TITAN INTERNATIONAL INC
Form 10-Q/A
November 09, 2011

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

FORM 10-Q/A

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

For Quarterly Period Ended: June 30, 2011

OR

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

Commission File Number: 1-12936

TITAN INTERNATIONAL, INC.

(Exact name of Registrant as specified in its Charter)

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

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

(217) 228-6011
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

Class	Shares Outstanding at July 25, 2011
Common stock, no par value per share	42,118,565

EXPLANATORY NOTE

This Form 10-Q/A amends the Quarterly Report on Form 10-Q of Titan International, Inc. (Titan or the Company) for the quarter ended June 30, 2011, which was filed with the Securities and Exchange Commission (SEC) on July 27, 2011. This Form 10-Q/A is being filed to restate the financial statements to correct an error of $9.8 million in the recorded value of Titan's Generation 1 super giant tires as of December 31, 2010. In addition, this Form 10-Q/A reflects the reversal of a related inventory decrease of $0.4 million which was previously recorded in the quarter ended June 30, 2011. For more information on this restatement, please refer to Part I, Item 4 – Controls and Procedures and Note 2 of the Notes to Consolidated Condensed Financial Statements.

For the convenience of the reader, this Form 10-Q/A sets forth the Company's original Form 10-Q as filed with the SEC on July 27, 2011 in its entirety, as amended by, and to reflect, the restatement. No attempt has been made in this Form 10-Q/A to update other disclosures presented in the original Form 10-Q, except as required to reflect the effects of the restatement. Accordingly, this Form 10-Q/A should be read in conjunction with Titan's filings made with the SEC subsequent to the filing of the Form 10-Q, including any amendments to those filings.

The following items have been amended as a result of this restatement:

- Part I, Item 1, Financial Statements
- Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operation
- Part I, Item 4, Controls and Procedures

TITAN INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TITAN INTERNATIONAL, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in thousands, except earnings per share data)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	As Restated		As Restated	
Net sales	$404,447	$229,656	$685,276	$426,104
Cost of sales	340,113	195,753	564,670	366,114
Gross profit	64,334	33,903	120,606	59,990
Selling, general & administrative expenses	16,573	12,162	41,866	23,971
Research and development expenses	1,014	1,900	2,197	3,927
Royalty expense	2,350	2,413	5,267	4,534
Income from operations	44,397	17,428	71,276	27,558
Interest expense	(6,149)	(6,790)	(12,429)	(13,846)
Noncash convertible debt conversion charge	0	0	(16,135)	0
Loss on senior note repurchase	0	(2,722)	0	(2,722)
Other income (expense)	2,270	(427)	2,463	(94)
Income before income taxes	40,518	7,489	45,175	10,896
Provision for income taxes	14,962	2,920	22,655	4,249
Net income	25,556	4,569	22,520	6,647
Net (loss) attributable to noncontrolling interests	(8)	0	(8)	0
Net income attributable to Titan	$25,564	$4,569	$22,528	$6,647
Earnings per common share:				
Basic	$.61	$.13	$.55	$.19
Diluted	.50	.12	.47	.19
Average common shares outstanding:				
Basic	41,981	34,815	41,250	34,794
Diluted	53,394	51,407	53,229	35,347
Dividends declared per common share:	$.005	$.005	$.010	$.010

See accompanying Notes to Consolidated Condensed Financial Statements.

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

Assets	June 30, 2011 As Restated	December 31, 2010 As Restated
Current assets:		
Cash and cash equivalents	$114,162	$239,500
Accounts receivable	243,478	89,004
Inventories	174,367	118,143
Deferred income taxes	16,187	16,040
Prepaid and other current assets	29,671	18,663
Total current assets	577,865	481,350
Property, plant and equipment, net	353,546	248,054
Other assets	133,970	51,476
Total assets	$1,065,381	$780,880
Liabilities and Equity		
Current liabilities:		
Short-term debt	$10,330	$0
Accounts payable	114,837	35,281
Other current liabilities	102,352	57,072
Total current liabilities	227,519	92,353
Long-term debt	317,881	373,564
Deferred income taxes	47,921	1,664
Other long-term liabilities	79,364	41,268
Total liabilities	672,685	508,849
Equity:		
Titan stockholder’s equity:		
Common stock(no par, 120,000,000 shares authorized, 44,092,997 and 37,475,288 issued, respectively)	37	30
Additional paid-in capital	377,565	300,540
Retained earnings	31,851	9,744
Treasury stock (at cost, 1,980,116 and 2,108,561 shares, respectively)	(18,172)	(19,324)
Treasury stock reserved for deferred compensation	(1,233)	(1,917)
Accumulated other comprehensive income (loss)	727	(17,042)
Total Titan stockholders’ equity	390,775	272,031
Noncontrolling interests	1,921	0
Total equity	392,696	272,031
Total liabilities and equity	$1,065,381	$780,880

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Number of common shares	Common Stock	Additional paid-in capital	Retained earnings	Treasury stock	Treasury stock reserved for deferred compensation	Accumulated other comprehensive income (loss)	Total Titan	Noncontrolling interest	Total
Balance January 1, 2011 (As Restated)	#35,366,727	$30	$300,540	$9,744	$(19,324)	$(1,917)	$(17,042)	$272,031	$0	$272,031
Comprehensive income (as restated):										
Net income (as restated)				22,528				22,528	(8)	22,520
Currency translation adjustment							2,932	2,932		2,932
Pension liability adjustments, net of tax							1,185	1,185		1,185
Unrealized gain on investment, net of tax							13,652	13,652		13,652
Comprehensive income (as restated)								40,297	(8)	40,289
Dividends on common stock				(421)				(421)		(421)
Note conversion	6,617,709	7	73,902					73,909		73,909
Exercise of stock options	66,375		(119)		596			477		477
Acquisition	50,396		848		452			1,300	1,929	3,229
Stock-based compensation			1,384					1,384		1,384
Deferred compensation transactions			846			684		1,530		1,530
Issuance of treasury stock under 401(k) plan	11,674		164		104			268		268

Balance June 30, 2011 (As Restated)	#42,112,881	$37	$377,565	$31,851	$(18,172)	$(1,233)	$727	$390,775	$1,921	$392,696

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Six months ended June 30, 2011 As Restated	2010
Cash flows from operating activities:		
Net income	$22,520	$6,647
Adjustments to reconcile net income to net cash		
used for operating activities:		
Depreciation and amortization	21,146	18,635
Deferred income tax provision	8,446	5,501
Noncash convertible debt conversion charge	16,135	0
Stock-based compensation	1,384	0
Issuance of treasury stock under 401(k) plan	268	250
Gain on acquisition	(919)	0
Loss on senior note repurchase	0	2,722
(Increase) decrease in current assets, net of acquisitions:		
Accounts receivable	(152,495)	(50,386)
Inventories	(34,968)	(28,282)
Prepaid and other current assets	(6,088)	3,269
Other assets	(222)	(493)
Increase (decrease) in current liabilities, net of acquisitions:		
Accounts payable	77,736	23,790
Other current liabilities	19,269	6,734
Other liabilities	(2,844)	2,419
Net cash used for operating activities	(30,632)	(9,194)
Cash flows from investing activities:		
Capital expenditures	(10,196)	(11,735)
Acquisitions, net of cash acquired	(99,118)	0
Other	1,395	43
Net cash used for investing activities	(107,919)	(11,692)
Cash flows from financing activities:		
Repurchase of senior unsecured notes	(1,064)	(49,744)
Term loan borrowing	14,148	0
Proceeds from exercise of stock options	477	240
Payment of financing fees	0	(186)
Dividends paid	(387)	(353)
Net cash provided by (used for) financing activities	13,174	(50,043)
Effect of exchange rate changes on cash	39	0
Net decrease in cash and cash equivalents	(125,338)	(70,929)
Cash and cash equivalents at beginning of period	239,500	229,182

Cash and cash equivalents at end of period	$114,162	$158,253

See accompanying Notes to Consolidated Condensed Financial Statements.

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

1. ACCOUNTING POLICIES

In the opinion of Titan International, Inc. (Titan or the Company), the accompanying unaudited consolidated condensed financial statements contain all adjustments, which are normal and recurring in nature and necessary for a fair statement of the Company's financial position as of June 30, 2011, the results of operations for the three and six months ended June 30, 2011 and 2010, and cash flows for the six months ended June 30, 2011 and 2010.

Accounting policies have continued without significant change and are described in the Description of Business and Significant Accounting Policies contained in the Company's 2010 Annual Report on Form 10-K/A. 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 amended 2010 Annual Report on Form 10-K/A.

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 senior secured 7.875% notes due 2017 (senior secured notes) and convertible senior subordinated 5.625% notes due 2017 (convertible notes) are carried at cost of $200.0 million and $112.9 million at June 30, 2011, respectively. The fair value of these notes at June 30, 2011, as obtained through independent pricing sources, was approximately $209.0 million for the senior secured notes and approximately $291.5 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, 2011 and 2010. The second quarter 2011 cash dividend of $.005 per share of common stock was paid July 15, 2011, to stockholders of record on June 30, 2011.

2. RESTATEMENT

In the third quarter of 2008, the Company began manufacturing the first generation (Gen 1) of its super giant tires. In the fourth quarter of 2009, the Company ceased manufacturing Gen 1 tires due to the creation of the second generation (Gen 2) of super giant tires which began production in the first quarter of 2010. During the fourth quarter of 2010, the Company recorded a $5.1 million charge to reduce the remaining Gen 1 tire inventory to an estimated market value of $10.6 million. In October of 2011, the Company determined that the analysis performed in the fourth quarter of 2010 that created the $5.1 million adjustment was not reflective of all the facts and circumstances that existed at December

31, 2010. After reconsidering the facts and circumstances that existed at December 31, 2010, the Company determined that the estimated market value of the Gen 1 tires that remained as of December 31, 2010 was $0.7 million. Accordingly, the Company is restating its consolidated financial statements as of and for the year ended December 31, 2010 to reflect an additional charge of $9.8 million for its Gen 1 inventory. In addition, this Form 10-Q/A reflects the reversal of a related inventory decrease of $0.4 million which was previously recorded in the quarter ended June 30, 2011.

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

The following table represents the impact of the restatement adjustments on the Company's Consolidated Condensed Statement of Operations for the three and six months ended June 30, 2011 (amounts in thousands, except share and per share data):

CONSOLIDATED CONDENSED STATEMENTS OF OPERATION (UNAUDITED)

	Three months ended June 30, 2011			Six months ended June 30, 2011		
	Previously Reported	Restatement Adjustment	Restated	Previously Reported	Restatement Adjustment	Restated
Net sales	$404,447	$0	$404,447	$685,276	$0	$685,276
Cost of sales	340,556	(443)	340,113	565,113	(443)	564,670
Gross profit	63,891	443	64,334	120,163	443	120,606
Selling, general and administrative expenses	16,573	0	16,573	41,866	0	41,866
Research and development expenses	1,014	0	1,014	2,197	0	2,197
Royalty expense	2,350	0	2,350	5,267	0	5,267
Income from operations	43,954	443	44,397	70,833	443	71,276
Interest expense	(6,149)	0	(6,149)	(12,429)	0	(12,429)
Noncash convertible debt conversion charge	0	0	0	(16,135)	0	(16,135)
Other income	2,270	0	2,270	2,463	0	2,463
Income before income taxes	40,075	443	40,518	44,732	443	45,175
Income tax provision	14,798	164	14,962	22,491	164	22,655
Net income	25,277	279	25,556	22,241	279	22,520
Net (loss) attributable to noncontrolling interests	(8)	0	(8)	(8)	0	(8)
Net income attributable to Titan	$25,285	$279	$25,564	$22,249	$279	$22,528
Earnings per common share:						
Basic	$.60	$.01	$.61	$.54	$.01	$.55
Diluted	.49	.01	.50	.46	.01	.47
Average common shares and equivalents outstanding:						
Basic	41,981	41,981	41,981	41,250	41,250	41,250
Diluted	53,394	53,394	53,394	53,229	53,229	53,229
Dividends declared per common share	$.005		$.005	$.010		$.010

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

The following table represents the impact of the restatement adjustments on the Company's Consolidated Condensed Balance Sheets (Unaudited) as of June 30, 2011 and December 31, 2010 (amounts in thousands):

CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

	June 30, 2011			December 31, 2010		
Assets	Previously Reported	Restatement Adjustment	Restated	Previously Reported	Restatement Adjustment	Restated
Current assets						
Cash and cash equivalents	$114,162	$0	$114,162	$239,500	$0	$239,500
Accounts receivable	243,478	0	243,478	89,004	0	89,004
Inventories	183,763	(9,396)	174,367	127,982	(9,839)	118,143
Deferred income taxes	13,102	3,085	16,187	12,791	3,249	16,040
Prepaid and other current assets	29,671	0	29,671	18,663	0	18,663
Total current assets	584,176	(6,311)	577,865	487,940	(6,590)	481,350
Property, plant and equipment, net	353,546	0	353,546	248,054	0	248,054
Other assets	133,970	0	133,970	51,476	0	51,476
Total assets	$1,071,692	$(6,311)	$1,065,381	$787,470	$(6,590)	$780,880
Liabilities and Stockholders' Equity						
Current liabilities						
Short-term debt	$10,330	$0	$10,330	$0	$0	$0
Accounts payable	114,837	0	114,837	35,281	0	35,281
Other current liabilities	102,352	0	102,352	57,072	0	57,072
Total current liabilities	227,519	0	227,519	92,353	0	92,353
Long-term debt	317,881	0	317,881	373,564	0	373,564
Deferred income taxes	48,227	(306)	47,921	1,970	(306)	1,664
Other long-term liabilities	79,364	0	79,364	41,268	0	41,268
Total liabilities	672,991	(306)	672,685	509,155	(306)	508,849
Stockholders' equity						
Common stock	37	0	37	30	0	30
Additional paid-in capital	377,565	0	377,565	300,540	0	300,540
Retained earnings	37,856	(6,005)	31,851	16,028	(6,284)	9,744
Treasury stock	(18,172)	0	(18,172)	(19,324)	0	(19,324)
Treasury stock reserved for contractual obligations	(1,233)	0	(1,233)	(1,917)	0	(1,917)
Accumulated other comprehensive income (loss)	727	0	727	(17,042)	0	(17,042)
Total Titan stockholders equity	396,780	(6,005)	390,775	278,315	(6,284)	272,031

Noncontrolling interests	1,921	0	1,921	0	0	0
Total stockholders' equity	398,701	(6,005)	392,696	278,315	(6,284)	272,031
Total liabilities and stockholders' equity	$1,071,692	$(6,311)	$1,065,381	$787,470	$(6,590)	$780,880

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

The following table represents the impact of the restatement adjustments on the Company's cash flows from operating activities for the six months ended June 30, 2011 (amounts in thousands):

	Six Months Ended June 30, 2011		
	Previously Reported	Restatement Adjustment	Restated
Cash flows from operating activities:			
Net income	$22,241	$279	$22,520
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,146	0	21,146
Deferred income tax provision	8,282	164	8,446
Noncash convertible debt conversion charge	16,135	0	16,135
Stock-based compensation	1,384	0	1,384
Issuance of treasury stock under 401(k) plan	268	0	268
Gain on acquisition	(919)	0	(919)
(Increase) decrease in assets:			
Accounts receivable	(152,495)	0	(152,495)
Inventories	(34,525)	(443)	(34,968)
Prepaid and other current assets	(6,088)	0	(6,088)
Other assets	(222)	0	(222)
Increase (decrease) in liabilities:			
Accounts payable	77,736	0	77,736
Other current liabilities	19,269	0	19,269
Other liabilities	(2,844)	0	(2,844)
Net cash used for operating activities	$(30,632)	$0	$(30,632)

The restatement adjustments did not impact the total net cash flows from financing and investing activities in the Consolidated Statement of Cash Flows for the year ended December 31, 2010. Additionally, all amounts in notes to the Consolidated Condensed Financial Statements (Unaudited) affected by the restatements have been labeled as restated.

3. ACQUISITIONS

Acquisition of AII Holdings, Inc.

On April 1, 2011, Titan purchased a 70% controlling interest in AII Holding, Inc. (AII) for $1.3 million of Titan stock and payment of $2.3 million of AII's debt. The fair value of the identified assets acquired less liabilities assumed exceeded the fair value of the consideration transferred and noncontrolling interest. Therefore, a bargain purchase gain of $0.9 million was recorded on the transaction. The Company continues to evaluate the preliminary purchase price allocation, primarily the value of certain deferred taxes and the bargain purchase gain, and may revise the purchase price allocation in future periods as these estimates are finalized.

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, subject to post-closing conditions and adjustments. In addition, there were approximately $1.3 million of acquisition related costs recorded as selling, general and administrative costs during the six months ended June 30, 2011. 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. Net sales and net income from the acquisition date included in the statement of operations was $92.3 million and $4.5 million, respectively.

The Company funded the acquisition with cash on hand. The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values. Inventory was valued using the comparative sales method. Real and personal property was valued using a combination of methodologies outlined by the Brazilian Association of Technical Standards. The excess of the purchase price over the identifiable assets acquired and liabilities assumed was reflected as goodwill. The goodwill was allocated to the agricultural segment. The Company continues to evaluate the preliminary purchase price allocation, primarily the value of certain deferred taxes and goodwill, and may revise the purchase price allocation in future periods as these estimates are finalized.

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

Cash	$1,018
Inventories	14,562
Prepaid & other current assets	4,929
Property, plant & equipment	108,905
Goodwill	21,388
Other assets	39,263
Other current liabilities	(21,127)
Deferred income taxes	(29,477)
Other noncurrent liabilities	(40,823)
Net assets acquired	$98,638

The preliminary purchase price allocation includes $42.5 million for prepaid royalty. The prepaid royalty is for a seven year period and was calculated using a 2% royalty discounted at a 10% rate. The prepaid royalty and discount will be amortized over the seven year period of the agreement. The current portion of the prepaid royalty was $3.9 million and is included in prepaid & other current assets. The noncurrent portion of the prepaid royalty was $38.6 million and is included in other assets.

The preliminary purchase price allocation includes $53.9 million for supply agreement liability which was valued using the incremental income method. The supply agreement liability was recorded as the supply agreements are for sales at below market prices. The liability will be amortized with an offset to cost of sales over the three year life of the agreement. The current portion of the supply agreement was $18.0 million and is included in other current liabilities. The noncurrent portion of the supply agreement was $35.9 million and is included in other noncurrent liabilities.

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, 2010. 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.

Pro forma financial information for the three and six months ended June 30, 2011 and 2010, is as follows :

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2011 As Restated	2010	2011 As Restated	2010

Net sales	$404,447	$257,656	$713,676	$482,104
Net income	25,556	9,490	26,650	16,490
Net income attributable to Titan	25,564	9,490	26,658	16,490
Basic earnings per share	$.61	$.27	$.65	$.47
Diluted earnings per share	.50	.22	.54	.38

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, 2010, nor is it necessarily indicative of Titan's future consolidated results of operations or financial position.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following (in thousands):

	June 30, 2011	December 31, 2010
Accounts receivable	$247,943	$92,893
Allowance for doubtful accounts	(4,465)	(3,889)
Accounts receivable, net	$243,478	$89,004

5. INVENTORIES

Inventories consisted of the following (in thousands):

	June 30, 2011 As Restated	December 31, 2010 As Restated
Raw materials	$90,020	$56,414
Work-in-process	25,249	16,860
Finished goods	68,408	49,841
	183,677	123,115
Adjustment to LIFO basis	(9,310)	(4,972)
	$174,367	$118,143

At June 30, 2011, approximately 33% of the Company's inventories were valued under the last-in, first-out (LIFO) method. At December 31, 2010, approximately 39% 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.

6. PROPERTY, PLANT AND EQUIPMENT, NET

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

	June 30, 2011	December 31, 2010
Land and improvements	$22,401	$3,061
Buildings and improvements	120,911	98,233
Machinery and equipment	458,995	383,231
Tools, dies and molds	86,255	84,134
Construction-in-process	12,892	8,741
	701,454	577,400
Less accumulated depreciation	(347,908)	(329,346)

	$353,546	$248,054

Depreciation on fixed assets for the six months ended June 30, 2011 and 2010, totaled $20.2 million and $17.3 million, respectively.

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

7. INVESTMENT IN TITAN EUROPE PLC

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

	June 30, 2011	December 31, 2010
Investment in Titan Europe Plc	$43,697	$22,693

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 Plc is $5.0 million. Titan's accumulated other comprehensive income includes a gain on the Titan Europe Plc investment of $25.1 million, which is net of tax of $13.5 million. The increased value in the Titan Europe Plc investment at June 30, 2011, was due primarily to a higher publicly quoted Titan Europe Plc market price.

8. GOODWILL

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

	2011	2010
Agricultural segment		
Goodwill balance, January 1	$0	$0
Acquisitions	21,388	0
Foreign currency translation	884	0
Goodwill balance, June 30	$22,272	$0

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. The Company is in the process of finalizing the preliminary purchase price allocation for the acquisition. The final amount of goodwill recorded on this transaction may be adjusted based on the finalized purchase price allocation. Goodwill is included as a component of other assets in the Consolidated Condensed Balance Sheets.

9. WARRANTY

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

	2011	2010
Warranty liability, January 1	$12,471	$9,169
Provision for warranty liabilities	11,394	8,613

Warranty payments made	(9,638)	(7,294)
Warranty liability, June 30	$ 14,227	$ 10,488

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.

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10. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

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

	June 30, 2011	December 31, 2010
7.875% senior notes due 2017	$200,000	$200,000
5.625% convertible senior notes due 2017	112,881	172,500
Other debt	15,330	0
8% senior unsecured notes due January 2012	0	1,064
	328,211	373,564
Less: Amounts due within one year	10,330	0
	$317,881	$373,564

Aggregate maturities of long-term debt at June 30, 2011, were as follows (in thousands):

July 1 – December 31, 2011	$10,330
2012	0
2013	5,000
2014	0
2015	0
Thereafter	312,881
	$328,211

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 Wheel Corporation of Illinois, Titan Tire Corporation of Freeport, and Titan Tire Corporation of Bryan. The Company's senior secured notes outstanding balance was $200.0 million at June 30, 2011.

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, 2011.

In the first quarter of 2011, the Company closed an Exchange Agreement with a note holder of the convertible notes, pursuant to which such holder converted approximately $59.6 million in aggregate principal amount of the Convertible Notes into approximately 6.6 million shares of the Company's common stock, plus a payment for the accrued and unpaid interest. 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.

8% senior unsecured notes due 2012

In the first quarter of 2011, Titan satisfied and discharged the indenture relating to the 8% senior unsecured notes due January 2012 by depositing with the trustee $1.1 million cash representing the outstanding principal of such notes and interest payments due on July 15, 2011, and at maturity on January 15, 2012. Titan irrevocably instructed the trustee to apply the deposited money toward the interest and principal of the notes.

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 2011 and at June 30, 2011, there were no borrowings under the credit facility. Outstanding letters of credit were $12.0 million at June 30, 2011, leaving $88.0 million of unused availability on 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, 2011.

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 Paolo, 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 loan is due May 2013. As of June 30, 2011, the Company had $5.0 million outstanding and the interest rate was approximately 14%

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 that is secured by a $12.0 million line of credit between the Company and Bank of America N.A. under the $100.0 million credit facility. Titan Brazil could borrow up to 16.0 million Brazilian Reais, which equates to approximately $10.2 million dollars as of June 30, 2011, 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, 2011 there was $9.3 million outstanding and the interest rate was approximately 3%.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses a financial derivative to mitigate its exposure to volatility in the interest rate and foreign currency exchange rate in Brazil. The Company uses this derivate instrument 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 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. The Company has not designated this agreement as a hedging instrument. 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, 2011, the Company recorded $0.1 million of other expense and $0.1 million of interest expense related to this derivative.

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12. 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, 2011, future minimum commitments under noncancellable operating leases with initial or remaining terms of at least one year were as follows (in thousands):

July 1 – December 31, 2011	$236
2012	89
2013	21
2014	1
Thereafter	0
Total future minimum lease payments	$347

13. 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 expects to contribute approximately $2 million to the pension plans during the remainder of 2011.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest cost	$1,272	$1,300	$2,544	$2,600
Expected return on assets	(1,315)	(1,227)	(2,630)	(2,454)
Amortization of unrecognized prior service cost	34	34	68	68
Amortization of unrecognized deferred taxes	(14)	(14)	(28)	(28)
Amortization of net unrecognized loss	936	907	1,872	1,814
Net periodic pension cost	$913	$1,000	$1,826	$2,000

14. ROYALTY EXPENSE

The Company has a trademark license agreement with Goodyear to manufacture and sell certain off-highway tires in North America and Latin America under the Goodyear name. The North American and Latin American royalties were prepaid for seven years as a part of the Goodyear Latin American farm tire acquisition. Royalty expenses recorded were $2.4 million and $2.4 million for the quarters ended June 30, 2011 and 2010, respectively. Royalty expenses were $5.3 million and $4.5 million for the six months ended June 30, 2011 and 2010, respectively.

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TITAN INTERNATIONAL, INC.
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15. OTHER INCOME

Other income consisted of the following (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Discount amortization on prepaid royalty	$1,079	$0	$1,079	$0
Gain on purchase transaction	919	0	919	0
Interest income	93	80	238	174
Investment gain (loss) on marketable securities	51	(549)	144	(353)
Other income	128	42	83	85
	$2,270	$(427)	$2,463	$(94)

16. INCOME TAXES

The Company recorded income tax expense of $15.0 million and $22.7 million for the three and six months ended June 30, 2011, respectively, as compared to $2.9 million and $4.2 million for the three and six months ended June 30, 2010. The Company's effective income tax rate was 50% and 39% for the six months ended June 30, 2011 and 2010, 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 Company's convertible debt. This noncash charge is not deductible for income tax purposes.

17. COMPREHENSIVE INCOME

Comprehensive income consisted of the following (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	As Restated		As Restated	
Net income attributable to Titan	$25,564	$4,569	$22,528	$6,647
Unrealized gain on investment, net of tax	14,645	4,186	13,652	3,268
Currency translation adjustment	2,932	0	2,932	0
Pension liability adjustments, net of tax	592	574	1,185	1,149
Comprehensive income attributable to Titan	43,733	9,329	40,297	11,064
Net (loss) attributable to noncontrolling interests	(8)	0	(8)	0
	$43,725	$9,329	$40,289	$11,064

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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, 2011 and 2010 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011 As Restated	2010	2011 As Restated	2010
Revenues from external customers				
Agricultural	$257,268	$175,716	$467,265	$326,828
Earthmoving/construction	76,895	49,498	143,406	91,313
Consumer	70,284	4,442	74,605	7,963
	$404,447	$229,656	$685,276	$426,104
Gross profit				
Agricultural	$47,166	$29,028	$94,866	$52,918
Earthmoving/construction	11,218	4,649	19,413	7,799
Consumer	6,753	807	7,755	1,475
Unallocated corporate	(803)	(581)	(1,428)	(2,202)
	$64,334	$33,903	$120,606	$59,990
Income from operations				
Agricultural	$42,800	$24,827	$85,668	$44,782
Earthmoving/construction	9,702	2,313	15,990	3,003
Consumer	4,821	715	5,737	1,296
Unallocated corporate	(12,926)	(10,427)	(36,119)	(21,523)
Income from operations	44,397	17,428	71,276	27,558
Interest expense	(6,149)	(6,790)	(12,429)	(13,846)
Noncash debt charge	0	0	(16,135)	0
Loss on senior note repurchase	0	(2,722)	0	(2,722)
Other income (expense)	2,270	(427)	2,463	(94)
Income before income taxes	$40,518	$7,489	$45,175	$10,896

Assets by segment were as follows (in thousands):

Total Assets	June 30, 2011 As Restated	December 31, 2010 As Restated
Agricultural segment	$480,464	$304,048
Earthmoving/construction segment	185,794	171,410
Consumer segment	181,024	5,863
Unallocated corporate	218,099	299,559
	$1,065,381	$780,880

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19. EARNINGS PER SHARE

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

	Three months ended,					
	June 30, 2011 As Restated			June 30, 2010		
	Titan Net Income	Weighted average shares	Per share amount	Titan Net Income	Weighted average shares	Per share amount
Basic EPS	$25,564	41,981	$.61	$4,569	34,815	$.13
Effect of stock options/trusts	0	330		0	549	
Effect of convertible notes	1,091	11,083		1,614	16,043	
Diluted EPS	$26,655	53,394	$.50	$6,183	51,407	$.12

	Six months ended,					
	June 30, 2011 As Restated			June 30, 2010		
	Titan Net Income	Weighted average shares	Per share amount	Titan Net Income	Weighted average shares	Per share amount
Basic EPS	$22,528	41,250	$.55	$6,647	34,794	$.19
Effect of stock options/trusts	0	314		0	553	
Effect of convertible notes	2,294	11,665		0	0	
Diluted EPS	$24,822	53,229	$.47	$6,647	35,347	$.19

The effect of convertible notes has been excluded for the six months ended June 30, 2010, as the effect would have been antidilutive. The weighted average share amount excluded for convertible notes totaled 16.0 million shares. There were no stock options/trusts that were antidilutive for the periods presented.

20. 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 (in thousands):

	June 30, 2011			December 31, 2010		
	Total	Level 1	Levels 2&3	Total	Level 1	Levels 2&3
Investment in Titan Europe Plc	$43,697	$43,697	$0	$22,693	$22,693	$0
Investments in marketable securities	12,841	12,841	0	11,168	11,168	0
Total	$56,538	$56,538	$0	$33,861	$33,861	$0

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21. 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 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.

22. RECENTLY ISSUED ACCOUNTING STANDARDS

Business Combinations

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-29, "Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations." This update addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this update were effective prospectively for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows.

Fair Value Measurement

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This update establishes common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments in this update are effective during interim and annual periods beginning after December 15, 2011. The adoption of this update is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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 during interim and annual periods beginning after December 15, 2011. The adoption of this update is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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23. SUBSIDIARY GUARANTOR FINANCIAL INFORMATION

The Company’s 5.625% convertible senior subordinated notes are guaranteed by the following 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 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.

Consolidating Condensed Statements of Operations

(Amounts in thousands)

	For the Three Months Ended June 30, 2011				
	Titan Intl., Inc. (Parent) As Restated	Guarantor Subsidiaries As Restated	Non-Guarantor Subsidiaries	Eliminations As Restated	Consolidated As Restated
Net sales	$0				