Exercise of<br>stock options                             | 68,898                           |                 | 269                              |                      | 618               |  |   | 887                      |                            | 887             |
| Consolidated<br>joint venture                            |                                  |                 |                                  |                      |                   |  |   | —                        | (84 )                      | (84 )           |
| Stock-based<br>compensation                              |                                  |                 | 2,175                            |                      |                   |  |   | 2,175                    |                            | 2,175           |
| Tax benefit<br>related to<br>stock-based<br>compensation |                                  |                 | 190                              |                      |                   |  |   | 190                      |                            | 190             |
| Issuance of<br>treasury stock<br>under 401(k)<br>plan    | 13,353                           |                 | 173                              |                      | 120               |  |   | 293                      |                            | 293             |
| Balance June<br>30, 2012                                 | 42,287,932                       | \$37            | \$383,102                        | \$146,105            | \$(16,600)        | \$(1,233)  | \$(36,135)  | \$475,276                | \$1,800                    | \$477,076       |

See accompanying Notes to Consolidated Financial Statements.

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

|  | Six months ended June 30, |             |
|--|---------------------------|-------------|
|  | 2012                      | 2011        |
| Cash flows from operating activities:  |                           |             |
| Net income   | \$79,719                  | \$22,520    |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                           |             |
| Depreciation and amortization  | 23,553                    | 21,146      |
| Deferred income tax provision  | 572                       | 8,446       |
| Noncash convertible debt conversion charge   | —                         | 16,135      |
| Supply agreement termination income  | (26,134)                  | ) —         |
| Stock-based compensation   | 2,175                     | 1,384       |
| Excess tax benefit from stock options exercised  | (190)                     | ) —         |
| Issuance of treasury stock under 401(k) plan   | 293                       | 268         |
| Gain on acquisition  | —                         | (919)       |
| Increase in assets:  |                           |             |
| Accounts receivable  | (51,659)                  | ) (152,495) |
| Inventories  | (26,335)                  | ) (34,968)  |
| Prepaid and other current assets   | (11,305)                  | ) (6,088)   |
| Other assets   | 2,342                     | (222)       |
| Increase (decrease) in liabilities:  |                           |             |
| Accounts payable   | 37,346                    | 77,736      |
| Other current liabilities  | (259)                     | ) 19,269    |
| Other liabilities  | 18,565                    | (2,844)     |
| Net cash provided by (used for) operating activities   | 48,683                    | (30,632)    |
| Cash flows from investing activities:  |                           |             |
| Capital expenditures   | (19,006)                  | ) (10,196)  |
| Acquisitions, net of cash acquired   | —                         | (99,118)    |
| Other  | 453                       | 1,395       |
| Net cash used for investing activities   | (18,553)                  | ) (107,919) |
| Cash flows from financing activities:  |                           |             |
| Repurchase of senior unsecured notes   | —                         | (1,064)     |
| Payment on debt  | (14,226)                  | ) —         |
| Term loan borrowing  | 4,378                     | 14,148      |
| Proceeds from exercise of stock options  | 887                       | 477         |
| Excess tax benefit from stock options exercised  | 190                       | —           |
| Dividends paid   | (423)                     | ) (387)     |
| Net cash provided by (used for) financing activities   | (9,194)                   | ) 13,174    |
| Effect of exchange rate changes on cash  | (656)                     | ) 39        |
| Net increase (decrease) in cash and cash equivalents   | 20,280                    | (125,338)   |
| Cash and cash equivalents, beginning of period   | 129,170                   | 239,500     |
| Cash and cash equivalents, end of period   | \$149,450                 | \$114,162   |

See accompanying Notes to Consolidated Financial Statements.



TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

1. ACCOUNTING POLICIES

In the opinion of Titan International, Inc. ("Titan" or the "Company"), the accompanying unaudited consolidated condensed financial statements contain all adjustments, which are normal and recurring in nature and necessary for a fair statement of the Company's financial position as of June 30, 2012, and the results of operations and cash flows for the three and six months ended June 30, 2012 and 2011.

Accounting policies have continued without significant change and are described in the Description of Business and Significant Accounting Policies contained in the Company's 2011 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 2011 Annual Report on Form 10-K.

Sales

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

Fair value of financial instruments

The Company records all financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, accounts payable, other accruals and notes payable at cost, which approximates fair value. Investments in marketable equity securities are recorded at fair value. The 7.875% senior secured notes due 2017 ("senior secured notes") and 5.625% convertible senior subordinated notes due 2017 ("convertible notes") are carried at cost of \$200.0 million and \$112.9 million at June 30, 2012, respectively. The fair value of these notes at June 30, 2012, as obtained through independent pricing sources, was approximately \$208.0 million for the senior secured notes and approximately \$295.4 million for the convertible notes. The increase in the fair value of the convertible notes is due primarily to the increased value of the underlying common stock.

Cash dividends

The Company declared cash dividends of \$.005 and \$.010 per share of common stock for each of the three and six months ended June 30, 2012, and 2011. The second quarter 2012 cash dividend of \$.005 per share of common stock was paid July 16, 2012, to stockholders of record on June 29, 2012.

Interest paid

Titan paid \$0.3 million and \$0.4 million for interest for the quarters ended June 30, 2012 and 2011, respectively, and \$11.9 million and \$13.4 million for interest for the six months ended June 30, 2012 and 2011, respectively.

Income taxes paid

Titan paid \$37.0 million and \$10.5 million for income taxes for the quarters ended June 30, 2012 and 2011, respectively, and \$46.9 million and \$10.6 million for income taxes for the six months ended June 30, 2012 and 2011, respectively.

Use of estimates

The policies utilized by the Company in the preparation of the financial statements conform to accounting principles generally accepted in the United States of America and require management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates and assumptions.

#### Reclassification

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

#### Subsequent Events

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

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 2. ACQUISITIONS

## Acquisition of Goodyear's Latin American Farm Tire Business

On April 1, 2011, Titan closed on the acquisition of The Goodyear Tire & Rubber Company's ("Goodyear") Latin American farm tire business for approximately \$98.6 million U.S. dollars. The transaction includes Goodyear's Sao Paulo, Brazil manufacturing plant, property, equipment; inventories; a licensing agreement that allows Titan to sell Goodyear-brand farm tires in Latin America for seven years; and extends the North American licensing agreement for seven years.

The purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values. Inventory was valued using the comparative sales method. Real and personal property was valued at fair value. The excess of the purchase price of the identifiable assets acquired and liabilities assumed was reflected as goodwill. The goodwill was allocated to the agricultural segment.

The purchase price allocation of the Latin American farm tire business consisted of the following (in thousands):

|  |          |   |
|--|----------|---|
| Cash   | \$1,018  |   |
| Inventories                                  | 14,562   |   |
| Deferred income taxes - current asset        | 2,948    |   |
| Prepaid & other current assets               | 4,929    |   |
| Property, plant & equipment                  | 108,905  |   |
| Goodwill                                     | 14,484   |   |
| Other assets                                 | 39,263   |   |
| Other current liabilities                    | (21,127) | ) |
| Deferred income taxes - noncurrent liability | (25,521) | ) |
| Other noncurrent liabilities                 | (40,823) | ) |
| Net assets acquired                          | \$98,638 |   |

The purchase price allocation has changed from that reported in the Form 10-K for the year ended December 31, 2011. In the first quarter of 2012, after filing the Form 10-K for the year ended December 31, 2011, Titan became aware of information related to the classification of the Latin American business for US tax purposes. In the second quarter of 2012, Titan became aware of additional information related to this acquisition. As a result of this information, which was available at the time of acquisition, Titan concluded that there were errors in the original accounting for the acquisition. Titan has concluded that the impact of these errors is immaterial to the consolidated financial statements for the year ended December 31, 2011 and for the three and six months ended June 30, 2012, and therefore the correction of these errors were recorded as of January 1, 2012. The correction of these errors impacted the following areas: an increase in current deferred income tax asset of \$2.9 million, a decrease in goodwill of \$8.4 million, and a decrease in noncurrent deferred income tax liability of \$5.5 million. As a result of currency exchange rate differences, the January 1, 2012 recorded decrease in goodwill was \$7.3 million, with a \$1.1 million offset in currency translation adjustment.

## Pro forma financial information

The following unaudited pro forma financial information gives effect to the acquisition of Goodyear's Latin American farm tire business as if the acquisition had taken place on January 1, 2011. The pro forma financial information for the Sao Paulo, Brazil manufacturing facility was derived from The Goodyear Tire & Rubber Company's historical



accounting records. These amounts have been calculated by adjusting the historical results of the Sao Paulo, Brazil facility to reflect the additional depreciation and the amortization of the prepaid royalty discount and supply agreement liability assuming the fair value adjustments had taken place.

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

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

|                                  | Six months ended June 30, |                  |
|----------------------------------|---------------------------|------------------|
|                                  | 2012 (Actual)             | 2011 (Pro forma) |
| Net sales                        | \$922,321                 | \$713,676        |
| Net income                       | 79,719                    | 26,650           |
| Net income attributable to Titan | 79,475                    | 26,658           |
| Basic earnings per share         | \$1.89                    | \$.65            |
| Diluted earnings per share       | 1.53                      | .54              |

The pro forma information is presented for illustrative purposes only and may not be indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2011, nor is it necessarily indicative of Titan's future consolidated results of operations or financial position.

### 3. ACCOUNTS RECEIVABLE

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

|                                 | June 30,<br>2012 | December 31,<br>2011 |
|---------------------------------|------------------|----------------------|
| Accounts receivable             | \$242,158        | \$193,731            |
| Allowance for doubtful accounts | (4,740)          | (4,204)              |
| Accounts receivable, net        | \$237,418        | \$189,527            |

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

### 4. INVENTORIES

Inventories consisted of the following (amounts in thousands):

|                          | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------|------------------|----------------------|
| Raw material             | \$101,532        | \$97,257             |
| Work-in-process          | 35,165           | 31,141               |
| Finished goods           | 87,715           | 75,137               |
|                          | 224,412          | 203,535              |
| Adjustment to LIFO basis | (9,554)          | (12,663)             |
|                          | \$214,858        | \$190,872            |

At June 30, 2012, approximately 27% of the Company's inventories were valued under the last-in, first-out (LIFO) method. At December 31, 2011, approximately 30% of the Company's inventories were valued under the LIFO method. The remaining inventories were valued under the first-in, first-out (FIFO) method or average cost method. All inventories are valued at lower of cost or market. The LIFO reserve decreased primarily as a result of the composition of inventory. An overall increase in raw material relative to total inventory resulted in a greater decrease in the FIFO cost versus the LIFO cost.



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

## 5. PROPERTY, PLANT AND EQUIPMENT

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

|                               | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------------|------------------|----------------------|
| Land and improvements         | \$19,217         | \$20,330             |
| Buildings and improvements    | 122,052          | 121,847              |
| Machinery and equipment       | 455,151          | 456,236              |
| Tools, dies and molds         | 91,299           | 88,676               |
| Construction-in-process       | 18,533           | 14,606               |
|                               | 706,252          | 701,695              |
| Less accumulated depreciation | (381,576)        | (366,953)            |
|                               | \$324,676        | \$334,742            |

Depreciation on fixed assets for the six months ended June 30, 2012 and 2011, totaled \$22.6 million and \$20.2 million, respectively.

## 6. INVESTMENT IN TITAN EUROPE

Investment in Titan Europe Plc consisted of the following (amounts in thousands):

|                                | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------------|------------------|----------------------|
| Investment in Titan Europe Plc | \$29,534         | \$28,998             |

Titan Europe Plc is publicly traded on the AIM market in London, England. The Company's investment in Titan Europe represents a 21.8% ownership percentage. The Company has considered the applicable guidance in Accounting Standards Codification (ASC) 323 Investments – Equity Method and Joint Ventures and has concluded that the Company's investment in Titan Europe Plc should be accounted for as an available-for-sale security and recorded at fair value in accordance with ASC 320 Investments – Debt and Equity Securities as the Company does not have significant influence over Titan Europe Plc. The investment in Titan Europe Plc is included as a component of other assets on the Consolidated Condensed Balance Sheets. Titan's cost basis in Titan Europe is \$5.0 million. Titan's accumulated other comprehensive income includes a gain on the Titan Europe Plc investment of \$15.8 million, which is net of tax of \$8.7 million.

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

## 7. GOODWILL

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

|                              | 2012     | 2011     |
|------------------------------|----------|----------|
| Agricultural segment         |          |          |
| Goodwill balance, January 1  | \$19,841 | \$—      |
| Acquisitions                 | —        | 21,388   |
| Acquisition adjustment       | (7,289   | ) —      |
| Foreign currency translation | (904     | ) 884    |
| Goodwill balance, June 30    | \$11,648 | \$22,272 |

The Company's goodwill balance is related to the acquisition of Goodyear's Latin American farm tire business which included the Sao Paulo, Brazil manufacturing facility. Goodwill is included as a component of other assets in the Consolidated Condensed Balance Sheets. The Company reviews goodwill for impairment during the fourth quarter of each annual reporting period, and whenever events and circumstances indicate that the carrying values may not be recoverable. See Note 2 for additional information.

## 8. WARRANTY

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

|                                    | 2012     | 2011     |
|------------------------------------|----------|----------|
| Warranty liability, January 1      | \$17,659 | \$12,471 |
| Provision for warranty liabilities | 15,568   | 11,394   |
| Warranty payments made             | (12,040  | ) (9,638 |
| Warranty liability, June 30        | \$21,187 | \$14,227 |

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. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

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

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| 7.875% senior secured notes due 2017                  | \$200,000        | \$200,000            |
| 5.625% convertible senior subordinated notes due 2017 | 112,881          | 112,881              |
| Other debt  | 7,596            | 16,723               |
|   | 320,477          | 329,604              |
| Less amounts due within one year                      | 7,596            | 11,723               |

\$312,881

\$317,881

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
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Aggregate maturities of long-term debt at June 30, 2012, were as follows (amounts in thousands):

|                            |           |
|----------------------------|-----------|
| July 1 - December 31, 2012 | \$2,596   |
| 2013                       | 5,000     |
| 2014                       | —         |
| 2015                       | —         |
| 2016                       | —         |
| Thereafter                 | 312,881   |
|                            | \$320,477 |

## 7.875% senior secured notes due 2017

The Company's 7.875% senior secured notes ("senior secured notes") are due October 2017. These notes are secured by the land and buildings of the following subsidiaries of the Company: Titan Tire Corporation, Titan Tire Corporation of Bryan, Titan Tire Corporation of Freeport and Titan Wheel Corporation of Illinois. The Company's senior secured notes outstanding balance was \$200.0 million at June 30, 2012.

## 5.625% convertible senior subordinated notes due 2017

The Company's 5.625% convertible senior subordinated notes ("convertible notes") are due January 2017. The initial base conversion rate for the convertible notes is 93.0016 shares of Titan common stock per \$1,000 principal amount of convertible notes, equivalent to an initial base conversion price of approximately \$10.75 per share of Titan common stock. If the price of Titan common stock at the time of determination exceeds the base conversion price, the base conversion rate will be increased by an additional number of shares (up to 9.3002 shares of Titan common stock per \$1,000 principal amount of convertible notes) as determined pursuant to a formula described in the indenture. The base conversion rate will be subject to adjustment in certain events. The Company's convertible notes balance was \$112.9 million at June 30, 2012.

## Revolving credit facility

The Company's \$100 million revolving credit facility ("credit facility") with agent Bank of America, N.A. has a January 2014 termination date and is collateralized by the accounts receivable and inventory of Titan and certain of its domestic subsidiaries. During the first six months of 2012 and at June 30, 2012, there were no borrowings under the credit facility. The credit facility contains certain financial covenants, restrictions and other customary affirmative and negative covenants. Titan is in compliance with these covenants and restrictions as of June 30, 2012.

## Other debt

## Brazil Term Loan

In May 2011, the Company entered into a two-year, unsecured \$10.0 million Term Loan with Bank of America, N.A. (BoA Term Loan) to provide working capital for the Sao Paulo, Brazil manufacturing facility. Borrowings under the BoA Term Loan bear interest at a rate equal to LIBOR plus 200 basis points. The BoA Term Loan shall be a minimum of \$5.0 million with the option for an additional \$5.0 million loan for a maximum of \$10.0 million. The BoA Term Loan is due May 2013. The Company entered into an interest rate swap agreement and cross currency swap transaction with Bank of America Merrill Lynch Banco Multiplo S.A. that is designed to convert the outstanding \$5.0 million US Dollar based LIBOR loan to a Brazilian Real based CDI loan. See Note 10 for additional information. As of June 30, 2012, the Company had \$5.0 million outstanding on this loan and the interest rate including the effect of the swap agreement was approximately 11%.

## Brazil Revolving Line of Credit

The Company's wholly-owned Brazilian subsidiary, Titan Pneus Do Brasil Ltda ("Titan Brazil"), has a revolving line of credit (Brazil line of credit) established with Bank of America Merrill Lynch Banco Multiplo S.A. in May 2011. Titan Brazil could borrow up to 16.0 million Brazilian Reais, which equates to approximately \$7.9 million dollars as of June 30, 2012, for working capital purposes. Under the terms of the Brazil line of credit, borrowings, if any, bear interest at a rate of LIBOR plus 247 basis points. At June 30, 2012 there were no borrowings outstanding on this line of credit.

#### Brazil Other Debt

Titan Brazil has working capital loans for the Sao Paulo, Brazil manufacturing facility totaling \$2.6 million at June 30, 2012.



TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
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## 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses financial derivatives to mitigate its exposure to volatility in the interest rate and foreign currency exchange rate in Brazil. The Company uses these derivative instruments to hedge exposure in the ordinary course of business and does not invest in derivative instruments for speculative purposes. In order to reduce interest rate and foreign currency risk on the BoA Term Loan, the Company entered into an interest rate swap agreement and cross currency swap transactions with Bank of America Merrill Lynch Banco Multiplo S.A. that are designed to convert the outstanding \$5.0 million US Dollar based LIBOR loan to a Brazilian Real based CDI loan and convert \$2.5 million of US Dollar based LIBOR working capital loans to Brazilian Real based CDI loans. The Company has not designated these agreements as hedging instruments. Changes in the fair value of the cross currency swap are recorded in other income (expense) and changes in the fair value of the interest rate swap agreement are recorded as interest expense (or gain as an offset to interest expense). For the three months ended June 30, 2012, the Company recorded \$0.0 million of other income and \$0.2 million of interest expense related to these derivatives. For the six months ended June 30, 2012, the Company recorded \$0.1 million of other income and \$0.2 million of interest expense related to these derivatives.

## 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 June 30, 2012, future minimum rental commitments under noncancellable operating leases with initial or remaining terms of at least one year were as follows (amounts in thousands):

|                                     |         |
|-------------------------------------|---------|
| July 1 - December 31, 2012          | \$363   |
| 2013                                | 521     |
| 2014                                | 419     |
| Thereafter                          | 111     |
| Total future minimum lease payments | \$1,414 |

## 12. EMPLOYEE BENEFIT PLANS

The Company has three frozen defined benefit pension plans and one defined benefit plan that previously purchased a final annuity settlement. The Company also sponsors four 401(k) retirement savings plans. The Company contributed approximately \$1.1 million and \$1.7 million to the frozen defined pension plans during the three and six months ended June 30, 2012, respectively, and expects to contribute approximately \$4.9 million to the frozen pension plans during the remainder of 2012.

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

|               | Three months ended |         | Six months ended |         |
|---------------|--------------------|---------|------------------|---------|
|               | June 30,<br>2012   | 2011    | June 30,<br>2012 | 2011    |
| Interest cost | \$1,133            | \$1,272 | \$2,266          | \$2,544 |

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|   |         |          |          |          |   |
|---|---------|----------|----------|----------|---|
| Expected return on assets                       | (1,252  | ) (1,315 | ) (2,504 | ) (2,630 | ) |
| Amortization of unrecognized prior service cost | 34      | 34       | 68       | 68       |   |
| Amortization of unrecognized deferred taxes     | —       | (14      | ) —      | (28      | ) |
| Amortization of net unrecognized loss           | 1,293   | 936      | 2,586    | 1,872    |   |
| Net periodic pension cost                       | \$1,208 | \$913    | \$2,416  | \$1,826  |   |

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
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## 13. ROYALTY EXPENSE

The Company has a trademark license agreement with Goodyear to manufacture and sell certain tires in North America and Latin America under the Goodyear name. The North American and Latin American farm tire royalties were prepaid for seven years as a part of the 2011 Goodyear Latin American farm tire acquisition. Royalty expenses recorded were \$2.7 million and \$2.4 million for the quarters ended June 30, 2012 and 2011, respectively. Royalty expenses were \$5.0 million and \$5.3 million for the six months ended June 30, 2012 and 2011, respectively.

## 14. SUPPLY AGREEMENT TERMINATION INCOME

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

|                                     | Three months ended |      | Six months ended |      |
|-------------------------------------|--------------------|------|------------------|------|
|                                     | June 30,<br>2012   | 2011 | June 30,<br>2012 | 2011 |
| Supply agreement termination income | \$26,134           | \$—  | \$26,134         | \$—  |

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

## 15. OTHER INCOME, NET

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

|   | Three months ended |         | Six months ended |         |
|---|--------------------|---------|------------------|---------|
|   | June 30,<br>2012   | 2011    | June 30,<br>2012 | 2011    |
| Discount amortization on prepaid royalty                  | \$933              | \$1,079 | \$1,972          | \$1,079 |
| Building rental income                                    | 188                | —       | 363              | —       |
| Interest income   | 180                | 93      | 385              | 238     |
| Gain on purchase transaction                              | —                  | 919     | —                | 919     |
| Other income (expense)                                    | (215               | ) 128   | 209              | 83      |
| Gain (loss) related to contractual obligation investments | (473               | ) 51    | 795              | 144     |
|   | \$613              | \$2,270 | \$3,724          | \$2,463 |

TITAN INTERNATIONAL, INC.  
Notes to Consolidated Condensed Financial Statements  
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## 16. INCOME TAXES

The Company recorded income tax expense of \$31.0 million and \$51.1 million for the three and six months ended June 30, 2012, respectively, as compared to \$15.0 million and \$22.7 million for the three and six months ended June 30, 2011. The Company's effective income tax rate was 39% and 50% for the six months ended June 30, 2012 and 2011, respectively. The Company's 2011 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 \$16.1 million noncash charge taken in connection with the Company's convertible debt. This noncash charge is not fully deductible for income tax purposes.

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

ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination. The Company's unrecognized tax benefits were \$3.1 million and \$0.0 million as of June 30, 2012 and December 31, 2011, respectively. As of June 30, 2012, \$2.0 million would affect income tax expense if recognized. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. The amount of accrued interest and penalties included in the unrecognized tax benefits at June 30, 2012 and December 31, 2011 were \$0.3 million and \$0.0 million, respectively. During the three months ended June 30, 2012, the increase in unrecognized tax benefits relates to potential nexus exposure in various jurisdictions where the Company has activities.

## 17. EARNINGS PER SHARE

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

|                                | Three months ended<br>June 30, 2012 |                                |                     | June 30, 2011       |                                |                     |
|--------------------------------|-------------------------------------|--------------------------------|---------------------|---------------------|--------------------------------|---------------------|
|                                | Titan Net<br>income                 | Weighted-<br>average<br>shares | Per share<br>amount | Titan Net<br>income | Weighted-<br>average<br>shares | Per share<br>amount |
| Basic earnings per share       | \$44,056                            | 42,158                         | \$1.05              | \$25,564            | 41,981                         | \$0.61              |
| Effect of stock options/trusts | —                                   | 270                            |                     | —                   | 330                            |                     |
| Effect of convertible notes    | 1,143                               | 11,088                         |                     | 1,091               | 11,083                         |                     |
| Diluted earnings per share     | \$45,199                            | 53,516                         | \$0.84              | \$26,655            | 53,394                         | \$0.50              |
|                                | Six months ended<br>June 30, 2012   |                                |                     | June 30, 2011       |                                |                     |
|                                | Titan Net<br>income                 | Weighted-<br>average<br>shares | Per share<br>amount | Titan Net<br>income | Weighted-<br>average<br>shares | Per share<br>amount |

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|                                |          |        |        |          |        |        |
|--------------------------------|----------|--------|--------|----------|--------|--------|
| Basic earnings per share       | \$79,475 | 42,132 | \$1.89 | \$22,528 | 41,250 | \$0.55 |
| Effect of stock options/trusts | —        | 272    |        | —        | 314    |        |
| Effect of convertible notes    | 2,286    | 11,088 |        | 2,294    | 11,665 |        |
| Diluted earnings per share     | \$81,761 | 53,492 | \$1.53 | \$24,822 | 53,229 | \$0.47 |

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

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## 18. 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 six months ended June 30, 2012 and 2011 (amounts in thousands):

|  | Three months ended |           | Six months ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,<br>2012   | 2011      | June 30,<br>2012 | 2011      |
| Revenues from external customers           |                    |           |                  |           |
| Agricultural                               | \$288,993          | \$257,268 | \$584,798        | \$467,265 |
| Earthmoving/construction                   | 110,541            | 76,895    | 215,109          | 143,406   |
| Consumer                                   | 59,699             | 70,284    | 122,414          | 74,605    |
|  | \$459,233          | \$404,447 | \$922,321        | \$685,276 |
| Gross profit                               |                    |           |                  |           |
| Agricultural                               | \$59,501           | \$47,166  | \$125,593        | \$94,866  |
| Earthmoving/construction                   | 19,562             | 11,218    | 41,909           | 19,413    |
| Consumer                                   | 3,773              | 6,753     | 9,472            | 7,755     |
| Unallocated corporate                      | (750)              | (803)     | (1,525)          | (1,428)   |
|  | \$82,086           | \$64,334  | \$175,449        | \$120,606 |
| Income from operations                     |                    |           |                  |           |
| Agricultural                               | \$54,562           | \$42,800  | \$115,225        | \$85,668  |
| Earthmoving/construction                   | 17,516             | 9,702     | 37,917           | 15,990    |
| Consumer                                   | 27,416             | 4,821     | 30,518           | 5,737     |
| Unallocated corporate                      | (18,525)           | (12,926)  | (44,020)         | (36,119)  |
| Income from operations                     | 80,969             | 44,397    | 139,640          | 71,276    |
| Interest expense                           | (6,217)            | (6,149)   | (12,512)         | (12,429)  |
| Noncash convertible debt conversion charge | —                  | —         | —                | (16,135)  |
| Other income, net                          | 613                | 2,270     | 3,724            | 2,463     |
| Income before income taxes                 | \$75,365           | \$40,518  | \$130,852        | \$45,175  |

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

|                          | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------|------------------|----------------------|
| Total assets             |                  |                      |
| Agricultural             | \$498,391        | \$444,611            |
| Earthmoving/construction | 219,325          | 193,566              |
| Consumer                 | 147,242          | 139,161              |
| Unallocated corporate    | 229,041          | 232,948              |
|                          | \$1,093,999      | \$1,010,286          |



## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
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## 19. FAIR VALUE MEASUREMENTS

ASC 820 Fair Value Measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are defined as:

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

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

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

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

|                                    | June 30, 2012 |          |         |         | December 31, 2011 |          |         |         |
|------------------------------------|---------------|----------|---------|---------|-------------------|----------|---------|---------|
|                                    | Total         | Level 1  | Level 2 | Level 3 | Total             | Level 1  | Level 2 | Level 3 |
| Investment in Titan Europe Plc (a) | \$29,534      | \$29,534 | \$—     | \$—     | \$28,998          | \$28,998 | \$—     | \$—     |
| Contractual obligation investments | 13,190        | 13,190   |         |         | 12,395            | 12,395   |         |         |
| Preferred stock                    | 1,000         | —        | —       | 1,000   | 1,000             | —        | —       | 1,000   |
| Interest rate swap                 | 1,228         | —        | 1,228   | —       | 634               | —        | 634     | —       |
| Total                              | \$44,952      | \$42,724 | \$1,228 | \$1,000 | \$43,027          | \$41,393 | \$634   | \$1,000 |

(a) The fair value for all periods presented has been decreased by cumulative translation adjustment of \$1.2 million, which relates to the Company's Titan Europe Plc ownership in 2005 and before.

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

|  |                            |
|--|----------------------------|
| Balance at December 31, 2011                   | Preferred stock<br>\$1,000 |
| Total realized and unrealized gains and losses | —                          |
| Balance as of June 30, 2012                    | \$1,000                    |

## 20. LITIGATION

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





TITAN INTERNATIONAL, INC.

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## 21. RECENTLY ISSUED ACCOUNTING STANDARDS

### Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." The objective of this update is to improve the comparability, consistency, and transparency of financial reporting to increase the prominence of items reported in other comprehensive income. This update requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December of 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." Titan adopted the required comprehensive income presentation updates in the first quarter of 2012. The Company has elected to present items of income and other comprehensive income in two separate, but consecutive, statements of net income and other comprehensive income. This change in presentation did not have a material effect on the Company's financial position, results of operations or cash flows.

## 22. RELATED PARTY TRANSACTIONS

The Company sells products and pays commissions to companies controlled by persons related to the chief executive officer of the Company. The related party is Mr. Fred Taylor and is Mr. Maurice Taylor's brother. The companies which Mr. Fred Taylor is associated with that do business with Titan include the following: Blackstone OTR, LLC; FBT Enterprises; and OTR Wheel Engineering. Sales of Titan products to these companies were approximately \$0.7 million and \$1.1 million for the three and six months ended June 30, 2012, respectively, as compared to \$1.1 million and \$1.9 million for the three and six months ended June 30, 2011. Titan had trade receivables due from these companies of approximately \$0.4 million at June 30, 2012, and approximately \$0.0 million at December 31, 2011. On other sales referred to Titan from these manufacturing representative companies, commissions were approximately \$0.7 million and \$1.4 million for the three and six month ended June 30, 2012, respectively, as compared to \$0.6 million and \$1.2 million for the three and six months ended June 30, 2011.

## 23. SUBSEQUENT EVENTS

### Acquisition of Australian OTR Tire & Wheel Manufacturer: Planet Group

In July, 2012, Titan announced that it has signed an agreement to purchase a majority ownership interest in Planet Corporation Group of Companies ("Planet") in an all-cash transaction. Planet includes National Tyres, Acme Wheel, Resource Tyre and Choice Tyres Wholesalers and is based in Perth, Australia. Planet is an OTR tire and wheel specialist that manufactures, distributes and services products to customers in the mining, agriculture, construction and earthmoving industries. Titan expects this acquisition to close in the third quarter of 2012.



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24. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION - 5.625% CONVERTIBLE NOTES

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

| (Amounts in thousands)                          | Consolidating Condensed Statements of Operations<br>For the Three Months Ended June 30, 2012 |                           |                               |              |              |
|---|--|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                       | \$—  | \$373,035                 | \$ 86,198                     | \$—          | \$459,233    |
| Cost of sales                                   | 257  | 297,636                   | 79,254                        | —            | 377,147      |
| Gross profit (loss)                             | (257   | ) 75,399                  | 6,944                         | —            | 82,086       |
| Selling, general and administrative<br>expenses | 3,396  | 15,062                    | 4,952                         | —            | 23,410       |
| Research and development expenses               | 48   | 1,081                     | 60                            | —            | 1,189        |
| Royalty expense                                 | —  | 1,779                     | 873                           | —            | 2,652        |
| Supply agreement termination income             | —  | —                         | (26,134                       | ) —          | (26,134      |
| Income (loss) from operations                   | (3,701   | ) 57,477                  | 27,193                        | —            | 80,969       |
| Interest expense                                | (6,045   | ) —                       | (172                          | ) —          | (6,217       |
| Other income                                    | 283  | 313                       | 17                            | —            | 613          |
| Income (loss) before income taxes               | (9,463   | ) 57,790                  | 27,038                        | —            | 75,365       |
| Provision for income taxes                      | 1,884  | 18,872                    | 10,284                        | —            | 31,040       |
| Equity in earnings of subsidiaries              | 55,672   | —                         | 18,822                        | (74,494      | ) —          |
| Net income (loss)                               | 44,325   | 38,918                    | 35,576                        | (74,494      | ) 44,325     |
| Net income noncontrolling interests             | —  | —                         | —                             | 269          | 269          |
| Net income (loss) attributable to Titan         | \$44,325   | \$38,918                  | \$ 35,576                     | \$(74,763    | ) \$44,056   |

TITAN INTERNATIONAL, INC.  
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| (Amounts in thousands)                       | Consolidating Condensed Statements of Operations<br>For the Three Months Ended June 30, 2011 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                    | \$—  | \$310,392                 | \$ 94,055                     | \$—          | \$404,447    |
| Cost of sales                                | 541  | 254,116                   | 85,456                        | —            | 340,113      |
| Gross profit (loss)                          | (541 )   | 56,276                    | 8,599                         | —            | 64,334       |
| Selling, general and administrative expenses | 4,551  | 2,462                     | 9,560                         | —            | 16,573       |
| Research and development expenses            | 4  | 1,010                     | —                             | —            | 1,014        |
| Royalty expense                              | —  | 1,767                     | 583                           | —            | 2,350        |
| Income (loss) from operations                | (5,096 )   | 51,037                    | (1,544 )                      | —            | 44,397       |
| Interest expense                             | (6,032 )   | —                         | (117 )                        | —            | (6,149 )     |
| Other income (expense)                       | 1,879  | (39 )                     | 430                           | —            | 2,270        |
| Income (loss) before income taxes            | (9,249 )   | 50,998                    | (1,231 )                      | —            | 40,518       |
| Provision (benefit) for income taxes         | (3,397 )   | 18,808                    | (449 )                        | —            | 14,962       |
| Equity in earnings of subsidiaries           | 31,408   | —                         | —                             | (31,408 )    | —            |
| Net income (loss)                            | 25,556   | 32,190                    | (782 )                        | (31,408 )    | 25,556       |
| Net loss noncontrolling interests            | —  | —                         | —                             | (8 )         | (8 )         |
| Net income (loss) attributable to Titan      | \$25,556   | \$32,190                  | \$ (782 )                     | \$(31,400 )  | \$25,564     |

| (Amounts in thousands)                       | Consolidating Condensed Statements of Operations<br>For the Six Months Ended June 30, 2012 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                    | \$—  | \$744,164                 | \$ 178,157                    | \$—          | \$922,321    |
| Cost of sales                                | 559  | 582,660                   | 163,653                       | —            | 746,872      |
| Gross profit (loss)                          | (559 )   | 161,504                   | 14,504                        | —            | 175,449      |
| Selling, general and administrative expenses | 13,983   | 30,737                    | 9,525                         | —            | 54,245       |
| Research and development expenses            | 172  | 2,379                     | 146                           | —            | 2,697        |
| Royalty expense                              | —  | 3,472                     | 1,529                         | —            | 5,001        |
| Supply agreement termination income          | —  | —                         | (26,134 )                     | —            | (26,134 )    |
| Income (loss) from operations                | (14,714 )  | 124,916                   | 29,438                        | —            | 139,640      |
| Interest expense                             | (12,107 )  | —                         | (405 )                        | —            | (12,512 )    |
| Other income                                 | 2,457  | 810                       | 457                           | —            | 3,724        |
| Income (loss) before income taxes            | (24,364 )  | 125,726                   | 29,490                        | —            | 130,852      |
| Provision (benefit) for income taxes         | (5,068 )   | 43,913                    | 12,288                        | —            | 51,133       |
| Equity in earnings of subsidiaries           | 99,015   | —                         | 18,822                        | (117,837 )   | —            |
| Net income (loss)                            | 79,719   | 81,813                    | 36,024                        | (117,837 )   | 79,719       |
| Net income noncontrolling interests          | —  | —                         | —                             | 244          | 244          |
| Net income (loss) attributable to Titan      | \$79,719   | \$81,813                  | \$ 36,024                     | \$(118,081 ) | \$79,475     |



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

| (Amounts in thousands)                          | Consolidating Condensed Statements of Operations<br>For the Six Months Ended June 30, 2011 |                           |                               |              |              |
|---|--|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                       | \$—  | \$591,221                 | \$ 94,055                     | \$—          | \$685,276    |
| Cost of sales                                   | 902  | 477,870                   | 85,898                        | —            | 564,670      |
| Gross profit (loss)                             | (902 )   | 113,351                   | 8,157                         | —            | 120,606      |
| Selling, general and administrative<br>expenses | 19,956   | 5,187                     | 16,723                        | —            | 41,866       |
| Research and development expenses               | 4  | 2,193                     | —                             | —            | 2,197        |
| Royalty expense                                 | —  | 4,684                     | 583                           | —            | 5,267        |
| Income (loss) from operations                   | (20,862 )  | 101,287                   | (9,149 )                      | —            | 71,276       |
| Interest expense                                | (12,312 )  | —                         | (117 )                        | —            | (12,429 )    |
| Noncash convertible debt conversion<br>charge   | (16,135 )  | —                         | —                             | —            | (16,135 )    |
| Other income (expense)                          | 2,196  | (241 )                    | 508                           | —            | 2,463        |
| Income (loss) before income taxes               | (47,113 )  | 101,046                   | (8,758 )                      | —            | 45,175       |
| Provision (benefit) for income taxes            | (11,436 )  | 37,326                    | (3,235 )                      | —            | 22,655       |
| Equity in earnings of subsidiaries              | 58,197   | —                         | —                             | (58,197 )    | —            |
| Net income (loss)                               | 22,520   | 63,720                    | (5,523 )                      | (58,197 )    | 22,520       |
| Net loss noncontrolling interests               | —  | —                         | —                             | (8 )         | (8 )         |
| Net income (loss) attributable to Titan         | \$22,520   | \$63,720                  | \$ (5,523 )                   | \$(58,189 )  | \$22,528     |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Three Months Ended June 30, 2012 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$44,325   | \$38,918                  | \$ 35,576                     | \$(74,494 )  | \$44,325     |
| Unrealized gain (loss) on investments,<br>net of tax                 | (5,580 )   | —                         | (5,580 )                      | 5,580        | (5,580 )     |
| Currency translation adjustment                                      | (8,136 )   | —                         | (8,136 )                      | 8,136        | (8,136 )     |
| Pension liability adjustments, net of tax                            | 836  | 790                       | 46                            | (836 )       | 836          |
| Comprehensive income (loss)  | 31,445   | 39,708                    | 21,906                        | (61,614 )    | 31,445       |
| Net comprehensive income attributable<br>to noncontrolling interests | —  | —                         | —                             | 269          | 269          |
| Comprehensive income (loss)<br>attributable to Titan                 | \$31,445   | \$39,708                  | \$ 21,906                     | \$(61,883 )  | \$31,176     |

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Three Months Ended June 30, 2011 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$25,556   | \$32,190                  | \$ (782 )                     | \$ (31,408 ) | \$25,556     |
| Unrealized gain (loss) on investments,<br>net of tax               | 14,645   | —                         | 14,645                        | (14,645 )    | 14,645       |
| Currency translation adjustment                                    | 2,932  | —                         | 2,932                         | (2,932 )     | 2,932        |
| Pension liability adjustments, net of tax                          | 592  | 553                       | 39                            | (592 )       | 592          |
| Comprehensive income (loss)  | 43,725   | 32,743                    | 16,834                        | (49,577 )    | 43,725       |
| Net comprehensive loss attributable to<br>noncontrolling interests | —  | —                         | —                             | (8 )         | (8 )         |
| Comprehensive income (loss)<br>attributable to Titan               | \$43,725   | \$32,743                  | \$ 16,834                     | \$ (49,569 ) | \$43,733     |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Six Months Ended June 30, 2012 |                           |                               |               |              |
|--|--|---------------------------|-------------------------------|---------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
| Net income (loss)  | \$79,719   | \$81,813                  | \$ 36,024                     | \$ (117,837 ) | \$79,719     |
| Unrealized gain (loss) on investments,<br>net of tax                 | 337  | —                         | 337                           | (337 )        | 337          |
| Currency translation adjustment                                      | (4,569 )   | —                         | (4,569 )                      | 4,569         | (4,569 )     |
| Pension liability adjustments, net of tax                            | 1,672  | 1,580                     | 92                            | (1,672 )      | 1,672        |
| Comprehensive income (loss)  | 77,159   | 83,393                    | 31,884                        | (115,277 )    | 77,159       |
| Net comprehensive income attributable<br>to noncontrolling interests | —  | —                         | —                             | 244           | 244          |
| Comprehensive income (loss)<br>attributable to Titan                 | \$77,159   | \$83,393                  | \$ 31,884                     | \$ (115,521 ) | \$76,915     |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Six Months Ended June 30, 2011 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$22,520   | \$63,720                  | \$ (5,523 )                   | \$ (58,197 ) | \$22,520     |
| Unrealized gain (loss) on investments,<br>net of tax               | 13,652   | —                         | 13,652                        | (13,652 )    | 13,652       |
| Currency translation adjustment                                    | 2,932  | —                         | 2,932                         | (2,932 )     | 2,932        |
| Pension liability adjustments, net of tax                          | 1,185  | 1,106                     | 79                            | (1,185 )     | 1,185        |
| Comprehensive income (loss)  | 40,289   | 64,826                    | 11,140                        | (75,966 )    | 40,289       |
| Net comprehensive loss attributable to<br>noncontrolling interests | —  | —                         | —                             | (8 )         | (8 )         |



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|  |          |          |           |           |            |
|--|----------|----------|-----------|-----------|------------|
| Comprehensive income (loss)<br>attributable to Titan | \$40,289 | \$64,826 | \$ 11,140 | \$(75,958 | ) \$40,297 |
|--|----------|----------|-----------|-----------|------------|

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

| (Amounts in thousands)                      | Consolidating Condensed Balance Sheets<br>June 30, 2012 |                           |                               |               |              |
|---|---|---------------------------|-------------------------------|---------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)                        | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
| <b>Assets</b>                               |   |                           |                               |               |              |
| Cash and cash equivalents                   | \$ 140,441  | \$ 6                      | \$ 9,003                      | \$—           | \$ 149,450   |
| Accounts receivable                         | —   | 185,758                   | 51,660                        | —             | 237,418      |
| Inventories                                 | —   | 169,271                   | 45,587                        | —             | 214,858      |
| Prepaid and other current assets            | 35,691  | 18,288                    | 14,431                        | —             | 68,410       |
| Total current assets                        | 176,132   | 373,323                   | 120,681                       | —             | 670,136      |
| Property, plant and equipment, net          | 8,159   | 215,056                   | 101,461                       | —             | 324,676      |
| Investment in subsidiaries                  | 271,414   | —                         | 18,822                        | (290,236 )    | —            |
| Other assets                                | 43,035  | 1,351                     | 54,801                        | —             | 99,187       |
| Total assets                                | \$ 498,740  | \$ 589,730                | \$ 295,765                    | \$ (290,236 ) | \$ 1,093,999 |
| <b>Liabilities and Stockholders' Equity</b> |   |                           |                               |               |              |
| Short-term debt                             | \$—   | \$—                       | \$ 7,596                      | \$—           | \$ 7,596     |
| Accounts payable                            | 939   | 41,601                    | 67,015                        | —             | 109,555      |
| Other current liabilities                   | (3,870 )  | 61,729                    | 12,605                        | —             | 70,464       |
| Total current liabilities                   | (2,931 )  | 103,330                   | 87,216                        | —             | 187,615      |
| Long-term debt                              | 312,881   | —                         | —                             | —             | 312,881      |
| Other long-term liabilities                 | 42,996  | 36,339                    | 37,092                        | —             | 116,427      |
| Intercompany accounts                       | (329,482 )  | 99,097                    | 230,385                       | —             | —            |
| Titan stockholders' equity                  | 475,276   | 350,964                   | (58,928 )                     | (292,036 )    | 475,276      |
| Noncontrolling interests                    | —   | —                         | —                             | 1,800         | 1,800        |
| Total liabilities and stockholders' equity  | \$ 498,740  | \$ 589,730                | \$ 295,765                    | \$ (290,236 ) | \$ 1,093,999 |

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

| (Amounts in thousands)                      | Consolidating Condensed Balance Sheets<br>December 31, 2011 |                           |                               |              |              |
|---|---|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)                            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| <b>Assets</b>                               |   |                           |                               |              |              |
| Cash and cash equivalents                   | \$ 125,266  | \$ 6                      | \$ 3,898                      | \$—          | \$ 129,170   |
| Accounts receivable                         | —   | 137,226                   | 52,301                        | —            | 189,527      |
| Inventories                                 | —   | 162,134                   | 28,738                        | —            | 190,872      |
| Prepaid and other current assets            | 27,251  | 15,490                    | 12,283                        | —            | 55,024       |
| Total current assets                        | 152,517   | 314,856                   | 97,220                        | —            | 564,593      |
| Property, plant and equipment, net          | 9,562   | 219,734                   | 105,446                       | —            | 334,742      |
| Investment in subsidiaries                  | 184,317   | —                         | —                             | (184,317 )   | —            |
| Other assets                                | 44,918  | 1,454                     | 64,579                        | —            | 110,951      |
| Total assets                                | \$ 391,314  | \$ 536,044                | \$ 267,245                    | \$(184,317 ) | \$ 1,010,286 |
| <b>Liabilities and Stockholders' Equity</b> |   |                           |                               |              |              |
| Short-term debt                             | \$—   | \$—                       | \$ 11,723                     | \$—          | \$ 11,723    |
| Accounts payable                            | 930   | 33,563                    | 42,081                        | —            | 76,574       |
| Other current liabilities                   | 22,687  | 39,457                    | 25,325                        | —            | 87,469       |
| Total current liabilities                   | 23,617  | 73,020                    | 79,129                        | —            | 175,766      |
| Long-term debt                              | 312,881   | —                         | 5,000                         | —            | 317,881      |
| Other long-term liabilities                 | 29,267  | 38,187                    | 52,306                        | —            | 119,760      |
| Intercompany accounts                       | (369,690 )  | 157,264                   | 212,426                       | —            | —            |
| Titan stockholders' equity                  | 395,239   | 267,573                   | (81,616 )                     | (185,957 )   | 395,239      |
| Noncontrolling interests                    | —   | —                         | —                             | 1,640        | 1,640        |
| Total liabilities and stockholders' equity  | \$ 391,314  | \$ 536,044                | \$ 267,245                    | \$(184,317 ) | \$ 1,010,286 |

| (Amounts in thousands)                               | Consolidating Condensed Statements of Cash Flows<br>For the Six Months Ended June 30, 2012 |                           |                               |              |
|--|--|---------------------------|-------------------------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
| Net cash provided by operating activities            | \$ 15,859  | \$ 12,406                 | \$ 20,418                     | \$ 48,683    |
| Cash flows from investing activities:                |  |                           |                               |              |
| Capital expenditures                                 | (1,338 )   | (12,595 )                 | (5,073 )                      | (19,006 )    |
| Other, net   | —  | 189                       | 264                           | 453          |
| Net cash used for investing activities               | (1,338 )   | (12,406 )                 | (4,809 )                      | (18,553 )    |
| Cash flows from financing activities:                |  |                           |                               |              |
| Payment on debt                                      | —  | —                         | (14,226 )                     | (14,226 )    |
| Term loan borrowing                                  | —  | —                         | 4,378                         | 4,378        |
| Proceeds from exercise of stock options              | 887  | —                         | —                             | 887          |
| Excess tax benefit from stock options exercised      | 190  | —                         | —                             | 190          |
| Dividends paid                                       | (423 )   | —                         | —                             | (423 )       |
| Net cash provided by (used for) financing activities | 654  | —                         | (9,848 )                      | (9,194 )     |
| Effect of exchange rate change on cash               | —  | —                         | (656 )                        | (656 )       |

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|  |           |     |         |           |
|--|-----------|-----|---------|-----------|
| Net increase in cash and cash equivalents      | 15,175    | —   | 5,105   | 20,280    |
| Cash and cash equivalents, beginning of period | 125,266   | 6   | 3,898   | 129,170   |
| Cash and cash equivalents, end of period       | \$140,441 | \$6 | \$9,003 | \$149,450 |

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

| (Amounts in thousands)                               | Consolidating Condensed Statements of Cash Flows<br>For the Six Months Ended June 30, 2011 |                           |                               |              |
|--|--|---------------------------|-------------------------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
| Net cash provided by (used for) operating activities | \$(27,035 )  | \$7,157                   | \$(10,754 )                   | \$(30,632 )  |
| Cash flows from investing activities:                |  |                           |                               |              |
| Capital expenditures                                 | (1,089 )   | (8,070 )                  | (1,037 )                      | (10,196 )    |
| Acquisitions, net of cash acquired                   | (99,118 )  | —                         | —                             | (99,118 )    |
| Other, net   | —  | 914                       | 481                           | 1,395        |
| Net cash used for investing activities               | (100,207 )   | (7,156 )                  | (556 )                        | (107,919 )   |
| Cash flows from financing activities:                |  |                           |                               |              |
| Repurchase of senior unsecured notes                 | (1,064 )   | —                         | —                             | (1,064 )     |
| Term loan borrowing                                  | —  | —                         | 14,148                        | 14,148       |
| Proceeds from exercise of stock options              | 477  | —                         | —                             | 477          |
| Dividends paid                                       | (387 )   | —                         | —                             | (387 )       |
| Net cash provided by (used for) financing activities | (974 )   | —                         | 14,148                        | 13,174       |
| Effect of exchange rate change on cash               | —  | —                         | 39                            | 39           |
| Net increase (decrease) in cash and cash equivalents | (128,216 )   | 1                         | 2,877                         | (125,338 )   |
| Cash and cash equivalents, beginning of period       | 239,362  | 6                         | 132                           | 239,500      |
| Cash and cash equivalents, end of period             | \$111,146  | \$7                       | \$3,009                       | \$114,162    |

## TITAN INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements  
(Unaudited)

## 25. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION- 7.875% SENIOR SECURED NOTES

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

| (Amounts in thousands)                          | Consolidating Condensed Statements of Operations<br>For the Three Months Ended June 30, 2012 |                           |                               |              |              |
|---|--|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                       | \$—  | \$367,300                 | \$ 91,933                     | \$—          | \$459,233    |
| Cost of sales                                   | 257  | 292,357                   | 84,533                        | —            | 377,147      |
| Gross profit (loss)                             | (257 )   | 74,943                    | 7,400                         | —            | 82,086       |
| Selling, general and administrative<br>expenses | 3,396  | 14,521                    | 5,493                         | —            | 23,410       |
| Research and development expenses               | 48   | 1,074                     | 67                            | —            | 1,189        |
| Royalty expense                                 | —  | 1,779                     | 873                           | —            | 2,652        |
| Supply agreement termination income             | —  | —                         | (26,134 )                     | —            | (26,134 )    |
| Income (loss) from operations                   | (3,701 )   | 57,569                    | 27,101                        | —            | 80,969       |
| Interest expense                                | (6,045 )   | —                         | (172 )                        | —            | (6,217 )     |
| Other income                                    | 283  | 134                       | 196                           | —            | 613          |
| Income (loss) before income taxes               | (9,463 )   | 57,703                    | 27,125                        | —            | 75,365       |
| Provision (benefit) for income taxes            | 1,884  | 18,740                    | 10,416                        | —            | 31,040       |
| Equity in earnings of subsidiaries              | 55,672   | —                         | 27,074                        | (82,746 )    | —            |
| Net income (loss)                               | 44,325   | 38,963                    | 43,783                        | (82,746 )    | 44,325       |
| Net income noncontrolling interests             | —  | —                         | —                             | 269          | 269          |
| Net income (loss) attributable to Titan         | \$44,325   | \$38,963                  | \$ 43,783                     | \$(83,015 )  | \$44,056     |

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

| (Amounts in thousands)                       | Consolidating Condensed Statements of Operations<br>For the Three Months Ended June 30, 2011 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                    | \$—  | \$304,400                 | \$ 100,047                    | \$—          | \$404,447    |
| Cost of sales                                | 541  | 248,556                   | 91,016                        | —            | 340,113      |
| Gross profit (loss)                          | (541)  | ) 55,844                  | 9,031                         | —            | 64,334       |
| Selling, general and administrative expenses | 4,551  | 2,357                     | 9,665                         | —            | 16,573       |
| Research and development expenses            | 4  | 1,003                     | 7                             | —            | 1,014        |
| Royalty expense                              | —  | 1,767                     | 583                           | —            | 2,350        |
| Income (loss) from operations                | (5,096)  | ) 50,717                  | (1,224)                       | ) —          | 44,397       |
| Interest expense                             | (6,032)  | ) —                       | (117)                         | ) —          | (6,149)      |
| Other income (expense)                       | 1,879  | (46)                      | ) 437                         | —            | 2,270        |
| Income (loss) before income taxes            | (9,249)  | ) 50,671                  | (904)                         | ) —          | 40,518       |
| Provision (benefit) for income taxes         | (3,397)  | ) 18,688                  | (329)                         | ) —          | 14,962       |
| Equity in earnings of subsidiaries           | 31,408   | —                         | —                             | (31,408)     | ) —          |
| Net income (loss)                            | 25,556   | 31,983                    | (575)                         | ) (31,408)   | ) 25,556     |
| Net loss noncontrolling interests            | —  | —                         | —                             | (8)          | ) (8)        |
| Net income (loss) attributable to Titan      | \$25,556   | \$31,983                  | \$ (575)                      | ) \$(31,400) | ) \$25,564   |

| (Amounts in thousands)                       | Consolidating Condensed Statements of Operations<br>For the Six Months Ended June 30, 2012 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                    | \$—  | \$733,481                 | \$ 188,840                    | \$—          | \$922,321    |
| Cost of sales                                | 559  | 572,388                   | 173,925                       | —            | 746,872      |
| Gross profit (loss)                          | (559)  | ) 161,093                 | 14,915                        | —            | 175,449      |
| Selling, general and administrative expenses | 13,983   | 29,678                    | 10,584                        | —            | 54,245       |
| Research and development expenses            | 172  | 2,306                     | 219                           | —            | 2,697        |
| Royalty expense                              | —  | 3,472                     | 1,529                         | —            | 5,001        |
| Supply agreement termination income          | —  | —                         | (26,134)                      | ) —          | (26,134)     |
| Income (loss) from operations                | (14,714)   | ) 125,637                 | 28,717                        | —            | 139,640      |
| Interest expense                             | (12,107)   | ) —                       | (405)                         | ) —          | (12,512)     |
| Other income                                 | 2,457  | 448                       | 819                           | —            | 3,724        |
| Income (loss) before income taxes            | (24,364)   | ) 126,085                 | 29,131                        | —            | 130,852      |
| Provision (benefit) for income taxes         | (5,068)  | ) 43,854                  | 12,347                        | —            | 51,133       |
| Equity in earnings of subsidiaries           | 99,015   | —                         | 59,626                        | (158,641)    | ) —          |
| Net income (loss)                            | 79,719   | 82,231                    | 76,410                        | (158,641)    | ) 79,719     |
| Net income noncontrolling interests          | —  | —                         | —                             | 244          | 244          |
| Net income (loss) attributable to Titan      | \$79,719   | \$82,231                  | \$ 76,410                     | \$(158,885)  | ) \$79,475   |





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

| (Amounts in thousands)                          | Consolidating Condensed Statements of Operations<br>For the Six Months Ended June 30, 2011 |                           |                               |              |              |
|---|--|---------------------------|-------------------------------|--------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net sales                                       | \$—  | \$579,361                 | \$ 105,915                    | \$—          | \$685,276    |
| Cost of sales                                   | 902  | 466,551                   | 97,217                        | —            | 564,670      |
| Gross profit (loss)                             | (902 )   | 112,810                   | 8,698                         | —            | 120,606      |
| Selling, general and administrative<br>expenses | 19,956   | 5,006                     | 16,904                        | —            | 41,866       |
| Research and development expenses               | 4  | 2,186                     | 7                             | —            | 2,197        |
| Royalty expense                                 | —  | 4,684                     | 583                           | —            | 5,267        |
| Income (loss) from operations                   | (20,862 )  | 100,934                   | (8,796 )                      | —            | 71,276       |
| Interest expense                                | (12,312 )  | —                         | (117 )                        | —            | (12,429 )    |
| Noncash convertible debt conversion<br>charge   | (16,135 )  | —                         | —                             | —            | (16,135 )    |
| Other income (expense)                          | 2,196  | (281 )                    | 548                           | —            | 2,463        |
| Income (loss) before income taxes               | (47,113 )  | 100,653                   | (8,365 )                      | —            | 45,175       |
| Provision (benefit) for income taxes            | (11,436 )  | 37,181                    | (3,090 )                      | —            | 22,655       |
| Equity in earnings of subsidiaries              | 58,197   | —                         | —                             | (58,197 )    | —            |
| Net income (loss)                               | 22,520   | 63,472                    | (5,275 )                      | (58,197 )    | 22,520       |
| Net loss noncontrolling interests               | —  | —                         | —                             | (8 )         | (8 )         |
| Net income (loss) attributable to Titan         | \$22,520   | \$63,472                  | \$ (5,275 )                   | \$(58,189 )  | \$22,528     |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Three Months Ended June 30, 2012 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$44,325   | \$38,963                  | \$ 43,783                     | \$(82,746 )  | \$44,325     |
| Unrealized gain (loss) on investments,<br>net of tax                 | (5,580 )   | —                         | (5,580 )                      | 5,580        | (5,580 )     |
| Currency translation adjustment                                      | (8,136 )   | —                         | (8,136 )                      | 8,136        | (8,136 )     |
| Pension liability adjustments, net of tax                            | 836  | 790                       | 46                            | (836 )       | 836          |
| Comprehensive income (loss)  | 31,445   | 39,753                    | 30,113                        | (69,866 )    | 31,445       |
| Net comprehensive income attributable<br>to noncontrolling interests | —  | —                         | —                             | 269          | 269          |
| Comprehensive income (loss)<br>attributable to Titan                 | \$31,445   | \$39,753                  | \$ 30,113                     | \$(70,135 )  | \$31,176     |

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

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Three Months Ended June 30, 2011 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$25,556   | \$31,983                  | \$ (575 )                     | \$(31,408 )  | \$25,556     |
| Unrealized gain (loss) on investments,<br>net of tax               | 14,645   | —                         | 14,645                        | (14,645 )    | 14,645       |
| Currency translation adjustment                                    | 2,932  | —                         | 2,932                         | (2,932 )     | 2,932        |
| Pension liability adjustments, net of tax                          | 592  | 553                       | 39                            | (592 )       | 592          |
| Comprehensive income (loss)  | 43,725   | 32,536                    | 17,041                        | (49,577 )    | 43,725       |
| Net comprehensive loss attributable to<br>noncontrolling interests | —  | —                         | —                             | (8 )         | (8 )         |
| Comprehensive income (loss)<br>attributable to Titan               | \$43,725   | \$32,536                  | \$ 17,041                     | \$(49,569 )  | \$43,733     |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Six Months Ended June 30, 2012 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$79,719   | \$82,231                  | \$ 76,410                     | \$(158,641 ) | \$79,719     |
| Unrealized gain (loss) on investments,<br>net of tax                 | 337  | —                         | 337                           | (337 )       | 337          |
| Currency translation adjustment                                      | (4,569 )   | —                         | (4,569 )                      | 4,569        | (4,569 )     |
| Pension liability adjustments, net of tax                            | 1,672  | 1,580                     | 92                            | (1,672 )     | 1,672        |
| Comprehensive income (loss)  | 77,159   | 83,811                    | 72,270                        | (156,081 )   | 77,159       |
| Net comprehensive income attributable<br>to noncontrolling interests | —  | —                         | —                             | 244          | 244          |
| Comprehensive income (loss)<br>attributable to Titan                 | \$77,159   | \$83,811                  | \$ 72,270                     | \$(156,325 ) | \$76,915     |

| (Amounts in thousands)   | Consolidating Condensed Statements of Comprehensive Income<br>For the Six Months Ended June 30, 2011 |                           |                               |              |              |
|--|--|---------------------------|-------------------------------|--------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Net income (loss)  | \$22,520   | \$63,472                  | \$ (5,275 )                   | \$(58,197 )  | \$22,520     |
| Unrealized gain (loss) on investments,<br>net of tax               | 13,652   | —                         | (13,652 )                     | 13,652       | 13,652       |
| Currency translation adjustment                                    | 2,932  | —                         | 2,932                         | (2,932 )     | 2,932        |
| Pension liability adjustments, net of tax                          | 1,185  | 1,106                     | 79                            | (1,185 )     | 1,185        |
| Comprehensive income (loss)  | 40,289   | 64,578                    | (15,916 )                     | (48,662 )    | 40,289       |
| Net comprehensive loss attributable to<br>noncontrolling interests | —  | —                         | —                             | (8 )         | (8 )         |

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|  |          |          |             |             |          |
|--|----------|----------|-------------|-------------|----------|
| Comprehensive income (loss)<br>attributable to Titan | \$40,289 | \$64,578 | \$(15,916 ) | \$(48,654 ) | \$40,297 |
|--|----------|----------|-------------|-------------|----------|

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

| (Amounts in thousands)                      | Consolidating Condensed Balance Sheets<br>June 30, 2012 |                           |                               |               |              |
|---|---|---------------------------|-------------------------------|---------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)                        | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
| <b>Assets</b>                               |   |                           |                               |               |              |
| Cash and cash equivalents                   | \$ 140,441  | \$ 4                      | \$ 9,005                      | \$—           | \$ 149,450   |
| Accounts receivable                         | —   | 181,575                   | 55,843                        | —             | 237,418      |
| Inventories                                 | —   | 151,897                   | 62,961                        | —             | 214,858      |
| Prepaid and other current assets            | 35,691  | 18,121                    | 14,598                        | —             | 68,410       |
| Total current assets                        | 176,132   | 351,597                   | 142,407                       | —             | 670,136      |
| Property, plant and equipment, net          | 8,159   | 200,687                   | 115,830                       | —             | 324,676      |
| Investment in subsidiaries                  | 271,414   | —                         | 69,379                        | (340,793 )    | —            |
| Other assets                                | 43,035  | 1,351                     | 54,801                        | —             | 99,187       |
| Total assets                                | \$ 498,740  | \$ 553,635                | \$ 382,417                    | \$ (340,793 ) | \$ 1,093,999 |
| <b>Liabilities and Stockholders' Equity</b> |   |                           |                               |               |              |
| Short-term debt                             | \$—   | \$—                       | \$ 7,596                      | \$—           | \$ 7,596     |
| Accounts payable                            | 939   | 41,157                    | 67,459                        | —             | 109,555      |
| Other current liabilities                   | (3,870 )  | 60,991                    | 13,343                        | —             | 70,464       |
| Total current liabilities                   | (2,931 )  | 102,148                   | 88,398                        | —             | 187,615      |
| Long-term debt                              | 312,881   | —                         | —                             | —             | 312,881      |
| Other long-term liabilities                 | 42,996  | 36,277                    | 37,154                        | —             | 116,427      |
| Intercompany accounts                       | (329,482 )  | 27,559                    | 301,923                       | —             | —            |
| Titan stockholders' equity                  | 475,276   | 387,651                   | (45,058 )                     | (342,593 )    | 475,276      |
| Noncontrolling interests                    | —   | —                         | —                             | 1,800         | 1,800        |
| Total liabilities and stockholders' equity  | \$ 498,740  | \$ 553,635                | \$ 382,417                    | \$ (340,793 ) | \$ 1,093,999 |

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

| (Amounts in thousands)                      | Consolidating Condensed Balance Sheets<br>December 31, 2011 |                           |                               |               |              |
|---|---|---------------------------|-------------------------------|---------------|--------------|
|   | Titan<br>Intl., Inc.<br>(Parent)                            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
| <b>Assets</b>                               |   |                           |                               |               |              |
| Cash and cash equivalents                   | \$ 125,266  | \$ 4                      | \$ 3,900                      | \$—           | \$ 129,170   |
| Accounts receivable                         | —   | 133,320                   | 56,207                        | —             | 189,527      |
| Inventories                                 | —   | 144,511                   | 46,361                        | —             | 190,872      |
| Prepaid and other current assets            | 27,251  | 15,385                    | 12,388                        | —             | 55,024       |
| Total current assets                        | 152,517   | 293,220                   | 118,856                       | —             | 564,593      |
| Property, plant and equipment, net          | 9,562   | 205,027                   | 120,153                       | —             | 334,742      |
| Investment in subsidiaries                  | 184,307   | —                         | —                             | (184,307 )    | —            |
| Other assets                                | 44,918  | 1,454                     | 64,579                        | —             | 110,951      |
| Total assets                                | \$ 391,304  | \$ 499,701                | \$ 303,588                    | \$ (184,307 ) | \$ 1,010,286 |
| <b>Liabilities and Stockholders' Equity</b> |   |                           |                               |               |              |
| Short-term debt                             | \$—   | \$—                       | \$ 11,723                     | \$—           | \$ 11,723    |
| Accounts payable                            | 930   | 33,070                    | 42,574                        | —             | 76,574       |
| Other current liabilities                   | 22,687  | 39,104                    | 25,678                        | —             | 87,469       |
| Total current liabilities                   | 23,617  | 72,174                    | 79,975                        | —             | 175,766      |
| Long-term debt                              | 312,881   | —                         | 5,000                         | —             | 317,881      |
| Other long-term liabilities                 | 29,267  | 38,125                    | 52,368                        | —             | 119,760      |
| Intercompany accounts                       | (369,700 )  | 85,560                    | 284,140                       | —             | —            |
| Titan stockholders' equity                  | 395,239   | 303,842                   | (117,895 )                    | (185,947 )    | 395,239      |
| Noncontrolling interests                    | —   | —                         | —                             | 1,640         | 1,640        |
| Total liabilities and stockholders' equity  | \$ 391,304  | \$ 499,701                | \$ 303,588                    | \$ (184,307 ) | \$ 1,010,286 |

| (Amounts in thousands)                               | Consolidating Condensed Statements of Cash Flows<br>For the Six Months Ended June 30, 2012 |                           |                               |              |
|--|--|---------------------------|-------------------------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
| Net cash provided by operating activities            | \$ 15,859  | \$ 11,987                 | \$ 20,837                     | \$ 48,683    |
| Cash flows from investing activities:                |  |                           |                               |              |
| Capital expenditures                                 | (1,338 )   | (12,176 )                 | (5,492 )                      | (19,006 )    |
| Other, net   | —  | 189                       | 264                           | 453          |
| Net cash used for investing activities               | (1,338 )   | (11,987 )                 | (5,228 )                      | (18,553 )    |
| Cash flows from financing activities:                |  |                           |                               |              |
| Payment on debt                                      | —  | —                         | (14,226 )                     | (14,226 )    |
| Term loan borrowing                                  | —  | —                         | 4,378                         | 4,378        |
| Proceeds from exercise of stock options              | 887  | —                         | —                             | 887          |
| Excess tax benefit from stock options exercised      | 190  | —                         | —                             | 190          |
| Dividends paid                                       | (423 )   | —                         | —                             | (423 )       |
| Net cash provided by (used for) financing activities | 654  | —                         | (9,848 )                      | (9,194 )     |
| Effect of exchange rate change on cash               | —  | —                         | (656 )                        | (656 )       |

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|  |           |     |         |           |
|--|-----------|-----|---------|-----------|
| Net increase in cash and cash equivalents      | 15,175    | —   | 5,105   | 20,280    |
| Cash and cash equivalents, beginning of period | 125,266   | 4   | 3,900   | 129,170   |
| Cash and cash equivalents, end of period       | \$140,441 | \$4 | \$9,005 | \$149,450 |

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

| (Amounts in thousands)                               | Consolidating Condensed Statements of Cash Flows<br>For the Six Months Ended June 30, 2011 |                           |                               |              |
|--|--|---------------------------|-------------------------------|--------------|
|  | Titan<br>Intl., Inc.<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidated |
| Net cash provided by operating activities            | \$(27,035 )  | \$7,052                   | \$(10,649 )                   | \$(30,632 )  |
| Cash flows from investing activities:                |  |                           |                               |              |
| Capital expenditures                                 | (1,089 )   | (7,965 )                  | (1,142 )                      | (10,196 )    |
| Acquisitions, net of cash acquired                   | (99,118 )  | —                         | —                             | (99,118 )    |
| Other, net   | —  | 914                       | 481                           | 1,395        |
| Net cash used for investing activities               | (100,207 )   | (7,051 )                  | (661 )                        | (107,919 )   |
| Cash flows from financing activities:                |  |                           |                               |              |
| Repurchase of senior unsecured notes                 | (1,064 )   | —                         | —                             | (1,064 )     |
| Term loan borrowing                                  | —  | —                         | 14,148                        | 14,148       |
| Proceeds from exercise of stock options              | 477  | —                         | —                             | 477          |
| Dividends paid                                       | (387 )   | —                         | —                             | (387 )       |
| Net cash provided by (used for) financing activities | (974 )   | —                         | 14,148                        | 13,174       |
| Effect of exchange rate change on cash               | —  | —                         | 39                            | 39           |
| Net increase (decrease) in cash and cash equivalents | (128,216 )   | 1                         | 2,877                         | (125,338 )   |
| Cash and cash equivalents, beginning of period       | 239,362  | 3                         | 135                           | 239,500      |
| Cash and cash equivalents, end of period             | \$111,146  | \$4                       | \$3,012                       | \$114,162    |

TITAN INTERNATIONAL, INC.

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of financial condition and results of operations (MD&A) is designed to provide a reader of these financial statements with a narrative from the perspective of the management of Titan International, Inc. ("Titan" or the "Company") on Titan's financial condition, results of operations, liquidity and other factors which may affect the Company's future results. The MD&A in this quarterly report should be read in conjunction with the MD&A in Titan's 2011 annual report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2012.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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





## TITAN INTERNATIONAL, INC.

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

## OVERVIEW

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

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

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

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

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

The following table provides highlights for the quarter ended June 30, 2012, compared to 2011 (amounts in thousands):

|                        | 2012      | 2011      | % Increase |   |
|------------------------|-----------|-----------|------------|---|
| Net sales              | \$459,233 | \$404,447 | 14         | % |
| Gross profit           | 82,086    | 64,334    | 28         | % |
| Income from operations | 80,969    | 44,397    | 82         | % |
| Net income             | 44,325    | 25,556    | 73         | % |

**Quarter:** The Company recorded sales of \$459.2 million for the second quarter of 2012, which were approximately 14% higher than the second quarter 2011 sales of \$404.4 million. The higher quarterly sales levels were the result of increased demand in the Company's agricultural and earthmoving/construction segments combined with price/mix improvements.

The Company's gross profit was \$82.1 million, or 17.9% of net sales, for the second quarter of 2012, compared to \$64.3 million, or 15.9%, of net sales, in 2011. Income from operations was \$81.0 million for the second quarter of 2012, compared to \$44.4 million in 2011. The increase in the Company's gross profit and income from operations was related to cost leveraging and productivity gains on the higher sales volumes and select price increases on certain

products that exceeded the increase in raw materials. Net income was \$44.3 million for the quarter, compared to net income of \$25.6 million in 2011. Basic income per share was \$1.05 in the second quarter of 2012, compared to \$.61 in 2011. In addition to the items previously discussed, income from operations, net income and earnings per share were positively affected by the supply agreement termination income of \$26.1 million.

The following table provides highlights for the six months ended June 30, 2012, compared to 2011 (amounts in thousands):

|                        | 2012      | 2011      | % Increase |   |
|------------------------|-----------|-----------|------------|---|
| Net sales              | \$922,321 | \$685,276 | 35         | % |
| Gross profit           | 175,449   | 120,606   | 45         | % |
| Income from operations | 139,640   | 71,276    | 96         | % |
| Net income             | 79,719    | 22,520    | 254        | % |

TITAN INTERNATIONAL, INC.

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

Year-to-date: The Company recorded sales of \$922.3 million for the six months ended June 30, 2012, as compared to \$685.3 million in 2011. The higher year-to-date sales levels were the result of increased demand in the Company's agricultural and earthmoving/construction segments combined with price/mix improvements, as well as the April 2011 acquisition of the Goodyear Latin American farm tire business which recorded sales of \$90.3 million for the three months ended March 31, 2012.

The Company's gross profit was \$175.4 million, or 19.0% of net sales, for the six months ended June 30, 2012, compared to \$120.6 million, or 17.6%, of net sales, in 2011. Income from operations was \$139.6 million for the six months ended June 30, 2012, compared to \$71.3 million in 2011. The increase in the Company's gross profit and income from operations were related to cost leveraging and productivity gains on the higher sales volumes and select price increases on certain products that exceeded the increase in raw materials. Net income was \$79.7 million for the six months ended June 30, 2012, compared to \$22.5 million in 2011. Basic income per share was \$1.89 for the six months ended June 30, 2012, compared to \$.55 in 2011. In addition to the items previously discussed, income from operations, net income and earnings per share were positively affected by the supply agreement termination income of \$26.1 million.

CRITICAL ACCOUNTING ESTIMATES

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

Asset and Business Acquisitions

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

Inventories

Inventories are valued at lower of cost or market. At June 30, 2012, approximately 27% of the Company's inventories were valued under the last-in, first-out (LIFO) method. The major steel material inventory and related work-in-process and their finished goods are accounted for under the LIFO method. The remaining inventories were valued under the first-in, first-out (FIFO) method or average cost method. Market value is estimated based on current selling prices. Estimated provisions are established for slow-moving and obsolete inventory.

Income Taxes

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

liabilities. The Company assesses the realizability of its deferred tax asset positions and recognizes and measures uncertain tax positions in accordance with ASC 740 Income Taxes.

#### Retirement Benefit Obligations

Pension benefit obligations are based on various assumptions used by third-party actuaries in calculating these amounts. These assumptions include discount rates, expected return on plan assets, mortality rates and other factors. Revisions in assumptions and actual results that differ from the assumptions affect future expenses, cash funding requirements and obligations. The Company has three frozen defined benefit pension plans and one defined benefit plan that previously purchased a final annuity settlement. During the first six months of 2012, the Company contributed cash funds of \$1.7 million to its frozen defined benefit pension plans. Titan expects to contribute approximately \$4.9 million to these frozen defined benefit pension plans during the remainder of 2012. For more information concerning these costs and obligations, see the discussion of the "Pensions" and Note 23 to the Company's financial statements on Form 10-K for the fiscal year ended December 31, 2011.

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

## SUBSEQUENT EVENTS

### Acquisition of Australian OTR Tire & Wheel Manufacturer: Planet Group

In July, 2012, Titan announced that it has signed an agreement to purchase a majority ownership interest in Planet Corporation Group of Companies ("Planet") in an all-cash transaction. Planet includes National Tyres, Acme Wheel, Resource Tyre and Choice Tyres Wholesalers and is based in Perth, Australia. Planet is an OTR tire and wheel specialist that manufactures, distributes and services products to customers in the mining, agriculture, construction and earthmoving industries. Titan expects this acquisition to close in the third quarter of 2012.

## RESULTS OF OPERATIONS

Highlights for the three and six months ended June 30, 2012, compared to 2011 (amounts in thousands):

|                         | Three months ended |           | Six months ended |           |  |  |   |
|-------------------------|--------------------|-----------|------------------|-----------|--|--|---|
|                         | June 30,           | 2011      | June 30,         | 2011      |  |  |   |
| Net sales               | \$459,233          | \$404,447 | \$922,321        | \$685,276 |  |  |   |
| Cost of sales           | 377,147            | 340,113   | 746,872          | 564,670   |  |  |   |
| Gross profit            | 82,086             | 64,334    | 175,449          | 120,606   |  |  |   |
| Gross profit percentage | 17.9               | % 15.9    | % 19.0           | % 17.6    |  |  | % |

### Net Sales

Quarter: Net sales for the quarter ended June 30, 2012, were \$459.2 million compared to \$404.4 million in 2011, an increase of 14%. Sales increased as the result of increased demand in the Company's agricultural and earthmoving/construction segments combined with price/mix improvements. Sales volume was approximately 9% higher as the result of strong market conditions in the Company's agricultural and earthmoving/construction segments. Sales increased approximately 10% from price/mix improvements which resulted largely from increased raw material prices that were passed on to customers. The increase in net sales was partially offset by unfavorable foreign currency translation which decreased sales by approximately 5%.

Year-to-date: Net sales for the six months ended June 30, 2012, were \$922.3 million, compared to \$685.3 million in 2011, an increase of 35%. Sales increased as the result of the April 2011 acquisition of the Goodyear Latin American farm tire business including the Sao Paulo, Brazil manufacturing facility which recorded sales of \$90.3 million for the three months ended March 31, 2012. Net sales for the six months ended June 30, 2012, excluding this acquisition were \$832.0 million, an increase of 21% from the same period in 2011. Sales volume was approximately 10% higher as the result of strong market conditions in the Company's agricultural and earthmoving/construction segments. Sales increased approximately 15% from price/mix improvements which resulted largely from increased raw material prices that were passed on to customers. The increase in net sales was partially offset by unfavorable foreign currency translation which decreased sales by approximately 3%.

### Cost of Sales and Gross Profit

Quarter: Cost of sales was \$377.1 million for the quarter ended June 30, 2012, compared to \$340.1 million in 2011. The higher cost of sales resulted primarily from the increase in quarterly sales levels. The cost of sales

increased by approximately 11%, which is comparable to an approximate 14% increase in net sales.

Gross profit for the second quarter of 2012 was \$82.1 million, or 17.9% of net sales, compared to \$64.3 million, or 15.9% of net sales for the second quarter of 2011. The increase in gross profit margin was primarily due to cost leveraging and productivity gains on the higher sales volumes and select price increases on certain products that exceeded the increase in raw material costs.

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Year-to-date: Cost of sales was \$746.9 million for the six months ended June 30, 2012, compared to \$564.7 million in 2011. The higher cost of sales resulted primarily from the increase in year-to-date sales levels. The cost of sales increased by approximately 32%, which is comparable to an approximate 35% increase in net sales.

Gross profit for the six months ended June 30, 2012, was \$175.4 million or 19.0% of net sales, compared to \$120.6 million or 17.6% of net sales in 2011. The Sao Paulo, Brazil manufacturing facility was acquired on April 1, 2011. This facility provided gross profit of \$8.5 million, or 9.4% of net sales, for the three months ended March 31, 2012. Excluding the first quarter results of the Sao Paulo, Brazil manufacturing facility, the gross profit margin (gross profit as a percent of sales) was 20.1% of net sales for the six months ended June 30, 2012. The increase in gross profit margin was primarily due to cost leveraging and productivity gains on the higher sales volumes and select price increases on certain products that exceeded the increase in raw material costs.

## Selling, General and Administrative Expenses

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

|                                     | Three months ended |          | Six months ended |          |  |  |   |
|-------------------------------------|--------------------|----------|------------------|----------|--|--|---|
|                                     | June 30,<br>2012   | 2011     | June 30,<br>2012 | 2011     |  |  |   |
| Selling, general and administrative | \$23,410           | \$16,573 | \$54,245         | \$41,866 |  |  |   |
| Percentage of net sales             | 5.1                | % 4.1    | % 5.9            | % 6.1    |  |  | % |

Quarter: Selling, general and administrative (SG&A) expenses for the second quarter of 2012 were \$23.4 million, or 5.1% of net sales, compared to \$16.6 million, or 4.1% of net sales, for 2011. The higher SG&A expenses were primarily the result of an increase of selling and marketing expenses of approximately \$2 million, due to increased sales levels and increased information technology expenses, and approximately \$4 million due to an increase in incentive compensation.

Year-to-date: Expenses for SG&A for the six months ended June 30, 2012, were \$54.2 million or 5.9% of net sales, compared to \$41.9 million or 6.1% of net sales in 2011. The higher SG&A expenses were primarily the result of an increase of selling and marketing expenses of approximately \$5 million, due to increased sales levels and increased information technology expenses, and approximately \$5 million due to an increase in incentive compensation. Also contributing to higher expenses was approximately \$2 million of expenses at the Company's Latin American facilities during the first quarter of 2012.

## Research and Development Expenses

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

|                          | Three months ended |         | Six months ended |         |  |  |   |
|--------------------------|--------------------|---------|------------------|---------|--|--|---|
|                          | June 30,<br>2012   | 2011    | June 30,<br>2012 | 2011    |  |  |   |
| Research and development | \$1,189            | \$1,014 | \$2,697          | \$2,197 |  |  |   |
| Percentage of net sales  | 0.3                | % 0.3   | % 0.3            | % 0.3   |  |  | % |

Quarter: Research and development (R&D) expenses for the second quarter of 2012 were \$1.2 million, or 0.3% of net sales, compared to \$1.0 million, or 0.3% of net sales, for 2011.



Year-to-date: Expenses for R&D were \$2.7 million or 0.3% of net sales for the six months ended June 30, 2012, compared to \$2.2 million or 0.3% of net sales for 2011.

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Royalty Expense

Royalty expense was as follows (amounts in thousands):

|                 | Three months ended |         | Six months ended |         |
|-----------------|--------------------|---------|------------------|---------|
|                 | June 30,           |         | June 30,         |         |
|                 | 2012               | 2011    | 2012             | 2011    |
| Royalty expense | \$2,652            | \$2,350 | \$5,001          | \$5,267 |

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

Quarter: Royalty expenses recorded were \$2.7 million and \$2.4 million for the quarters ended June 30, 2012 and 2011, respectively.

Year-to-date: Year-to-date royalty expenses recorded were \$5.0 million and \$5.3 million for the six months ended June 30, 2012 and 2011, respectively.

Supply agreement termination income

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

|                                     | Three months ended |      | Six months ended |      |
|-------------------------------------|--------------------|------|------------------|------|
|                                     | June 30,           |      | June 30,         |      |
|                                     | 2012               | 2011 | 2012             | 2011 |
| Supply agreement termination income | \$26,134           | \$—  | \$26,134         | \$—  |

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

Income from Operations

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

|                         | Three months ended |          | Six months ended |          |   |
|-------------------------|--------------------|----------|------------------|----------|---|
|                         | June 30,           |          | June 30,         |          |   |
|                         | 2012               | 2011     | 2012             | 2011     |   |
| Income from operations  | \$80,969           | \$44,397 | \$139,640        | \$71,276 |   |
| Percentage of net sales | 17.6               | % 11.0   | % 15.1           | % 10.4   | % |

Quarter: Income from operations for the second quarter of 2012, was \$81.0 million, or 17.6% of net sales, compared to \$44.4 million, or 11.0% of net sales, in 2011. This increase was the net result of the items previously discussed above.

Year-to-date: Income from operations for the six months ended June 30, 2012, was \$139.6 million or 15.1% of net sales, compared to \$71.3 million or 10.4% of net sales in 2011. This increase was the net result of the items previously discussed above.

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Interest Expense

Interest expense was as follows (amounts in thousands):

|                  | Three months ended |         | Six months ended |          |
|------------------|--------------------|---------|------------------|----------|
|                  | June 30,           |         | June 30,         |          |
|                  | 2012               | 2011    | 2012             | 2011     |
| Interest expense | \$6,217            | \$6,149 | \$12,512         | \$12,429 |

Quarter: Interest expense was \$6.2 million and \$6.1 million for the quarter ended June 30, 2012, and 2011, respectively.

Year-to-date: Year-to-date interest expense was \$12.5 million and \$12.4 million for the six months ended June 30, 2012 and 2011, respectively.

Noncash Convertible Debt Conversion Charge

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

|  | Three months ended |      | Six months ended |          |
|--|--------------------|------|------------------|----------|
|  | June 30,           |      | June 30,         |          |
|  | 2012               | 2011 | 2012             | 2011     |
| Noncash convertible debt conversion charge | \$—                | \$—  | —                | \$16,135 |

In the first quarter of 2011, the Company closed an exchange agreement converting approximately \$59.6 million of the 5.625% convertible senior subordinated notes into approximately 6.6 million shares of the Company's common stock. In connection with the exchange, the Company recognized a noncash charge of \$16.1 million in accordance with ASC 470-20 Debt - Debt with Conversion and Other Options.

Other Income

Other income was as follows (amounts in thousands):

|              | Three months ended |         | Six months ended |         |
|--------------|--------------------|---------|------------------|---------|
|              | June 30,           |         | June 30,         |         |
|              | 2012               | 2011    | 2012             | 2011    |
| Other income | \$613              | \$2,270 | \$3,724          | \$2,463 |

Quarter: Other income was \$0.6 million for the quarter ended June 30, 2012, as compared to \$2.3 million in 2011. The Company recorded \$0.9 million in discount amortization on prepaid royalty, offset by a \$(0.5) million loss on contractual obligation investments for the quarter ended June 30, 2012. The Company recorded \$1.1 million in discount amortization on prepaid royalty and a \$0.9 million gain on acquisition in the quarter ended June 30, 2011.

Year-to-date: Year-to-date other income was \$3.7 million and \$2.5 million for the six months ended June 30, 2012 and 2011, respectively. The Company recorded \$2.0 million in discount amortization on prepaid royalty and a \$0.8 million gain on contractual obligation investments in the first half of 2012. The Company recorded \$1.1 million in discount amortization on prepaid royalty and a \$0.9 million gain on acquisition in the first half of 2011.

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Income Taxes

Income taxes were as follows (amounts in thousands):

|                    | Three months ended |          | Six months ended |          |
|--------------------|--------------------|----------|------------------|----------|
|                    | June 30,<br>2012   | 2011     | June 30,<br>2012 | 2011     |
| Income tax expense | \$31,040           | \$14,962 | \$51,133         | \$22,655 |

Quarter: The Company recorded income tax expense of \$31.0 million for the quarter ended June 30, 2012, as compared to \$15.0 million in 2011. The Company's effective income tax rate was 41% and 37% for the three months ended June 30, 2012 and 2011, respectively.

Year-to-date: Income tax expense for the six months ended June 30, 2012 and 2011, was \$51.1 million and \$22.7 million, respectively. The Company's effective income tax rate was 39% and 50% for the six months ended June 30, 2012 and 2011, respectively. The Company's 2011 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 \$16.1 million noncash charge taken in connection with the exchange agreement on the Company's convertible debt. This noncash charge is not fully deductible for income tax purposes.

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

Net Income

Net income was as follows (amounts in thousands):

|            | Three months ended |          | Six months ended |          |
|------------|--------------------|----------|------------------|----------|
|            | June 30,<br>2012   | 2011     | June 30,<br>2012 | 2011     |
| Net income | \$44,325           | \$25,556 | \$79,719         | \$22,520 |

Quarter: Net income for the quarter ended June 30, 2012, was \$44.3 million, compared to \$25.6 million in 2011. For the quarter ended June 30, 2012 and 2011, basic earnings per share were \$1.05 and \$.61, respectively, and diluted earnings per share were \$.84 and \$.50, respectively. The Company's net income and earnings per share were higher due to the items previously discussed.

Year-to-date: Net income for the six months ended June 30, 2012 and 2011, was \$79.7 million and \$22.5 million, respectively. For the six months ended June 30, 2012 and 2011, basic earnings per share were \$1.89 and \$.55, respectively, and diluted earnings per share were \$1.53 and \$.47, respectively. The Company's net income and earnings per share were higher due to the items previously discussed.

Agricultural Segment Results

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

|  | Three months ended | Six months ended |
|--|--------------------|------------------|
|  | June 30,           | June 30,         |

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|                        | 2012      | 2011      | 2012      | 2011      |
|------------------------|-----------|-----------|-----------|-----------|
| Net sales              | \$288,993 | \$257,268 | \$584,798 | \$467,265 |
| Gross profit           | 59,501    | 47,166    | 125,593   | 94,866    |
| Income from operations | 54,562    | 42,800    | 115,225   | 85,668    |

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Quarter: Net sales in the agricultural market were \$289.0 million for the quarter ended June 30, 2012, as compared to \$257.3 million in 2011, an increase of 12%. Sales volume was approximately 8% higher as the result of strong agricultural market demand. Sales increased approximately 4% from price/mix improvements which resulted primarily from increased raw material prices that were passed on to customers.

Gross profit in the agricultural market was \$59.5 million for the quarter ended June 30, 2012, as compared to \$47.2 million in 2011. Income from operations in the agricultural market was \$54.6 million for the quarter ended June 30, 2012, as compared to \$42.8 million in 2011. The Company's gross profit and income from operations benefited from improved plant utilization resulting from the higher sales levels.

Year-to-date: Net sales in the agricultural market were \$584.8 million for the six months ended June 30, 2012, as compared to \$467.3 million in 2011, an increase of 25%. Sales increased as a result of the April 2011 acquisition of the Goodyear Latin American farm tire business including the Sao Paulo, Brazil manufacturing facility which recorded agricultural market sales of \$32.8 million for the quarter ended March 31, 2012. Net sales excluding this acquisition for the first quarter of 2012 were \$552 million, an increase of 18% from 2011. Sales volume was approximately 10% higher as the result of increased demand in the Company's agricultural segment. Sales increased approximately 8% from price/mix improvements which resulted primarily from increased raw material prices that were passed on to customers.

Gross profit in the agricultural market was \$125.6 million for the six months ended June 30, 2012, as compared to \$94.9 million in 2011. Income from operations in the agricultural market was \$115.2 million for the six months ended June 30, 2012, as compared to \$85.7 million in 2011. The Company's gross profit and income from operations benefited from improved plant utilization resulting from the higher sales levels.

## Earthmoving/Construction Segment Results

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

|                        | Three months ended |          | Six months ended |           |
|------------------------|--------------------|----------|------------------|-----------|
|                        | June 30,<br>2012   | 2011     | June 30,<br>2012 | 2011      |
| Net sales              | \$110,541          | \$76,895 | \$215,109        | \$143,406 |
| Gross profit           | 19,562             | 11,218   | 41,909           | 19,413    |
| Income from operations | 17,516             | 9,702    | 37,917           | 15,990    |

Quarter: The Company's earthmoving/construction market net sales were \$110.5 million for the quarter ended June 30, 2012, as compared to \$76.9 million in 2011, an increase of 44%. Sales increased approximately 43% as the result of price/mix improvements which were driven by stronger demand for larger products used in the mining industry while sales volume remained relatively flat.

Gross profit in the earthmoving/construction market was \$19.6 million for the quarter ended June 30, 2012, as compared to \$11.2 million in 2011. The Company's earthmoving/construction market income from operations was \$17.5 million for the quarter ended June 30, 2012, as compared to \$9.7 million in 2011. The Company's gross profit and income from operations benefited from the mix changes to larger products that generally carry higher margins.

Year-to-date: The Company's earthmoving/construction market net sales were \$215.1 million for the six months ended June 30, 2012, as compared to \$143.4 million in 2011, an increase of 50%. Sales increased by approximately 41% as

the result of price/mix improvements from stronger demand for larger products used in the mining industry. Sales volumes increased approximately 9% as a result of increased market demand.

Gross profit in the earthmoving/construction market was \$41.9 million for the six months ended June 30, 2012, as compared to \$19.4 million in 2011. Income from operations in the earthmoving/construction market was \$37.9 million, for the six months ended June 30, 2012, as compared to \$16.0 million in 2011. The Company's gross profit and income from operations benefited from the mix changes to larger products that generally carry higher margins and improved plant utilization resulting from the higher sales levels.



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Consumer Segment Results

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

|                        | Three months ended |          | Six months ended |          |
|------------------------|--------------------|----------|------------------|----------|
|                        | June 30,           |          | June 30,         |          |
|                        | 2012               | 2011     | 2012             | 2011     |
| Net sales              | \$59,699           | \$70,284 | \$122,414        | \$74,605 |
| Gross profit           | 3,773              | 6,753    | 9,472            | 7,755    |
| Income from operations | 27,416             | 4,821    | 30,518           | 5,737    |

Quarter: Consumer market net sales were \$59.7 million for quarter ended June 30, 2012, as compared to \$70.3 million in 2011. The decrease in net sales was primarily the result of decreased sales from the supply agreement included as part of the April 2011 acquisition of the Goodyear Latin American farm tire business. In May of 2012, the supply agreement was terminated. Sales under the agreement were \$39.4 million for the quarter ended June 30, 2012, as compared to \$63.3 million in 2011.

Gross profit from the consumer market was \$3.8 million for the quarter ended June 30, 2012, as compared to \$6.8 million in 2011. The Company's decrease in gross profit primarily resulted from the reduced supply agreement sales. Consumer market income from operations was \$27.4 million for the quarter ended June 30, 2012, as compared to \$4.8 million in 2011. The Company's increase in income from operations primarily resulted from the supply agreement termination income of \$26.1 million, partially offset by the reduced supply agreement sales.

Year-to-date: Consumer market net sales were \$122.4 million for the six months ended June 30, 2012, as compared to \$74.6 million in 2011. The increase in net sales was primarily the result of the Goodyear Latin American farm tire acquisition agreement, which included a supply agreement for certain product sales, which are included in the consumer segment. Sales under the agreement were \$96.9 million for six months ended June 30, 2012, as compared to \$63.3 million in 2011.

Gross profit in the consumer market was \$9.5 million for the six months ended June 30, 2012, as compared to \$7.8 million in 2011. Consumer market income from operations was \$30.5 million for the six months ended June 30, 2012, as compared to \$5.7 million in 2011. The Company's increase in income from operations primarily resulted from the supply agreement termination income of \$26.1 million.

Segment Summary (Amounts in thousands)

| Quarter                          |              |                              |          |                       |                        |
|----------------------------------|--------------|------------------------------|----------|-----------------------|------------------------|
| Three months ended June 30, 2012 | Agricultural | Earthmoving/<br>Construction | Consumer | Corporate<br>Expenses | Consolidated<br>Totals |
| Net sales                        | \$288,993    | \$110,541                    | \$59,699 | \$—                   | \$459,233              |
| Gross profit (loss)              | 59,501       | 19,562                       | 3,773    | (750)                 | ) 82,086               |
| Income (loss) from operations    | 54,562       | 17,516                       | 27,416   | (18,525)              | ) 80,969               |
| Three months ended June 30, 2011 |              |                              |          |                       |                        |
| Net sales                        | \$257,268    | 76,895                       | \$70,284 | \$—                   | \$404,447              |
| Gross profit (loss)              | 47,166       | 11,218                       | 6,753    | (803)                 | ) 64,334               |
| Income (loss) from operations    | 42,800       | 9,702                        | 4,821    | (12,926)              | ) 44,397               |



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## Year-to-Date

| Six months ended June 30, 2012 | Agricultural | Earthmoving/<br>Construction | Consumer  | Corporate<br>Expenses | Consolidated<br>Totals |
|--------------------------------|--------------|------------------------------|-----------|-----------------------|------------------------|
| Net sales                      | \$584,798    | \$215,109                    | \$122,414 | \$—                   | \$922,321              |
| Gross profit (loss)            | 125,593      | 41,909                       | 9,472     | (1,525)               | ) 175,449              |
| Income (loss) from operations  | 115,225      | 37,917                       | 30,518    | (44,020)              | ) 139,640              |
| Six months ended June 30, 2011 |              |                              |           |                       |                        |
| Net sales                      | \$467,265    | 143,406                      | \$74,605  | \$—                   | \$685,276              |
| Gross profit (loss)            | 94,866       | 19,413                       | 7,755     | (1,428)               | ) 120,606              |
| Income (loss) from operations  | 85,668       | 15,990                       | 5,737     | (36,119)              | ) 71,276               |

## Corporate Expenses

## Quarter

Income from operations on a segment basis does not include corporate expenses or depreciation and amortization expense related to property, plant and equipment carried at the corporate level totaling \$18.5 million for the quarter ended June 30, 2012, as compared to \$12.9 million for 2011.

Corporate expenses for the quarter ended June 30, 2012, were composed of selling and marketing expenses of approximately \$9 million and administrative expenses of approximately \$10 million.

Corporate expenses for the quarter ended June 30, 2011, were composed of selling and marketing expenses of approximately \$7 million and administrative expenses of approximately \$6 million.

Corporate selling & marketing expenses were approximately \$2 million higher in the second quarter due to increased information technology expenses. Corporate administrative expenses were approximately \$4 million higher due to an increase in incentive compensation.

## Year-to-Date

Income from operations on a segment basis does not include corporate expenses or depreciation and amortization expense related to property, plant and equipment carried at the corporate level totaling \$44.0 million for the six months ended June 30, 2012, as compared to \$36.1 million for 2011.

Corporate expenses for the six months ended June 30, 2012, were composed of selling and marketing expenses of approximately \$16 million and administrative expenses of approximately \$28 million.

Corporate expenses for the six months ended June 30, 2011, were composed of selling and marketing expenses of approximately \$13 million and administrative expenses of approximately \$23 million.

Corporate selling & marketing expenses were approximately \$3 million higher for the six months ended June 30, 2012 due to increased information technology expenses. Corporate administrative expenses were approximately \$5 million higher due to an increase in incentive compensation.

**MARKET RISK SENSITIVE INSTRUMENTS**

The Company's risks related to foreign currencies, commodity prices and interest rates are consistent with those for 2011. For more information, see the "Market Risk Sensitive Instruments" discussion in the Company's Form 10-K for the fiscal year ended December 31, 2011.

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### PENSIONS

The Company has three frozen defined benefit pension plans and one defined benefit plan that previously purchased a final annuity settlement. These plans are described in Note 23 of the Company's Notes to Consolidated Financial Statements in the 2011 Annual Report on Form 10-K.

The Company's recorded liability for pensions is based on a number of assumptions, including discount rates, rates of return on investments, mortality rates and other factors. Certain of these assumptions are determined by the Company with the assistance of outside actuaries. Assumptions are based on past experience and anticipated future trends. These assumptions are reviewed on a regular basis and revised when appropriate. Revisions in assumptions and actual results that differ from the assumptions affect future expenses, cash funding requirements and the carrying value of the related obligations. Titan expects to contribute approximately \$4.9 million to these frozen defined pension plans during the remainder of 2012.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Flows

As of June 30, 2012, the Company had \$149.5 million of cash within various bank accounts. The cash balance increased by \$20.3 million from December 31, 2011, due to the following items.

| (amounts in thousands) | June 30,<br>2012 | December 31,<br>2011 | Change    |
|------------------------|------------------|----------------------|-----------|
| Cash                   | \$ 149,450       | \$ 129,170           | \$ 20,280 |

#### Operating Cash Flows

Summary of cash flows from operating activities:

| (Amounts in thousands)                           | Six months ended June 30, |              |           |
|--|---------------------------|--------------|-----------|
|  | 2012                      | 2011         | Change    |
| Net income                                       | \$ 79,719                 | \$ 22,520    | \$ 57,199 |
| Depreciation and amortization                    | 23,553                    | 21,146       | 2,407     |
| Noncash convertible debt conversion charge       | —                         | 16,135       | (16,135 ) |
| Deferred income tax provision                    | 572                       | 8,446        | (7,874 )  |
| Supply agreement termination income              | (26,134 )                 | —            | (26,134 ) |
| Accounts receivable                              | (51,659 )                 | (152,495 )   | 100,836   |
| Inventories                                      | (26,335 )                 | (34,968 )    | 8,633     |
| Accounts payable                                 | 37,346                    | 77,736       | (40,390 ) |
| Other current liabilities                        | (259 )                    | 19,269       | (19,528 ) |
| Other liabilities                                | 18,565                    | (2,844 )     | 21,409    |
| Other operating activities                       | (6,685 )                  | (5,577 )     | (1,108 )  |
| Cash provided by (used for) operating activities | \$ 48,683                 | \$ (30,632 ) | \$ 79,315 |

In the first six months of 2012, operating activities provided cash of \$48.7 million, which included net income of \$79.7 million and an increase in accounts payable and other liabilities of \$37.3 million and \$18.6 million, respectively, Net income included \$23.6 million of noncash charges for depreciation and amortization. Positive cash

inflows were offset by increases in accounts receivable and inventory of \$51.7 million and \$26.3 million, respectively, and noncash supply agreement income of \$26.1 million.

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In the first six months of 2011, operating activities used cash of \$30.6 million. This cash was primarily used by increases in accounts receivable and inventory of \$152.5 million and \$35.0 million, respectively, offset by higher accounts payable of \$77.7 million. Net income of \$22.5 million included \$21.1 million of noncash charges for depreciation and amortization, as well as a noncash convertible debt conversion charge of \$16.1 million. Deferred tax assets were reduced by \$8.4 million as the Company used current income to reduce the deferred tax asset for previously recorded net operating losses.

Operating cash flows increased \$79.3 million when comparing the six months ended June 30, 2012, to the six months ended June 30, 2011. Net income in the first six months of 2012 was \$57.2 million higher than the net income in the first six months of 2011. When comparing the first six months of 2012 to the first six months of 2011, cash flows from accounts receivable increased \$100.8 million, resulting primarily from the April 2011 Goodyear Latin America farm tire business acquisition not including accounts receivable. The accounts receivable decrease was partly offset by decreases in accounts payable of \$40.4 million and the noncash supply agreement termination income of \$26.1 million.

The Company's inventory and accounts receivable balances were higher at June 30, 2012, as compared to December 31, 2011. Days sales in inventory remained stable at 54 days at June 30, 2012, compared to 55 days at December 31, 2011, as inventory grew proportionately with sales. Days sales outstanding increased to 47 days at June 30, 2012, from 42 days at December 31, 2011. The Company's days sales outstanding at the end of July and December is generally lower than other months of the year as a result of decreased sales in those months as the result of plant shutdowns.

## Investing Cash Flows

## Summary of cash flows from investing activities:

| (Amounts in thousands)             | Six months ended June 30, |             |             |
|------------------------------------|---------------------------|-------------|-------------|
|                                    | 2012                      | 2011        | Change      |
| Acquisitions                       | \$—                       | \$(99,118)  | ) \$99,118  |
| Capital expenditures               | \$(19,006)                | \$(10,196)  | ) \$(8,810) |
| Other investing activities         | 453                       | 1,395       | (942)       |
| Cash used for investing activities | \$(18,553)                | \$(107,919) | ) \$89,366  |

Net cash used for investing activities was \$18.6 million in the first six months of 2012, as compared to \$107.9 million in the first six months of 2011. The Company invested a total of \$19.0 million in capital expenditures in the first six months of 2012, compared to \$10.2 million in 2011. The 2012 and 2011 expenditures represent various equipment purchases and improvements to enhance production capabilities of Titan's existing business and maintaining existing equipment. The Company invested a total of \$99.1 million in acquisitions in the first six months of 2011. The other investing activities are primarily the result of asset disposals.

## Financing Cash Flows

## Summary of cash flows from financing activities:

| (Amounts in thousands)     | Six months ended June 30, |           |           |
|----------------------------|---------------------------|-----------|-----------|
|                            | 2012                      | 2011      | Change    |
| Repurchase of senior notes | \$—                       | \$(1,064) | ) \$1,064 |
| Term loan borrowing        | 4,378                     | 14,148    | (9,770)   |

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|  |          |            |             |
|--|----------|------------|-------------|
| Proceeds from exercise of stock options          | 887      | 477        | 410         |
| Payment on debt                                  | (14,226  | ) —        | (14,226 )   |
| Excess tax benefit from stock options exercised  | 190      | —          | 190         |
| Dividends paid                                   | (423     | ) (387     | ) (36 )     |
| Cash provided by (used for) financing activities | \$(9,194 | ) \$13,174 | \$(22,368 ) |

In the first six months of 2012, \$9.2 million of cash was used for financing activities. This cash was primarily used for the payment on term loan borrowings of \$14.2 million that was originally borrowed to provide working capital for Titan's Latin American operations. This was partially offset by \$4.4 million of additional term loan borrowings for Titan's Latin American operations.



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

In the first six months of 2011, \$13.2 million of cash was provided by financing activities. This cash was primarily provided by term loan borrowings of \$14.1 million used to provide working capital for Titan's Latin American operations.

Financing cash flows decreased by \$22.4 million when comparing first six months of 2012 to 2011. This change was primarily the result of the repayment of term loan borrowings in the first six months of 2012.

#### Other Issues

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

#### Debt Covenants

The Company's revolving credit facility ("credit facility") contains various covenants and restrictions. The financial covenants in this agreement require that:

• Collateral coverage be equal to or greater than 1.2 times the outstanding revolver balance.

• If the 30-day average of the outstanding revolver balance exceeds \$70 million, the fixed charge coverage ratio be equal to or greater than a 1.1 to 1.0 ratio.

#### Restrictions include:

• Limits on payments of dividends and repurchases of the Company's stock.

• Restrictions on the ability of the Company to make additional borrowings, or to consolidate, merge or otherwise fundamentally change the ownership of the Company.

• Limitations on investments, dispositions of assets and guarantees of indebtedness.

• Other customary affirmative and negative covenants.

These covenants and restrictions could limit the Company's ability to respond to market conditions, to provide for unanticipated capital investments, to raise additional debt or equity capital, to pay dividends or to take advantage of business opportunities, including future acquisitions. The failure by Titan to meet these covenants could result in the Company ultimately being in default on these loan agreements.

The Company was in compliance with these covenants and restrictions as of June 30, 2012. The collateral coverage ratio was not applicable as there were no outstanding borrowings under the revolving credit facility at June 30, 2012. The fixed charge coverage ratio did not apply for the quarter ended June 30, 2012.

#### Liquidity Outlook

At June 30, 2012, the Company had \$149.5 million of cash and cash equivalents and no outstanding borrowings on the Company's \$100 million credit facility. The cash and cash equivalents balance of \$149.5 million includes \$8.7 million held in foreign countries. The Company's current plans do not demonstrate a need to repatriate the foreign amounts to fund U.S. operations.

Capital expenditures for the remainder of 2012 are forecasted to be approximately \$30 million. Cash payments for interest are currently forecasted to be approximately \$12 million for the remainder of 2012 based on June 30, 2012 debt balances. The forecasted interest payments are comprised primarily of a semi-annual payment of \$3.2 million for the 5.625% convertible senior subordinated notes due on July 15 and a semi-annual payment of \$7.9 million for the

7.875% senior secured notes due on October 1.

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

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

TITAN INTERNATIONAL, INC.

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

Cash on hand, anticipated internal cash flows from operations and utilization of remaining available borrowings are expected to provide sufficient liquidity for working capital needs, capital expenditures and potential acquisitions. If the Company were to exhaust all currently available working capital sources or not meet the financial covenants and conditions of its loan agreements, the Company's ability to secure additional funding would be negatively impacted.

#### NEW ACCOUNTING STANDARDS

##### Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." The objective of this update is to improve the comparability, consistency, and transparency of financial reporting to increase the prominence of items reported in other comprehensive income. This update requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December of 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." Titan adopted the required comprehensive income presentation updates in the first quarter of 2012. The Company has elected to present items of income and other comprehensive income in two separate, but consecutive, statements of net income and other comprehensive income. This change in presentation did not have a material effect on the Company's financial position, results of operations or cash flows.

#### MARKET CONDITIONS AND OUTLOOK

In the first half of 2012, Titan experienced significantly higher sales when compared to the sales levels in the first half of 2011. The higher sales were primarily the result of increased demand and price increases in all of the Company's segments, as well as additional sales resulting from the acquisition of Goodyear's Latin American farm tire business and accompanying supply agreement. For the remainder of 2012, the Company expects sales to continue at strong levels.

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

The labor agreements for the Company's Bryan, Ohio and Freeport, Illinois, facilities expired on November 19, 2010, for the employees covered by their respective collective bargaining agreements, which account for approximately 34% of the Company's employees. As of June 30, 2012, the employees of these two facilities were working without a contract. The respective unions have retained the rights to challenge the Company's actions.

#### AGRICULTURAL MARKET OUTLOOK

Agricultural market sales were significantly higher in the first half of 2012 when compared to the first half of 2011. The addition of Goodyear's Latin American farm tire business, price/mix improvements, and continued strong demand contributed to the higher sales levels. The increase in the global population and the rising middle class in emerging countries may help grow future demand. The gradual increase in the use of biofuels may help sustain future production. Many variables, including weather, grain prices, export markets and future government policies and payments can greatly influence the overall health of the agricultural economy. Current drought conditions in many

parts of the U.S. and the expectations of lower farming yields may result in softer growth, or possibly decline, in the Company's agricultural market sales for the remainder of 2012.

#### EARTHMOVING/CONSTRUCTION MARKET OUTLOOK

Earthmoving and mining sales continue to improve, aided by increases in metals, oil and gas prices. Although they may fluctuate in the short-term, in the long-term, these prices are expected to remain at levels that are attractive for continued investment, which should help support future earthmoving and mining sales. The contracted United States housing market continues to cause a lower demand for equipment used for construction. The earthmoving/construction segment is affected by many variables, including commodity prices, road construction, infrastructure, government appropriations, housing starts and the on-going banking and credit issues. For the remainder of 2012, the Company expects strong demand to continue.

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

CONSUMER MARKET OUTLOOK

Consumer market sales were lower in the second quarter of 2012, when compared to recent quarters. The decrease in net sales was primarily the result of decreased sales from the supply agreement for certain non-agricultural product sales included as part of the Goodyear Latin American farm tire acquisition agreement, which are included in the consumer segment. In May 2012, the Company and Goodyear terminated this supply agreement and entered into an agreement under which Titan will sell these products directly to third party customers and pay a royalty to Goodyear. Consumer market sales may fluctuate from period to period.

TITAN INTERNATIONAL, INC.

PART I. FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See the Company's 2011 Annual Report filed on Form 10-K (Item 7A). There has been no material change in this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

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

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

TITAN INTERNATIONAL, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

See the Company's 2011 Annual Report filed on Form 10-K (Item 1A). There has been no material change in this information.

Item 6. Exhibits

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

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

32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

TITAN INTERNATIONAL, INC.  
(Registrant)

Date: July 25, 2012

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

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

