

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

TOWER AUTOMOTIVE INC  
Form 10-Q  
August 12, 2002

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

For the quarterly period ended June 30, 2002

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 1-12733

TOWER AUTOMOTIVE, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)  
5211 CASCADE ROAD SE - SUITE 300  
GRAND RAPIDS, MICHIGAN  
(Address of principal executive offices)

41-1746238  
(I.R.S. Employer  
Identification No.)  
49546  
(Zip Code)

(616) 802-1600  
(Registrant's telephone number, including area code)

Not Applicable  
(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, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No  
-----

The number of shares outstanding of the Registrant's common stock, par value \$.01 per share, at August 8, 2002 was 65,829,925 shares.

TOWER AUTOMOTIVE, INC.  
FORM 10-Q

TABLE OF CONTENTS

# Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements:

Condensed Consolidated Statements of Operations (unaudited)  
for the Three Months Ended June 30, 2002 and 2001

Condensed Consolidated Statements of Operations (unaudited)  
for the Six Months Ended June 30, 2002 and 2001

Condensed Consolidated Balance Sheets at June 30, 2002  
(unaudited) and December 31, 2001

Condensed Consolidated Statements of Cash Flows (unaudited)  
for the Six Months Ended June 30, 2002 and 2001

Notes to Condensed Consolidated Financial Statements

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Item 3. Quantitative and Qualitative Disclosures About Market Risk See "Market Risk" section of Item 2

## PART II OTHER INFORMATION

### Item 4. Submission of Matters to a Vote of Security Holders

### Item 6. Exhibits and Reports on Form 8-K

-2-

## ITEM 1 - FINANCIAL INFORMATION

### TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS - UNAUDITED)

	Three Months Ended June 30,	
	2002	2001
Revenues	\$ 750,872	\$ 642,407
Cost of sales	657,956	557,146
Gross profit	92,916	85,261
Selling, general and administrative expenses	37,367	35,020

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Amortization expense	1,120	6,130
	-----	-----
Operating income	54,429	44,111
Interest expense, net	16,278	20,121
Other expense	2,939	--
	-----	-----
Income before provision for income taxes, equity in earnings of joint ventures and minority interest	35,212	23,990
Provision for income taxes	12,324	9,444
	-----	-----
Income before equity in earnings of joint ventures and minority interest	22,888	14,546
Equity in earnings of joint ventures, net	4,277	4,790
Minority interest, net	(4,274)	(2,664)
	-----	-----
Net income	\$ 22,891	\$ 16,672
	=====	=====
Basic earnings per common share	\$ 0.40	\$ 0.38
	=====	=====
Basic shares outstanding	57,841	44,416
	=====	=====
Diluted earnings per common share	\$ 0.37	\$ 0.35
	=====	=====
Diluted shares outstanding	74,130	60,816
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

-3-

TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS - UNAUDITED)

Six Months Ended June 30,

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	----- 2002 -----	----- 2001 -----
Revenues	\$ 1,418,979	\$ 1,270,783
Cost of sales	1,257,054	1,106,251
Gross profit	161,925	164,532
Selling, general and administrative expenses	70,274	70,319
Amortization expense	2,099	12,208
Restructuring and asset impairment charge	75,407	--
Operating income	14,145	82,005
Interest expense, net	33,418	39,843
Other expense	2,939	--
Gain on sale of plant	(3,839)	--
Income (loss) before provision for income taxes, equity in earnings of joint ventures and minority interest	(18,373)	42,162
Provision (benefit) for income taxes	(6,432)	16,472
Income (loss) before equity in earnings of joint ventures and minority interest	(11,941)	25,690
Equity in earnings of joint ventures, net	8,662	9,171
Minority interest, net	(8,347)	(5,328)
Income (loss) before cumulative effect of change in accounting principle	(11,626)	29,533
Cumulative effect of change in accounting principle	(112,786)	--
Net income (loss)	\$ (124,412) =====	\$ 29,533 =====
Basic earnings (loss) per common share:		
Income (loss) before cumulative effect	\$ (0.22)	\$ 0.67
Cumulative effect of change in accounting principle	(2.13)	--

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Net income (loss)	\$ (2.35)	\$ 0.67
Basic shares outstanding	53,047	44,263
Diluted earnings (loss) per common share:		
Income (loss) before cumulative effect	\$ (0.22)	\$ 0.63
Cumulative effect of change in accounting principle	(2.13)	--
Net income (loss)	\$ (2.35)	\$ 0.63
Diluted shares outstanding	53,047	60,737

The accompanying notes are an integral part of these condensed consolidated financial statements.

-4-

TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(AMOUNTS IN THOUSANDS)

Assets	June 30, 2002	December 31, 2001
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 28,647	\$ 21,767
Accounts receivable	330,617	216,638
Inventories	104,180	112,536
Prepaid tooling and other	122,401	89,229
Total current assets	585,845	440,170
Property, plant and equipment, net	994,887	1,120,259
Investments in joint ventures	252,883	243,198
Deferred income taxes	77,186	61,461
Goodwill, net	467,038	567,080
Other assets, net	122,319	101,268
	\$ 2,500,158	\$ 2,533,436
Liabilities and Stockholders' Investment		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 132,980	\$ 172,083
Accounts payable	419,522	368,910
Accrued liabilities	282,155	278,962
Total current liabilities	834,657	819,955

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	-----	-----
Long-term debt, net of current maturities	434,230	601,084
Obligations under capital leases, net of current maturities	11,955	4,620
Convertible subordinated notes	199,984	199,984
Other noncurrent liabilities	193,995	201,635
	-----	-----
Total noncurrent liabilities	840,164	1,007,323
	-----	-----
Mandatorily redeemable trust convertible preferred securities	258,750	258,750
Stockholders' investment:		
Preferred stock	--	--
Common stock	658	481
Additional paid-in capital	680,955	456,627
Retained earnings (accumulated deficit)	(83,980)	40,432
Deferred compensation plans	(13,889)	(15,571)
Accumulated other comprehensive loss	(17,157)	(34,561)
	-----	-----
Total stockholders' investment	566,587	447,408
	-----	-----
	\$ 2,500,158	\$ 2,533,436
	=====	=====

The accompanying notes are an integral part of these  
condensed consolidated balance sheets.

-5-

TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	SIX MONTHS ENDED J	
	2002	
	-----	
OPERATING ACTIVITIES:		
Net income (loss)	\$ (124,412)	\$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities -		
Cumulative effect of change in accounting principle	112,786	
Restructuring and asset impairment charge	75,407	
Depreciation and amortization	67,471	
Deferred income tax provision (benefit)	(15,090)	
Deferred compensation plans	1,223	
Gain on sale of plant	(3,839)	

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Equity in earnings of joint ventures, net	(8,662)	
Change in working capital and other operating items	(85,576)	-----
 Net cash provided by operating activities	 19,308	 -----
 INVESTING ACTIVITIES:		
Acquisitions, divestitures and investment in joint ventures	(38,039)	
Capital expenditures, net	(69,042)	
Proceeds from sale of fixed assets	50,313	-----
 Net cash used in investing activities	 (56,768)	 -----
 FINANCING ACTIVITIES:		
Proceeds from borrowings	986,256	
Repayment of debt	(1,166,819)	
Proceeds from issuance of stock	224,903	-----
 Net cash provided by (used for) financing activities	 44,340	 -----
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 6,880	
 CASH AND CASH EQUIVALENTS:		
Beginning of period	21,767	-----
 End of period	 \$ 28,647	 =====
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amounts capitalized	\$ 33,978	=====
 Income taxes paid	 \$ 553	 =====

The accompanying notes are an integral part of these condensed consolidated financial statements.

-6-

TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. The accompanying condensed consolidated financial statements have been

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

prepared by Tower Automotive, Inc. (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of such financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Revenues and operating results for the six months ended June 30, 2002 are not necessarily indicative of the results to be expected for the full year.

Certain prior period amounts were reclassified to conform to current period presentation.

2. Inventories consisted of the following (in thousands):

	JUNE 30, 2002	DECEMBER 31, 2001
	-----	-----
Raw materials	\$50,451	\$ 52,579
Work in process	16,382	24,636
Finished goods	37,347	35,321
	-----	-----
	\$104,180	\$112,536
	=====	=====

3. Basic earnings per share were computed by dividing net income by the weighted average number of common shares outstanding during the respective quarters. Diluted earnings per share for the three months ended June 30, 2002 and 2001, and the six months ended June 30, 2001 were determined on these assumptions: (i) the Edgewood notes were converted at the beginning of the period, (ii) the Convertible Subordinated Notes were converted at the beginning of the period, and (iii) the Preferred Securities were converted at the beginning of the period. None of the common stock equivalents, totaling approximately 16.3 million shares, were included in the computation of earnings per share for the six months ended June 30, 2002 due to their anti-dilutive effect (in thousands, except for per share data):



Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	2002 -----	2001 -----	2002 -----
Net income (loss)	\$ 22,891	\$ 16,672	\$ (124,412)
Interest expense on Edgewood notes, net of tax	--	3	--
Interest expense on Convertible Subordinated notes, net of tax	1,762	1,653	--
Dividends on Preferred Securities, net of tax	2,838	2,664	--
	-----	-----	-----
Net income (loss) applicable to common stockholders -- diluted	\$ 27,491	\$ 20,992	\$ (124,412)
	=====	=====	=====
Weighted average number of common shares outstanding	57,841	44,416	53,047
Dilutive effect of outstanding stock options and warrants after application of the treasury stock method	119	121	--
Dilutive effect of Edgewood notes, assuming conversion	16	125	--
Dilutive effect of Convertible Subordinated Notes, assuming conversion	7,730	7,730	--
Dilutive effect of Preferred Securities, assuming conversion	8,424	8,424	--
	-----	-----	-----
Diluted shares outstanding	74,130	60,816	53,047
	=====	=====	=====
Basic earnings (loss) per share	\$ 0.40	\$ 0.38	\$ (2.35)
	=====	=====	=====
Diluted earnings (loss) per share	\$ 0.37	\$ 0.35	\$ (2.35)
	=====	=====	=====

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

	JUNE 30, 2002 -----	DECEMBER 31, 2001 -----
Revolving credit facility	\$ 77,256	\$ 100,608
Senior Euro notes	148,725	133,560
Term credit facility	125,000	325,000
Industrial development revenue bonds	43,765	43,765
Edgewood notes	50	50
Other foreign subsidiary indebtedness	139,240	136,987
Other	25,896	30,474
	-----	-----
	559,932	770,444
Less-current maturities	(125,702)	(169,360)
	-----	-----
Total long-term debt	\$ 434,230	\$ 601,084
	=====	=====

In June 2002, the Company completed an amendment to its senior credit facility (the "Credit Agreement") that permanently reduces borrowings under the facility and defers the start of the scheduled repayment of its remaining borrowings until March 2005. The amendment reduces the former \$1.15 billion facility to a \$725 million facility by voluntarily repaying \$200 million of the \$325 million term loan portion of the facility with

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

proceeds from the Company's recent follow-on stock offering (see note 12), and reducing capacity under the revolving credit facility from \$825 million to \$600 million. The Credit Agreement also includes a multi-currency borrowing feature that allows the Company to borrow up to \$500 million in certain freely tradable offshore currencies, and letter of credit sublimits of \$250 million. As of June 30, 2002, approximately \$5.2 million of the outstanding borrowings are denominated in Euro. Interest on the Credit Agreement is at the financial institutions' reference rate, LIBOR, or the Eurodollar rate plus a margin ranging from 0 to 200 basis points depending on the ratio of the consolidated funded debt for restricted subsidiaries of the Company to its total EBITDA. The weighted average interest rate for such borrowings was 6.1 percent for the six months ended June 30, 2002. The Credit Agreement has a final maturity of 2006.

-8-

As a result of the permanent reduction of borrowing capacity under the amendment, the Company recorded a \$2.0 million non-cash charge in the second quarter that was classified as other expense for the write-off of deferred financing costs associated with the credit facility.

The Credit Agreement requires the Company to meet certain financial covenants, including but not limited to a minimum interest coverage and maximum leverage ratio. The Credit Agreement also limits the Company's ability to pay dividends. As of June 30, 2002, the Company was in compliance with all debt covenants.

In July 2000, R. J. Tower Corporation, a wholly owned subsidiary of the Company, issued Euro-denominated senior unsecured notes in the amount of Euro 150 million (\$148.7 million at June 30, 2002). The notes bear interest at a rate of 9.25 percent, payable semi-annually. The notes rank equally with all of the Company's other unsecured and unsubordinated debt. The net proceeds after issuance costs were used to repay a portion of the Company's existing Euro-denominated indebtedness under its credit facility. The notes mature on August 1, 2010.

During September 2000, the Company entered into an interest rate swap contract to hedge against interest rate exposure on approximately \$160 million of its floating rate indebtedness under its Credit Agreement. The contracts have the effect of converting the floating rate interest to a fixed rate of approximately 6.9 percent, plus any applicable margin required under the Credit Agreement. The interest rate swap contract was executed to balance the Company's fixed-rate and floating-rate debt portfolios and expires in September 2005.

The Company has designated the swap as a cash flow hedge. Accordingly, gains and losses are recorded in other comprehensive income/loss net of income taxes. As of June 30, 2002, there is \$9.5 million recorded in accumulated other comprehensive loss related to the cash flow hedge. Derivative liabilities relating to the interest rate swap agreement totaling \$15.2 million have been recorded in accrued liabilities on the balance sheet as of June 30, 2002. The fair value of the interest rate swap agreement is based upon the difference between the contractual rates and the present value of the expected future cash flows on the hedged interest rate.

5. At June 30, 2002, the Company had sold \$139.2 million of net accounts

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

receivable pursuant to its accounts receivable securitization program in exchange for \$33.7 million of cash and a retained subordinated interest in the receivables sold of \$105.5 million. The receivables sold represented amounts owed to the Company from customers as of May 31, 2002. The majority of such receivables were collected in June 2002 and as a result, the Company's retained interest in accounts receivable is not significant as of June 30, 2002 and is not presented separately from accounts receivable. As of June 30, 2002, the Company recorded a liability to the funding agent of \$33.7 million, which represents receivables for which the Company has received collections from customers and is required to be submitted to the funding agent. Settlement of amounts due to the funding agent, as well as the cost of funding at a rate of approximately 7.6 percent, occurs during the month subsequent to the sale of the receivables.

6. Effective January 1, 2000, the Company acquired all of the outstanding shares of Dr. Meleghy GmbH & Co. KG Werkzeugbau und Presswerk, Bergisch Gladbach ("Dr. Meleghy") for approximately \$86 million plus earnout payments of \$2.7 million paid in 2001 and \$26.9 million paid in the first quarter of 2002. Dr. Meleghy designs and produces structural stampings, assemblies, exposed surface panels and modules to the European automotive industry. Dr. Meleghy also designs and manufactures tools and dies for use in their production and for the external market. Dr. Meleghy operates three facilities in Germany and one facility in both Hungary and Poland. Dr. Meleghy's main customers include DaimlerChrysler, Audi, Volkswagen, Ford, Opel and BMW. Products offered by Dr. Meleghy include body side panels, floor pan assemblies and miscellaneous structural stampings.

The Company's acquisitions have been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at the fair value as of the date of the acquisitions. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been recorded as goodwill.

-9-

The Company is committed under existing certain agreements, assumed in connection with prior acquisitions, to supply product to its customers at selling prices that are not sufficient to cover the direct costs to produce those parts. The Company is obligated to supply these products for the life of the related vehicles, which is typically three to ten years. Accordingly, the Company recognizes losses at the time these losses are probable and reasonably estimable at an amount equal to the minimum amount necessary to fulfill its obligations to its customers. The reserves established in connection with these recognized losses are reversed as the product is shipped to the customers.

In conjunction with its acquisitions, the Company has established reserves for certain costs associated with facility shutdown and consolidation activities, for general and payroll related costs primarily for planned employee termination activities, and for provisions for acquired loss contracts. A rollforward of these reserves is as follows (in millions):

	FACILITY SHUTDOWN COSTS	PAYROLL RELATED COSTS	LOSS CONTRACT
	-----	-----	-----
Balance at December 31, 2001	\$ 5.2	\$ 1.1	\$ 17.0

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Revision of estimate	--	--	(2.3)
Utilization	(0.3)	(1.1)	(2.1)
	-----	-----	-----
Balance at June 30, 2002	\$ 4.9	\$ --	\$ 12.6
	=====	=====	=====

The timing of facility shutdown and consolidation activities has been adjusted to reflect customer concerns with supply interruption. As of June 30, 2002, the facilities have been shutdown, but the Company continues to incur costs related to maintenance, taxes and other costs related to buildings that are held for sale. These reserves have been utilized as originally intended and management believes the liabilities recorded for shutdown and consolidation activities are adequate but not excessive as of June 30, 2002. During the second quarter of 2002, the Company determined that certain of its loss contracts would no longer be utilized, and therefore, reversed \$2.3 million of the loss contract reserves.

7. The Company has a 31 percent equity interest in Yorozu Corporation ("Yorozu") acquired from Nissan Motor Co. Ltd. ("Nissan"). Yorozu, based in Japan, is publicly traded on the first tier of the Tokyo Stock Exchange and is a supplier of suspension modules and structural parts to the Asian and North American automotive markets with principal customers including Nissan, Auto Alliance, General Motors, Ford and Honda. The Company will pay Nissan approximately \$68 million over two and one half years for its original 17 percent interest acquired in September 2000 and its subsequent 13.8 percent interest it acquired in February 2001. As of June 30, 2002, \$25.8 million remains to be paid under these arrangements and is recorded as indebtedness in the Company's balance sheet. As of June 30, 2002, the traded market value of shares held in Yorozu was \$18.6 million and the Company's investment in Yorozu was \$59.3 million. The Company periodically assesses its investment in Yorozu to determine the proper carrying value for the investment in its financial statements. The periodic assessment of value takes into account market value of shares, operating performance, and the Company's book or liquidation value in ascertaining whether an other than temporary impairment has occurred in the investment. Based on this assessment, the Company does not believe at this time that its investment in Yorozu has suffered an other than temporary impairment.

The Company is a 40 percent partner in Metalsa S. de R.L. ("Metalsa") with Promotora de Empresas Zano, S.A. de C.V. ("Proeza"). Metalsa is the largest supplier of vehicle frames and structures in Mexico. In connection with the original agreement, the Company paid \$120 million to Proeza with an additional amount of up to \$45 million payable based upon net earnings of Metalsa during 1998, 1999, and 2000. Based upon Metalsa's 1998 and 1999 net earnings, the Company paid Proeza \$9.0 million and \$7.9 million in additional consideration during 1999 and 2000, respectively. Based upon Metalsa's 2000 net earnings, the Company paid \$8.6 million of additional consideration during the first quarter of 2002.

8. On February 1, 2002, the Company sold its Iwahri, Korea plant to a Hyundai affiliate for net proceeds of \$4.2 million after fees and debt assumed by the purchaser and realized a gain on sale of the plant of \$3.8 million in the first quarter of 2002. The net proceeds were used to repay outstanding

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

subsidiary indebtedness. The results of operations of the Iwahri plant, which assembles the Kia Sportage lower vehicle module, are not significant to the operating results of the Company as a whole, and therefore, pro forma financial information has not been provided, as the results would not be materially different. The Company will continue to manufacture body structure components in Korea, including those components used in the Kia Sportage module.

9. The Company produces a broad range of assemblies and modules for vehicle body structures and suspension systems for the global automotive industry. These operations have similar characteristics including the nature of products, production processes and customers, and produce lower vehicle structures, body structures (including Class A surfaces), suspension components, and modular assemblies for the automotive industry. Management reviews the operating results of the Company and makes decisions based upon two operating segments: United States/Canada and International. Financial information by segment is as follows (in thousands):

	UNITED STATES/ CANADA -----	INTERNATIONAL -----
THREE MONTHS ENDED JUNE 30, 2002:		
Revenues	\$ 581,593	\$ 169,279
Operating income	39,968	14,461
Total assets	1,699,956	800,202
THREE MONTHS ENDED JUNE 30, 2001:		
Revenues	\$ 491,833	\$ 150,574
Operating income	36,360	7,751
Total assets	2,568,806	389,260
SIX MONTHS ENDED JUNE 30, 2002:		
Revenues	\$1,097,989	\$ 320,990
Operating income (loss)	(3,483)	17,628
Restructuring and asset impairment charge	71,738	3,669
Cumulative effect of change in accounting Principle	--	112,786
Total assets	1,699,956	800,202
SIX MONTHS ENDED JUNE 30, 2001:		
Revenues	\$ 946,930	\$ 323,853
Operating income	62,179	19,826
Total assets	2,568,806	389,260

10. A summary of the Company's restructuring activities is as follows:

### MILWAUKEE PRESS OPERATIONS:

On January 31, 2002, the Company announced that it would discontinue the remaining stamping and ancillary processes currently performed at its Milwaukee Press Operations and relocate the remaining work to other Tower locations or Tier II suppliers. The Company expects to complete the transfer process during the third quarter of 2002. As a result of these efforts (the "2002 Plan"), the Company recorded a restructuring charge in the first quarter of 2002 totaling \$75.4 million, which reflects the estimated qualifying "exit costs" to be incurred over the next 12 months

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

pertaining to the 2002 Plan.

-11-

The 2002 Plan charge includes costs associated with asset impairments, severance and outplacement costs related to employee terminations and certain other exit costs. These activities are anticipated to result in a reduction of approximately 490 colleagues in the Company's Milwaukee, Wisconsin manufacturing location. Through June 30, 2002, the Company had eliminated approximately 130 colleagues pursuant to the 2002 Plan. The estimated restructuring charge does not cover certain aspects of the 2002 Plan, including movement of equipment and employee relocation and training. These costs will be recognized in future periods as incurred.

The asset impairments consist of long-lived assets, including fixed assets, buildings and manufacturing equipment from the facilities the Company intends to dispose of or discontinue. The carrying value of the long-lived assets written off was \$47.2 million. Fixed assets that will be disposed of as part of the 2002 Plan were written down to their estimated residual values. For assets that will be sold currently, the Company measured impairment based on estimated proceeds on the sale of the facilities and equipment. These asset impairments have arisen as a consequence of the Company making the decision to exit these activities during the first quarter of 2002.

As of June 30, 2002, the Company anticipates future cash payments of \$12.9 million and other future obligations of \$12.4 million under the 2002 Plan.

The accrual for operational realignment and other costs is included in accrued liabilities in the accompanying consolidated balance sheet as of June 30, 2002. The table below summarizes the accrued operational realignment and other charges related to the 2002 Plan through June 30, 2002 (in millions):

	ASSET IMPAIRMENTS	SEVERANCE AND OUTPLACEMENT COSTS	OTHER EXIT COSTS	TOTAL
	-----	-----	-----	-----
Balance at December 31, 2001	\$ --	\$ --	\$ --	\$ --
First quarter 2002 provision	47.2	8.4	19.8	75.4
Cash charges	--	(1.7)	(1.2)	(2.9)
Non-cash charges	(47.2)	--	--	(47.2)
	-----	-----	-----	-----
Balance at June 30, 2002	\$ --	\$ 6.7	\$ 18.6	\$ 25.3
	=====	=====	=====	=====

#### SEBEWAING AND MILWAUKEE PRESS OPERATIONS:

In October 2001, the Company's board of directors approved a restructuring of the enterprise that included the closing of the Sebewaing, Michigan facility. In addition, in December 2001, the Company's board of directors approved a restructuring plan that related to the consolidation of

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

technical activities and a reduction of other salaried colleagues in conjunction with a reorganization of the Company's U.S. and Canada operations and the relocation of some component manufacturing from the Company's Milwaukee Press Operations to other Tower locations. As a result of these realignment efforts (the "2001 Plan"), the Company recorded a restructuring charge in the fourth quarter of 2001 of \$178.1 million, which reflects the estimated qualifying "exit costs" to be incurred over the next 12 months pertaining to the 2001 Plan.

The 2001 Plan charge includes costs associated with asset impairments, severance and outplacement costs related to employee terminations and certain other exit costs. These activities are anticipated to result in a reduction of more than 700 colleagues in the Company's technical and administrative centers in Novi, Rochester Hills, and Grand Rapids, Michigan; Milwaukee, Wisconsin; and its U.S. and Canada manufacturing locations. Through June 30, 2002, the Company had eliminated approximately 670 colleagues pursuant to the 2001 Plan. The estimated restructuring charge does not cover certain aspects of the 2001 Plan, including movement of equipment and employee relocation and training. These costs are being recognized as incurred.

As of June 30, 2002, the Company anticipates future cash payments of approximately \$24.8 million and other future obligations of \$13.1 million under the 2001 Plan.

-12-

The accrual for operational realignment and other costs, which was established in the fourth quarter of 2001, is included in accrued liabilities in the accompanying consolidated balance sheet as of June 30, 2002. The table below summarizes the accrued operational realignment and accrued other charges related to the 2001 Plan through June 30, 2002 (in millions):

	SEVERANCE AND OUTPLACEMENT COSTS	OTHER EXIT COSTS	TOTAL
	-----	-----	-----
Balance at December 31, 2001	\$ 23.9	\$ 31.4	\$ 55.3
Cash charges	(12.0)	(5.4)	(17.4)
	-----	-----	-----
Balance at June 30, 2002	\$ 11.9	\$ 26.0	\$ 37.9
	=====	=====	=====

11. The following table presents comprehensive income (loss) for the six months ended June 30, 2002 and 2001 (in thousands):

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 22,891	\$ 16,672	\$ (124,412)	\$ 20,000
Change in cumulative translation adjustment	19,153	1,428	18,584	
Transition adjustment relating to loss on qualifying cash flow hedges	--	--	--	
Unrealized gain (loss) on qualifying cash flow hedges	(2,608)	1,365	(1,180)	
Comprehensive income (loss)	\$ 39,436	\$ 19,465	\$ (107,008)	\$ 21,184

12. On May 13, 2002, the Company completed an underwritten primary offering of 17.25 million shares of Tower Automotive, Inc. common stock, which includes the exercise of the underwriters' over-allotment option to acquire 2.25 million shares. The net proceeds from the offering were approximately \$222.9 million, based on an offering price of \$13.75 per share. The Company has used the net proceeds to repay borrowings under its Credit Agreement (see note 4).
13. In April 2002, the Company entered into a sale-leaseback transaction on seven of its business unit facilities in the United States. This transaction resulted in net proceeds of \$50.3 million after reflecting prepaid lease payments retained by the lessor. The Company recorded a loss on the sale of the buildings of \$0.3 million in the second quarter 2002, which is classified in other expense in the condensed consolidated statement of operations. The lease requires quarterly payments of approximately \$1.6 million through 2020 and is accounted for as an operating lease.
14. On June 29, 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Intangible Assets." Major provisions of these Statements are as follows: all business combinations initiated after June 30, 2001 must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must



## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

be assigned to reporting units for purposes of impairment testing; effective January 1, 2002, goodwill is no longer subject to amortization.

The Company adopted the new rules on accounting for goodwill and other intangible assets as of January 1, 2002. Application of the nonamortization provisions of the Statements is expected to result in a reduction in goodwill amortization expense of approximately \$16 million in fiscal 2002, after reflecting 2001 goodwill writedowns of \$196.1 million.

Under SFAS 142, the Company designated four reportable units: United States/Canada, Europe, Asia and South America/Mexico. Preliminary procedures under SFAS 142 indicated an excess of book value over fair value for the Asia and South America/Mexico reportable units. During the second quarter 2002, the Company completed its formal valuation procedures under SFAS 142, utilizing a combination of valuation techniques including the discounted cash flow approach and the market multiple approach. As a result of this valuation process as well as the application of the remaining provision of SFAS 142, the Company recorded a transitional impairment loss of \$112.8 million, representing the write-off of all of the Company's existing goodwill in the reportable units of Asia (\$29.7 million) and South America/Mexico (\$83.1 million). The write-off was recorded as a cumulative effect of a change in accounting principle in the Company's condensed consolidated statements of operations for the six months ended June 30, 2002. There was no tax impact since the Company recorded a \$24.2 million tax valuation allowance for the deductible portion of the goodwill written off in the reportable unit of South America/Mexico. The Company determined that it was appropriate to record a valuation allowance against the entire amount of the \$24.2 million deferred tax asset recognized in adopting SFAS 142 given the uncertainty of realization and the lack of income in the reportable unit. The Asia goodwill was not deductible for tax purposes.

The following table represents the impact of the transitional impairment loss on the first quarter 2002 results as previously reported:

	THREE MONTHS END MARCH 31, 2002	
	AS REPORTED	AS AD
Loss before cumulative effect of change in accounting principle	\$ (34,517)	\$ (
Cumulative effect of change in accounting principle	--	(
Net loss	\$ (34,517)	\$ (
	=====	=====
Basic loss per common share:		
Loss before cumulative effect of change in accounting principle	\$ (0.72)	\$
Cumulative effect of change in accounting principle	--	(
Net loss	\$ (0.72)	\$
	=====	=====
Basic shares outstanding	48,253	=====
	=====	=====

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Diluted loss per common share:

Loss before cumulative effect of change in accounting principle	\$	(0.72)	\$
Cumulative effect of change in accounting principle		--	
Net loss	\$	(0.72)	\$
Diluted shares outstanding		48,253	

-14-

Under the adoption of SFAS No. 142, the Company discontinued the amortization of goodwill. The following table presents a reconciliation of net income and earnings per share adjusted for the exclusion of goodwill amortization, net of tax (in thousands, except per share amounts):

	THREE MONTHS ENDED JUNE 30,		
	2002	2001	
Reported net income (loss)	\$ 22,891	\$ 16,672	\$ (
Add: Goodwill amortization, net of tax	--	3,164	
Adjusted net income (loss)	\$ 22,891	\$ 19,836	\$ (
Reported basic earnings (loss) per common share	\$ 0.40	\$ 0.38	\$
Add: Goodwill amortization, net of tax	--	0.07	
Adjusted basic earnings (loss) per common share	\$ 0.40	\$ 0.45	\$
Reported diluted earnings (loss) per common share	\$ 0.37	\$ 0.35	\$
Add: Goodwill amortization, net of tax	--	0.05	
Adjusted diluted earnings (loss) per common share	\$ 0.37	\$ 0.40	\$

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

The change in the carrying amount of goodwill for the six months ended June 30, 2002, by operating segment, are as follows (in thousands):

	UNITED STATES/ CANADA -----	INTERNATIONAL -----	TOTAL -----
Balance at December 31, 2001	\$ 337,527	\$ 229,553	\$ 567,080
Transitional impairment loss	--	(112,786)	(112,786)
Currency translation adjustment	--	12,744	12,744
	-----	-----	-----
Balance at June 30, 2002	\$ 337,527	\$ 129,511	\$ 467,038
	=====	=====	=====

In July 2001, the FASB issued SFAS No. 144, "Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. The provisions of this Statement provide a single accounting model for impairment of long-lived assets. The adoption of SFAS No. 144 on January 1, 2002 did not have a material impact on the Company's financial position or its results of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 recognizes that the use of debt extinguishment can be a part of the risk management strategy of a company and hence, the classification of all early extinguishment of debt as an extraordinary item may no longer be appropriate. In addition, the Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Provisions of this Statement, as they relate to Statement No. 13, are to be effective for transactions occurring after May 15, 2002. Provisions, which

-15-

relate to Statement No. 4, are effective for fiscal years beginning after May 15, 2002. SFAS No. 145 is not expected to materially impact the Company's consolidated financial statements.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial SFAS No. 146, "Accounting for Exit or Disposal Activities". SFAS

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

No. 146 will be effective for the Company for disposal activities initiated after December 31, 2002. The Company is in the process of evaluating the effect that adopting SFAS 146 will have on its financial statements.

15. The following consolidating financial information presents balance sheets, statements of operations and cash flow information related to the Company's business. Each Guarantor, as defined, is a direct or indirect wholly-owned subsidiary of the Company and has fully and unconditionally guaranteed the 9.25 percent senior unsecured notes issued by R. J. Tower Corporation, on a joint and several basis. Tower Automotive, Inc. (the parent company) has also fully and unconditionally guaranteed the note and is reflected as the Parent Guarantor in the consolidating financial information. The Non-Guarantors include the Company's foreign subsidiaries. Separate financial statements and other disclosures concerning the Guarantors have not been presented because management believes that such information is not material to investors.

-16-

TOWER AUTOMOTIVE INC.  
CONSOLIDATING BALANCE SHEETS AT JUNE 30, 2002  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-G COM
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ --	\$ --	\$ 872	\$ --
Accounts receivable, net	--	--	190,897	--
Inventories, net	--	--	65,805	--
Prepaid tooling and other	--	--	72,258	--
Total current assets	--	--	329,832	--
Property, plant and equipment, net	--	--	678,555	--
Investments in joint ventures	250,749	--	2,134	--
Investment in subsidiaries	382,378	566,587	--	--
Goodwill and other assets, net	6,798	9,054	459,048	--
	\$ 639,925	\$ 575,641	\$ 1,469,569	\$ --
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>				
Current liabilities:				
Current maturities of long-term debt and capital lease obligations	\$ 5,820	\$ --	\$ 5,427	\$ --
Accounts payable	--	--	289,870	--
Accrued liabilities	5,994	8,532	175,932	--
Total current liabilities	11,814	8,532	471,229	--

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Long-term debt, net of current maturities	345,911	--	43,765
Obligations under capital leases, net of current maturities	--	--	611
Convertible subordinated notes	--	199,984	--
Due to/(from) affiliates	(300,537)	(458,212)	719,324
Other noncurrent liabilities	--	--	142,238
	-----	-----	-----
Total noncurrent liabilities	45,374	(258,228)	905,938
	-----	-----	-----
Mandatorily redeemable trust convertible preferred securities	--	258,750	--
Stockholders' investment	583,744	566,587	106,874
Accumulated other comprehensive loss	(1,007)	--	(14,472)
	-----	-----	-----
Total stockholders' investment	582,737	566,587	92,402
	-----	-----	-----
	\$ 639,925	\$ 575,641	\$ 1,469,569
	=====	=====	=====

-17-

TOWER AUTOMOTIVE INC.  
CONSOLIDATING STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2002  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	GU CO
	-----	-----	-----	-----
Revenues	\$ --	\$ --	\$ 536,617	\$ --
Cost of sales	--	--	473,481	--
	-----	-----	-----	-----
Gross profit	--	--	63,136	--
Selling, general and administrative expenses	--	--	27,652	--
Amortization expense	437	324	--	--
	-----	-----	-----	-----
Operating income (loss)	(437)	(324)	35,484	--
Interest expense, net	13,125	2,499	(1,838)	--
Other expense	1,993	--	946	--
	-----	-----	-----	-----
Income (loss) before provision for income taxes, equity in earnings of joint ventures and minority interest	(15,555)	(2,823)	36,376	--
Provision (benefit) for income taxes	(5,444)	(988)	12,735	--
	-----	-----	-----	-----

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Income (loss) before equity in earnings of joint ventures and minority interest	(10,111)	(1,835)	23,641
Equity in earnings of joint ventures and subsidiaries	37,676	27,565	--
Minority interest, net	--	(2,839)	--
Net income (loss)	\$ 27,565	\$ 22,891	\$ 23,641

-18-

TOWER AUTOMOTIVE INC.  
CONSOLIDATING STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2002  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	N GUA COM
Revenues	\$ --	\$ --	\$ 1,015,821	\$
Cost of sales	--	--	908,167	
Gross profit	--	--	107,654	
Selling, general and administrative expenses	--	--	49,113	
Amortization expense	868	645	--	
Restructuring and asset impairment charge	--	--	71,757	
Operating income (loss)	(868)	(645)	(13,216)	
Interest expense, net	24,606	4,999	(1,418)	
Other expense	1,993	--	946	
Gain on sale of plant	--	--	--	
Income (loss) before provision for income taxes, equity in earnings of joint ventures and minority interest	(27,467)	(5,644)	(12,744)	
Provision (benefit) for income taxes	(9,613)	(1,975)	(4,459)	
Income (loss) before equity in earnings of joint ventures and minority interest	(17,854)	(3,669)	(8,285)	
Equity in earnings of joint ventures and	(97,212)	(115,066)	--	

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

subsidiaries

Minority interest, net	--	(5,677)	--	
	-----	-----	-----	-----
Income (loss) before cumulative effect of change in accounting principle	(115,066)	(124,412)	(8,285)	
Cumulative effect of change in accounting principle	--	--	--	(
	-----	-----	-----	-----
Net income (loss)	\$ (115,066)	\$ (124,412)	\$ (8,285)	\$
	=====	=====	=====	=====

-19-

TOWER AUTOMOTIVE INC.  
CONSOLIDATING STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2002  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	N GUA COM
	-----	-----	-----	-----
OPERATING ACTIVITIES:				
Net income (loss)	\$ (115,066)	\$ (124,412)	\$ (8,285)	\$
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities				
Cumulative effect of change in accounting principle	--	--	--	
Restructuring and asset impairment charge	--	--	71,757	
Depreciation and amortization	868	645	49,173	
Deferred income tax provision (benefit)	--	--	(16,434)	
Deferred compensation plans	--	--	1,223	
Gain on sale of plant	--	--	--	
Equity in earnings of joint ventures, net	(8,662)	--	--	
Changes in working capital and other operating items	266,049	4,366	(276,917)	
	-----	-----	-----	-----
Net cash provided by (used in) operating activities	143,189	(119,401)	(179,483)	
	-----	-----	-----	-----
INVESTING ACTIVITIES:				
Acquisitions and other, net	36,305	(105,502)	147,577	
Capital expenditures, net	--	--	(15,281)	
Proceeds from sale of fixed assets	--	--	50,313	
	-----	-----	-----	-----
Net cash provided by (used in) investing activities	36,305	(105,502)	182,609	
	-----	-----	-----	-----
FINANCING ACTIVITIES:				
Proceeds from borrowings	899,858	--	90	
Repayments of debt	(1,081,745)	--	(2,395)	
Proceeds from the issuance of common stock	--	224,903	--	
	-----	-----	-----	-----
Net cash provided by (used for) financing				

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

activities	(181,887)	224,903	(2,305)	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,393)	--	821	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,393	--	51	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ --	\$ --	\$ 872	\$

-20-

TOWER AUTOMOTIVE INC.  
CONSOLIDATING BALANCE SHEETS AT DECEMBER 31, 2001  
(AMOUNTS IN THOUSANDS)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-GU COMP
ASSETS				
-----				
Current assets:				
Cash and cash equivalents	\$ --	\$ --	\$ 2,444	\$
Accounts receivable, net	--	--	140,402	
Inventories, net	--	--	72,003	
Prepaid tooling and other	--	--	52,238	
Total current assets	--	--	267,087	1
Property, plant and equipment, net	--	--	824,437	2
Investments in joint ventures	237,834	--	4,177	
Investment in subsidiaries	744,808	447,408	--	
Goodwill and other assets, net	9,659	9,700	428,186	2
	\$ 992,301	\$ 457,108	\$ 1,523,887	\$ 7
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT				
-----				
Current liabilities:				
Current maturities of long-term debt and capital lease obligations	\$ 67,381	\$ --	\$ 2,723	\$ 1
Accounts payable	--	--	263,800	1
Accrued liabilities	7,234	4,167	203,832	
Total current liabilities	74,615	4,167	470,355	2
Long-term debt, net of current maturities	472,373	--	44,765	
Obligations under capital leases, net of current maturities	--	--	4,620	
Convertible subordinated notes	--	199,984	--	
Due to/(from) affiliates	(27,392)	(453,201)	428,037	
Other noncurrent liabilities	--	--	150,639	
Total noncurrent liabilities	444,981	(253,217)	628,061	1
	-----	-----	-----	-----



Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Mandatorily redeemable trust convertible preferred securities	--	258,750	--	
Stockholders' investment	481,969	447,408	439,943	3
Accumulated other comprehensive loss	(9,264)	--	(14,472)	(
Total stockholders' investment	472,705	447,408	425,471	2
	\$ 992,301	\$ 457,108	\$ 1,523,887	\$ 7

-21-

TOWER AUTOMOTIVE INC.  
CONSOLIDATING STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2001  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	N GUA COM
Revenues	\$ 19,946	\$ --	\$ 432,190	\$ 1
Cost of sales	3,390	--	384,329	1
Gross profit	16,556	--	47,861	
Selling, general and administrative expenses	1,172	--	24,775	
Amortization expense	481	324	3,633	
Operating income (loss)	14,903	(324)	19,453	
Interest expense, net	17,158	1,879	(2,628)	
Income (loss) before provision for income taxes, equity earnings of joint ventures and minority interest	(2,255)	(2,203)	22,081	
Provision (benefit) for income taxes	(879)	(859)	8,611	
Income (loss) before equity in earnings of joint ventures and minority interest	(1,376)	(1,344)	13,470	
Equity in earnings of joint ventures and subsidiaries	22,056	20,680	--	
Minority interest, net	--	(2,664)	--	
Net income (loss)	\$ 20,680	\$ 16,672	\$ 13,470	\$

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

-22-

TOWER AUTOMOTIVE INC.  
 CONSOLIDATING STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2001  
 (AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	N GUA COM
	-----	-----	-----	-----
Revenues	\$ 38,569	\$ --	\$ 832,066	\$
Cost of sales	12,843	--	739,452	
	-----	-----	-----	-----
Gross profit	25,726	--	92,614	
Selling, general and administrative expenses	1,514	--	50,506	
Amortization expense	1,014	645	7,250	
	-----	-----	-----	-----
Operating income (loss)	23,198	(645)	34,858	
Interest expense, net	35,676	3,551	(6,340)	
	-----	-----	-----	-----
Income (loss) before provision for income taxes, equity earnings of joint ventures and minority interest	(12,478)	(4,196)	41,198	
Provision (benefit) for income taxes	(4,866)	(1,637)	16,067	
	-----	-----	-----	-----
Income (loss) before equity in earnings of joint ventures and minority interest	(7,612)	(2,559)	25,131	
Equity in earnings of joint ventures and subsidiaries	45,032	37,420	--	
Minority interest, net	--	(5,328)	--	
	-----	-----	-----	-----
Net income (loss)	\$ 37,420	\$ 29,533	\$ 25,131	\$
	=====	=====	=====	=====

-23-

TOWER AUTOMOTIVE INC.  
 CONSOLIDATING STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2001  
 (AMOUNTS IN THOUSANDS - UNAUDITED)

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	GUA COM
	-----	-----	-----	-----
OPERATING ACTIVITIES:				
Net income	\$ 37,420	\$ 29,533	\$ 25,131	\$
Adjustments required to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	3,010	645	59,823	
Deferred income tax provision	4,872	--	3,601	
Equity in earnings of joint ventures, net	(9,171)	--	--	
Changes in other operating items	343,117	381	(8,614)	
	-----	-----	-----	-----
Net cash provided by (used in) operating activities	379,248	30,559	79,941	
	-----	-----	-----	-----
INVESTING ACTIVITIES:				
Acquisitions and other, net	(183,281)	(31,471)	(6,861)	
Capital expenditures, net	(3,802)	--	(73,232)	
	-----	-----	-----	-----
Net cash provided by (used in) investing activities	(187,083)	(31,471)	(80,093)	
	-----	-----	-----	-----
FINANCING ACTIVITIES:				
Proceeds from borrowings	1,133,522	--	--	
Repayments of debt	(1,305,753)	--	(1,314)	
Proceeds from the issuance of common stock	--	912	--	
	-----	-----	-----	-----
Net cash provided by (used for) financing activities	(172,231)	912	(1,314)	
	-----	-----	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,934	--	(1,466)	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(18,772)	--	1,575	
	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,162	\$ --	\$ 109	\$
	=====	=====	=====	=====

-24-

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 2002 TO THE THREE MONTHS ENDED JUNE 30, 2001

Revenues. Revenues for the second quarter of 2002 were \$750.9 million, a 16.9 percent increase, compared to \$642.4 million for the prior period. The increase was comprised of volume increases of \$109.0 million, primarily in the following platforms: Dodge Ram Van, Cadillac CTS, Ford Explorer and Econoline, and Lincoln LS/Jaguar S-Type as well as incremental revenues in the 2002 period of \$11.4 million associated with the consolidation of Tower Golden Ring, which first occurred in the third quarter of 2001. These increases were offset by a decline in revenues of \$11.9 million, which were attributable to the sale of the Iwahri, Korea plant to an affiliate of Hyundai.

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Cost of Sales. Cost of sales as a percent of revenues for the second quarter of 2002 was 87.6 percent compared to 86.7 percent for the prior period. Gross profit margin declined in the 2002 period compared to the 2001 period despite the revenue increase due to the effect of customer productivity price reductions beginning in the first quarter of 2002 and changes in product mix on light truck, sport utility and other models served by the Company. The decline in the gross profit margin is also attributable to a decline in profitability on the Ford Explorer and Dodge Ram pickup platforms, increased operating lease costs in the 2002 period and operational inefficiencies associated with the production of the new generation Ford Explorer frame.

S, G & A Expenses. Selling, general and administrative expenses were \$37.4 million, or 5.0 percent of revenues, for the second quarter of 2002 compared to \$35.0 million, or 5.4 percent of revenues, for the prior period. This increase was due primarily to \$1.6 million of increased program management costs related to new programs and \$0.8 million of incremental costs associated with the Company's consolidation of Tower Golden Ring.

Amortization Expense. Amortization expense for the second quarter of 2002 was \$1.1 million compared to \$6.1 million for the prior period. The decrease was due to the adoption of the requirements of SFAS No. 142, and as a result, beginning January 1, 2002, the Company no longer records amortization expense of goodwill. Goodwill amortization for the second quarter of 2001 was \$5.2 million.

Interest Expense, net. Interest expense (net of interest income) for the second quarter of 2002 was \$16.3 million compared to \$20.1 million for the prior period. Interest expense decreased due to the (i) decreased borrowings during the second quarter of 2002 compared to the second quarter of 2001 of \$4.0 million, and (ii) decreased interest rates and decreased spreads associated with the Credit Agreement of \$2.0 million, offset by (iii) decreased capitalized interest on construction projects in the 2002 period of \$2.2 million.

Income Taxes. The effective income tax rate was 35.0 percent and 39.4 percent for the second quarters of 2002 and 2001, respectively. The effective tax rate reflects the actual rates in the tax jurisdictions in which the Company operates, adjusted for permanent differences.

Equity in Earnings of Joint Ventures, net. Equity in earnings of joint ventures, net of tax, was \$4.3 million and \$4.8 million for the three months ended June 30, 2002 and 2001, respectively. These amounts represent the Company's share of the earnings from its joint venture interests in Metalsa, Yorozu, and DTA Development, in the 2002 period and Metalsa, Tower Golden Ring, Yorozu, and DTA Development in the 2001 period. The Company's share of joint venture earnings in Metalsa and Yorozu has increased quarter over quarter by \$2.5 million, which was offset by a reduction in equity earnings of \$3.0 million due to the consolidation of Tower Golden Ring beginning in third quarter of 2001.

Minority Interest, net. Minority interest, net of tax, for the second quarter of 2002 represents dividends, net of income tax benefits, on the 6 3/4% Trust Preferred Securities ("Preferred Securities"), the minority interest held by the 40 percent joint venture partners in Tower Golden Ring, and the minority interest held by the 34 percent

joint venture partner in Seojin. Minority interest for second quarter of 2001 represents dividends, net of income tax benefits, on the Preferred Securities.

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2002 TO THE SIX MONTHS ENDED JUNE 30, 2001

**Revenues.** Revenues for the six months ended June 30, 2002 were \$1,419.0 million, an 11.7 percent increase, compared to \$1,270.8 million for the prior period. The increase was comprised of volume increases of \$166.4 million, primarily in the following platforms: Dodge Ram Van, Cadillac CTS, Ford Explorer and Econoline, and Lincoln LS/Jaguar S-Type as well as incremental revenues in the 2002 period of \$23.3 million associated with the consolidation of Tower Golden Ring, which first occurred in the third quarter of 2001. These increases were offset by a decline in revenues of \$41.5 million, which were attributable to the sale of the Iwahri, Korea plant to an affiliate of Hyundai.

**Cost of Sales.** Cost of sales as a percent of revenues for the six months ended June 30, 2002 was 88.6 percent compared to 87.1 percent for the prior period. Gross profit margin declined in the 2002 period compared to the 2001 period despite the revenue increase due to the effect of customer productivity price reductions beginning in the first quarter of 2002 and changes in product mix on light truck, sport utility and other models served by the Company. The decline in the gross profit margin is also attributable to a decline in profitability on the Ford Explorer and Dodge Ram pickup platforms, increased operating lease costs in the 2002 period and operational inefficiencies associated with the production of the new generation Ford Explorer frame.

**S, G & A Expenses.** Selling, general and administrative expenses were \$70.3 million, or 5.0 percent of revenues, for the six months ended June 30, 2002 compared to \$70.3 million, or 5.5 percent of revenues, for the prior period. The Company has experienced \$3.3 million in decreased costs due to reductions in headcount in the consolidation of the Company's engineering and support activities, offset by \$1.6 million in increased program management costs and incremental costs of \$1.7 million associated with the Company's consolidation of Tower Golden Ring.

**Amortization Expense.** Amortization expense for the six months ended June 30, 2002 was \$2.1 million compared to \$12.2 million for the prior period. The decrease was due to the adoption of the requirements of SFAS No. 142, and as a result, beginning January 1, 2002, the Company no longer records amortization expense of goodwill. Goodwill amortization for the six months ended June 30, 2001 was \$10.5 million.

**Interest Expense, net.** Interest expense (net of interest income) for the six months ended June 30, 2002 was \$33.4 million compared to \$39.8 million for the prior period. Interest expense decreased due to the (i) decreased borrowings during the first six months of 2002 compared to the first six months of 2001 of \$7.8 million, and (ii) decreased interest rates and decreased spreads associated with the Credit Agreement of \$4.8 million, offset by (iii) decreased capitalized interest on construction projects in the 2002 period of \$5.2 million and (iv) decreased interest income in the 2002 period of \$1.0 million.

**Income Taxes.** The effective income tax rate was 35.0 percent and 39.1 percent for the second quarters of 2002 and 2001, respectively. The effective tax rate reflects the actual rates in the tax jurisdictions in which the Company operates, adjusted for permanent differences.

**Equity in Earnings of Joint Ventures, net.** Equity in earnings of joint ventures, net of tax, was \$8.7 million and \$9.2 million for the six months ended June 30, 2002 and 2001, respectively. These amounts represent the Company's share of the earnings from its joint venture interests in Metalsa, Yorozu, and DTA Development, in the 2002 period and Metalsa, Tower Golden Ring, Yorozu, and DTA Development in the 2001 period. The Company's share of joint venture earnings in Metalsa and Yorozu has increased by \$4.8 million, which was offset by a

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

reduction in equity earnings of \$5.3 million due to the consolidation of Tower Golden Ring beginning in third quarter of 2001.

Minority Interest, net. Minority interest, net of tax, for the six months ended June 30, 2002 represents dividends, net of income tax benefits, on the Preferred Securities, the minority interest held by the 40 percent joint venture partners in Tower Golden Ring, and the minority interest held by the 34 percent joint venture

-26-

partner in Seojin. Minority interest for six months ended June 30, 2001 represents dividends, net of income tax benefits, on the Preferred Securities.

### RESTRUCTURING AND ASSET IMPAIRMENT CHARGE

The Company's growth through acquisitions coincided with an extended period of high automotive production that resulted in higher levels of utilization of the Company's acquired resources and capacity and contributed to periods of strong operating results. During the second half of 2000, as automotive production declined from previous levels, the Company focused its efforts on reducing the capacity of the enterprise and improving the efficiency of its continuing operations. During the 18 month period beginning in the fourth quarter of 2000, the Company: (i) divested itself of its non-core heavy truck business, (ii) consolidated its manufacturing operations by closing manufacturing locations in Kalamazoo, Michigan; Sebawaing, Michigan; and certain operations in Milwaukee, Wisconsin, (iii) reduced redundant overhead through a consolidation of its technical activities and a reduction of other salaried colleagues, and (iv) reorganized the management of its U.S. and Canada region. These were accomplished through three restructurings, described in more detail below. The first restructuring was initiated in October 2000 (the "2000 Plan"), the second restructuring was initiated in October 2001 (the "2001 Plan"), with the discontinuance of the remaining stamping and ancillary processes currently performed at the Company's Milwaukee Press Operations announced in January 2002 (the "2002 Plan").

The restructuring and asset impairment charges consist of both restructuring charges and non-restructuring related asset impairments, major components of which are discussed in the sections below. The following table summarizes the principal components of these charges (in millions):

	2002 PLAN	2001 PLAN	2000 P
<b>RESTRUCTURING AND RELATED ASSET IMPAIRMENTS</b>			
Asset impairments	\$ 47.2	\$ 127.4	\$ 1
Severance and outplacement costs	8.4	24.6	
Loss contracts	--	--	
Other exit costs	19.8	26.1	
	75.4	178.1	1
<b>TOTAL</b>			
<b>OTHER GOODWILL AND ASSET IMPAIRMENTS</b>			
Goodwill writedown	--	108.6	
Other asset impairments	--	50.7	

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Investment impairment	--	46.3	
	-----	-----	-----
Total	--	205.6	
	-----	-----	-----
TOTAL RESTRUCTURING AND ASSET IMPAIRMENT CHARGES	\$ 75.4	\$ 383.7	\$ 1
	=====	=====	=====
Non-cash charges	\$ 47.2	\$ 333.0	\$ 1
	-----	-----	-----
Cash charges	\$ 28.2	\$ 50.7	\$
	-----	-----	-----

Under the 2000 Plan, the Company realized cash savings of approximately \$32 million in 2001 as a result of reductions in payroll costs directly related to restructuring activities. These cash savings from permanent payroll reductions are expected to be realized annually. Under the 2001 Plan, the Company has realized cash savings of approximately \$10 million through June 30, 2002, and expects to realize additional cash savings of approximately \$24 million through the remainder of 2002 attributable to permanent payroll reductions. Under the 2002 Plan, the Company has realized cash savings of approximately \$2 million through June 30, 2002, and expects to realize additional cash savings of approximately \$9 million through the remainder of 2002 attributable to permanent payroll reductions with full realization of cash savings beginning in 2003.

-27-

MILWAUKEE PRESS OPERATIONS:

On January 31, 2002, the Company announced that it would discontinue the remaining stamping and ancillary processes then performed at its Milwaukee Press Operations and relocate the remaining work to other Tower locations or Tier II suppliers. The Company expects to complete the transfer process during the third quarter of 2002. As a result of these efforts (the "2002 Plan"), the Company recorded a restructuring charge in the first quarter of 2002 totaling \$75.4 million, which reflects the estimated qualifying "exit costs" to be incurred over the next 12 months pertaining to the 2002 Plan.

The 2002 Plan charge includes costs associated with asset impairments, severance and outplacement costs related to employee terminations and certain other exit costs. These activities are anticipated to result in a reduction of approximately 490 colleagues in the Company's Milwaukee, Wisconsin manufacturing location. Through June 30, 2002, the Company had eliminated approximately 130 colleagues pursuant to the 2002 Plan. The estimated restructuring charge does not cover certain aspects of the 2002 Plan, including movement of equipment and employee relocation and training. These costs will be recognized in future periods as incurred.

The asset impairments consist of long-lived assets, including fixed assets, buildings and manufacturing equipment from the facilities the Company intends to dispose of or discontinue. The carrying value of the long-lived assets written

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

off was \$47.2 million. Fixed assets that will be disposed of as part of the 2002 Plan were written down to their estimated residual values. For assets that will be sold currently, the Company measured impairment based on estimated proceeds on the sale of the facilities and equipment. These asset impairments have arisen as a consequence of the Company making the decision to exit these activities during the first quarter of 2002.

As of June 30, 2002, the Company anticipates future cash payments of \$12.9 million and other future obligations of \$12.4 million under the 2002 Plan.

The accrual for operational realignment and other costs is included in accrued liabilities in the accompanying consolidated balance sheet as of June 30, 2002. The table below summarizes the accrued operational realignment and other charges through June 30, 2002 (in millions):

	ASSET IMPAIRMENTS	SEVERANCE AND OUTPLACEMENT COSTS	OTHER EXIT COSTS	TOTAL
	-----	-----	-----	-----
Balance at December 31, 2001	\$ --	\$ --	\$ --	\$ --
First quarter 2002 provision	47.2	8.4	19.8	75.4
Cash charges	--	(1.7)	(1.2)	(2.9)
Non-cash charges	(47.2)	--	--	(47.2)
	-----	-----	-----	-----
Balance at June 30, 2002	\$ --	\$ 6.7	\$ 18.6	\$ 25.3
	=====	=====	=====	=====

### SEBEWAING AND MILWAUKEE PRESS OPERATIONS:

In October 2001, the Company's board of directors approved a restructuring of the enterprise that included the closing of the Sebewaing, Michigan facility. In addition, in December 2001, the Company's board of directors approved a restructuring plan that related to the consolidation of technical activities and a reduction of other salaried colleagues in conjunction with a reorganization of the Company's U.S. and Canada operations and the relocation of some component manufacturing from the Company's Milwaukee Press Operations to other Tower locations. As a result of these realignment efforts (the "2001 Plan"), the Company recorded a restructuring charge in the fourth quarter of 2001 of \$178.1 million, which reflects the estimated qualifying "exit costs" to be incurred over the next 12 months pertaining to the 2001 Plan.

The 2001 Plan charge includes costs associated with asset impairments, severance and outplacement costs related to employee terminations and certain other exit costs. These activities are anticipated to result in a reduction of more than 700 colleagues in the Company's technical and administrative centers in Novi, Rochester Hills, and Grand Rapids, Michigan; Milwaukee, Wisconsin; and its U.S. and Canada manufacturing locations. Through June 30, 2002, the Company had eliminated approximately 670 colleagues pursuant to the



## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

2001 Plan. The estimated restructuring charge does not cover certain aspects of the 2001 Plan, including movement of equipment and employee relocation and training. These costs are being recognized in future periods as incurred.

As of June 30, 2002, the Company anticipates future cash payments of \$24.8 million and other future obligations of \$13.1 million under the 2001 Plan.

The accrual for operational realignment and other costs, which was established in the fourth quarter of 2001, is included in accrued liabilities in the accompanying consolidated balance sheet as of June 30, 2002. The table below summarizes the accrued operational realignment and other accrued charges through June 30, 2002 (in millions):

	SEVERANCE AND OUTPLACEMENT COSTS	OTHER EXIT COSTS	TOTAL
	-----	-----	-----
Balance at December 31, 2001	\$ 23.9	\$ 31.4	\$ 55.3
Cash charges	(12.0)	(5.4)	(17.4)
	-----	-----	-----
Balance at June 30, 2002	\$ 11.9	\$ 26.0	\$ 37.9
	=====	=====	=====

### LIQUIDITY AND CAPITAL RESOURCES

#### SOURCES OF CASH

The Company's principal sources of cash are cash flow from operations, commercial borrowings and capital markets activities. During the six months ended June 30, 2002, the Company generated \$19.3 million of cash from operations. This compares with \$291.2 million generated during the same period in 2001. Net income before depreciation and amortization, deferred income taxes, deferred compensation plans, gain on sale of plant, equity in joint venture earnings, restructuring and asset impairment charges, and cumulative effect of change in accounting principle was \$104.9 million and \$108.8 million for the 2002 and 2001 periods, respectively. Operating cash flow was reduced by \$20.3 million in 2002 and \$12.9 million in 2001 for cash restructuring payments, and was decreased as a result of net tax payments of \$0.6 million and \$3.3 million in the 2002 and 2001 periods, respectively. In total, working capital and other operating items decreased operating cash flow by \$85.6 million in the 2002 period and increased operating cash flow by \$182.4 million during the 2001 period.

In April 2002, the Company entered into a sale-leaseback transaction involving seven of its manufacturing facilities contributing \$50.3 million to the cash flow of the 2002 period. Under the terms of the sale-leaseback agreement with investment banking firm W.P. Carey and Company, LLC, the facilities will be leased to the Company under an 18-year term. The Company recorded a loss on the sale of the buildings of \$0.3 million in the second quarter 2002, which is classified in other expense in the condensed consolidated statement of operations. The lease requires quarterly payments of approximately \$1.6 million through 2020 and is accounted for as an operating lease.

The issuance of common stock under the underwritten primary offering of 17.25 million shares completed in May 2002 contributed \$222.9 million to the cash flow of the 2002 period. The issuance of stock from the Company's colleague stock purchase plan and option plans contributed an additional \$2.0 million and \$0.9 million to cash flow for the 2002 and 2001 periods, respectively.

In June 2002, the Company completed an amendment to its senior credit facility (the "Credit Agreement") that permanently reduces borrowings under the facility and defers the start of the scheduled repayment of its remaining borrowings

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

until March 2005. The amendment reduces the former \$1.15 billion facility to a \$725 million facility by voluntarily repaying \$200 million of the \$325 million term loan portion of the facility with proceeds from the Company's recent follow-on stock offering, and reducing capacity under the revolving credit facility from \$825 million to \$600 million. The Credit Agreement also includes a multi-currency borrowing feature that allows the Company to borrow up to \$500 million in certain freely tradable offshore currencies, and letter of credit sublimits of \$250 million. As of June 30, 2002, approximately \$5.2

-29-

million of the outstanding borrowings are denominated in Euro. Interest on the Credit Agreement is at the financial institutions' reference rate, LIBOR, or the Eurodollar rate plus a margin ranging from 0 to 200 basis points depending on the ratio of the consolidated funded debt for restricted subsidiaries of the Company to its total EBITDA. The weighted average interest rate for such borrowings was 6.1 percent for the six months ended June 30, 2002. The Credit Agreement has a final maturity of 2006.

At June 30, 2002, the Company had borrowed \$77.3 million under its revolving credit facility of \$600 million. In order to borrow under the revolving facility, the Company must meet certain covenant ratios. Based on these covenants, the amount of unused availability under the revolving facility was \$288.3 million at June 30, 2002, compared to unused availability of \$93.0 million at June 30, 2001. This increase in availability resulted from an increase due to the reduction of indebtedness (as defined in the credit agreement), offset in part by a decrease in trailing four quarter EBITDA and a decrease in the total amount available for borrowing under the revolver facility (due to the amendment completed in the second quarter of 2002) between the periods. The credit agreement requires the Company to meet certain financial covenants, including but not limited to a minimum interest coverage and maximum leverage ratio. The covenant conditions contained in the credit agreement also limit the Company's ability to pay dividends to the available borrowings under the revolving facility. As of June 30, 2002, the Company was in compliance with all debt covenants.

In September 2000, the Company entered into an interest rate swap contract to hedge against interest rate exposure on approximately \$160 million of its floating rate indebtedness under the credit agreement. The contracts have the effect of converting the floating rate interest to a fixed rate of approximately 6.9 percent, plus any applicable margin required under the Credit Agreement. The interest rate swap contract was executed to balance the Company's fixed-rate and floating-rate debt portfolios and expires in September 2005.

### USES OF CASH

The Company's principal uses of cash are debt repayment, capital expenditures and acquisitions and investments in joint ventures. Net cash used in investing activities was \$56.8 million during the six months ended June 30, 2002, as compared to \$106.4 million in the prior period. Net capital expenditures totaled \$69.0 million and \$102.1 million for the comparable 2002 and 2001 periods, respectively. Earnout payments and payments on notes payable made in connection with previous acquisitions and investments in joint ventures, offset by net proceeds received from the sale of a plant, reduced investment cash flows by \$38.1 million and \$4.4 million for the 2002 and 2001 periods, respectively. Net cash proceeds of \$50.3 million from the sale of fixed assets under a sale-leaseback transaction contributed to the 2002 investment activity cash

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

flows. Net cash provided by financing activities totaled \$44.3 million for the six months ended June 30, 2002 and net cash used for financing activities totaled \$177.0 million for the six months ended June 30, 2001. Proceeds from the issuance of stock of \$224.9 million and \$0.9 million were offset by net repayments of debt of \$180.6 million and \$177.9 million for the comparable 2002 and 2001 periods, respectively.

The Company estimates its full year gross 2002 capital expenditures will be approximately \$155 million. Where appropriate, the Company may lease rather than purchase such equipment, which would have the effect of reducing this anticipated level of capital expenditures.

### WORKING CAPITAL

During the six months ended June 30, 2002, working capital increased by \$131.0 million. This net increase is comprised of working capital increases due to a \$114.0 million increase in accounts receivable attributable to the significant sales increase in June 2002 relative to December 2001, a \$33.1 million timing-related increase in tooling and other costs, a \$6.9 million increase in cash on hand, and a \$39.1 million decrease in current maturities of long-term debt and capital lease obligations; offset by working capital decreases due to a \$50.6 million increase in accounts payable related to the continued renegotiation of terms with key suppliers, a \$3.1 million increase in other liabilities, and an \$8.4 million decrease in inventory as a result of the Company's continued emphasis of low inventory levels.

-30-

The Company expects to continue to maintain a low working capital position through a continuation of the efforts discussed above and continued focus on minimizing the length of the cash flow cycle. The Company believes that the available borrowing capacity under its credit agreement, together with funds generated by operations, should provide sufficient liquidity and capital resources to pursue its business strategy for the foreseeable future, with respect to working capital, capital expenditures, and other operating needs.

### EFFECTS OF INFLATION

Inflation generally affects the Company by increasing the interest expense of floating-rate indebtedness and by increasing the cost of labor, equipment and raw materials. Management believes that inflation has not significantly affected the Company's business over the past 12 months. However, because selling prices generally cannot be increased until a model changeover, the effects of inflation must be offset by productivity improvements and volume from new business awards.

### MARKET RISK

The Company is exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. The Company's policy is to not enter into derivatives or other financial instruments for trading or speculative purposes. The Company periodically enters into financial instruments to manage and reduce the impact of changes in interest rates.

Interest rate swaps are entered into as a hedge of underlying debt instruments to effectively change the characteristics of the interest rate without actually

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

changing the debt instrument. Therefore, these interest rate swap agreements convert outstanding floating rate debt to fixed rate debt for a period of time. For fixed rate debt, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant.

At June 30, 2002, Tower Automotive had total debt and obligations under capital leases of \$779.1 million. The debt is comprised of fixed rate debt of \$508.7 million and floating rate debt of \$270.4 million. The pre-tax earnings and cash flows impact for the next year resulting from a one percentage point increase in interest rates on variable rate debt would be approximately \$2.7 million, holding other variables constant. A one percentage point increase in interest rates would not materially impact the fair value of the fixed rate debt.

A portion of Tower Automotive's revenues were derived from manufacturing operations in Europe, Asia and South America. The results of operations and financial position of the Company's foreign operations are principally measured in its respective currency and translated into U.S. dollars. The effects of foreign currency fluctuations in Europe, Asia and South America are mitigated by the fact that expenses are generally incurred in the same currency in which revenues are generated. The reported income of these subsidiaries will be higher or lower depending on a weakening or strengthening of the U.S. dollar against the respective foreign currency.

A portion of Tower Automotive's assets are based in its foreign operations and are translated into U.S. dollars at foreign currency exchange rates in effect as of the end of each period, with the effect of such translation reflected as a separate component of stockholders' investment. Accordingly, the Company's consolidated stockholders' investment will fluctuate depending upon the weakening or strengthening of the U.S. dollar against the respective foreign currency.

The Company's strategy for management of currency risk relies primarily upon conducting its operations in a country's respective currency and may, from time to time, engage in hedging programs intended to reduce the Company's exposure to currency fluctuations. As of June 30, 2002, the Company held no foreign currency hedge positions. Management believes the effect of a one percent appreciation or depreciation in foreign currency rates would not materially affect the Company's financial position or results of operations for the periods presented.

-31-

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On June 29, 2001, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Intangible Assets." Major provisions of these Statements are as follows: all business combinations initiated after June 30, 2001 must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must be assigned to reporting units for purposes of impairment testing; effective January 1, 2002, goodwill is no longer

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

subject to amortization.

The Company adopted the new rules on accounting for goodwill and other intangible assets as of January 1, 2002. Application of the nonamortization provisions of the Statements is expected to result in a reduction in goodwill amortization expense of approximately \$16 million in fiscal 2002, after reflecting 2001 goodwill writedowns of \$196.1 million.

Under SFAS 142, the Company designated four reportable units: United States/Canada, Europe, Asia and South America/Mexico. Preliminary procedures under SFAS 142 indicated an excess of book value over fair value for the Asia and South America/Mexico reportable units. During the second quarter 2002, the Company completed its formal valuation procedures under SFAS 142, utilizing a combination of valuation techniques including the discounted cash flow approach and the market multiple approach. As a result of this valuation process as well as the application of the remaining provision of SFAS 142, the Company recorded a transitional impairment loss of \$112.8 million, representing the write-off of all of the Company's existing goodwill in the reportable units of Asia (\$29.7 million) and South America/Mexico (\$83.1 million). The write-off was recorded as a cumulative effect of a change in accounting principle in the Company's condensed consolidated statements of operations for the six months ended June 30, 2002. There was no tax impact since the Company recorded a \$24.2 million tax valuation allowance for the deductible portion of the goodwill written off in the reportable unit of South America/Mexico. The Company determined that it was appropriate to record a valuation allowance against the entire amount of the \$24.2 million deferred tax asset recognized in adopting SFAS 142 given the uncertainty of realization and the lack of income in the reportable unit. The Asia goodwill was not deductible for tax purposes.

In July 2001, the FASB issued SFAS No. 144, "Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. The provisions of this Statement provide a single accounting model for impairment of long-lived assets. The adoption of SFAS No. 144 on January 1, 2002 did not have a material impact on the Company's financial position or its results of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 recognizes that the use of debt extinguishment can be a part of the risk management strategy of a company and hence, the classification of all early extinguishment of debt as an extraordinary item may no longer be appropriate. In addition, the Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Provisions of this Statement, as they relate to Statement No. 13, are to be effective for transactions occurring after May 15, 2002. Provisions, which relate to Statement No. 4, are effective for fiscal years beginning after May 15, 2002. SFAS No. 145 is not expected to materially impact the Company's consolidated financial statements.

In July 2002, the Financial Accounting Standards Board issued Statement of

## Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Financial SFAS No. 146, "Accounting for Exit or Disposal Activities". SFAS No. 146 will be effective for the Company for disposal activities initiated after December 31, 2002. The Company is in the process of evaluating the effect that adopting SFAS 146 will have on its financial statements.

### DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-Q, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). When used in this Form 10-Q, the words "anticipate," "believe," "estimate," "expect," "intends" and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management as well as on assumptions made by and information currently available to the Company at the time such statements were made. Various economic and competitive factors could cause actual results to differ materially from those discussed in such forward-looking statements, including factors which are outside the control of the Company, such as risks relating to: (i) the degree to which the Company is leveraged; (ii) the Company's reliance on major customers and selected models; (iii) the cyclical nature and seasonality of the automotive market; (iv) the failure to realize the benefits of recent acquisitions and joint ventures; (v) obtaining new business on new and redesigned models; (vi) the Company's ability to continue to implement its acquisition strategy; (vii) the highly competitive nature of the automotive supply industry; (viii) the ability to achieve the anticipated volume of production from new and planned supply programs; and (ix) such other factors noted in this Form 10-Q with respect to the Company's businesses. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by such cautionary statements.

-33-

### PART II. OTHER INFORMATION

#### TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 1. Legal Proceedings:

None.

Item 2. Change in Securities and Use of Proceeds:

None.

Item 3. Defaults Upon Senior Securities:

None.

Item 4. Submission of Matters to a Vote of Security Holders:

The registrant held its Annual Meeting of Stockholders on May 15, 2002. All director nominees (S. A. Johnson, Dugald K. Campbell, Jurgen M. Geissinger, Ali Jenab, F. J. Loughrey, James R. Lozelle, Georgia R.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Nelson, Scott D. Rued and Enrique Zambrano) were elected. Each of the individuals nominated for election as a director received at least 42,400,499 votes representing 97.629% of the shares voted in the election and received no more than 1,029,906 negative votes.

The Tower Automotive, Inc. Performance Cash Plan was approved by the stockholders. A total of 41,302,635 affirmative votes, 2,047,692 negative votes and 80,078 abstaining votes were cast on this proposal.

Item 5. Other Information:

None.

Item 6. Exhibits and Reports on Form 8-K:

(a) Exhibits:

Exhibit 99.1 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.2 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) During the quarter for which this report is filed, the Company filed the following Form 8-K Current Reports with the Securities and Exchange Commission:

1. The Company's Current Report on Form 8-K dated April 16, 2002, under Item 5 (Commission File No. 1-12733).
2. The Company's Current Report on Form 8-K dated June 20, 2002, under Item 4 (Commission File No. 1-12733).

-34-

SIGNATURE

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

TOWER AUTOMOTIVE, INC.

Date: August 12, 2002

By /s/ Anthony A. Barone

-----  
Anthony A. Barone  
Vice President, Chief Financial Officer  
(principal accounting and financial  
officer)

-35-