TITAN INTERNATIONAL INC
Form 10-K/A
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 2)

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

For the fiscal year ended December 31, 2014

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)

Delaware	36-3228472
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, no par value	New York Stock Exchange (Symbol: TWI)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
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 þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 þ	Accelerated filer ¨
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

The aggregate market value of the shares of common stock of the registrant held by non-affiliates was approximately $739 million based upon the closing price of the common stock on the New York Stock Exchange on June 30, 2014.

As of February 10, 2015, a total of 53,763,016 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the annual meeting of stockholders to be held on June 4, 2015, are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A amends the Titan International, Inc. (Titan or the Company) annual report on Form 10-K for the period ended December 31, 2014, which was originally filed with the Securities and Exchange Commission (SEC) on February 26, 2015. This Form 10-K/A is being filed to restate the financial statements to correct the classification of redeemable noncontrolling interest in the Company's investment in Voltre-Prom to mezzanine equity. The Company's Russian shareholders' agreement contains a settlement put option which may require Titan to purchase the shares of the minority shareholders at a value set by the agreement. As the redeemable noncontrolling interest balance exceeds the carrying value of the investment, this restatement also contains a reclassification of additional paid-in capital to mezzanine equity and a correction in the earnings per share calculation. The corrections to earnings per share did not affect revenues, operating expenses, net income or cash flows. A more detailed description of the restatements made to the financial statements is provided in Note 40 to the consolidated financial statements included with this report. In addition to the restatement as of and for the year ended December 31, 2014, this Form 10-K/A includes a restatement of the balance sheet for the year ended December 31, 2013, and for the periods ended March 31, 2014; June 30, 2014; September 30, 2014; and December 31, 2014.

For the convenience of the reader, this Form 10-K/A sets forth the Company's original Form 10-K as filed with the SEC on February 26, 2015, in its entirety, as amended by, and to reflect, the restatement. No attempt has been made in the Form 10-K/A to update other disclosures presented in the original Form 10-K, except as required to reflect the effects of the restatement. Accordingly, this Form 10-K/A should be read in conjunction with Titan's filings made with the SEC subsequent to the filing of the Form 10-K, including any amendments to those filings. The following items have been amended as a result of this restatement:

- Part I, Item 1A, Risk Factors
- Part II, Item 6, Selected Financial Data
- Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part IV, Item 15, Exhibits and Financial Statement Schedules

TITAN INTERNATIONAL, INC.
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PART I

ITEM 1 – BUSINESS

INTRODUCTION

Titan International, Inc. and its subsidiaries (Titan or the Company) hold the position of being a global wheel, tire and undercarriage industrial group servicing customers across its target markets. As a leading manufacturer in the off-highway industry, Titan produces a broad range of specialty products to meet the specifications of original equipment manufacturers (OEMs) and aftermarket customers in the agricultural, earthmoving/construction and consumer markets. As a manufacturer of both wheels and tires, the Company is uniquely positioned to offer customers added value through complete wheel and tire assemblies. Titan's agricultural market includes rims, wheels, tires and undercarriage systems and components manufactured for use on various agricultural and forestry equipment. Titan's earthmoving/construction market includes rims, wheels, tires and undercarriage systems and components for various types of off-the-road (OTR) earthmoving, mining, military and construction equipment. The Company's consumer market includes bias truck tires in Latin America and light truck tires in Russia, as well as products for all-terrain vehicles (ATVs) and recreational/utility trailers.

As one of the few companies dedicated to off-highway wheels, tires and assemblies, Titan's engineering and manufacturing resources are focused on designing quality products that address the needs of our end-users. Titan's team of experienced engineers continually works on new and improved engineered solutions that evolve with today's applications for the off-highway wheel, tire and assembly markets.

- History

The Company traces its roots to the Electric Wheel Company in Quincy, Illinois, which was founded in 1890. Titan was incorporated in 1983. The Company has grown through six major acquisitions in recent years. In 2005, Titan Tire Corporation, a subsidiary of the Company, acquired The Goodyear Tire & Rubber Company's North American farm tire assets. In 2006, Titan Tire Corporation of Bryan, a subsidiary of the Company, acquired the off-the-road (OTR) tire assets of Continental Tire North America, Inc. In 2011, the Company acquired The Goodyear Tire & Rubber Company's Latin American farm tire business. In August 2012, the Company purchased a 56% controlling interest in Planet Corporation Group, now known as Titan National (Australia) Holdings PTY LTD (TNAH). In October 2012, the Company completed its acquisition of Titan Europe. In October 2013, the Company in partnership with One Equity Partners (OEP) and the Russian Direct Investment Fund (RDIF) closed the acquisition of an 85% interest in Voltyre-Prom, a leading producer of agricultural and industrial tires in Volgograd, Russia. In the first half of 2014, the partnership of Titan, OEP, and RDIF purchased an additional 15% to bring the total Voltyre-Prom ownership to 100% for the partnership. These acquisitions have allowed Titan to expand its global footprint and enhance product offering in the Company's target markets.

- Market Segments

In 2014, Titan's agricultural segment sales represented 54% of net sales, the earthmoving/construction segment represented 32% and the consumer segment represented 14% of net sales.

COMPETITIVE STRENGTHS

Titan's strong market position in the off-highway wheel, tire and undercarriage market, and its long-term core customer relationships contribute to the Company's competitive strengths. Titan produces both wheels and tires which uniquely allows the Company to provide a one-stop solution for its customers' wheel and tire assembly needs. These strengths, along with Titan's dedication to the off-highway equipment market, continue to drive the Company forward.

- Strong Market Position

Titan’s ability to offer a broad range of specialized wheels, tires, assemblies and undercarriage systems and components has resulted in the Company’s strong position in the global off-highway market. Through a diverse dealer network, the Company is able to reach an increasing number of customers in the aftermarket and build Titan’s image and brand recognition. The Company’s acquisition of the Goodyear Farm Tire brand in North America and Latin America contributes to overall visibility and customer confidence. Titan gained a strong presence in Europe and other parts of the world through the 2012 acquisition of Titan Europe. The 2013 acquisition of Voltyre-Prom expanded Titan's footprint into the Commonwealth of Independent States (CIS) region. Years of product design and engineering experience have enabled Titan to improve existing products and develop new ones that have been well received in the marketplace. In addition, Titan believes it has benefited from significant barriers to entry, such as the substantial investment necessary to replicate the Company’s manufacturing equipment and numerous tools, dies and molds, many of which are used in custom processes.

• Wheel and Tire Manufacturing Capabilities
The Company's unique position as a manufacturer of both wheels and tires allows Titan to mount and deliver one of the largest selections of off-highway assemblies in North America. Titan offers this value-added service of one-stop shopping for wheel and tire assemblies for the agricultural, earthmoving/construction and consumer segments. Both standard and Low Sidewall (LSW) assemblies are delivered as a single, complete unit based on each customer's unique requirements.

• Long-Term Core Customer Relationships
The Company's top customers, including global leaders in agricultural and construction equipment manufacturing, have been purchasing products from Titan or its predecessors for numerous years. Customers including AGCO Corporation, Caterpillar Inc., CNH Global N.V., Deere & Company and Kubota Corporation have helped sustain Titan's leadership in wheel, tire and assembly innovation.

BUSINESS STRATEGY
Titan's business strategy is to increase its presence in the segments it serves through its one-stop assembly solutions, including LSW technology. The Company continues to seek global expansion of this complete wheel and tire assembly product offering within the geographies it competes. This may be through strategic worldwide acquisitions or through expanded manufacturing capabilities in regions where the Company lacks either the wheel or the tire production. In addition, Titan continually seeks to improve operating efficiencies and gain additional synergies from more recent acquisitions.

• Giant Mining Tire Product
The Company's 2006 acquisition of the OTR tire assets of Continental Tire North America, Inc. in Bryan, Ohio, expanded Titan's product offering into larger earthmoving, construction and mining tires. The Company subsequently expanded the Bryan facility production capacity to include giant mining tires. The mining tire market is expected to offer long-term opportunities.

• Low Sidewall (LSW) Technology
The Company has developed a LSW tire technology, featuring a larger rim diameter and a smaller sidewall than standard tires. As a cornerstone of the Company's strategy, Titan continues to expand the LSW product offering in both the agricultural and construction segments. Titan's unique capabilities as both a wheel and tire manufacturer allow the Company to drive further adoption within these markets. Titan seeks to be at the forefront of off-road equipment advancement through the innovation of its LSW solution with the belief that it will become the industry standard.

The Company follows an adoption strategy whereby LSW assemblies are placed with certain end users in order to demonstrate the superior performance of this innovative solution. With LSW, these end users experience reduced power hop, road lope, soil compaction, as well as improved safety and performance. Both power hop and road lope, can disturb ride and impede equipment performance. The LSW technology has been widely adopted within the automotive industry for many years. The benefits translate to Titan's markets through superior comfort, ride and fuel economy.

• Increase Aftermarket Tire Business
The Company has concentrated on increasing its presence in the tire aftermarket, which historically has tended to be somewhat less cyclical than the OEM market. The aftermarket also offers the potential for higher profit margins and is a larger market in most cases.

• Improve Operating Efficiencies
The Company constantly works to improve the operating efficiency of its assets and manufacturing facilities. Titan integrates each facility's strengths, which may include transferring equipment and business to the facilities that are best

equipped to handle the work. This provides capability to increase utilization and spread operating costs over a greater volume of products. Titan is also continuing a comprehensive program to refurbish, modernize and enhance the technology of its equipment.

•Enhance Design Capacity and New Product Development

Equipment manufacturers constantly face changing industry dynamics. Titan directs its business and marketing strategy to understand and address the needs of its customers and demonstrate the advantages of its products. In particular, the Company often collaborates with customers in the design of new and enhanced products. Titan recommends modified products to its customers based on its own market information. These value-added services enhance Titan's relationships with its customers. The Company tests new designs and technologies and develops methods of manufacturing to improve product quality and performance. Titan's engineers have introduced designs for giant mining wheels and tires, which employ an innovative steel radial construction technology. Titan has also developed a Low Sidewall (LSW) tire technology, featuring a larger rim diameter and smaller sidewall than standard tires, which helps reduce power hop, road lope, soil compaction, and provides improved safety and performance.

•Explore Additional Strategic Acquisitions

The Company's expertise in the manufacture of off-highway wheels, tires and undercarriage systems and components has permitted it to take advantage of opportunities to acquire businesses that complement this product line. In the future, Titan may make additional strategic acquisitions of businesses that have an off-highway focus. The Company continually explores worldwide opportunities to expand manufacturing and distribution in order to serve new and existing geographies.

For additional information concerning the revenues, certain expenses, income from operations and assets attributable to each of the segments in which the Company operates, see Note 35 to the Company's consolidated financial statements, included in Item 8 of our 2014 Form 10-K.

AGRICULTURAL SEGMENT

Titan's agricultural rims, wheels, tires and undercarriage systems and components are manufactured for use on various agricultural 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. The wheels and rims range in diameter from 9 to 54 inches, with the 54-inch diameter being the largest agricultural wheel manufactured in North America. Basic configurations are combined with distinct variations (such as different centers and a wide range of material thickness) allowing the Company to offer a broad line of products to meet customer specifications. Titan's agricultural tires range from approximately 1 foot to approximately 7 feet in outside diameter and from 5 to 49 inches in width. The Company offers the added value of delivering a complete wheel and tire assembly to customers.

EARTHMOVING/CONSTRUCTION SEGMENT

The Company manufactures rims, wheels, tires and undercarriage systems and components for various types of OTR earthmoving, mining, military, construction and forestry equipment, including skid steers, aerial lifts, cranes, graders and levelers, scrapers, self-propelled shovel loaders, articulated dump trucks, load transporters, haul trucks, backhoe loaders, crawler tractors, lattice cranes, shovels and hydraulic excavators. The earthmoving/construction market is often referred to as OTR, an acronym for off-the-road. The Company provides OEM and aftermarket customers with a broad range of earthmoving/construction wheels ranging in diameter from 20 to 63 inches and in weight from 125 pounds to 7,000 pounds. The 63-inch diameter wheel is the largest manufactured in North America for the earthmoving/construction market. Titan's earthmoving/construction tires range from approximately 3 feet to approximately 13 feet in outside diameter and in weight from 50 pounds to 12,500 pounds. The Company offers the added value of wheel and tire assembly for certain applications in the earthmoving/construction segment.

CONSUMER SEGMENT

Titan manufactures bias truck tires in Latin America and light truck tires in Russia, 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.

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SEGMENT SALES

(Amounts in thousands)	Year ended December 31, 2014		2013		2012	
	Net Sales	% of Total Net Sales	Net Sales	% of Total Net Sales	Net Sales	% of Total Net Sales
Agricultural	$1,016,882	54 %	$1,182,187	55 %	$1,080,412	59 %
Earthmoving/construction	610,596	32 %	749,115	34 %	501,617	28 %
Consumer	268,049	14 %	232,293	11 %	238,649	13 %
	$1,895,527		$2,163,595		$1,820,678	

MARKET CONDITIONS OUTLOOK

In 2014, Titan experienced lower sales than 2013. The lower sales levels were primarily the result of decreased demand for high horsepower equipment used in the agricultural market, and decreased demand in the earthmoving/construction segment primarily for products used in the mining industry. These decreases were partially offset by increased demand for products used in the construction industry. In addition, competitive pressures resulting in price erosion, negatively impacted both sales and margins.

OPERATIONS

Titan's operations include manufacturing wheels, manufacturing tires, combining these wheels and tires into assemblies, and manufacturing undercarriage systems and components for use in the agricultural, earthmoving/construction and consumer markets. These operations entail many manufacturing processes in order to complete the finished products.

- Wheel Manufacturing Process

Most agricultural wheels are produced using a rim and a center disc. A rim is produced by first cutting large steel sheets to required width and length specifications. These steel sections are rolled and welded to form a circular rim, which is flared and formed in the rollform operation. The majority of discs are manufactured using presses that both blank and form the center to specifications in multiple stage operations. The Company e-coats wheels using a multi-step process prior to the final paint top coating.

Large earthmoving/construction steel wheels are manufactured from hot and cold-rolled steel sections. Hot-rolled sections are generally used to increase cross section thickness in high stress areas of large diameter wheels. A special cold forming process for certain wheels is used to increase cross section thickness while reducing the number of wheel components. Rims are built from a series of hoops that are welded together to form a rim base. The complete rim base is made from either three or five separate parts that lock together after the rubber tire has been fitted to the wheel and inflated.

For most wheels in our consumer segment, the Company manufactures rims and center discs from steel sheets. Rims are rolled and welded, and discs are stamped and formed from the sheets. The manufacturing process then entails welding the rims to the centers and painting the assembled product.

- Tire Manufacturing Process

The first stage in tire production is the mixing of rubber, carbon black and chemicals to form various rubber compounds. These rubber compounds are then extruded and processed with textile or steel materials to make specific components. These components – beads (wire bundles that anchor the tire with the wheel), plies (layers of fabric that give the tire strength), belts (fabric or steel fabric wrapped under the tread in some tires), tread and sidewall – are then assembled into an uncured tire carcass. The uncured carcass is placed into a press that molds and vulcanizes the carcass under set time, temperature and pressure into a finished tire.

- Wheel and Tire Assemblies

The Company's position as a manufacturer of both wheels and tires allows Titan to mount and deliver one of the largest selections of off-highway assemblies in North America. Titan offers this value-added service of one-stop shopping for wheel and tire assemblies for the agricultural, earthmoving/construction and consumer segments. Both standard and LSW assemblies are delivered as a single, complete unit based on each customer's unique requirements.

- Undercarriage Manufacturing Process

The undercarriage components (track groups, track and carrier rollers, idler assemblies and sprockets) are all manufactured from steel and produced according to specifications.

All of the track groups produced by the Company are built from four major parts: shoes, right and left hand links, pins and bushings. Shoes are manufactured from steel cast in the Company foundry or obtained from different shapes of hot rolled profiles (depending on application), sheared to length, and then heat treated for high wear bending and breaking resistance. Right and left hand links are hot forged, trimmed, mass heat treated, machined and finally induction hardened on rail surface for optimal wear and fatigue resistance. Pins are made from round bars that are cut, machined, heat treated and surface finished. Bushings are generally cold extruded, machined, mass heat treated, and finally carburized or induction hardened for wear resistance and optimal toughness.

The lifetime lubricated and maintenance free track and carrier rollers are assembled with two major components: single or double flange roller shells (typically hot forged in halves, deep hardened, friction or arc welded and finish machined with metallurgical characteristics depending upon size and application) and shafts (generally cut from bars or forged, mass heat treated, rough machined, induction hardened and ground).

The idler assemblies are also lifetime lubricated, for virtually no maintenance. They are offered with cast (single web or hollow design) or fabricated shells, depending on size and application, and feature induction hardened tread surfaces for optimal wear resistance.

The sprockets, designed to transfer the machine driving loads from the final drive to the track, are produced cast or forged in several geometric options, depending upon size and application. They are also heat treated for wear resistance and cracking resistance.

The undercarriage systems, custom designed and produced by the Company, consist of a structured steel fabricated frame, all the undercarriage components mentioned above (track groups, track and carrier rollers, sprockets and idler assemblies) and a final drive. They are completely assembled in house, for consistent quality.

•Quality Control
The Company is ISO certified at all five main domestic manufacturing facilities located in Bryan, Ohio; Des Moines, Iowa; Freeport, Illinois; Quincy, Illinois; and Saltville, Virginia, and at the majority of the foreign manufacturing facilities, as well. The ISO series is a set of related and internationally recognized standards of management and quality assurance. The standards specify guidelines for establishing, documenting and maintaining a system to ensure quality. The ISO certifications are a testament to Titan’s dedication to providing quality products for its customers.

RAW MATERIALS
Steel and rubber are the primary raw materials used by the Company in all segments. To ensure a consistent steel supply, Titan purchases raw steel from key steel mills and maintains relationships with steel processors for steel preparation. The Company is not dependent on any single producer for its steel supply. Rubber and other raw materials for tire manufacture represent some of the Company’s largest commodity expenses. Titan buys rubber in markets where there are usually several sources of supply. In addition to the development of key domestic suppliers, the Company’s strategic procurement plan includes international steel and rubber suppliers to assure competitive price and quality in the global marketplace. As is customary in the industry, the Company does not have long-term contracts for the purchase of steel or rubber and, therefore, purchases are subject to price fluctuations. Titan has developed a procurement strategy and practice that will mitigate price risk and lower cost.

CAPITAL EXPENDITURES