

HOME DEPOT INC  
Form 10-Q  
June 03, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended May 2, 2010**

**- OR -**

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

**For the transition period from        to**

**Commission file number 1-8207**

**THE HOME DEPOT, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of

incorporation or organization)

**95-3261426**

(I.R.S. Employer Identification Number)

**2455 Paces Ferry Road N.W., Atlanta, Georgia**

(Address of principal executive offices)

**30339**

(Zip Code)

**(770) 433-8211**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 for 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 x No "

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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 (§232.405) 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, a non-accelerated filer, or a smaller reporting company. See the 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  Smaller reporting company   
(Do not check if a smaller reporting company)

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

### **APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

\$0.05 par value 1,680,353,844 shares of common stock, as of May 28, 2010

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**THE HOME DEPOT, INC. AND SUBSIDIARIES**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****THE HOME DEPOT, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS****(Unaudited)**

<i>amounts in millions, except per share data</i>	<b>Three Months Ended</b>	
	<b>May 2, 2010</b>	<b>May 3, 2009</b>
<b>NET SALES</b>	\$16,863	\$16,175
Cost of Sales	11,069	10,725
<b>GROSS PROFIT</b>	5,794	5,450
Operating Expenses:		
Selling, General and Administrative	4,078	4,042
Depreciation and Amortization	411	428
Total Operating Expenses	4,489	4,470
<b>OPERATING INCOME</b>	1,305	980
Interest and Other (Income) Expense:		
Interest and Investment Income	(4)	(5)
Interest Expense	142	180
Other	51	-
Interest and Other, net	189	175
<b>EARNINGS BEFORE PROVISION FOR INCOME TAXES</b>	1,116	805
Provision for Income Taxes	391	291
<b>NET EARNINGS</b>	\$ 725	\$ 514
Weighted Average Common Shares	1,677	1,683
<b>BASIC EARNINGS PER SHARE</b>	\$ 0.43	\$ 0.31
Diluted Weighted Average Common Shares	1,688	1,689
<b>DILUTED EARNINGS PER SHARE</b>	\$ 0.43	\$ 0.30
Dividends Declared Per Share	\$ 0.23625	\$ 0.225

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents****THE HOME DEPOT, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)***amounts in millions, except share and per share data*

	<b>May 2, 2010</b>	<b>January 31, 2010</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,436	\$ 1,421
Short-Term Investments	6	6
Receivables, net	1,342	964
Merchandise Inventories	11,479	10,188
Other Current Assets	1,383	1,321
<b>Total Current Assets</b>	<b>16,646</b>	<b>13,900</b>
Property and Equipment, at cost	37,653	37,345
Less Accumulated Depreciation and Amortization	12,249	11,795
<b>Net Property and Equipment</b>	<b>25,404</b>	<b>25,550</b>
Goodwill	1,192	1,171
Other Assets	377	256
<b>Total Assets</b>	<b>\$43,619</b>	<b>\$40,877</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$ 7,051	\$ 4,863
Accrued Salaries and Related Expenses	1,154	1,263
Sales Taxes Payable	544	362
Deferred Revenue	1,225	1,158
Income Taxes Payable	400	108
Current Installments of Long-Term Debt	2,021	1,020
Other Accrued Expenses	1,582	1,589
<b>Total Current Liabilities</b>	<b>13,977</b>	<b>10,363</b>
Long-Term Debt, excluding current installments	7,676	8,662
Other Long-Term Liabilities	2,356	2,140
Deferred Income Taxes	239	319
<b>Total Liabilities</b>	<b>24,248</b>	<b>21,484</b>

**STOCKHOLDERS EQUITY**

Common Stock, par value \$0.05; authorized: 10 billion shares; issued: 1.720 billion shares at May 2, 2010 and 1.716 billion shares at January 31, 2010; outstanding: 1.686 billion shares at May 2, 2010 and 1.698 billion shares at January 31, 2010	86	86
Paid-In Capital	6,321	6,304
Retained Earnings	13,552	13,226
Accumulated Other Comprehensive Income	506	362
Treasury Stock, at cost, 34 million shares at May 2, 2010 and 18 million shares at January 31, 2010	(1,094)	(585)
<b>Total Stockholders Equity</b>	<b>19,371</b>	<b>19,393</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$43,619</b>	<b>\$40,877</b>

*See accompanying Notes to Consolidated Financial Statements.*

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**THE HOME DEPOT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<i>amounts in millions</i>	<b>Three Months Ended</b>	
	<b>May 2, 2010</b>	<b>May 3, 2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Earnings	\$ 725	\$ 514
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	438	453
Stock-Based Compensation Expense	64	54
Changes in Assets and Liabilities:		
Increase in Receivables, net	(367)	(337)
Increase in Merchandise Inventories	(1,227)	(734)
Increase in Other Current Assets	(66)	(127)
Increase in Accounts Payable and Accrued Expenses	2,131	1,798
Increase in Deferred Revenue	61	82
Increase in Income Taxes Payable	289	67
Decrease in Deferred Income Taxes	(63)	(94)
Other	54	51
<b>Net Cash Provided by Operating Activities</b>	<b>2,039</b>	<b>1,727</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital Expenditures	(167)	(172)
Proceeds from Sales of Property and Equipment	27	70
Proceeds from Sales and Maturities of Investments	-	19
<b>Net Cash Used in Investing Activities</b>	<b>(140)</b>	<b>(83)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of Long-Term Debt	(5)	(4)
Proceeds from Sales of Common Stock	11	2
Repurchases of Common Stock	(508)	-
Cash Dividends Paid to Stockholders	(399)	(381)
Other Financing Activities	8	426
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(893)</b>	<b>43</b>
Increase in Cash and Cash Equivalents	1,006	1,687
Effect of Exchange Rate Changes on Cash and Cash Equivalents	9	8
Cash and Cash Equivalents at Beginning of Period	1,421	519
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$2,436</b>	<b>\$2,214</b>

*See accompanying Notes to Consolidated Financial Statements.*





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**THE HOME DEPOT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

<i>amounts in millions</i>	Three Months Ended	
	May 2, 2010	May 3, 2009
Net Earnings	\$725	\$514
Other Comprehensive Income:		
Foreign Currency Translation Adjustments	151	41
Cash Flow Hedges <sup>(1)</sup>	(7)	(3)
Unrealized Gain on Investments <sup>(1)</sup>	-	1
Total Other Comprehensive Income	144	39
Comprehensive Income	\$869	\$553

*(1) These components of comprehensive income are reported net of income taxes.*

*See accompanying Notes to Consolidated Financial Statements.*

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**THE HOME DEPOT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles ( GAAP ) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2010, as filed with the Securities and Exchange Commission.

**Business**

The Home Depot, Inc. and its subsidiaries (the Company ) operate The Home Depot stores, which are full-service, warehouse-style stores averaging approximately 105,000 square feet in size. The stores stock approximately 30,000 to 40,000 different kinds of building materials, home improvement supplies and lawn and garden products that are sold to do-it-yourself customers, do-it-for-me customers and professional customers.

**Valuation Reserves**

As of May 2, 2010 and January 31, 2010, the valuation allowances for Merchandise Inventories and uncollectible Receivables were not material.

**Reclassifications**

Certain amounts in the prior fiscal period have been reclassified to conform with the presentation adopted in the current fiscal period.

**2. DEBT GUARANTEE EXTENSION**

In connection with the sale of HD Supply, Inc. ( HD Supply ) on August 30, 2007, the Company guaranteed a \$1.0 billion senior secured amortizing term loan ( guaranteed loan ) of HD Supply. The Company is responsible for up to \$1.0 billion and any unpaid interest in the event of nonpayment by HD Supply. The guaranteed loan is collateralized by certain assets of HD Supply. The original expiration date of the guarantee was August 30, 2012. On March 19, 2010, the Company amended the guarantee to extend the expiration date to April 1, 2014. The fair value of the guarantee at August 30, 2007 was \$16 million and was recorded as a liability of the Company in Other Long-Term Liabilities. The extension of the guarantee increased the fair value of the guarantee to \$67 million, resulting in a \$51 million charge to Interest and Other, net, for the first quarter of fiscal 2010.

**3. RATIONALIZATION CHARGES**

In fiscal 2008, the Company reduced its square footage growth plans to improve free cash flow, provide stronger returns for the Company and invest in its existing stores to continue improving the customer experience. As a result of this store rationalization plan, the Company determined that it would no longer pursue the opening of approximately 50 U.S. stores that had been in its new store pipeline. The Company expects to dispose of or sublet these pipeline locations over varying periods. The Company also closed 15 underperforming U.S. stores in the second quarter of fiscal 2008, and the Company expects to dispose of or sublet those locations over varying periods.

Also in fiscal 2008, the Company announced that it would exit its EXPO, THD Design Center, Yardbirds and HD Bath businesses (the Exited Businesses ) in order to focus on its core The Home Depot stores. The Company closed the Exited Businesses in the first quarter of fiscal 2009, and expects to dispose of or sublet those locations over varying periods. These steps impacted approximately 5,000 associates in those locations, their support functions and their distribution centers.



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Finally, in January 2009 the Company also restructured its support functions to better align the Company's cost structure. These actions impacted approximately 2,000 associates.

The Company recognized total pretax charges of \$146 million for fiscal 2009, including \$117 million in the first quarter of fiscal 2009, and \$951 million for fiscal 2008 related to these actions (collectively, the Rationalization Charges). The Company did not incur any charges related to these actions in the first quarter of fiscal 2010 and does not expect any further charges related to these actions.

Activity related to Rationalization Charges for the first quarter of fiscal 2010 was as follows (amounts in millions):

	Accrued Balance January 31, 2010	Cash Uses	Non-cash Uses	Accrued Balance May 2, 2010
Asset impairments	\$ 23	\$	\$	\$ 23
Lease obligation costs, net	191	14		177
<b>Total</b>	<b>\$214</b>	<b>\$ 14</b>	<b>\$</b>	<b>\$ 200</b>

Costs related to asset impairments and lease obligations are included in Selling, General and Administrative expenses. Asset impairment charges, including contractual costs to complete certain assets, were determined based on fair market value using market data for each individual property. Lease obligation costs represent the present value of contractually obligated rental payments offset by estimated sublet income, including estimates of the time required to sublease the locations. The payments related to the leased locations therefore are not generally incremental uses of cash.

**4. FAIR VALUE MEASUREMENTS**

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 Observable inputs that reflect quoted prices in active markets
- 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 the Company to develop its own assumptions

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The assets and liabilities of the Company that are measured at fair value on a recurring basis as of May 2, 2010 and January 31, 2010 are as follows (amounts in millions):

Fair Value at May 2, 2010 Using			Fair Value at January 31, 2010 Using		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3

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Available-for-sale securities	\$6	\$	\$	\$6	\$	\$
Derivative agreements - assets		30			15	
Derivative agreements - liabilities		(65)			(4)	

Total

- (a) The Goodyear North American Farm Assets column includes the following pro forma numbers for the period of October 1, 2005, to December 28, 2005 (amounts in thousands): Sales \$53,078; Cost of sales \$48,639; and Selling, general & administrative \$1,634.
- (b) To record the difference in depreciation between the actual depreciation recorded on the Goodyear North American farm tire assets and the Continental off-the-road tire assets and the calculated amount if the Company had acquired these assets on January 1, 2005. The difference is the result of differing asset values and lives. The Company uses straight-line depreciation with the following lives: Buildings 25 years; Machinery & Equipment 10 years; Tools, Dies and Molds 5 years.
- (c) To record 2% trademark and technology royalty on certain tire sales pursuant to the Goodyear asset purchase agreement.
- (d) To record the additional interest of \$5,764 for the Goodyear acquisition for the year ended December 31, 2005. Interest is calculated using a rate of 6.03% derived from the terms of the Company's revolving credit facility, which was LIBOR plus 3% during the period. The pro forma adjustment for interest would have been one hundred twenty thousand dollars (\$120,000) higher or lower if the interest rate had been 1/8% higher or lower. Also, to record the additional interest of \$3,329 for the Continental off-the-road tire acquisition for the year ended December 31, 2005. Interest is calculated using a rate of 6.29% derived from the terms of the Company's revolving credit facility, which was LIBOR plus 3% during the period. The pro forma adjustment for interest

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would have been sixty-six thousand dollars (\$66,000) higher or lower if the interest rate had been 1/8% higher or lower.

- (e) To record the decrease in interest paid on the convertible notes, assuming that all outstanding notes were converted on January 1, 2005. If all notes were converted per the terms of the conversion offer in this prospectus, there would be an additional 6,577,200 shares of our stock outstanding. For each 10% of the notes not converted, the additional shares would be decreased by 657,720 shares and interest expense would increase by approximately \$570,000.
- (f) To record income tax provision at a 40% rate. The historical tax benefit of \$13.9 million results from the reversal of our valuation allowance. Pro forma tax expense is recorded at the historical provision rate before the valuation allowance reversal.
- (g) The Goodyear North American farm tire assets and Continental off-the-road assets along with the corresponding pro forma entries increase pro forma basic earnings per share by \$.38 and pro forma diluted earnings per share by \$.32. The pro forma note conversion entries, assuming all notes are converted, decrease pro forma basic earnings per share by \$.13 and pro forma diluted earnings per share by \$.07. For each 10% of the notes not converted, the average shares outstanding would be decreased by 657,720 shares and pro forma earnings per share, basic, would decrease by approximately \$.01 (one cent).

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**PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)  
NINE MONTHS ENDED SEPTEMBER 30, 2006**

	<b>Historical Titan</b>	<b>Continental(a)</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma Titan</b>
	<b>(Amounts in thousands, except per share date)</b>			
Net sales	\$ 513,891	\$ 82,342	\$ 0	\$ 596,233
Cost of sales	443,255	62,201	1,028(b)	506,484
Gross profit	70,636	20,141	(1,028)	89,749
Selling, general & administrative expenses	30,312	4,152	0	34,464
Royalty expense	3,952	0	0	3,952
Idled assets marketed for sale depreciation	2,722	0	0	2,722
Income (loss) from operations	33,650	15,989	(1,028)	48,611
Interest expense	(11,997)	0	(2,360)(c)	(10,764)
Other income	2,820	611	0	3,431
Income before income taxes	24,473	16,600	205	41,278
Provision for income taxes	9,789	0	6,722(e)	16,511
Net income (loss)	\$ 14,684	\$ 16,600	\$ (6,517)	\$ 24,767
Income per common share(f)				
Basic	\$ .75			\$ .94
Diluted	.65			.93
Average common shares and equivalent outstanding Basic	19,671		6,577(d)	26,248
Diluted	26,027			26,590

- (a) The Continental column includes the following pro forma numbers for the period of July 1, 2006, to July 31, 2006 (amounts in thousands): Sales \$11,763; Cost of sales \$8,886; Selling, general & administrative \$593; and Other income \$87.
- (b) To record the difference in depreciation between the actual depreciation recorded on the Continental off-the-road tire assets and the calculated amount if the Company had acquired these assets on January 1, 2006. The difference is the result of differing asset values and lives. The Company uses straight-line depreciation with the following lives: Buildings 25 years; Machinery & Equipment 10 years; Tools, Dies and Molds 5 years.
- (c) To record the additional interest for the Continental off-the-road tire acquisition for the nine months ended September 30, 2006. Interest is calculated using a rate of 7.76% derived from the terms of the Company's revolving credit facility, which was LIBOR plus 3% during the period. The pro forma adjustment for interest would have been thirty-eight thousand dollars (\$38,000) higher or lower if the interest rate had been 1/8% higher or lower.

- (d) To record the decrease in interest paid on the convertible notes, assuming that all outstanding notes were converted on January 1, 2005. If all notes were converted per the terms of the conversion offer in this prospectus, there would be an additional 6,577,200 shares of our stock outstanding. For each 10% of the notes not converted, the additional shares would be decreased by 657,720 shares and interest expense would increase by approximately \$359,000.
- (e) To record income tax provision at a 40% rate, the historical provision rate.
- (f) The Continental off-the-road assets along with the corresponding pro forma entries increase pro forma basic earnings per share by \$.40 and pro forma diluted earnings per share by \$.30. The pro forma note conversion entries, assuming all notes are converted, decrease pro forma basic earnings per share by \$.21 and pro forma diluted earnings per share by \$.02. For each 10% of the notes not converted, the average shares outstanding would be decreased by 657,720 shares and pro forma earnings per share, basic, would decrease by approximately \$.02 (two cents).



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**The Conversion Offer**

The company	Titan International, Inc.
The Convertible Notes	5.25% Senior Convertible Notes due 2009. The Convertible Notes are governed by an Indenture, dated as of July 26, 2004 (the Indenture ), among the Company and U.S. Bank National Association as trustee.
The conversion offer	Upon the conversion to common stock of each Convertible Note in the conversion offer, we are offering to increase the current conversion rate, as more fully discussed below, on terms and subject to the conditions set forth herein.
Purposes of the conversion offer	The purposes of the conversion offer are to induce the conversion to common stock of any and all of the outstanding Convertible Notes to reduce our ongoing fixed interest obligations, and to improve the trading liquidity of our common stock by increasing the number of outstanding shares of common stock available for trading.
Conversion	The Convertible Notes will be convertible at a conversion rate of 81.0 shares of common stock per \$1,000 principal amount of notes, less any fractional shares, subject to adjustment in accordance with the terms of the Convertible Notes. We are not required to issue fractional shares of common stock upon conversion of the Convertible Notes. Instead, we will pay a cash adjustment for such fractional shares based upon the closing price of the common stock on the business day preceding the settlement date.
Expiration date	Tuesday, March 20, 2007, unless extended or earlier terminated by us. For example, we may extend the expiration date of this conversion offer so that the expiration date occurs upon or shortly after the satisfaction of the conditions to the conversion offer.
Settlement date	The settlement date in respect of any Convertible Notes validly surrendered for conversion prior to 5:00 p.m., New York City time, on the expiration date is expected to occur promptly following the expiration date.
How to surrender Convertible Notes	See The Conversion Offer Procedures for Surrendering Convertible Notes in the Conversion Offer and the attached letter of transmittal. For further information, you may call the conversion agent at the telephone number set forth on the back cover of this conversion offer prospectus, or consult your broker, dealer, commercial bank, trust company or other nominee for assistance.
Withdrawal and revocation rights	Convertible Notes surrendered for conversion may be validly withdrawn at any time up until 5:00 p.m., New York City time, on the expiration date. In addition, surrendered Convertible Notes may be validly withdrawn after the expiration date if the Convertible Notes have not been

accepted for conversion after the expiration of 40 business days from February 21, 2007. If the conversion offer is terminated, the Convertible Notes surrendered in the conversion offer will be promptly returned to the surrendering holders.

Conditions precedent to the conversion offer

Our obligation to increase the conversion rate in respect of Convertible Notes validly surrendered for conversion pursuant to the conversion offer is contingent upon the satisfaction of certain conditions. See The Conversion Offer Conditions to the Conversion Offer.

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Material U.S. federal income tax considerations	For a discussion of the material U.S. federal income tax considerations of this conversion offer, see Material U.S. Federal Income Tax Considerations.
Use of proceeds	We will not receive any cash proceeds from the surrender of Convertible Notes in the conversion offer.
Brokerage commissions	No brokerage commissions are payable by the holders of Convertible Notes to the dealer manager, the information agent, the conversion agent, the trustee or us.
Dealer manager	Merrill Lynch, Pierce, Fenner & Smith Incorporated is the dealer manager for the conversion offer. Merrill Lynch's address and telephone number are included on the back cover of this conversion offer prospectus.
Information agent	Global Bondholder Services Corporation is the information agent for the conversion offer. Its address and telephone number are included on the back cover of this conversion offer prospectus.
Conversion agent	Global Bondholder Services Corporation is the conversion agent for the conversion offer. Its address and telephone number are included on the back cover of this conversion offer prospectus.
Regulatory approvals	We are not aware of any other material regulatory approvals necessary to complete the conversion offer, other than the obligation to have the registration statement of which this conversion offer prospectus forms a part declared effective by the SEC, to file a Schedule TO with the SEC and to otherwise comply with applicable securities laws.
No appraisal rights	Holders of Convertible Notes have no appraisal rights in connection with the conversion offer.
Further information	If you have questions regarding the conversion offer, please contact the dealer manager, Merrill Lynch & Co. You may call Merrill Lynch toll-free at (888) 654-8637 or collect at (212) 449-4914. If you have questions regarding the procedures for converting your Convertible Notes in the conversion offer, please contact Global Bondholder Services Corporation, the conversion agent, at (212) 430-3774. If you require additional conversion offer materials, please contact Global Bondholder Services Corporation, the information agent, at (866) 470-3900. You may also write to any of these entities at one of their respective addresses set forth on the back cover of this conversion offer prospectus.

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**RISK FACTORS**

*You should consider carefully each of the following risks and all of the other information set forth in this conversion offer prospectus before deciding whether to surrender Convertible Notes for conversion in the conversion offer. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks and uncertainties develop into actual events, those events could have a material adverse effect on our business, financial condition or results of operations.*

**Risks Related to the Conversion Offer**

***Upon consummation of the conversion offer, holders who surrender their Convertible Notes for common stock will lose their rights under the Convertible Notes, including, without limitation, their rights to future interest and principal payments and their rights as a creditor of the Company.***

If you surrender your Convertible Notes for conversion into our common stock pursuant to the conversion offer, you will be giving up all of your rights as a holder of Convertible Notes, including, without limitation, your right to future interest and principal payments with respect to the Convertible Notes. You will also cease to be a creditor of the Company. Any shares of common stock that are issued upon conversion of the Convertible Notes will be, by definition, junior to claims of the Company's creditors which, in turn, are effectively subordinate to the claims of the creditors of the Company's subsidiaries. In addition, the Company may not be able to pay dividends on the common stock until after it has satisfied its debt obligations.

***Our ability to pay dividends on our common stock is limited.***

Payment of dividends on our common stock will depend on the earnings and cash flows of our business and that of subsidiaries, and on our subsidiaries' ability to pay dividends or to advance or repay funds to us. Before declaring any dividend, our board of directors will consider factors that ordinarily affect dividend policy, such as earnings, cash flow, estimates of future earnings and cash flow, business conditions, regulatory factors, our financial condition and other matters within its discretion, as well as contractual restrictions on our ability to pay dividends. We may not be able to pay dividends in the future or, if paid, we cannot assure you that the dividends will be in the same amount or with the same frequency as in the past.

Any payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our board of directors. Further, our revolving credit facility and the indenture governing our senior unsecured notes may restrict our ability to pay cash dividends. Agreements governing future indebtedness will likely contain restrictions on our ability to pay cash dividends.

***Our board of directors has not made a recommendation as to whether you should convert your Convertible Notes into common stock in the conversion offer, and we have not obtained a third-party determination that the conversion offer is fair to holders of our Convertible Notes.***

Our board of directors has not made, and will not make, any recommendation as to whether holders of Convertible Notes should convert their Convertible Notes into common stock pursuant to the conversion offer. We have not retained and do not intend to retain any unaffiliated representative to act solely on behalf of the holders of the Convertible Notes for purposes of negotiating the terms of this conversion offer, or preparing a report or making any recommendation concerning the fairness of this conversion offer.

***The market price and value of our common stock may fluctuate, and reductions in the price of our common stock could make the Convertible Notes a less attractive investment.***

The market price of our common stock may fluctuate widely in the future. If the market price of our common stock declines, the value of the shares of common stock you would receive upon conversion of your Convertible Notes will decline. The trading value of our common stock could fluctuate depending upon any number of specific or general factors, many of which are beyond our control. See [Risks Related to Our Business](#) and [Risks Related to Our Capital Stock](#) below.

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***Future sales of shares of our common stock may depress its market price.***

Sales of substantial numbers of additional shares of common stock, including up to 6,577,200 shares of common stock underlying the Convertible Notes being registered as part of the conversion offer and sales of shares that may be issued in connection with future acquisitions, or the perception that such sales could occur, may have a harmful effect on prevailing market prices for our common stock and our ability to raise additional capital in the financial markets at a time and price favorable to us. Our amended and restated certificate of incorporation provides that we have authority to issue 60,000,000 shares of common stock. As of December 31, 2006, there were approximately 19,898,902 shares of common stock outstanding, approximately 1,150,060 shares of common stock issuable upon exercise of currently outstanding stock options and approximately 6,014,815 shares of common stock issuable upon conversion of our Convertible Notes (without taking into account the conversion offer). The Convertible Notes are currently convertible at a conversion rate of 74.0741 shares of common stock per \$1,000 principal amount of notes, subject to adjustment. The number of shares of our common stock to be issued in the conversion offer is based on the increased conversion rate of 81.0 shares of common stock per \$1,000 principal amount of notes, subject to adjustment. All of the shares of our common stock to be issued in the conversion offer to holders who are not our affiliates will be freely tradable.

***Our stock price may fluctuate significantly.***

The market price of our common stock has been subject to volatility and, in the future, may fluctuate substantially due to a variety of factors, including, among others:

- quarterly fluctuations in our operating results and earnings per share;
- changes in our business, operations or prospects;
- market and economic conditions;
- future acquisitions;
- developments in our relationships with our customers;
- outcome of our legal proceedings;
- the dilutive effect of the issuance of additional common stock in this conversion offer; and
- sales of common stock by us or our shareholders, or the perception that such sales may occur.

In addition, the stock markets have, in recent years, experienced significant price fluctuations. Many companies experienced material fluctuations in their stock price that were not proportionate to their operating performance. Broad market fluctuations, general economic conditions and specific conditions in the industries in which we operate may adversely affect the market price of our common stock.

***We may withhold 30% of the fair market value of the shares of common stock payable to Non-U.S. Holders that is attributable to the adjustment in the conversion rate pursuant to the conversion offer.***

We may withhold taxes equal to 30% of the fair market value of the shares of common stock payable to each Non-U.S. Holder, as defined below, that is attributable to the adjustment in the conversion rate pursuant to the conversion offer, and submit the withheld amount to the Internal Revenue Service unless such Non-U.S. Holder

provides us or our paying agent with the applicable forms to demonstrate an exemption from or entitlement to a reduced withholding tax rate. See *Material U.S. Federal Income Tax Considerations – Non-U.S. Holders Consequences of the Conversion*. Non-U.S. Holders should consult their own tax advisors regarding the application of the withholding tax rules to their particular circumstances, including the possibility of filing a claim for a refund of any tax withheld.

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**Risks Related to Holding Convertible Notes after the Conversion Offer**

***You may have difficulty selling the Convertible Notes that you do not convert.***

The Convertible Notes are not listed on any national securities exchange and there is no established trading market for these notes. A substantial majority of the Convertible Notes are traded on the PORTAL<sup>sm</sup> system of The NASDAQ Stock Market, Inc. However, we cannot assure you that an efficient or liquid trading market exists or will be able to be maintained in order for you to be able to sell your Convertible Notes at any time or from time to time. Also, if a large number of Convertible Notes are converted into common stock in the conversion offer, then it may be more difficult for you to sell your unconverted Convertible Notes.

Future trading prices of the Convertible Notes may depend on many factors, including, among other things, the price of our common stock, prevailing dividend rates, our operating results and the market for similar securities. We also cannot assure you that you will be able to sell your Convertible Notes at a particular time or that the prices that you receive if and when you sell will be favorable.

We are no longer obligated to maintain an effective registration statement that would permit you under the Securities Act to resell your Convertible Notes. Thus, it may now be harder for you to sell your Convertible Notes under the Securities Act and each resale will need to qualify for a valid exemption from registration.

***The Convertible Notes will be effectively subordinated to our secured debt and will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The Convertible Notes rank equal in right of payment to all of our other unsecured senior indebtedness and are effectively subordinated to all of our existing and future secured debt as to the assets securing such debt. As of September 30, 2006, after giving pro forma effect to the offering of our 8% Senior Unsecured Convertible Notes due 2012 and the use of proceeds therefrom, on a consolidated basis, we would have had an aggregate of approximately \$282 million of debt outstanding, with no amount of secured debt, and approximately \$125 million of additional borrowing capacity under the revolving credit facility, subject to certain conditions. Any debt incurred under our revolving credit facility will be secured by substantially all of our assets.

The Convertible Notes will also be structurally subordinated to all indebtedness and other liabilities, including trade payables and lease obligations, of our subsidiaries. As of September 30, 2006, our subsidiaries had an aggregate of approximately \$132 million of outstanding indebtedness and other liabilities. The indenture governing the Convertible Notes does not limit the amount of additional indebtedness our subsidiaries are permitted to incur in the future.

***We may not have the ability to raise the funds necessary to purchase the Convertible Notes for cash upon the occurrence of a change in control.***

Upon specified change in control events relating to Titan International, each holder of the Convertible Notes may require us to purchase for cash all or a portion of such holder's Convertible Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, on such Convertible Notes to but excluding the date of purchase, plus in certain circumstances, a make-whole premium. We cannot assure you that we would have sufficient financial resources to purchase the Convertible Notes for cash or satisfy our other debt obligations if we are required to purchase the Convertible Notes at the option of the holders of such Convertible Notes or upon the occurrence of a change in control. In addition, events involving a change in control may result in an event of default under our revolving credit facility or other debt we may incur in the future. There can be no assurance what effect a change in control would have on our ability to pay interest, principal and premium, if any, on the Convertible Notes when due.



***There are no restrictive covenants in the indenture for the Convertible Notes relating to our ability to incur future indebtedness or complete other transactions.***

The indenture governing the Convertible Notes does not contain any financial covenants or restrictions on the payment of dividends. The indenture does not restrict the issuance or repurchase of securities by us or our subsidiaries. The indenture contains no covenants or other provisions to afford you protection in the event of a

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highly leveraged transaction, such as a leveraged recapitalization, that would increase the level of our indebtedness, or a change in control except as described under **Description of Convertible Notes Purchase at Option of Holders upon a Change of Control**. Neither we nor our subsidiaries are restricted from incurring additional debt, including senior indebtedness, under the indenture. If we or our subsidiaries were to incur additional debt or liabilities, our ability to pay our obligations on the Convertible Notes could be adversely affected.

## **Risks Related to Our Business**

***We operate in cyclical industries and, accordingly, our business is subject to the numerous and continuing changes in the economy.***

Our sales are substantially dependent on three major industries, the agricultural equipment industry, the earthmoving/construction equipment industry (including military) and the consumer products industry (including trailers and ATVs). The business activity levels in these industries are subject to specific industry and general economic cycles. Accordingly, any downturn in these industries or general economy could materially adversely affect our business.

The agricultural equipment industry is affected by crop prices, farm income and farmland values, weather, export markets and government policies. Recently, demand for corn has caused significantly increased corn prices, which is generally good for our business. However, corn prices are subject to a number of risks and could decrease, which could have a material adverse effect on us. Corn prices are heavily dependent on federal legislation and new legislation is expected in 2007 or 2008, with a new majority in both the House of Representatives and the Senate. Any significant changes, or the expectation of significant changes, to federal agricultural policy, could have a material adverse effect on us. Another factor which has had significant positive impact on corn prices recently is demand for ethanol. This has been driven by high oil prices and federal legislation that encourages ethanol production and imposes limits on imported corn and ethanol. Reductions in oil prices or changes in federal ethanol policy, or the expectation of changes, could have a material adverse effect on our business. In addition, the agricultural equipment industry is subject to weather risks, including drought, flood and climate risks, any of which could have a material adverse effect on us.

The earthmoving/construction industry is affected by commodity prices, the levels of government and private construction spending and replacement demand. The consumer products industry is affected by consumer disposable income, weather, competitive pricing, energy prices and consumer attitudes. In addition, the performance of these industries is sensitive to interest rate changes and varies with the overall level of economic activity.

Due to capacity constraints at our Bryan, Ohio, off-the-road (OTR) tire facility, we are adding OTR tire capacity at our Freeport, Illinois, and Des Moines, Iowa, tire facilities. We are aligning production, which includes retooling, retraining personnel, and movement of equipment at the Bryan, Freeport and Des Moines facilities. This may cause our gross margin to be negative for the fourth quarter of 2006 as labor costs that are normally dedicated to making products were instead used for retooling, retraining and movement of equipment.

***Our customer base is relatively concentrated.***

Our ten largest customers, which are primarily original equipment manufacturers (OEMs), accounted for approximately 55% and 57% of our net sales for 2005 and 2004, respectively. Net sales to Deere represented 20% and 22% of our total net sales for 2005 and 2004, respectively. Net sales to CNH represented 11% of our total net sales for each of 2005 and 2004. No other customer accounted for more than 10% of our net sales in 2005 or 2004. As a result, our business could be adversely affected if one of our larger customers reduces its purchases from us due to work stoppages or slow-downs, financial difficulties, as a result of termination provisions, competitive pricing or other

reasons. There is also continuing pressure from the OEMs to reduce costs, including the cost of products and services purchased from outside suppliers such as us. Although we have had long-term relationships with our major customers and expect that we will be able to continue these relationships, there can be no assurance that we will be able to maintain such relationships on terms favorable to us or at all. Any failure to maintain our relationship with a leading customer could have an adverse effect on our results of operations.

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***We face substantial competition from international and domestic companies.***

We compete with several international and domestic competitors, some of which are larger and have greater financial and marketing resources than us. We compete primarily on the basis of price, quality, customer service, design capability and delivery time. Our ability to compete with international competitors may be adversely affected by currency fluctuations. In addition, foreign competitors in low-wage markets have a natural cost advantage over us that may enable them to offer lower prices. Certain of our OEM customers could, under certain circumstances, elect to manufacture certain of our products to meet their own requirements or to otherwise compete with us. There can be no assurance that our businesses will not be adversely affected by increased competition in the markets in which we operate or that our competitors will not develop products that are more effective or less expensive than our products or which could render certain of our products less competitive. From time to time certain of our competitors have reduced their prices in particular product categories, which has caused us to reduce our prices. There can be no assurance that in the future our competitors will not further reduce prices or that any such reductions would not have a material adverse effect on our business.

***Acquisitions and joint ventures may require significant resources and/or result in significant unanticipated losses, costs or liabilities.***

In the last 14 months we closed two significant acquisitions. In the future we may seek to grow by making acquisitions. Some of the businesses that we would consider acquiring, if they become available, are quite large and could become available at any time. Any future acquisitions will depend on our ability to identify suitable acquisition candidates, to negotiate acceptable terms for their acquisition and to finance those acquisitions. We will also face competition for suitable acquisition candidates that may cause us to pay too much. In addition, acquisitions (including our two recent acquisitions) require significant managerial attention, which may be diverted from our other operations. Furthermore, acquisitions of businesses or facilities entail a number of additional risks, including:

problems with integration of operations;

the inability to maintain key pre-acquisition customer, supplier and employee relationships and labor agreements;

increased operating costs; and

exposure to unanticipated liabilities.

Subject to the terms of our indebtedness, we may finance future acquisitions with cash from operations, additional indebtedness and/or by issuing additional equity securities. In addition, we could face financial risks associated with incurring additional indebtedness such as reducing our liquidity and access to financing markets and increasing the amount of cash flow required to service such indebtedness.

***Our business could be negatively impacted if we fail to maintain satisfactory labor relations.***

Approximately 48% of our employees in the United States are covered by three collective bargaining agreements. Upon the expiration of any of our collective bargaining agreements, however, we may be unable to negotiate new collective bargaining agreements on terms favorable to us, and our business operations may be affected as a result of labor disputes or difficulties and delays in the process of renegotiating our collective bargaining agreements. In 1998, the employees in our Des Moines, Iowa and Natchez, Mississippi facilities went on strike for 40 and 39 months, respectively. Our three labor agreements each expire on the same date in November 2010. The fact that these

agreements all expire on the same date could increase the adverse consequences to us if we have difficulty when we negotiate new agreements in 2010. We cannot assure you that there will not be any other labor disruptions or strikes at our facilities that adversely affect our business.

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***We have incurred, and may incur in the future, net losses.***

Although we generated net income in 2004, 2005 and the nine months ended September 30, 2006, we have incurred significant net losses previously. Reported net losses were \$36.7 million, \$35.9 million, and \$34.8 million for the years ended December 31, 2003, 2002 and 2001, respectively.

***We are exposed to price fluctuations of key commodities.***

We do not generally enter into long-term commodity contracts and do not use derivative commodity instruments to hedge our exposures to commodity market price fluctuations. Therefore, we are exposed to price fluctuations of our key commodities, which consist primarily of steel and rubber which we primarily buy on the spot market. Although we attempt to pass on certain material price increases to our customers, there is no assurance that we will be able to do so in the future. Any increase in the price of steel and rubber that is not passed on to our customers could have an adverse material effect on our results of operations.

***We rely on a limited number of suppliers.***

We currently rely on a limited number of suppliers for certain key commodities, which consist primarily of steel and rubber, in the manufacturing of our products. The loss of our key suppliers or their inability to meet our price, quality, quantity and delivery requirements could have a significant adverse impact on our results of operations.

***We may be subject to claims for damages for defective products, which could adversely affect our results of operations.***

We warrant our products to be free of certain defects and accordingly may be subject in the ordinary course of business to product liability or product warranty claims. Losses may result or be alleged to result from defects in our products, which could subject us to claims for damages, including consequential damages. We do not carry significant product liability insurance and we cannot assure you that any insurance we maintain will be adequate for liabilities actually incurred. Any claims relating to defective products that result in liability exceeding our insurance coverage could have a material adverse effect on our financial condition and results of operations. Further, claims of defects could result in negative publicity against us, which could adversely affect our business.

***We are subject to risks associated with environmental laws and regulations.***

Our operations are subject to federal, state, local and foreign laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. Our operations entail risks in these areas, and there can be no assurance that we will not incur material costs or liabilities. In addition, potentially significant expenditures could be required in order to comply with evolving environmental and health and safety laws, regulations or requirements that may be adopted or imposed in the future or to investigate or remediate contamination at currently or formerly owned or operated sites.

***Our revenues are seasonal due to our dependence on agricultural, earthmoving, construction and recreational industries, which are seasonal.***

The agricultural, earthmoving, construction and recreational industries are seasonal, with typically lower sales during our second half of the year. This seasonality in demand has resulted in fluctuations in our revenues and operating results. Because much of our overhead expenses are fixed, seasonal trends can cause reductions in our quarterly profit margins and financial condition, especially during our slower periods. During certain periods of the year, OEMs may

shut down production for maintenance, inventory reduction or due to labor contracts, which can affect our results.

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***We may be adversely affected by changes in government regulations and policies.***

Domestic and foreign political developments and government regulations and policies directly affect the agricultural, earthmoving/construction and consumer products industries in the United States and abroad. Regulations and policies relating to the agricultural industry include those encouraging farm acreage reduction in the United States and restricting deforestation techniques. In addition, U.S. government subsidies for ethanol have significantly enhanced demand for corn in recent periods. U.S. tariffs on imported ethanol have also reduced the supply of ethanol. Both of these factors have increased U.S. corn prices, which has been good for our agricultural equipment business. Regulations and policies relating to the earthmoving/construction industry include those regarding the construction of roads, bridges and other items of infrastructure. The modification of existing laws, regulations or policies or the adoption of new laws, regulations or policies could have an adverse effect on any one or more of these industries and therefore on our business.

***Our success depends on attracting and retaining key personnel and qualified employees.***

Our continued success and viability are dependent, to a certain extent, upon our ability to attract and retain qualified personnel in all areas of our businesses, especially management positions. In the event we are unable to attract and retain qualified personnel, our businesses may be adversely affected. Mr. Taylor, our Chairman and Chief Executive Officer, has been instrumental in the development and implementation of our business strategy. We do not maintain key-person life insurance policies on any of our executive officers. We have outstanding agreements with certain of our executive employees selected by the board of directors, which provide that the individuals will not receive any benefits if they voluntarily leave the company. In the event of a termination of the individual's employment after a change of control (defined generally as an acquisition of 20% or more of our outstanding voting shares), the executive is entitled to receive salary, bonus and other fringe benefits. In addition, all unvested options and certain benefits become vested. Messrs. Taylor, Rodia and Hackmack and Ms. Holley are each a party to such an agreement. The loss or interruption of the continued full-time services of any of our executive officers, including Mr. Taylor, could have a material adverse effect on our business.

***Unfavorable outcomes of legal proceedings could adversely affect our financial condition and results of operations.***

We are 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, we believe at this time that none of these actions, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations. However, due to the uncertainties involved in litigation, we cannot anticipate or predict material adverse effects on our financial condition, cash flows or results of operations as a result of efforts to comply with, or our liabilities pertaining to, legal judgments.

***We are subject to corporate governance requirements, and costs related to compliance with, or failure to comply with, existing and future requirements could adversely affect our business.***

We face corporate governance requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations subsequently adopted by the SEC, the Public Company Accounting Oversight Board and the NYSE. These laws, rules and regulations continue to evolve and may become increasingly stringent in the future. Our failure to comply with these laws, rules and regulations may materially adversely affect our reputation, financial condition and the value of our securities, including the Convertible Notes.



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**Risks Related to Our Capital Stock**

In addition to the risks discussed above in Risks Related to the Conversion Offer and Risks Related to Our Business, the following risks, among others, are important to an investment in our capital stock:

***Issuances of one or more series of preferred stock could adversely affect holders of our common stock.***

Our board of directors is authorized to issue one or more series of preferred stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such series of preferred stock that may be issued, including voting rights, conversion rights, dividend rights, preferences over our common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding-up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

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**QUESTIONS AND ANSWERS ABOUT THE CONVERSION OFFER**

*These answers to questions that you may have as a holder of our Convertible Notes are highlights of selected information included elsewhere or incorporated by reference in this conversion offer prospectus. To fully understand the conversion offer and the other considerations that may be important to your decision about whether to participate in it, you should carefully read this conversion offer prospectus in its entirety, including the section entitled Risk Factors, as well as the information incorporated by reference in this conversion offer prospectus. See Incorporation of Certain Documents by Reference. For further information about us, see the section of this conversion offer prospectus entitled Where You Can Find More Information.*

**Why are you making the conversion offer?**

We are making the conversion offer to reduce our ongoing fixed interest obligations and to improve the trading liquidity of our common stock. The conversion offer allows current holders of Convertible Notes to receive a greater number of shares of our common stock than they would otherwise have previously received upon conversion of the Convertible Notes.

**What aggregate principal amount of Convertible Notes is being sought in the conversion offer?**

We are offering to convert all outstanding Convertible Notes into our common stock. As of February 20, 2007, \$81.2 million principal amount of Convertible Notes was outstanding.

**What will I receive in the conversion offer if I surrender my Convertible Notes for conversion and they are accepted?**

For the Convertible Notes you validly surrender as part of the conversion offer and we accept for conversion, you will receive 81.0 shares per \$1,000 principal amount of Convertible Notes, subject to adjustment. The Convertible Notes are currently convertible at a conversion rate of 74.0741 shares of common stock per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a conversion price of approximately \$13.50 per share. The conversion offer allows current holders of Convertible Notes who surrender their Convertible Notes for conversion on or before 5:00 p.m., New York City time, on March 20, 2007 to receive a conversion rate of 81.0 shares per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a conversion price of approximately \$12.35 per share. This represents an increase in the conversion rate of 6.9259 shares per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a decrease in the conversion price of approximately \$1.15 per share.

We are not required to issue fractional shares of common stock upon conversion of the Convertible Notes in the conversion offer. Instead, we will pay a cash adjustment for all fractional shares based upon the closing price of the common stock on the business day preceding the settlement date.

Your right to receive the above consideration in the conversion offer is subject to all of the conditions set forth in this conversion offer prospectus and the related letter of transmittal.

**When will I receive the consideration for surrendering my Convertible Notes pursuant to the conversion offer?**

Assuming that we have not previously elected to terminate the conversion offer, Convertible Notes validly surrendered for conversion in accordance with the procedures described in this conversion offer prospectus and the

letter of transmittal before 5:00 p.m., New York City time, on the expiration date will, upon the terms and subject to the conditions of the conversion offer, including all conditions thereto, be accepted for conversion and will be converted into shares of common stock at the increased conversion rate on the settlement date. The settlement date will occur promptly after the expiration date, and we expect that the settlement date will occur within three business days after the expiration date. If the conversion offer is not completed, no such conversion will occur, the conversion rate of the notes will not be increased and we will return your Convertible Notes. We must waive or satisfy all conditions to the conversion offer on or prior to the expiration date to accept any Convertible Notes for conversion in the conversion offer.

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**How does the consideration I will receive if I convert my Convertible Notes in the conversion offer compare to the payments I would receive on the Convertible Notes if I do not convert now?**

If you do not surrender Convertible Notes pursuant to the conversion offer, you will continue to receive interest payments at an annual rate of 5.25%. Interest payments are made on June 30 and December 31 of each year through July 26, 2009 or until such earlier time as they are converted into common stock or redeemed by us. See Description of Our Convertible Notes General. You will also continue to have the right to convert your Convertible Notes into common stock in accordance with their original terms. If you do not surrender your Convertible Notes in the conversion offer, you will not be entitled to receive any conversion consideration as part of the conversion offer.

If, however, you participate in the conversion offer, you will receive the consideration described above in What will I receive in the conversion offer if I surrender my Convertible Notes for conversion and they are accepted?

**What other rights will I lose if I convert my Convertible Notes in the conversion offer?**

If you validly surrender your Convertible Notes and we accept them for conversion, you would lose the rights of a holder of Convertible Notes. For example, you would lose the right to receive semi-annual interest payments and principal payments. You would also lose your rights as a creditor of the Company.

**May I convert only a portion of the Convertible Notes that I hold?**

Yes. You do not have to convert all of your Convertible Notes to participate in the conversion offer. However, you may only surrender Convertible Notes for conversion in integral multiples of \$1,000 principal amount of the Convertible Notes.

**If the conversion offer is consummated and I do not participate in the conversion offer or I do not convert all of my Convertible Notes in the conversion offer, how will my rights and obligations under my remaining outstanding Convertible Notes be affected?**

The terms of your Convertible Notes, if any, that remain outstanding after the consummation of the conversion offer will not change as a result of the conversion offer.

**What do you intend to do with the Convertible Notes that are converted in the conversion offer?**

Convertible Notes accepted for conversion by us in the conversion offer will be cancelled.

**Are you making a recommendation regarding whether I should participate in the conversion offer?**

We are not making any recommendation regarding whether you should convert or refrain from converting your Convertible Notes in the conversion offer. Accordingly, you must make your own determination as to whether to convert your Convertible Notes in the conversion offer and, if so, the amount of Convertible Notes to convert. Before making your decision, we urge you to carefully read this conversion offer prospectus in its entirety, including the information set forth in the section of this conversion offer prospectus entitled Risk Factors, and the other documents incorporated by reference in this conversion offer prospectus.

**Will the common stock to be issued in the conversion offer be freely tradable?**

Yes. The shares of our common stock to be issued in the conversion offer have been approved for listing on the New York Stock Exchange under the symbol TWI. Generally, the common stock you receive in the conversion offer will be freely tradable, unless you are considered an affiliate of ours, as that term is defined in the Securities Act. For more information regarding the market for our common stock, see the section of this conversion offer prospectus entitled Market for Our Common Stock and Convertible Notes.

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### **What are the conditions to the conversion offer?**

The conversion offer is conditioned upon:

the effectiveness of the registration statement of which this conversion offer prospectus forms a part; and

the other closing conditions described in The Conversion Offer Conditions to the Conversion Offer.

The conversion offer is not conditioned upon any minimum amount of Convertible Notes being surrendered for conversion. We may waive certain conditions of this conversion offer. If any of the conditions are not satisfied or waived, we will not complete the conversion offer. For more information regarding the conditions to the conversion offer, see the section of this conversion offer prospectus entitled The Conversion Offer Conditions to the Conversion Offer.

### **How will fluctuations in the trading price of our common stock affect the consideration offered to holders of Convertible Notes?**

Our common stock is traded on the New York Stock Exchange under the symbol TWI. The last reported sale price of our common stock on February 14, 2007 was \$23.96 per share. At present, the Convertible Notes are convertible at a conversion rate of 74.0741 shares per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a conversion price of approximately \$13.50 per share.

We are offering to convert the Convertible Notes at a conversion rate of 81.0 shares per \$1,000 principal amount of notes, subject to adjustment and less fractional shares, which is equivalent to a conversion price of approximately \$12.35 per share. If the market price of our common stock declines, the then market value of the fixed portion of the shares of common stock you will receive in the conversion of your Convertible Notes will also decline. However, the number of shares of common stock you would receive in the conversion offer will not vary based on the trading price of our common stock. The trading price of our common stock could fluctuate depending upon any number of factors, including those specific to us and those that influence the trading prices of equity securities generally. See Risk Factors Risks Related to the Conversion Offer The market price and value of our common stock may fluctuate, and reductions in the price of our common stock could make the Convertible Notes a less attractive investment.

### **When does the conversion offer expire?**

The conversion offer will expire at 5:00 p.m., New York City time, on Tuesday, March 20, 2007, unless extended or earlier terminated by us.

### **Under what circumstances can the conversion offer be extended, amended or terminated?**

We reserve the right to extend the conversion offer for any reason at all. We also expressly reserve the right, at any time or from time to time, to amend the terms of the conversion offer in any respect prior to the expiration date of the conversion offer. Further, we may be required by law to extend the conversion offer if we make a material change in the terms of the conversion offer or in the information contained in this conversion offer prospectus or waive a material condition to the conversion offer. During any extension of the conversion offer, Convertible Notes that were previously surrendered for conversion and not validly withdrawn will remain subject to the conversion offer. We reserve the right, in our sole and absolute discretion, to terminate the conversion offer, at any time prior to the expiration date of the conversion offer if any condition to the conversion offer is not met and the requirement that the registration statement of which this conversion offer prospectus forms a part is declared effective by the SEC. If the

conversion offer is terminated, no Convertible Notes will be accepted for conversion and any Convertible Notes that have been surrendered for conversion will be returned to the holder promptly after the termination. For more information regarding our right to extend, amend or terminate the conversion offer, see the section of this conversion offer prospectus entitled "The Conversion Offer - Expiration Date and Amendments."

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**How will I be notified if the conversion offer is extended, amended or terminated?**

If the conversion offer is extended, amended or terminated, we will promptly make a public announcement by issuing a press release, with the announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the first business day after the previously scheduled expiration date of the conversion offer. For more information regarding notification of extensions, amendments or the termination of the conversion offer, see the section of this conversion offer prospectus entitled *The Conversion Offer – Expiration Date and Amendments*.

**What risks should I consider in deciding whether or not to convert my Convertible Notes?**

In deciding whether to participate in the conversion offer, you should carefully consider the discussion of risks and uncertainties affecting our business, the Convertible Notes and our common stock that are described in the section of this conversion offer prospectus entitled *Risk Factors*, and the documents incorporated by reference in this conversion offer prospectus.

**What are the material U.S. federal income tax considerations of my participating in the conversion offer?**

Bodman LLP, our legal counsel, has provided a legal opinion concerning the tax treatment of the conversion offer for U.S. federal income tax purposes. For more details, please see the section of this conversion offer prospectus entitled *Material U.S. Federal Income Tax Considerations*. You should consult your own tax advisor for a full understanding of the tax considerations of participating in the conversion offer.

**How will the conversion offer affect the trading market for the Convertible Notes that are not exchanged?**

The Convertible Notes are not listed on any national securities exchange and there is no established trading market for these notes. The notes are traded on the PORTAL<sup>sm</sup> system of The NASDAQ Stock Market, Inc. If a sufficiently large number of Convertible Notes do not remain outstanding after the conversion offer, the trading market for the remaining outstanding Convertible Notes may become even less liquid and more sporadic, and market prices may fluctuate significantly depending on the volume of trading in Convertible Notes. In such an event, your ability to sell your Convertible Notes not surrendered in the conversion offer may be impaired. See *Risk Factors – Risks Related to the Conversion Offer*. You may have difficulty selling the Convertible Notes that you do not convert.

**Are your financial condition and results of operations relevant to my decision to convert my shares as part of the conversion offer?**

Yes. The price of our common stock and the Convertible Notes are closely linked to our financial condition and results of operations. For information about the accounting treatment of the conversion offer, see the section of this conversion offer prospectus entitled *The Conversion Offer – Accounting Treatment*.

**Will you receive any cash proceeds from the conversion offer?**

No. We will not receive any cash proceeds from the conversion offer.

**How do I convert my Convertible Notes in the conversion offer?**

If you beneficially own Convertible Notes that are held in the name of a broker or other nominee and wish to convert such notes, you should promptly instruct your broker or other nominee to convert on your behalf. To convert Convertible Notes, Global Bondholder Services Corporation, the conversion agent, must receive, prior to the



expiration date of the conversion offer:

either

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the certificates representing such Convertible Notes and a duly executed and completed letter of transmittal, or

in the case of book-entry transfer, a timely confirmation of book-entry transfer of such Convertible Notes, and

either

a properly completed and executed letter of transmittal, or

a properly transmitted agent's message through the automated tender offer program, or ATOP, of The Depository Trust Company, which we refer to in this conversion offer prospectus as the depository or DTC, according to the procedure for book-entry transfer described in this conversion offer prospectus.

For more information regarding the procedures for converting your Convertible Notes, see the section of this conversion offer prospectus entitled "The Conversion Offer - Procedures for Converting Convertible Notes in the Conversion Offer."

**What happens if some or all of my Convertible Notes are not accepted for conversion?**

If we decide for any reason not to accept some or all of your Convertible Notes, the Convertible Notes not accepted by us will be returned to you, at our expense, promptly after the expiration or termination of the conversion offer by book entry transfer into the conversion agent's account at DTC. DTC will credit any validly withdrawn or unaccepted Convertible Notes to your account at DTC. For more information, see the section of this conversion offer prospectus entitled "The Conversion Offer - Withdrawal Rights."

**Until when may I withdraw Convertible Notes previously surrendered for conversion?**

If not previously returned, you may withdraw Convertible Notes that were previously surrendered for conversion at any time until the conversion offer has expired. In addition, you may withdraw any Convertible Notes that you surrender that are not accepted for conversion by us after the expiration of 40 business days from February 21, 2007, if such shares have not been previously returned to you. For more information, see the section of this conversion offer prospectus entitled "The Conversion Offer - Withdrawal Rights."

**How do I withdraw Convertible Notes previously surrendered for conversion?**

To withdraw Convertible Notes previously surrendered for conversion, you must either give written notice of withdrawal which must be received by the conversion agent on or before the expiration date, or, in the case of book-entry transfer, you must comply with the appropriate procedures of DTC's automated tender offer program. For more information regarding the procedures for withdrawing these notes, see the section of this conversion offer prospectus entitled "The Conversion Offer - Withdrawal Rights."

**Will I have to pay any fees or commissions if I convert my Convertible Notes in this conversion offer?**

If your Convertible Notes are held through a broker or other nominee who surrenders the Convertible Notes on your behalf (other than those surrendered through the dealer manager), your broker may charge you a commission for doing so. You should consult with your broker or nominee to determine whether any charges will apply. Otherwise, you will not be required to pay any fees or commissions to us, the dealer manager, the conversion agent or the information

agent in connection with the conversion offer.

**With whom may I talk if I have questions about the conversion offer?**

If you have questions regarding the conversion offer, please contact the dealer manager, Merrill Lynch & Co. You may call Merrill Lynch toll-free at (888) 654-8637 or collect at (212) 449-4914. If you have questions regarding the procedures for converting your Convertible Notes in the conversion offer, please contact Global Bondholder Services Corporation, the conversion agent, collect at (212) 430-3774. If you require additional conversion offer materials, please contact Global Bondholder Services Corporation, the information agent, toll-free at (866) 470-3900. You may also write to any of these entities at one of their respective addresses set forth on the back cover of this conversion offer prospectus.

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**THE CONVERSION OFFER**

**Purpose and Effect**

The purposes of the conversion offer are to induce the conversion to common stock of any and all of the outstanding Convertible Notes to reduce our ongoing fixed interest obligations and to improve the trading liquidity of our common stock by increasing the number of outstanding shares of common stock available for trading. We are offering to increase the conversion rate for the Convertible Notes surrendered for conversion upon the terms and subject to the conditions set forth in this conversion offer prospectus and the related letter of transmittal. The Convertible Notes are currently convertible at a conversion rate of 74.0741 shares of common stock per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a conversion price of approximately \$13.50 per share. The conversion offer allows current holders of Convertible Notes who surrender their Convertible Notes for conversion on or before 5:00 p.m., New York City time, on March 20, 2007 to receive a conversion rate of 81.0 shares per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a conversion price of approximately \$12.35 per share. This represents an increase in the conversion rate of 6.9259 shares per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a decrease in the conversion price of approximately \$1.15 per share. Any Convertible Notes that are converted in the conversion offer will be cancelled and retired.

**Terms of the Conversion Offer**

Pursuant to the terms of the conversion offer, including the terms or conditions of any extension or amendment of the conversion offer, we will accept for conversion, and promptly convert pursuant to the terms of the Convertible Notes, at the increased conversion rate, all Convertible Notes validly surrendered for conversion pursuant to the conversion offer and not validly withdrawn (or, if withdrawn, validly re-surrendered after such withdrawal). The conversion agent will act as agent for converting holders for the purpose of receiving shares of common stock from us and transmitting such shares to the converting holders.

For \$1,000 aggregate principal amount of Convertible Notes you validly surrender as part of the conversion offer and we accept for conversion, you will receive a conversion rate of 81.0 shares per \$1,000 principal amount of notes, subject to adjustment, which is equivalent to a conversion price of approximately \$12.35 per share.

We are not required to issue fractional shares of common stock upon conversion of the Convertible Notes in the conversion offer. Instead, we will pay a cash adjustment for all fractional shares based upon the closing price of the common stock on the business day preceding the settlement date.

Subject to Rule 14e-1(c) of the Securities Exchange Act of 1934, as amended, we reserve the right in our sole discretion and at any time to delay acceptance for conversion of, or payment of conversion consideration in respect of, Convertible Notes for such time as may be needed to obtain any required governmental regulatory approvals. See

Conditions to the Conversion Offer. In all cases, the conversion agent will make payment to holders of Convertible Notes or beneficial owners of the conversion consideration for such notes surrendered for conversion pursuant to the conversion offer only after the conversion agent has received, prior to the expiration date:

either of the following:

(1) certificates representing the Convertible Notes to be converted in the conversion offer; or

(2) timely confirmation of a book-entry transfer of the Convertible Notes into the conversion agent's account at DTC pursuant to the procedures set forth in this section; and

either of the following:

(1) a properly completed and duly executed letter of transmittal, together with any other forms, signatures, guarantees, documents or information that may be required thereby; or

(2) a properly transmitted agent's message through ATOP.

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For purposes of this conversion offer, Convertible Notes surrendered for conversion will only be deemed to have been accepted for conversion and payment of conversion consideration if, as and when we give proper notice of such acceptance to the conversion agent.

Converting holders will not be obligated to pay brokerage fees or commissions to the dealer manager, the information agent, the conversion agent, the trustee or us. Converting holders will not be required to pay transfer taxes on the payment of the conversion consideration, except as provided in the letter of transmittal.

### **Expiration Date and Amendments**

The conversion offer will expire at 5:00 p.m., New York City time, on Tuesday, March 20, 2007, unless we, in our sole discretion, extend the conversion offer, in which case the term "expiration date" means the latest date and time to which we extend the conversion offer. In any event, the conversion offer will be open for at least 20 full business days.

We also may extend the conversion offer or amend or terminate the conversion offer if any of the conditions described below under "Conditions to the Conversion Offer" have not been satisfied or waived prior to the expiration date by giving proper notice to the conversion agent of the delay, extension, amendment or termination. Further, we reserve the right, in our sole discretion and at any time, to amend the terms of the conversion offer in any manner permitted or not prohibited by applicable law. We will notify you as promptly as practicable of any extension, amendment or termination in accordance with applicable law. We will also file an amendment to the registration statement of which this conversion offer prospectus is a part with respect to any fundamental change in the conversion offer.

If we determine to extend the conversion offer, then we will notify the conversion agent of any extension by oral or written notice and give each registered holder notice of the extension by means of a press release or other public announcement before 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date. During any extension, all Convertible Notes previously surrendered for conversion will remain subject to the conversion offer and may be accepted for conversion by us, except that surrendered notes may be validly withdrawn after the expiration date if the Convertible Notes have not been accepted for conversion after the expiration of 40 business days from February 21, 2007. Any Convertible Notes not accepted for conversion for any reason will be returned without expense to the surrendering holder promptly after the expiration or termination of the conversion offer.

### **Procedures for Surrendering Convertible Notes for Conversion**

#### ***Submission of Convertible Notes***

The submission of Convertible Notes for conversion as described below and our acceptance of such notes will constitute a binding agreement between the converting holder and us upon the terms and conditions described in this conversion offer prospectus and in the accompanying letter of transmittal. Except as described below, a converting holder who wishes to submit Convertible Notes for conversion in response to the conversion offer must deliver the notes, together with a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to the conversion agent at the address listed on the back cover page of this conversion offer prospectus prior to 5:00 p.m., New York City time, on Tuesday, March 20, 2007. All notes not converted in response to the conversion offer will be returned to the submitting holder at our expense as promptly as practicable following the expiration date.

THE METHOD OF DELIVERY OF NOTES, LETTERS OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE HOLDER. IF DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, BE USED. INSTEAD OF DELIVERY BY MAIL, IT IS RECOMMENDED THAT THE HOLDER USE AN OVERNIGHT OR HAND DELIVERY SERVICE. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY DELIVERY.

**There are no guaranteed delivery procedures in connection with this conversion offer.**

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***Book-Entry Delivery Procedures***

Any financial institution that is a participant in DTC may make book-entry delivery of the Convertible Notes by causing DTC to transfer such notes into the conversion agent's account in accordance with that facility's procedures for the transfer. In connection with a book-entry transfer, a letter of transmittal need not be transmitted to the conversion agent, as long as the book-entry transfer procedure is complied with prior to 5:00 p.m., New York City time, on the expiration date and an agent's message (as defined below) is received by the conversion agent prior to 5:00 p.m., New York City time, on the expiration date. The term "agent's message" means a message, transmitted by DTC to, and received by, the conversion agent, which states that (1) DTC has received an express acknowledgement from the participant in DTC submitting Convertible Notes for conversion, (2) the participant has received and agrees to be bound by the terms of the letter of transmittal and (3) we may enforce the agreement against the participant.

***Signatures and Signature Guarantees***

Each signature on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed, unless the notes surrendered for conversion with that letter of transmittal are submitted (1) by a registered holder of the notes who has not completed either the box entitled "Special Conversion Instructions" or the box entitled "Special Delivery Instructions" in the letter of transmittal, or (2) for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agent Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program, each known as an eligible institution. In the event that a signature on a letter of transmittal or a notice of withdrawal, as the case may be, is required to be guaranteed, the guarantee must be by an eligible institution. If the letter of transmittal is signed by a person other than the registered holder of the Convertible Notes, the Convertible Notes surrendered for conversion must either (1) be endorsed by the registered holder, with the signature guaranteed by an eligible institution, or (2) be accompanied by a stock power, in satisfactory form as determined by us in our sole discretion, duly executed by the registered holder, with the signature guaranteed by an eligible institution. The term "registered holder" as used in this paragraph with respect to the Convertible Notes means any person in whose name such notes are registered on the books of the transfer agent and registrar for the notes.

If any letter of transmittal, endorsement, stock power, power of attorney or any other document required by the letter of transmittal is signed by a trustee, executor, corporation or other person acting in a fiduciary or representative capacity, the signatory should so indicate when signing, and, unless waived by us, submit proper evidence of the person's authority to so act, which evidence must be satisfactory to us in our sole discretion.

***Beneficial Owners***

Any beneficial owner of the Convertible Notes whose notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to submit notes for conversion in the conversion offer should contact the broker, dealer, commercial bank, trust company or other nominee promptly and instruct it to have the registered holder submit such notes for conversion on the beneficial owner's behalf. Beneficial owners should be aware that the transfer of registered ownership may take considerable time.

***Backup Withholding***

To prevent U.S. federal income tax backup withholding, each converting holder of Convertible Notes that is a U.S. person generally must provide the conversion agent with the holder's correct taxpayer identification number and certify that the holder is not subject to U.S. federal income tax backup withholding by completing the Form W-9 provided with the letter of transmittal. Each converting holder of notes that is not a U.S. person generally must



provide the conversion agent with an applicable Form W-8, certifying that the holder is not a U.S. person and is not subject to U.S. federal income tax backup withholding. For a discussion of the material U.S. federal income tax considerations relating to backup withholding, see Material U.S. Federal Income Tax Considerations.

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### ***Determination of Validity***

We will determine all questions as to the validity, form, eligibility (including time of receipt) and acceptance of any Convertible Notes surrendered for conversion pursuant to any of the procedures described above in our sole discretion, and this determination will be final and binding. We reserve the absolute right to reject any and all surrenders of any notes that we determine not to be in proper form or if our acceptance for conversion of, or payment of conversion consideration in respect of, such notes may, in our opinion or the opinion of our counsel, be unlawful. We also reserve the absolute right, in our sole discretion, to waive any of the conditions of the conversion offer or any defect or irregularity in any surrender with respect to any holder's notes, whether or not similar defects or irregularities are waived in the case of other holders. Our interpretation of the terms and conditions of the conversion offer and the documents delivered in connection therewith will be final and binding. Neither we, nor the conversion agent, the dealer manager, the information agent, nor any other person, will be under any duty to give notification of any defects or irregularities in surrenders or will incur any liability for failure to give any such notification. If we waive our right to reject a defective surrender, the holder will be entitled to the conversion consideration.

### **Withdrawal Rights**

You may withdraw your submission of Convertible Notes for conversion at any time before the conversion offer expires. In addition, you may withdraw any previously surrendered Convertible Notes that are not accepted for conversion by us after the expiration of 40 business days from February 21, 2007, if such notes have not been previously returned to you.

For a withdrawal to be effective, the conversion agent must receive a written or facsimile notice of withdrawal at its address listed on the back cover of this conversion offer prospectus. A facsimile transmission notice of withdrawal that is received prior to receipt of a surrender of notes sent by mail and postmarked prior to the date of the facsimile transmission of withdrawal will be treated as a withdrawn surrender. The notice of withdrawal must:

specify the name of the person who surrendered the notes to be withdrawn;

identify the notes to be withdrawn, including the amount of notes and certificate number, or, in the case of shares surrendered by book-entry transfer, the name and number of the DTC account to be credited, and otherwise comply with the procedures of DTC and the letter of transmittal;

be signed by the depositor in the same manner as the original signature on the letter of transmittal by which those notes were surrendered, including any required signature guarantee, or be accompanied by documents of transfer and properly completed irrevocable proxies sufficient to permit our transfer agent to register the transfer of those notes into the name of the depositor withdrawing the surrender; and

if certificates for notes have been transmitted, specify the name in which notes are registered if different from that of the withdrawing holder.

If you have delivered or otherwise identified to the conversion agent the certificates for Convertible Notes, then, before the release of these certificates, you must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with the signatures guaranteed by an eligible guarantor institution, unless the holder is an eligible guarantor institution.

We will determine in our sole discretion all questions as to the validity, form and eligibility, including time of receipt, of notices of withdrawal. Our determination will be final and binding on all parties. Any notes so withdrawn will be

deemed not to have been validly surrendered for purposes of the conversion offer. We will return any notes that have been surrendered but that are not converted for any reason to the holder, without cost, promptly after withdrawal, rejection of surrender or termination of the conversion offer. In the case of notes surrendered by book-entry transfer into the conversion agent's account at DTC, the notes will be credited to an account maintained with DTC for the notes. You may re-surrender properly withdrawn notes by following one of the procedures described under Procedures for Surrendering Convertible Notes at any time on or before the expiration date.

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**Conditions to the Conversion Offer**

***General Conditions***

Notwithstanding any other term of the conversion offer, we will not be required to accept for conversion or to convert Convertible Notes if we have not obtained all governmental regulatory approvals required to consummate the conversion offer. In addition to the other conditions described above, we will not be required to complete the conversion offer if:

the registration statement of which this conversion offer prospectus forms a part has not been declared effective by the SEC;

except as to holders who are or may be affiliates of us, the shares of common stock to be received will not be tradable by the holder without restriction under the Securities Act and without material restrictions under the blue sky or securities laws of substantially all of the states of the United States;

the conversion offer, or the making of any conversion by a holder of notes, would violate any applicable law, regulation or interpretation of the staff of the SEC;

any action or proceeding is instituted or threatened in any court or by or before any governmental, regulatory or administrative agency or instrumentality or by any other person in connection with the conversion offer which, in our judgment:

is, or is reasonably likely to be, materially adverse to our business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects; or

would or might prohibit, prevent, restrict or delay consummation of the conversion offer;

an order, statute, rule, regulation, executive order, stay, decree, judgment or injunction shall have been proposed, enacted, entered, issued, promulgated, enforced or deemed applicable by any court or governmental, regulatory or administrative agency or instrumentality, that, in our sole judgment:

is, or is reasonably likely to be, materially adverse to our business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects; or

would or might prohibit, prevent, restrict or delay consummation of the conversion offer;

there shall have occurred or be likely to occur any event affecting our business or financial affairs that, in our sole judgment, would or might prohibit, prevent, restrict or delay consummation of the conversion offer;

there has occurred:

any general suspension of, or limitation on prices for, trading in securities in the U.S. securities or financial markets;

any significant adverse change in the price of the Convertible Notes or the common stock;

a material impairment in the trading market for securities;

a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or other financial markets;

any limitation that, in our reasonable judgment, might affect the extension of credit by banks or other lending institutions;

a commencement or escalation of war or armed hostilities or other national or international calamity directly or indirectly involving the United States; or

in the case of any of the foregoing in existence on the date of this conversion offer prospectus, a material acceleration or worsening thereof.

The conditions described in this section are for our sole benefit and we may assert them prior to the expiration date regardless of the circumstances giving rise to any condition. Subject to applicable law, we may waive these

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conditions in our discretion in whole or in part prior to the expiration date, except as to the requirement that the registration statement be declared effective by the SEC, which condition we will not waive. If we waive any waivable conditions, the waiver will apply to all holders of Convertible Notes who submit their notes for conversion in the conversion offer and we will continue the conversion offer for at least five business days after the waiver. If we fail at any time to exercise any of the above rights, the failure will not be deemed a waiver of those rights, and those rights will be deemed ongoing rights which may be asserted at any time and from time to time.

We will not accept for conversion any Convertible Notes surrendered, and will not issue common stock in conversion for any surrendered Convertible Notes, if at that time a stop order is threatened or in effect with respect to the registration statement of which this conversion offer prospectus forms a part.

For conditions that are based upon the occurrence of an event, we will determine whether the event has in fact occurred. For conditions that require a legal conclusion or analysis, we may seek and rely upon the advice of our legal counsel to determine whether that condition has been satisfied. For conditions that are subject to our sole discretion or judgment, our management or board of directors (or a committee thereof) will make a good faith determination as to whether the condition is satisfied based upon an assessment of the facts, circumstances and other information known by us at the time the decision is to be made, and we may, but are not obligated to, seek the advice, approval or consent of any other person. At present, we have not made a decision as to what circumstances would lead us to waive any condition and any such waiver would depend on all of the facts and circumstances prevailing at the time of the waiver. Any determination made by us concerning the events described in this section will be final and binding upon all affected persons.

### **Resales of Common Stock Received Pursuant to the Conversion Offer**

Assuming that the registration statement of which this conversion offer prospectus forms a part is declared effective by the SEC, common stock received by holders of Convertible Notes pursuant to this conversion offer may be offered for resale, resold and otherwise transferred without further registration under the Securities Act and without delivery of a prospectus meeting the requirements of Section 10 of the Securities Act if the holder is not our affiliate within the meaning of Rule 144(a)(1) under the Securities Act. Any holder who is our affiliate at the time of the conversion must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resales, unless such sale or transfer is made pursuant to an exemption from such requirements and the requirements under applicable state securities laws.

### **Consequences of Failure to Convert Convertible Notes in the Conversion Offer**

Holders who desire to convert their Convertible Notes into common stock in the conversion offer should allow sufficient time to ensure timely delivery. Neither we nor the conversion agent is under any duty to give notification of defects or irregularities with respect to the requests for conversion.

Convertible Notes that are not converted or are submitted for conversion but not accepted will, following the consummation of the conversion offer, continue to be subject to the existing restrictions on transfer set forth in the legend on the Convertible Notes and in the offering memorandum, dated July 20, 2004, relating to the issuance of such notes. In general, the Convertible Notes, unless registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. The Company kept a registration statement effective with respect to the resales of the Convertible Notes and the common stock into which such Convertible Notes were convertible for two years. Any Convertible Notes not sold pursuant to such registration statement are subject to the transfer restrictions described in the offering memorandum.

Convertible Notes that are not converted in the conversion offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits their holders have under the indenture relating to the Convertible Notes.

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**Accounting Treatment**

The difference between the fair value of the consideration transferred to holders of the Convertible Notes that convert their notes in the conversion offer and the fair value of common stock issuable pursuant to the original conversion terms, will be subtracted from net income to arrive at net income available to common shareholders and will affect the calculation of earnings per common share in the current period. Assuming all notes are converted, a noncash convertible debt conversion charge of approximately \$13.0 million will be recorded as a reduction of net income in the period of conversion, based on the closing price of our common stock on February 14, 2007. The fees and expenses we incur in connection with the conversion offer will also be recorded as a reduction of net income in the current period.

**Appraisal Rights**

None of our stockholders will have any appraisal rights with respect to the conversion offer.



**Table of Contents****MARKET FOR OUR COMMON STOCK AND CONVERTIBLE NOTES**

Our common stock is listed on the New York Stock Exchange under the symbol TWI. Our Convertible Notes are not traded or quoted on an established trading market, although the Convertible Notes are traded on the PORTAL<sup>SM</sup> system of The NASDAQ Stock Market, Inc. The following table sets forth the high and low sales price on the New York Stock Exchange and dividends declared per share of our common stock during the periods shown.

	<b>Common Stock</b>		
	<b>High</b>	<b>Low</b>	<b>Dividends</b>
<b>Year Ended December 31, 2005:</b>			
First Fiscal Quarter	\$ 15.45	\$ 12.30	\$ 0.005
Second Fiscal Quarter	15.85	13.12	0.005
Third Fiscal Quarter	14.58	12.64	0.005
Fourth Fiscal Quarter	18.17	13.15	0.005
<b>Year Ended December 31, 2006:</b>			
First Fiscal Quarter	\$ 17.64	\$ 16.55	\$ 0.005
Second Fiscal Quarter	19.76	16.20	0.005
Third Fiscal Quarter	19.40	16.65	0.005
Fourth Fiscal Quarter	20.85	17.52	0.005
<b>Year Ended December 31, 2007:</b>			
First Fiscal Quarter (through February 14, 2007)	\$ 24.29	\$ 19.74	\$

On February 14, 2007, the closing sale price of our common stock, as reported by the New York Stock Exchange, was \$23.96 per share. On December 31, 2006, we believe there were approximately 800 holders of record of Titan common stock and there were approximately 2,200 beneficial owners of our common stock.

DTC is the sole holder of record of the Convertible Notes.

We paid a \$0.005 per share dividend on our common stock each quarter beginning in the second quarter of 2001. The future payment of dividends on our common stock is subject to the discretion of our board of directors, restrictions under our outstanding Convertible Notes, restrictions under our revolving credit facility and the indenture governing our senior unsecured notes due 2012 and the requirements of Illinois Corporation Law will depend upon general business conditions, our financial performance and other factors our board of directors may consider relevant.

**USE OF PROCEEDS**

We will not receive any cash proceeds from the conversion offer.

**RATIO OF EARNINGS TO FIXED CHARGES**

The following table shows our historical ratio of earnings to fixed charges for each of the five most recent fiscal years and for the nine months ended September 30, 2006.

**Year Ended December 31,**

	2001	2002	2003	2004	2005	Nine Months Ended September 30, 2006
Ratio of earnings to fixed charges	n/a	n/a	n/a	2.06	1.25	2.95
Earnings deficiency	\$ 52,324	\$ 31,213	\$ 33,147	\$	\$	\$

For the purposes of calculating the ratio of earnings to fixed charges, earnings represents income from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense including amortization of debt issuance costs and that portion of rental expense considered to be a reasonable approximation of interest.

For the years ended December 31, 2001, 2002, and 2003, earnings were inadequate to cover fixed charges and the dollar amount of coverage deficiency is disclosed in the above table, in thousands.

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**DESCRIPTION OF OUR CONVERTIBLE NOTES**

On July 26, 2004, the Company issued and sold \$115,000,000 aggregate principal amount of Convertible Notes to initial purchasers who then sold the Convertible Notes in private placement transactions to qualified institutional buyers (as defined in Rule 144A under the Securities Act of 1933). The Convertible Notes were issued under an indenture between the Company and U.S. Bank National Association, as trustee, dated as of July 26, 2004. Our obligation to keep effective a shelf registration statement for the resale by noteholders of the notes or shares of common stock issued upon conversion of the notes expired on the second anniversary of the latest issuance of the notes, being July 26, 2006. The following section is a summary of the material provisions of the indenture and does not restate the indenture in its entirety. We urge you to read the indenture with respect to our Convertible Notes because it, and not this description, defines the rights as holders of the Convertible Notes. Copies of the indenture are available as set forth under [Where You Can Find More Information](#).

As used in this description, references to we, us, our or Titan mean Titan International, Inc. and do not include any current or future subsidiary of Titan International, Inc.

**General**

The notes are general unsecured senior obligations of Titan International and rank equal in right of payment to all other unsecured indebtedness of Titan International. The notes are effectively subordinated to all of our existing and future secured debt as to the assets securing such debt and are structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries. The indenture permits us to incur additional senior indebtedness, including secured debt.

The notes are convertible into shares of our common stock as described under [Conversion Rights](#) below. As of February 20, 2007, \$81,200,000 principal amount of notes was outstanding, and will mature on July 26, 2009, unless earlier purchased or converted. The notes are issued in denominations of \$1,000 and multiples of \$1,000.

The notes bear interest at the rate of 5.25% per year from the date of issuance of the original notes. Interest is payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2004, to holders of record at the close of business on the preceding June 15 and December 15, respectively. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. In the event of the maturity, conversion or purchase by us at the option of the holder upon a change in control, interest will cease to accrue on the note under the terms of and subject to the conditions of the indenture.

Principal is payable, and the notes may be presented for conversion, registration of transfer and exchange, without service charge, at our office or agency.

The indenture does not contain any financial covenants or any restrictions on the payment of dividends, the repurchase of our securities or the incurrence of indebtedness. The indenture also does not contain any covenants or other provisions to afford protection to holders of the notes in the event of a highly leveraged transaction or a change in control of Titan International, except to the extent described under [Purchase at Option of Holders upon a Change in Control](#) below.

**Conversion Rights**

A holder may convert a note, in integral multiples of \$1,000 principal amount, into 74.0741 shares of common stock per \$1,000 principal amount of notes (the conversion rate ) at any time before the close of business on July 26, 2009. Except as described below, no cash payment or other adjustment will be made on conversion of any notes for interest accrued thereon or for dividends on any common stock. Our delivery to the holder of the full number of shares of our common stock into which a note is convertible, together with any cash payment for such holder's fractional shares, will be deemed to satisfy our obligation to pay the principal amount of the note and any accrued and unpaid interest. Any accrued and unpaid interest will be deemed paid in full rather than canceled, extinguished or forfeited. In addition, a holder may be entitled to receive a make-whole premium as described under Purchase at Option of Holders upon a Change in Control.

If notes are converted after a record date for an interest payment but prior to the next interest payment date, those notes must be accompanied by funds equal to the interest payable to the record holder on the next interest

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payment date on the principal amount so converted. We are not required to issue fractional shares of common stock upon conversion of notes and instead will pay a cash adjustment based upon the closing sale price per share of our common stock on the last trading day before the date of conversion.

The sale price of our common stock on any date means the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such date on the New York Stock Exchange or such other principal United States securities exchange on which our common stock is traded or, if our common stock is not listed on a United States national or regional securities exchange, as reported by the National Association of Securities Dealers Automated Quotation System or by the National Quotation Bureau Incorporated. In the absence of a quotation, we will determine the sale price on the basis of such quotations as we consider appropriate.

The trading day means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated Quotation system or, if our common stock is not quoted on the National Association of Securities Dealers Automated Quotation System, on the principal other market on which our common stock is then traded.

A holder may exercise the right of conversion by delivering the note to be converted to the specified office of the conversion agent, with a completed notice of conversion, together with any funds that may be required as described in the third preceding paragraph. The conversion date will be the date on which the notes, the notice of conversion and any required funds have been so delivered. A holder delivering a note for conversion will not be required to pay any taxes or duties relating to the issuance or delivery of our common stock for such conversion, but will be required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of our common stock in a name other than the holder of the note. Certificates representing shares of our common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by the holder have been paid. If a note is to be converted in part only, a new note or notes equal in principal amount to the unconverted portion of the note surrendered for conversion will be issued. The shares of our common stock issuable upon conversion will not be issued or delivered in a name other than that of the holder of the note unless the applicable restrictions on transfer have been satisfied.

The initial conversion rate will be adjusted for certain future events, including:

1. the issuance of our common stock as a dividend or distribution on our common stock to all holders of our common stock;
2. certain subdivisions and combinations of our common stock;
3. the issuance to all holders of our common stock of rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase shares of our common stock (other than pursuant to a shareholders rights plan) or securities convertible into shares of our common stock, at a price per share or having a conversion price per share less than the then current market price per share of our common stock;
4. the dividend or other distribution to all holders of our common stock of shares of our capital stock (other than our common stock) or evidences of our indebtedness or our assets, including securities, but excluding: (A) those rights and warrants referred to in clause (3) above, (B) dividends and distributions in connection with a reclassification or change of our common stock, merger, consolidation, statutory share exchange, combination, sale or conveyance as described in the fourth succeeding paragraph below and (C) dividends or distributions paid exclusively in cash referred to in clause (5) below;

5. dividends or other distributions consisting exclusively of cash to all holders of our common stock, excluding: (A) any cash that is distributed as part of a distribution referred to in clause (4) above and (B) any quarterly cash dividend on our common stock to the extent that the aggregate cash dividend per share of our common stock in any quarter does not exceed \$0.005 (the dividend threshold amount ); the dividend threshold amount is subject to adjustment on the same basis as the conversion rate, provided that no adjustment will be made to the dividend threshold amount for any adjustment made to the conversion rate pursuant to this clause (5); and

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6. the purchase of our common stock pursuant to a tender offer or exchange offer made by us or any of our subsidiaries to the extent that the cash and fair market value of any other consideration included in the payment per share of common stock exceeds the closing sale price per share of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer.

Subject to the immediately succeeding sentence, no adjustment in the conversion rate will be required unless such adjustment would require a change of at least 1% in the conversion price then in effect at such time. Any adjustment that would otherwise be required to be made (a) will be carried forward and taken into account in any subsequent adjustment and (b) will be made five business days prior to the maturity of the notes (whether at stated maturity or otherwise) unless such adjustment has already been made prior to the adjustment contemplated by this clause (b). We will not make any adjustment if holders of notes are permitted to participate in the transactions described above.

In the event that we pay a dividend or make a distribution on shares of our common stock consisting of capital stock of, or similar equity interests in, as described in clause (4) above, a subsidiary or other business unit of ours, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average sale prices of those securities for the 10 trading days commencing on and including the fifth trading day after the date on which ex-dividend trading commences for such dividend or distribution on the New York Stock Exchange or such other national or regional exchange or market on which the securities are then listed or quoted.

Except as stated above, the conversion rate will not be adjusted for the issuance of common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase any of the foregoing.

In the case of:

any reclassification or change of our common stock (other than changes resulting from changes in par value or as a result of a subdivision or combination);

a consolidation, merger or combination involving Titan International;

a sale or conveyance to another corporation of all or substantially all of our property and assets; or

any statutory share exchange;

in each case, as a result of which holders of our common stock are entitled to receive stock, other securities, other property or assets (including cash or any combination thereof) with respect to or in exchange for our common stock, the holders of the notes then outstanding will be entitled thereafter to convert such notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) that they would have owned or been entitled to receive upon such reclassification or change of our common stock, consolidation, merger, combination, sale, conveyance or statutory share exchange had such notes been converted into our common stock immediately prior to such reclassification, change, consolidation, merger, combination, sale, conveyance or statutory share exchange.

In addition, the indenture provides that upon conversion of the notes, the holders of such notes will receive, in addition to the shares of our common stock issuable upon such conversion, the rights related to such common stock pursuant to our existing and any future shareholder rights plan, whether or not such rights have separated from the common stock at the time of such conversion. However, there will not be any adjustment to the conversion rate as a result of:

the issuance of the rights;

the distribution of separate certificates representing the rights;

the exercise or redemption of such rights in accordance with any rights agreement; or

the termination or invalidation of the rights.



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We may from time to time, to the extent permitted by law, increase the conversion rate of the notes by any amount for any period of at least 20 days. In that case, we will give at least 15 days notice of such increase. We may, but are under no obligation to, make such increases in the conversion rate, in addition to those set forth above, as our board of directors deems advisable to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of stock or rights to acquire stock or from any event treated as such for income tax purposes.

If a taxable distribution to holders of our common stock or other transaction occurs that results in any adjustment of the conversion rate, the holders of notes may, in certain circumstances, be deemed to have received a distribution subject to United States federal income tax as a dividend. In certain other circumstances, the absence of such an adjustment may result in a taxable dividend to the holders of our common stock.

## **Sinking Fund**

There is no sinking fund for the notes.

## **Purchase at Option of Holders upon a Change in Control**

If a change in control occurs as set forth below, each holder of notes will have the right to require us to purchase for cash all of such holder's notes, or any portion of those notes that is equal to \$1,000 or a whole multiple of \$1,000, on the date that is not later than 30 business days after the date we give notice of the change in control, at a purchase price equal to 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest to, but excluding, the purchase date, plus a make-whole premium under the circumstances described below. If such purchase date is after a record date but on or prior to an interest payment date, however, then the interest payable on such date will be paid to the holder of record of the notes on the relevant record date.

If a change in control occurs pursuant to the first or second bullet point of the definition thereof set forth below, we will pay a make-whole premium to the holders of the notes in addition to the purchase price of the notes on the change in control purchase date. The make-whole premium will also be paid on the change in control purchase date to holders of the notes who convert their notes into common stock on or after the date on which we have given a notice to all holders of notes of the occurrence of the change in control and on or before the change in control purchase date.

The make-whole premium will be determined by reference to the table below and is based on the date on which the change in control becomes effective (the effective date) and the price (the stock price) paid per share of our common stock in the transaction constituting the change in control. If holders of our common stock receive only cash in the transaction, the stock price shall be the cash amount paid per share of our common stock. Otherwise, the stock price shall be equal to the average closing sale price per share of our common stock over the five trading-day period ending on the trading day immediately preceding the effective date.

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The following table shows what the make-whole premiums would be for each hypothetical stock price and effective date set forth below, expressed as a percentage of the principal amount of the notes.

**Make-Whole Premium Upon a Change in Control (% of Face Value)**

Stock Price on Effective Date	Effective Date					
	July 26, 2004	July 26, 2005	July 26, 2006	July 26, 2007	July 26, 2008	July 26, 2009
\$ 9.87	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
\$13.00	25.8%	23.8%	21.2%	17.7%	12.4%	0.0%
\$16.00	26.4%	23.8%	20.5%	16.1%	9.9%	0.0%
\$19.00	24.2%	21.4%	17.7%	13.0%	6.9%	0.0%
\$22.00	22.7%	19.6%	15.9%	11.2%	5.6%	0.0%
\$25.00	21.4%	18.4%	14.6%	10.2%	5.0%	0.0%
\$28.00	20.4%	17.4%	13.8%	9.5%	4.7%	0.0%
\$40.00	17.6%	14.9%	11.9%	8.3%	4.4%	0.0%
\$50.00	15.5%	13.3%	10.7%	7.7%	4.2%	0.0%
\$60.00	13.5%	11.6%	9.6%	7.1%	4.1%	0.0%
\$70.00	11.5%	9.9%	8.5%	6.6%	3.9%	0.0%

The make-whole premiums set forth above are based upon an interest rate of 5 1/4%, a closing sale price per share of our common stock of \$9.87 on July 19, 2004 and a conversion rate that results in a conversion price of \$13.50, which is 36.78% higher than the closing sale price per share of our common stock on July 19, 2004.

The actual stock price and effective date may not be set forth on the table, in which case:

if the actual stock price on the effective date is between two stock prices on the table or the actual effective date is between two effective dates on the table, the make-whole premium will be determined by a straight-line interpolation between the make-whole premiums set forth for the two stock prices and the two effective dates on the table based on a 365-day year, as applicable.

if the stock price on the effective date exceeds \$70.00 per share (subject to adjustment as described below), no make-whole premium will be paid.

if the stock price on the effective date is less than \$9.87 per share (subject to adjustment as described below), no make-whole premium will be paid.

The stock prices set forth in the first column of the table above will be adjusted as of any date on which the conversion rate of the notes is adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is the conversion rate as so adjusted.

We will pay, at our option, the make-whole premium in cash, shares of our common stock or the same form of consideration used to pay for the shares of our common stock in connection with the transaction constituting the change in control.

If we decide to pay the make-whole premium in shares of our common stock, the value of our common stock to be delivered in respect of the make-whole premium shall be deemed to be equal to the average closing sale price per share of our common stock over the ten trading-day period ending on the trading day immediately preceding the change in control purchase date. We may pay the make-whole premium in shares of our common stock only if the information necessary to calculate the closing sale price per share of our common stock is published in a daily newspaper of national circulation or by other appropriate means.

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In addition, our right to pay the make-whole premium in shares of our common stock is subject to our satisfying various conditions, including:

listing such common stock on the principal United States securities exchange on which our common stock is then listed or, if not so listed, on Nasdaq National Market;

the registration of the common stock under the Securities Act and the Exchange Act, if required; and

any necessary qualification or registration under applicable state securities law or the availability of an exemption from such qualification and registration.

If such conditions are not satisfied with respect to a holder prior to the close of business on the change in control purchase date, we will pay the make-whole premium in cash. We may not change the form of consideration to be paid with respect to the make-whole premium once we have given the notice that we are required to give to holders of record of notes, except as described in the immediately preceding sentence.

If we decide to pay the make-whole premium in the same form of consideration used to pay for the shares of our common stock in connection with the transaction constituting the change in control, the value of the consideration to be delivered in respect of the make-whole premium will be calculated as follows:

securities that are traded on a United States national securities exchange or approved for quotation on the Nasdaq National Market or any similar system of automated dissemination of quotations of securities prices will be valued based on the average closing price or last sale price, as applicable, over the ten trading-day period ending on the trading day immediately preceding the change in control purchase date;

other securities, assets or property (other than cash) will be valued based on 98% of the average of the fair market value of such securities, assets or property (other than cash) as determined by two independent nationally recognized investment banks selected by the trustee; and

100% of any cash.

Within 30 days after the occurrence of a change in control, we are required to give notice to all holders of record of notes, as provided in the indenture, stating among other things, (1) the occurrence of change in control and of their resulting purchase right and (2) whether we will pay the make-whole premium in cash, shares of our common stock or the same form of consideration used to pay for the shares of our common stock in connection with the transaction constituting the change in control. We must also deliver a copy of our notice to the trustee.

In order to exercise the purchase right upon a change in control, a holder must deliver prior to the change in control purchase date a change in control purchase notice stating among other things:

if certificated notes have been issued, the certificate numbers of the notes to be delivered for purchase:

the portion of the principal amount of notes to be purchased, in integral multiples of \$1,000; and

that the notes are to be purchased by us pursuant to the applicable provisions of the notes and the indenture.

If the notes are not in certificated form, a holder's change in control purchase notice must comply with appropriate DTC procedures.

A holder may withdraw any change in control purchase notice upon a change in control by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the change in control purchase date. The notice of withdrawal must state:

the principal amount of the withdrawn notes;

if certificated notes have been issued, the certificate numbers of the withdrawn notes; and

the principal amount, if any, of the notes which remains subject to the change in control purchase notice.

In connection with any purchase offer in the event of a change in control, we will, if required:

comply with the provisions of Rule 13e-4, Rule 14e-1, and any other tender offer rules under the Exchange Act which may then be applicable; and

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file a Schedule TO or any other required schedule under the Exchange Act.

Payment of the change in control purchase price for a note for which a change in control purchase notice has been delivered and not validly withdrawn is conditioned upon delivery of the note, together with necessary endorsements, to the paying agent at any time after delivery of such change in control purchase notice. Payment of the change in control purchase price for the note will be made promptly following the later of the change in control purchase date or the time of delivery of the note.

If the paying agent holds money or securities sufficient to pay the change in control purchase price of the note on the business day following the change in control purchase date in accordance with the terms of the indenture, then, immediately after the change in control purchase date, the note will cease to be outstanding and interest on such note will cease to accrue, whether or not the note is delivered to the paying agent. Thereafter, all other rights of the holder will terminate, other than the right to receive the change in control purchase price upon delivery of the note.

Under the indenture, a change in control of Titan International will be deemed to have occurred at such time after the original issuance of the notes when the following has occurred:

the acquisition by any person of beneficial ownership, directly or indirectly, through a purchase, merger (except a merger by Titan International described in the following paragraph) or other acquisition transaction or series of transactions, of shares of our capital stock entitling that person to exercise 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors, other than any acquisition by us, any of our subsidiaries or any of our employee benefit plans;

our consolidation or merger with or into any other person, any merger of another person into us, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of our properties and assets to another person, other than:

1. any transaction (a) that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of our capital stock and (b) pursuant to which holders of our capital stock immediately prior to the transaction are entitled to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock entitled to vote generally in the election of directors of the continuing or surviving person immediately after the transaction;

2. any merger, share exchange, transfer of assets or similar transaction solely for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity; or

3. all of the consideration for the common stock (excluding cash payments for fractional shares and cash payments made in respect of dissenters' appraisal rights) in the transaction or transactions constituting the change in control consists of common stock traded on a U.S. national securities exchange or quoted on the Nasdaq National Market, or which will be so traded or quoted when issued or exchanged in connection with the change in control, and as a result of such transaction or transactions the notes become convertible solely into such common stock; or

during any consecutive two-year period, individuals who at the beginning of that two-year period constituted our board of directors (together with any new directors whose election to our board of directors, or whose nomination for election by our shareholders, was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of our board of directors then in

office.

Beneficial ownership will be determined in accordance with Rule 13d-3 promulgated by the SEC under the Securities Exchange Act. The term "person" includes any syndicate or group that would be deemed to be a "person" under Section 13(d)(3) of the Exchange Act.

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Rule 13e-4 under the Exchange Act requires the dissemination of information to security holders if an issuer tender offer occurs and may apply if the repurchase option becomes available to holders of the notes. We will comply with this rule to the extent applicable at that time.

We may, to the extent permitted by applicable law, at any time purchase the notes in the open market or by tender at any price or by private agreement. Any note purchased by us (a) after the date that is two years from the latest issuance of the notes (or July 26, 2006) may, to the extent permitted by applicable law, be reissued or sold or may be surrendered to the trustee for cancellation or (b) on or prior to the date referred to in (a), will be surrendered to the trustee for cancellation. Any notes surrendered to the trustee may not be reissued or resold and will be canceled promptly.

No notes may be purchased by us at the option of holders upon the occurrence of a change in control if there has occurred and is continuing an event of default with respect to the notes, other than a default in the payment of the change in control purchase price with respect to the notes.

## **Events of Default**

Each of the following will constitute an event of default under the indenture:

our failure to pay when due the principal of any of the notes at maturity, upon exercise of a purchase right or otherwise;

our failure to pay an installment of interest, or additional interest, if any, on any of the notes, that continues for 30 days after the date when due;

our failure to deliver shares of common stock, together with cash instead of fractional shares, when those shares of common stock or cash instead of fractional shares are required to be delivered upon conversion of a note, and such failure continues for 10 days after written notice of default is given to us by the trustee or to us and the trustee by the holder of such note;

our failure to perform or observe any other term, covenant or agreement contained in the notes or the indenture for a period of 30 days after written notice of such failure, requiring us to remedy the same, will have been given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the notes then outstanding;

our failure to make any payment by the end of the applicable grace period, if any, after the maturity of any indebtedness for borrowed money in an amount in excess of \$10 million, or there is an acceleration of indebtedness for borrowed money in an amount in excess of \$10 million because of a default with respect to such indebtedness without such indebtedness having been discharged or such acceleration having been cured, waived, rescinded or annulled, in either case, for a period of 30 days after written notice to us by the trustee or to us and the trustee by holders of at least 25% in aggregate principal amounts of the notes then outstanding;

certain events of our bankruptcy, insolvency or reorganization or that of any of our significant subsidiaries; and

our filing of, or any of our significant subsidiaries filing of, a voluntary petition seeking liquidation, reorganization arrangement, readjustment of debts or for any other relief under the federal bankruptcy code.

For these purposes, significant subsidiary will have the meaning set forth in Rule 1-02(w) of Regulation S-X.



The indenture provides that the trustee will, within 90 days of the occurrence of a default, give to the registered holders of the notes notice of all uncured defaults known to it, but the trustee will be protected in withholding such notice if it, in good faith, determines that the withholding of such notice is in the best interest of such registered holders, except in the case of a default in the payment of the principal of, or premium, if any, or interest on, any of the notes when due or in the payment of any repurchase obligation.

If an event of default specified in the sixth or seventh bullet above occurs and is continuing, then automatically the principal of all the notes and the interest thereon will become immediately due and payable. If an event of

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default occurs and is continuing, other than with respect to the sixth or seventh bullet above, the default not having been cured or waived as provided under **Modifications and Waiver** below, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare the notes due and payable at their principal amount together with accrued interest, and thereupon the trustee may, at its discretion, proceed to protect and enforce the rights of the holders of notes by appropriate judicial proceedings. Such declaration may be rescinded or annulled with the written consent of the holders of a majority in aggregate principal amount of the notes then outstanding upon the conditions provided in the indenture.

The indenture contains a provision entitling the trustee, subject to the duty of the trustee during default to act with the required standard of care, to receive from the holders of notes reasonable security or indemnity satisfactory to the trustee against any loss, liability or expense before proceeding to exercise any right or power under the indenture at the request of such holders. The indenture provides that the holders of a majority in aggregate principal amount of the notes then outstanding through their written consent may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred upon the trustee.

We will be required to furnish annually to the trustee a statement as to the fulfillment of our obligations under the indenture.

## **Consolidation, Mergers and Sales of Assets**

We may, without the consent of the holders of notes, consolidate with, merge into or sell, lease or transfer all or substantially all of our assets to any corporation, limited liability company, partnership or trust organized under the laws of the United States or any of its political subdivisions, provided that:

we are the resulting or surviving corporation or the successor person, if other than us, is a corporation, limited liability company, partnership or trust that (a) is organized and existing under the laws of the United States or any State of the United States and (b) assumes all our obligations under the indenture and the notes;

at the time of such transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, has happened and is continuing; and

an officers certificate stating that the consolidation, merger or transfer complies with the provisions of the indenture is delivered to the trustee.

## **Modifications and Waiver**

Modifications and amendments to the indenture or to the terms and conditions of the notes may be made, and noncompliance by us may be waived, with the written consent of the holders of not less than a majority in aggregate principal amount of the notes at the time outstanding. However, the indenture, including the terms and conditions of the notes, may be modified or amended by us and the trustee, without the consent of the holder of any note, for the purposes of, among other things:

adding to our covenants for the benefit of the holders of notes;

surrendering any right or power conferred upon us;

providing for conversion rights of holders of notes if any reclassification or change of our common stock or any consolidation, merger or sale of all or substantially all of our assets occurs;

increasing the conversion rate, provided that the increase will not adversely affect the interests of holders of notes in any material respect;

complying with the requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act of 1939;

making any changes or modifications to the indenture necessary in connection with the registration of the notes under the Securities Act as contemplated by the registration rights agreement, provided that this action does not adversely affect the interests of the holders of the notes in any material respect;

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curing any ambiguity, omission, inconsistency or correcting or supplementing any defective provision contained in the indenture; provided that such modification or amendment does not adversely affect the interests of the holders of the notes in any material respect;

adding or modifying any other provisions which we and the trustee may deem necessary or desirable and which will not adversely affect the interests of the holders of notes in any material respect;

complying with the requirements regarding merger or transfer of assets; or

providing for uncertificated notes in addition to the certificated notes so long as such uncertificated notes are in registered form for purposes of the Internal Revenue Code of 1986.

Notwithstanding the foregoing, no modification or amendment to, or any waiver of, any provisions of the indenture may, without the written consent of the holder of each note affected:

change the maturity of the principal of or any installment of interest on any note, or any payment of additional interest;

reduce the principal amount of, or interest on, or the amount of additional interest on, any note;

change the currency of payment of principal of or interest on any note;

impair the right to institute suit for the enforcement of any payment on or with respect to, or conversion of, any note;

except as otherwise permitted or contemplated by provisions of the indenture concerning corporate reorganizations, materially adversely affect the purchase option of holders or the conversion rights of holders of the notes; or

reduce the percentage in aggregate principal amount of notes outstanding necessary to modify or amend the indenture or to waive any past default.

## **Satisfaction and Discharge**

We may discharge our obligations under the indenture while notes remain outstanding, subject to certain conditions, if all outstanding notes become due and payable at their scheduled maturity within one year, and we have deposited with the trustee an amount sufficient to pay and discharge all outstanding notes on the date of their scheduled maturity. However, we will remain obligated to issue shares of our common stock upon conversion of the notes until such maturity as described under [Conversion Rights](#).

## **Global Notes; Book-Entry; Form**

The notes have been issued in the form of one or more global securities. The global security has been deposited with the trustee as custodian for DTC and registered in the name of a nominee of DTC. Except as set forth below, the global security may be transferred, in whole and not in part, only to DTC or another nominee of DTC. You will hold your beneficial interests in the global security directly through DTC if you have an account with DTC or indirectly through organizations that have accounts with DTC. Notes in definitive certificated form (called [certificated securities](#) ) will be issued only in certain limited circumstances described below.

DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York;

a member of the Federal Reserve System;

a clearing corporation within the meaning of the New York Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act.

DTC was created to hold securities of institutions that have accounts with DTC (called participants) and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement

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of securities certificates. DTC's participants include securities brokers and dealers, which may include the initial purchasers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC's book-entry system is also available to others such as banks, brokers, dealers and trust companies (called, the indirect participants) that clear through or maintain a custodial relationship with a participant, whether directly or indirectly.

Pursuant to procedures established by DTC upon the deposit of the global security with DTC, DTC credited, on its book-entry registration and transfer system, the principal amount of notes represented by such global security to the accounts of participants. Ownership of beneficial interests in the global security will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the global security will be shown on, and the transfer of those beneficial interests will be effected only through, records maintained by DTC (with respect to participants' interests), the participants and the indirect participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer or pledge beneficial interests in the global security.

Owners of beneficial interests in global securities who desire to convert their interests into common stock should contact their brokers or other participants or indirect participants through whom they hold such beneficial interests to obtain information on procedures, including proper forms and cut-off times, for submitting requests for conversion.

So long as DTC, or its nominee, is the registered owner or holder of a global security, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the notes represented by the global security for all purposes under the indenture and the notes. In addition, no owner of a beneficial interest in a global security will be able to transfer that interest except in accordance with the applicable procedures of DTC. Except as set forth below, as an owner of a beneficial interest in the global security, you will not be entitled to have the notes represented by the global security registered in your name, will not receive or be entitled to receive physical delivery of certificated securities and will not be considered to be the owner or holder of any notes under the global security. We understand that under existing industry practice, if an owner of a beneficial interest in the global security desires to take any action that DTC, as the holder of the global security, is entitled to take, DTC would authorize the participants to take such action. Additionally, in such case, the participants would authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

We will make payments of principal of and interest (and any additional interest) on the notes represented by the global security registered in the name of and held by DTC or its nominee to DTC or its nominee, as the case may be, as the registered owner and holder of the global security. Neither we, the trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the global security or for maintaining, supervising or reviewing any records relating to such beneficial interests.

We expect that DTC or its nominee, upon receipt of any payment of principal of or interest (or additional interest) on the global security, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global security as shown on the records of DTC or its nominee. We also expect that payments by participants or indirect participants to owners of beneficial interests in the global security held through such participants or indirect participants will be governed by standing instructions and customary practices and will be the responsibility of such participants or indirect participants. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial interests in the global security for any note or for maintaining, supervising or reviewing any records relating to such beneficial interests or for any other aspect of the relationship between DTC and its participants or indirect participants or the relationship between such participants or indirect participants and the owners of beneficial interests in the global security owning through such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds.

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DTC has advised us that it will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose account the DTC interests in the global security is credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. However, if DTC notifies us that it is unwilling to be a depository for the global security or ceases to be a clearing agency or there is an event of default under the notes, DTC will exchange the global security for certificated securities which it will distribute to its participants and which will be legended, if required.

Although DTC is expected to follow the foregoing procedures in order to facilitate transfers of interests in the global security among participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility or liability for the performance by DTC or the participants or indirect participants of their respective obligations under the rules and procedures governing their respective operations.

**Information Concerning the Trustee and Transfer Agent**

U.S. Bank National Association, as trustee under the indenture, has been appointed by us as paying agent, conversion agent, registrar and custodian with regard to the notes. The trustee, the transfer agent or their affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

**Governing Law**

The indenture and the notes are governed by, and construed in accordance with, the laws of the State of New York.

**Registration Rights**

We entered into a registration rights agreement with the initial purchasers of the notes. Our obligation to keep effective a shelf registration statement for the resale by noteholders of the notes or shares of common stock issued upon conversion of the notes expired on the second anniversary of the latest issuance of the notes, being July 26, 2006.



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**DESCRIPTION OF CAPITAL STOCK**

Our authorized capital stock consists of 60 million shares of common stock, no par value per share, and 4 million shares of preferred stock, no par value per share. As of December 31, 2006, 19,898,902 shares of our common stock were outstanding and 10,678,454 shares were held in the treasury of the Company. No shares of our preferred stock are issued and outstanding. The following description of our capital stock and certain provisions of our articles of incorporation is a summary. The description below is qualified in its entirety by the provisions of our articles of incorporation, which have been filed as an exhibit to our Quarterly Report or Form 10-Q for the quarter ended September 30, 1998.

**Common Stock**

The issued and outstanding shares of our common stock are validly issued, fully paid, and nonassessable. Holders of shares of our outstanding common stock are entitled to receive dividends if our board of directors decides to declare any dividends. Our common stock is neither redeemable nor convertible. Upon liquidation, dissolution, or winding up of Titan, holders of shares of our common stock are entitled to receive, pro rata, our assets that are legally available for distribution, after payment of all debts and other liabilities. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of shareholders. Our articles of incorporation do not allow for cumulative voting in the election of directors.

**Preferred Stock**

Our articles of incorporation authorize the issuance of four million shares of preferred stock, no par value per share. Our board of directors is authorized to provide for the issuance of shares of preferred stock in one or more series, and to fix for each series voting rights, if any, designation, preferences and relative, participating, optional or other special rights and such qualifications, limitations, or restrictions as provided in a resolution or resolutions adopted by our board of directors.

**Options**

As of December 31, 2006, 248,560 shares of our common stock were issuable upon exercise of options that were outstanding under our 1993 Stock Incentive Plan, 252,000 shares of our common stock were issuable upon exercise of options that were outstanding under our 1994 Non-Employee Directors Stock Option Plan, and 649,500 shares of our common stock were issuable upon exercise of options that were outstanding under our 2005 Equity Incentive Plan. As of December 31, 2006, an additional 1,213,720 shares were reserved for issuance under the 2005 Equity Incentive Plan.

**Special Meetings of Stockholders**

Our by-laws provide that special meetings of our stockholders may be called only by our chairman of the board, our president, our board of directors or by the holders of not less than one-fifth of all the outstanding shares entitled to vote on the matter for which the meeting is being called or the purpose or purposes stated in the meeting notice.

**Authorized But Unissued Shares**

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future

public offerings to raise additional capital, corporate acquisitions and employee benefit plans.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is LaSalle Bank N.A.

**Listing**

Our shares of common stock are listed on the NYSE under the symbol TWI .

**Table of Contents****MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a discussion of the material U.S. federal income tax considerations of the conversion offer relevant to holders of the Convertible Notes, but does not purport to be a complete analysis of all the potential tax consequences. This discussion does not deal with all aspects of U.S. federal income taxation that may be relevant to holders of Convertible Notes in light of their personal investment circumstances, nor does it deal with all U.S. federal income tax considerations applicable to certain types of holders subject to special treatment under U.S. federal income tax law (e.g., financial institutions, partnerships or other pass-through entities, expatriates or former long-term residents of the United States, holders subject to the alternative minimum tax, individual retirement accounts or other tax-deferred accounts, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, life insurance companies, real estate investment trusts, regulated investment companies, persons that hold Convertible Notes, or will hold shares of common stock received pursuant to the conversion offer, as a position in a straddle, or as part of a synthetic security or hedge, conversion transaction, constructive sale or other integrated investment, U.S. Holders (as defined below) that have a functional currency other than the U.S. dollar, Non-U.S. Holders (as defined below), except for the specific discussion below, and tax-exempt organizations).

This discussion deals only with holders that hold the Convertible Notes, and will hold the shares of common stock received pursuant to the conversion offer, as capital assets (generally, property held for investment). This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations promulgated thereunder, administrative rulings and pronouncements of the Internal Revenue Service (the IRS), judicial decisions and other applicable authorities, all as in effect on the date hereof and all of which are subject to change (possibly with retroactive effect) and differing interpretations. No ruling from the IRS has been or will be sought on any of the matters discussed below, and there can be no assurance that the IRS will agree with the conclusions reached herein. Furthermore, this discussion does not address the tax consequences arising under the tax laws of any state, locality or foreign jurisdiction and does not deal with any U.S. federal laws other than those pertaining to income taxation.

For purposes of this discussion, the term U.S. Holder means a beneficial owner of a Convertible Note that is, for U.S. federal income tax purposes: (i) an individual citizen or resident of the United States, (ii) a corporation (or other entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if either (A) a court within the United States is able to exercise primary jurisdiction over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust or (B) such trust has a valid election in effect under applicable Treasury regulations to be treated as a United States person. As used herein, the term Non-U.S. Holder means a beneficial owner of a Convertible Note that is neither a U.S. Holder nor a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or an entity that is treated as a partnership for U.S. federal income tax purposes) holds Convertible Notes, the tax treatment of its partners generally will depend upon the status of the partner and the activities of the partnership. Partnerships (and other entities that are treated as partnerships for U.S. federal income tax purposes) and persons holding Convertible Notes through such partnership (or other entity) are urged to consult their own tax advisors.

This discussion set forth under the heading Material U.S. Federal Income Tax Considerations to the extent it states matters of law or legal conclusions, and subject to the assumptions, exceptions, limitations and qualifications set forth herein, constitutes the opinion of special counsel, Bodman LLP, as to the material U.S. federal income tax consequences of the conversion of the Convertible Notes for shares of common stock pursuant to the conversion offer

relevant to holders of the Convertible Notes. Special counsel's opinion is not binding upon the IRS or the courts, and thus there is no assurance that the IRS will not successfully assert a contrary position.

HOLDERS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF PARTICIPATING IN THE CONVERSION OFFER, INCLUDING THE APPLICABILITY OF ANY FEDERAL, STATE, LOCAL, FOREIGN OR OTHER TAX LAWS AND POSSIBLE CHANGES IN SUCH TAX LAWS OR INTERPRETATIONS THEREOF.

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*ADVICE PURSUANT TO TREASURY CIRCULAR 230.* THIS DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY YOU FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU. THIS DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS ADDRESSED BY THIS DISCUSSION. YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

**U.S. Holders**

*Status of the Convertible Notes and Treatment of the Conversion Offer.* The U.S. federal income tax consequences of the conversion of the Convertible Notes for shares of common stock pursuant to the conversion offer (the Conversion) depends on, among other things, whether the surrender of Convertible Notes for shares of common stock in the Conversion qualifies as a recapitalization under Section 368(a)(1)(E) of the Code and whether the Convertible Notes constitute securities for U.S. federal income tax purposes. A recapitalization under Section 368(a)(1)(E) generally is a reshuffling of the capital structure of an existing corporation pursuant to which stock or securities of the corporation are exchanged for other stock or securities of the corporation. The term securities is not defined in the Code or applicable Treasury regulations and has not been clearly defined by court decisions. The determination of whether a debt instrument constitutes a security for U.S. federal income tax purposes is based on all the facts and circumstances. A significant factor in this determination is the term to maturity of the instrument at the time of issuance. In general, a bona fide debt instrument that has a term of ten years or more is likely to be classified as a security, whereas a term of less than five years is normally considered too short to qualify. Courts have also focused on various other factors including, but not limited to, the degree of participation and continuing interest in the business, the extent of proprietary interest compared with the similarity of the instrument to a cash payment, and the overall purpose of the advances to which the instrument relates.

Based on the foregoing, the Convertible Notes may constitute securities and the surrender of Convertible Notes for shares of common stock in the Conversion may be treated for as a recapitalization under Section 368(a)(1)(E) of the Code. You should be aware, however, that there are no legal authorities directly on point and, as described below, alternative characterizations of the Conversion are possible. Thus, such conclusions are not free from doubt and there can be no assurance that the IRS will not challenge such treatment or that a court would not agree with the contrary position of the IRS in the event of litigation. We intend to treat the surrender of Convertible Notes for shares of common stock in the conversion as a recapitalization under Section 368(a)(1)(E) of the Code.

*Consequences of the Conversion.* Based on treatment of the surrender of the Convertible Notes for shares of common stock in the Conversion as a recapitalization for U.S. federal income tax purposes, as discussed above, a U.S. Holder generally should recognize no gain or loss from the Conversion (other than with respect to any amounts attributable to accrued and unpaid interest and cash received in lieu of a fractional share of common stock). Generally, the tax basis in the shares of common stock received in the Conversion (other than shares attributable to accrued but unpaid interest) should be the same as the tax basis of the Convertible Note in respect of which such shares were received (less the portion of such basis, if any, allocable to cash received in lieu of a fractional share of common stock), and the holding period of such shares should include the holding period of such Convertible Note. Amounts attributable to accrued but unpaid interest should be taxable as ordinary interest income to the extent not previously included in gross income, should have a fair market value basis and should have a holding period that begins following the date of the Conversion. A U.S. Holder generally will recognize capital gain or loss on the receipt of cash in lieu of a fractional share of common stock in an amount equal to the difference between the amount of cash received and the U.S. Holder's adjusted tax basis allocable to such fractional share.

The U.S. federal income tax consequences described in the preceding paragraph rely on the fact that the Conversion is not pursuant to a plan to periodically increase a shareholder's proportionate interest in our assets or earnings and profits. In the event the Conversion was determined to be part of such a plan, Section 305 of the Code may apply to treat the shares of common stock received that are attributable to the adjustment in conversion rate pursuant to the conversion offer as a taxable stock dividend. In such event, such portion of the shares of common stock received generally should be taxable in full as dividend income and no portion of the tax basis of the

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Convertible Note in respect of which such shares were received generally should be allocated to such shares and the holding period of such shares generally should not include the holding period of such Convertible Note.

In addition, in the event the surrender of Convertible Notes for shares of common stock in the Conversion is determined not to constitute a recapitalization for U.S. federal income tax purposes, the Conversion could be treated as a fully taxable exchange of the Convertible Notes for the shares of common stock. Alternatively, since there is no authority directly on point, the Conversion could be treated as a partially taxable transaction, in which the Conversion is treated as a tax-free conversion of the Convertible Notes pursuant to their terms coupled with the separate taxable receipt of additional shares of common stock as ordinary income (*i.e.*, the shares of common stock received that are attributable to the adjustment in conversion rate pursuant to the conversion offer). Other characterizations are also possible. U.S. Holders are advised to consult their own tax advisors regarding the qualification of the Convertible Notes as securities and the surrender of the Convertible Notes for shares of common stock in the Conversion as a recapitalization for U.S. federal income tax purposes as well as the tax consequences to them of alternative characterizations.

U.S. Holders who acquired Convertible Notes subsequent to their original issuance at prices higher or lower than their initial issue price may be subject to special rules. For example, assuming the surrender of Convertible Notes for shares of common stock in the Conversion constitutes a recapitalization for U.S. federal income tax purposes, any accrued market discount on the Convertible Notes not previously included in gross income would be treated as ordinary income upon the subsequent disposition of the shares of common stock. Such U.S. Holders should consult their own tax advisors regarding the consequences of any market discount or premium with respect to their Convertible Notes.

**Non-U.S. Holders**

*Consequences of the Conversion.* If, as described above, the surrender of Convertible Notes for shares of common stock in the Conversion is treated as a recapitalization under Section 368(a)(1)(E) of the Code for U.S. federal income tax purposes, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax in respect of the Conversion, other than with respect to (i) any gain in respect of cash received in lieu of a fractional share of common stock if (A) the Non-U.S. Holder is an individual who was present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are met, or (B) such gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States and, if certain United States income tax treaties apply, is attributable to a United States permanent establishment maintained by the Non-U.S. Holder, and (ii) amounts attributable to accrued but unpaid interest, which is addressed further below.

Certain Non-U.S. Holders may be subject to U.S. federal income or withholding tax in respect of the Conversion under certain circumstances if we are or have been a United States real property holding corporation for U.S. federal income tax purposes (a USRPHC). In general, a corporation is a USRPHC if the fair market value of its United States real property interests (as defined in the Code and applicable Treasury regulations) equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. We do not believe we are or have been a USRPHC for any relevant period.

As described above under U.S. Holders, there are no legal authorities directly addressing the U.S. federal income tax consequences of a transaction involving the adjustment to the conversion rate of a convertible debt instrument with substantially identical facts similar to the Conversion. Thus, the U.S. federal income tax consequences are not free from doubt and alternative characterizations exist. In the event the Conversion is treated as a fully taxable exchange of Convertible Notes for shares of common stock, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax unless (i) such Non-U.S. Holder is an individual who was present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are met, (ii) any gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States and, if certain

United States income tax treaties apply, is attributable to a United States permanent establishment maintained by the Non-U.S. Holder, or (iii) we are or have been a USRPHC and the Non-U.S. Holder satisfies certain ownership requirements. As described in the discussion above relating to USRPHCs, we do not believe we are or have been a USRPHC for any relevant period.



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Alternatively, in the event the Conversion is treated as a conversion of the Convertible Notes pursuant to their terms coupled with the separate receipt of additional shares of common stock, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on the conversion but the separate receipt of additional shares may be subject to tax either as a dividend or additional ordinary income. If the Conversion is so treated, 30% of the fair market value of the shares of common stock payable to a Non-U.S. Holder that is attributable to the adjustment in conversion rate pursuant to the conversion offer would be subject to withholding and such amount or proceeds from the sale thereof paid over to the IRS unless an exemption from, or reduction of, withholding tax is applicable pursuant to an income tax treaty or because such amount is effectively connected with the conduct of a trade business by the Non-U.S. Holder in the United States. In order to claim an exemption from, or reduction of, such withholding tax, the Non-U.S. Holder must deliver a properly completed and duly executed IRS Form W-8ECI (or suitable successor form) with respect to amounts effectively connected with the conduct of a trade or business within the United States or IRS Form W-8BEN (or suitable successor or substitute form) with respect to an exemption or reduction under a treaty. Because of the uncertainty of this treatment, however, we do not intend to withhold in the event the Non-U.S. Holder is unable to deliver a properly completed and duly executed IRS Form W-8ECI or IRS Form W-8BEN. Non-U.S. Holders should consult their own tax advisors regarding the application of the withholding tax rules to their particular circumstances, including the possibility of filing a claim for a refund of any tax withheld.

A Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on amounts received that are attributable to accrued but unpaid interest, provided that, (i) such amounts are not effectively connected with the conduct of a trade or business by the Non-U.S. Holder in the United States, (ii) the Non-U.S. Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote, (iii) the Non-U.S. Holder is not a controlled foreign corporation that is related to us through stock ownership, (iv) the Non-U.S. Holder is not a bank whose receipt of interest on the Convertible Notes is described in Section 881(c)(3)(A) of the Code, and (v) either (A) the Non-U.S. Holder provides its name and address on a properly completed and duly executed IRS Form W-8BEN (or suitable successor or substitute form) and certifies, under penalty of perjury, that it is not a United States person or (B) a securities clearing organization, bank or other financial institution holding the Convertible Notes on behalf of the Non-U.S. Holder certifies, under penalty of perjury, that it has received a properly completed and duly executed IRS Form W-8BEN (or suitable successor or substitute form) from the Non-U.S. Holder and provides a copy thereof.

*Distributions on Common Stock Received in the Conversion.* A Non-U.S. Holder generally should be subject to U.S. federal tax withholding at a rate of 30% with respect to any dividends paid on our shares of common stock unless either: (i) an applicable income tax treaty reduces or eliminates such tax, and the Non-U.S. Holder claims the benefit of that treaty by timely providing us with a properly completed and duly executed IRS Form W-8BEN (or suitable successor or substitute form) establishing qualification for benefits under the treaty; or (ii) the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States and the Non-U.S. Holder timely provides us with an appropriate statement to that effect on a properly completed and duly executed IRS Form W-8ECI (or suitable successor form).

*Sale, Exchange or Redemption of Common Stock.* Except as described below, any gain recognized by a Non-U.S. Holder on the sale, exchange or redemption of a share of common stock generally should not be subject to U.S. federal income or withholding tax unless (i) the Non-U.S. Holder is an individual who was present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are met, (ii) such gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States and, if certain United States income tax treaties apply, is attributable to a United States permanent establishment maintained by the Non-U.S. Holder, or (iii) we are or have been a USRPHC for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period that the Non-U.S. Holder held the common stock and, provided our common stock continues to be regularly traded on an established securities market,

the Non-U.S. Holder owns, actually or constructively, more than 5% of our common stock during such applicable period. We do not believe that we are currently a USRPHC but there can be no assurance that we will not be a USRPHC in the future or that shares of our common stock will remain regularly traded on an established securities market. In certain circumstances, a redemption may be recharacterized as a dividend and subject to the rules described above under Non-U.S. Holders Distributions on Common Stock Received in the Conversion.

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*Income and Gains Effectively Connected with a United States Trade or Business.* Income and gains described above that are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States generally should be subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate U.S. income tax rates, subject to any different treatment prescribed by an applicable tax treaty. In addition, a Non-U.S. Holder that is treated as a corporation for U.S. federal income tax purposes may be subject to the branch profits tax at a rate of 30% or a lower rate as may be specified by an applicable tax treaty in respect of a portion of its effectively connected earnings and profits for the taxable year.

### **Information Reporting and Backup Withholding**

Information reporting and backup withholding rules are complex and holders of Convertible Notes participating in the conversion offer are urged to consult their own tax advisors regarding the application of these rules to them, including their qualification for exemption and the procedure for obtaining such exemption.

*U.S. Holders.* In general, information reporting requirements should apply to payments to a U.S. Holder unless the U.S. Holder is an exempt recipient such as a corporation. Backup withholding tax (currently at a 28% rate) generally should also apply to such payments if such U.S. Holder fails to provide a taxpayer identification number, a certification of exempt status, or otherwise fails to comply with applicable backup withholding requirements. Backup withholding is not an additional tax. Any amount withheld from a payment to a U.S. Holder under the backup withholding rules generally should be allowed as a refund or credit against such U.S. Holder's U.S. federal income tax liability, provided that the required information is timely provided to the IRS.

*Non-U.S. Holders.* We must report annually to the IRS and to each Non-U.S. Holder the amount of interest on the Convertible Notes and dividends paid on the common stock to the Non-U.S. Holder, and the tax withheld therefrom, regardless of whether withholding was reduced or eliminated by an applicable income tax treaty. Copies of the information returns reporting these amounts may also be made available under the provisions of an applicable income tax treaty or agreement to the tax authorities in the country in which the Non-U.S. Holder is resident. A Non-U.S. Holder generally should not be subject to additional information reporting or to backup withholding (currently at a 28% or more rate) with respect to payments of interest on the Convertible Notes or dividends on the common stock provided the Non-U.S. Holder has furnished to the payor or broker a properly completed and duly executed IRS Form W-8BEN (or suitable successor or substitute form) certifying, under penalties of perjury, its status as a non-United States person or otherwise established an exemption.

We will report to the IRS the payment of the shares of common stock that are attributable to the adjustment in conversion rate pursuant to the conversion offer as income other than interest. As stated above under

Non-U.S. Holders' Consequences of the Conversion, 30% of this amount paid to Non-U.S. Holders may be withheld and such withheld amount or proceeds from the sale thereof paid over to the IRS unless an exemption or reduction applies.

The payment of the proceeds of the sale or other disposition of the common stock by a Non-U.S. Holder to or through the U.S. office of any broker generally should be reported to the IRS and reduced by backup withholding at the applicable rate, unless the Non-U.S. Holder certifies its status as a non-United States person under penalties of perjury or otherwise establishes an exemption. The payment of the proceeds of the sale or other disposition of the common stock by a Non-U.S. Holder to or through a non-U.S. office of a non-U.S. broker generally should not be reduced by backup withholding or reported to the IRS unless the non-U.S. broker has certain enumerated connections with the United States. The payment of proceeds from the sale or other disposition of the common stock by or through a non-U.S. office of a broker that is a United States person or has certain enumerated connections with the United States generally should be reported to the IRS and may be reduced by backup withholding at the applicable rate, unless the

Non-U.S. Holder certifies its status as a non-United States person under penalties of perjury or otherwise establishes an exemption or the broker has specified documentary evidence in its files that the holder is a non-United States person.

Backup withholding is not an additional tax. Any amount withheld from a payment to a Non-U.S. Holder under the backup withholding rules generally should be allowed as a refund or credit against such Non-U.S. Holder's U.S. federal income tax liability, provided that the required information is timely provided to the IRS.

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**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The SEC's rules allow us to incorporate by reference information into this conversion offer prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this conversion offer prospectus from the date we file that document. Any reports filed by us with the SEC after the date of the initial filing of the registration statement of which this conversion offer prospectus forms a part and prior to the effectiveness of such registration statement, as well as any reports filed by us with the SEC after the date of this