

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

TOWER AUTOMOTIVE INC
Form 10-Q
November 14, 2001

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 September 30, 2001

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)	41-1746238 (I.R.S. Employer Identification No.)
5211 CASCADE ROAD SE - SUITE 300 GRAND RAPIDS, MICHIGAN	49546 (Zip Code)

(Address of principal executive offices)

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

4508 IDS CENTER, MINNEAPOLIS, MINNESOTA 55402
(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 October 31, 2001 was 48,076,524 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 September 30, 2001 and 2000

Condensed Consolidated Statements of Operations (unaudited) for the Nine Months Ended September 30, 2001 and 2000

Condensed Consolidated Balance Sheets at September 30, 2001 (unaudited) and December 31, 2000

Condensed Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2001 and 2000

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 2. Changes in Securities and Use of Proceeds

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 SEPTEMBER 30,	
	2001	2000
Revenues	\$ 557,785	\$ 536,210
Cost of sales	502,366	471,482
Gross profit	55,419	64,728
Selling, general and administrative expenses	33,002	31,535

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Amortization expense	6,232	5,576
	-----	-----
Operating income	16,185	27,617
Interest expense, net	19,082	16,405
	-----	-----
Income (loss) before provision for income taxes	(2,897)	11,212
Provision for income taxes	(2,771)	4,484
	-----	-----
Income (loss) before equity in earnings of joint ventures and minority interest	(126)	6,728
Equity in earnings of joint ventures	3,120	5,844
Minority interest	(4,358)	(2,619)
	-----	-----
Income (loss) before extraordinary item	(1,364)	9,953
Extraordinary loss on early extinguishments of debt, net	--	2,988
	-----	-----
Net income (loss)	(\$1,364)	\$ 6,965
	=====	=====
Basic earnings (loss) per share (Note 3):		
Income (loss) before extraordinary loss	(\$0.03)	\$ 0.21
Extraordinary loss	--	(0.06)
	-----	-----
Net income (loss)	(\$0.03)	\$ 0.15
	=====	=====
Diluted earnings (loss) per share (Note 3):		
Income before extraordinary loss	(\$0.03)	\$ 0.21
Extraordinary loss	--	(0.06)
	-----	-----
Net income (loss)	(\$0.03)	\$ 0.15
	=====	=====

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)

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	-----	-----
Revenues	\$ 1,828,568	\$ 1,902,594
Cost of sales	1,608,617	1,611,773
	-----	-----
Gross profit	219,951	290,821
Selling, general and administrative expenses	103,321	99,622
Amortization expense	18,440	15,793
	-----	-----
Operating income	98,190	175,406
Interest expense, net	58,925	43,136
	-----	-----
Income before provision for income taxes	39,265	132,270
Provision for income taxes	13,701	52,908
	-----	-----
Income before equity in earnings of joint ventures and minority interest	25,564	79,362
Equity in earnings of joint ventures	12,291	14,864
Minority interest	(9,686)	(7,857)
	-----	-----
Income before extraordinary item	28,169	86,369
Extraordinary loss on early extinguishments of debt, net	--	2,988
	-----	-----
Net income	\$ 28,169	\$ 83,381
	=====	=====
Basic earnings per share (Note 3):		
Income before extraordinary loss	\$ 0.63	\$ 1.81
Extraordinary loss	--	(0.06)
	-----	-----
Net income	\$ 0.63	\$ 1.75
	=====	=====
Diluted earnings per share (Note 3):		
Income before extraordinary loss	\$ 0.63	\$ 1.54
Extraordinary loss	--	(0.05)
	-----	-----
Net income	\$ 0.63	\$ 1.49
	=====	=====

The accompanying notes are an integral part of these condensed

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

consolidated financial statements.

-4-

TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS)

ASSETS	SEPTEMBER 30, 2001 (unaudited)	DECEMBER 31, 2000
Current assets:		
Cash and cash equivalents	\$ 15,960	\$ 3,373
Accounts receivable, net	274,628	278,707
Inventories, net	115,445	132,478
Prepaid tooling and other	116,632	222,119
Total current assets	522,665	636,677
Property, plant and equipment, net	1,190,306	1,111,780
Investments in joint ventures	287,331	267,217
Goodwill and other assets, net	881,944	877,073
	\$ 2,882,246	\$ 2,892,747
	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 165,548	\$ 149,066
Accounts payable	352,476	248,389
Accrued liabilities	253,272	175,219
Total current liabilities	771,296	572,674
Long-term debt, net of current maturities	650,836	933,442
Obligations under capital leases, net of current maturities	5,325	8,458
Convertible subordinated notes	200,000	200,000
Deferred income taxes	37,052	33,884
Other noncurrent liabilities	202,011	185,444
Total noncurrent liabilities	1,095,224	1,361,228
Mandatorily redeemable trust convertible preferred securities	258,750	258,750
Stockholders' investment:		
Preferred stock	--	--
Common stock	480	476
Additional paid-in capital	456,615	450,455

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Retained earnings	336,125	307,956
Deferred compensation plans	(15,571)	(8,942)
Accumulated other comprehensive loss	(20,673)	(9,672)
Treasury stock, at cost	--	(40,178)
	-----	-----
Total stockholders' investment	756,976	700,095
	-----	-----
	\$ 2,882,246	\$ 2,892,747
	=====	=====

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)

	NINE MONTHS ENDED SEPTEMBER	
	2001	2000
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 28,169	\$ 83,388
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	120,980	112,799
Deferred income tax provision	9,371	14,511
Extraordinary loss on extinguishments of debt	--	2,988
Changes in other operating items	267,990	(76,455)
	-----	-----
Net cash provided by operating activities	426,510	137,211
	-----	-----
INVESTING ACTIVITIES:		
Acquisitions and investment in joint ventures	(14,103)	(232,655)
Capital expenditures, net	(147,583)	(157,545)
	-----	-----
Net cash used in investing activities	(161,686)	(390,199)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from borrowings	2,018,950	2,729,055
Repayment of debt	(2,310,067)	(2,484,288)
Proceeds from issuance of stock	38,880	5,990
	-----	-----

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Net cash (used in) provided by financing activities	(252,237)	250,76
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,587	(2,21
CASH AND CASH EQUIVALENTS:		
Beginning of period	3,373	3,61
	-----	-----
End of period	\$ 15,960	\$ 1,40
	=====	=====
NON-CASH FINANCING ACTIVITIES:		
Notes payable converted to common stock	\$ 828	\$ --
	=====	=====
Deferred income stock plan	\$ 1,277	\$ 4,45
	=====	=====

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)

- The accompanying condensed consolidated financial statements have been 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, 2000.

Revenues and operating results for the nine months ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year.

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

- Inventories consisted of the following (in thousands):

SEPTEMBER 30, DECEMBER 31,

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	2001	2000
	-----	-----
Raw materials	\$ 53,427	\$ 54,958
Work in process	26,217	40,281
Finished goods	35,801	37,239
	-----	-----
	\$115,445	\$ 132,478
	=====	=====

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 were determined on the 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 were included in the computation of earnings per share for the three months ended September 30, 2001 due to their anti-dilutive effect. The Convertible Subordinated Notes and Preferred Securities were not included in the computation of earnings per share for the three months ended September 30, 2000 and for the nine months ended September 30, 2001 due to their anti-dilutive effect (in thousands, except for per share data):

-7-

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	-----	-----	-----	-----
	2001	2000	2001	2000
	-----	-----	-----	-----
Net income (loss)	\$ (1,364)	\$ 6,965	\$ 28,169	\$ 83,381
Interest expense on Edgewood notes, net of tax	--	7	11	23
Interest expense on Convertible Subordinated Notes, net of tax	--	--	--	4,879
Dividends on Preferred Securities, net of tax	--	--	--	7,857
	-----	-----	-----	-----
Net income (loss) applicable to common stockholders -- diluted	\$ (1,364)	\$ 6,972	\$ 28,180	\$ 96,140
	=====	=====	=====	=====
Weighted average number of common shares outstanding	45,784	47,986	44,770	47,649
Dilutive effect of outstanding stock options and warrants after application of the treasury stock method	--	136	137	192
Dilutive effect of Edgewood notes, assuming conversion	--	289	137	289
Dilutive effect of Convertible Subordinated Notes, assuming conversion	--	--	--	7,730
Dilutive effect of Preferred				

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Securities, assuming conversion	--	--	--	8,424
	-----	-----	-----	-----
Diluted shares outstanding	45,784	48,411	45,044	64,284
	=====	=====	=====	=====
Basic earnings per share	\$ (0.03)	\$ 0.15	\$ 0.63	\$ 1.75
	=====	=====	=====	=====
Diluted earnings per share	\$ (0.03)	\$ 0.15	\$ 0.63	\$ 1.49
	=====	=====	=====	=====

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

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
Revolving credit facility	\$ 96,020	\$ 345,919
Senior Euro notes	136,710	141,330
Term credit facility	325,000	325,000
Industrial development revenue bonds	43,765	43,765
Edgewood notes	50	878
Other foreign subsidiary indebtedness	158,711	151,171
Other	53,453	72,969
	-----	-----
	813,709	1,081,032
Less-current maturities	(162,873)	(147,590)
	-----	-----
Total long-term debt	\$ 650,836	\$ 933,442
	=====	=====

On July 25, 2000, the Company replaced its existing \$750 million amortizing credit agreement with a new six-year \$1.15 billion senior unsecured credit agreement. The new credit agreement includes a non-amortizing revolving facility of \$825 million along with an amortizing term loan of \$325 million. The new facility 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 \$100 million. As of September 30, 2001, approximately \$22.0 million of the outstanding borrowings are denominated in Japanese yen and \$68.4 million of the outstanding borrowings are denominated in Euro. Interest on the new credit facility 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

-8-

consolidated funded debt for restricted subsidiaries of the Company to its total EBITDA. The weighted average interest rate for such borrowings was 7.25 percent for the nine months ended September 30, 2001. The new credit agreement has a final maturity of July 2006. As a result of the debt replacement, the Company recorded an extraordinary loss, net of tax, of \$3.0 million during the third quarter of 2000.

The Credit Agreement requires the Company to meet certain financial tests, 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 September 30, 2001, the Company was in compliance with all debt covenants.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

On July 25, 2000, R. J. Tower (the "Issuer"), a wholly-owned subsidiary of the Company, issued Euro-denominated senior unsecured notes in the amount of (euro) 150 million. 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 existing 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 \$1.15 billion senior unsecured credit facility. 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 revolving credit facility. The interest rate swap contract was executed to balance the Company's fixed-rate and floating-rate debt portfolios and expires in September 2005.

5. In June 2001, the Company entered into an agreement whereby its domestic operating units sell eligible customer receivables on an ongoing basis to a newly formed special purpose entity (the "SPE"). Upon recording the sale, the operating units recognize a loss representing the difference between the carrying value of the eligible receivables and the net sales proceeds received. The loss consists of the effects of yield adjustments and projected credit losses associated with the receivables pool. The SPE records its ownership in the net receivables purchased from the operating units. The SPE subsequently sells its interest in receivables to a third party funding agent in exchange for cash and a subordinated interest in the unfunded receivables transferred. The Company acts as an administrative agent in the management and collection of accounts receivable sold. The Company remits all cash collected from domestic receivables to the SPE. The SPE records a liability for amounts due to the funding agent along with any funding costs and applies any excess collections to reduce its subordinated interest in receivables sold. Cash collected by the SPE in excess of amounts due the funding agent and its net subordinated interest in the receivables pool are recorded as investment income by the SPE. This income represents an offset of the yield adjustments and credit losses recorded by the operating units upon sale in adjusting the carrying value of receivables sold. The net impact of the yield loss and credit loss adjustment is not material.

At September 30, 2001, the Company had sold approximately \$167.8 million of net accounts receivable in exchange for \$40.9 million of cash and a retained subordinated interest in the receivables sold of approximately \$126.9 million. The net proceeds from the sale of the receivables were used to pay down borrowings under the Company's revolving credit facility. As of September 30, 2001, the SPE recorded a liability to the funding agent of \$40.9 million. Settlement of amounts due to the funding agent as well as its funding cost of approximately 7.6 percent occurs during the month subsequent to the sale of the receivables. During the period preceding this settlement, the SPE advances any excess cash from collections to R.J. Tower in the form of a demand note receivable. The demand note is eliminated on consolidation.

6. On November 30, 2000, the Company completed the acquisition of Strojarne Malacky, a.s. ("Presskam"), a manufacturer of upper body structural assemblies for Volkswagen, Porsche and Skoda, located near Bratislava, Slovakia. The Company paid total consideration of approximately \$10

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

-9-

million for Presskam and intends to use the investment to further support Volkswagen's Bratislava assembly operation.

On July 6, 2000, the Company acquired the remaining 60 percent equity interest in Metalurgica Caterina S.A. ("Caterina") for approximately \$42 million. The initial 40 percent interest was acquired in March 1998, for approximately \$48 million. Caterina is a supplier of structural stampings and assemblies to the Brazilian automotive market, including Volkswagen and Mercedes-Benz. The acquisition was funded with proceeds from the Company's revolving credit facility.

On May 3, 2000, the Company acquired all of the outstanding common stock of Algoods, Inc. ("Algoods") for total consideration of approximately \$33 million. Algoods manufactures aluminum heat shields and impact discs for the North American automotive industry from aluminum mini-mill and manufacturing operations located in Toronto, Canada. Its primary customer is DaimlerChrysler. The acquisition of Algoods represents a significant investment in processing technology for lightweight materials which complements the Company's existing heat shield capabilities and provides opportunities for application in other lightweight vehicle structural products. The acquisition was funded with proceeds from the Company's revolving credit facility.

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 \$86.4 million. 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. Based on the purchase contract, the Company paid approximately \$2 million during the third quarter of 2001 and anticipates it will pay an additional \$22 million during the first quarter of 2002 for achieving certain operating earnings targets during the 2000 period. The acquisition was financed with proceeds from the Company's revolving credit facility.

On October 29, 1999, the Company invested \$21 million for new shares representing a 49 percent equity interest in Seojin Industrial Company Limited ("Seojin"). Seojin is a supplier of frames, modules and structural components to the Korean automotive industry. Consideration for the equity interest was financed under the Company's revolving credit facility. In addition, the Company advanced \$19 million to Seojin in exchange for variable rate convertible bonds (the "Bonds") due October 30, 2009. On October 31, 2000, the Company exercised its right to convert the bonds into 17 percent of the common stock of Seojin, increasing the Company's equity interest to 66 percent. Based upon the formula for conversion of the Seojin bonds, the Company paid an additional \$1.2 million for the 17 percent equity interest.

The acquisitions discussed above 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.

In conjunction with its acquisitions, the Company has established reserves

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

for certain costs associated with facility shutdown and consolidation activities and for general and payroll related costs primarily for planned employee termination activities.

-10-

The table below summarizes the accrued facility-related and payroll-related costs through September 30, 2001 (in millions):

	FACILITY COSTS	PAYROLL COSTS
	-----	-----
Balance at December 31, 2000	\$ 7.3	\$ 3.9
Utilization	(1.1)	(1.7)
	-----	-----
Balance at September 30, 2001	\$ 6.2	\$ 2.2
	=====	=====

The timing of facility shutdown and consolidation activities has been adjusted to reflect customer concerns with supply interruption. 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 September 30, 2001.

In certain instances, the Company is committed under existing agreements to supply product to its customers at selling prices that are not sufficient to cover the direct costs to produce such parts. The Company is obligated to supply these products to its customers for the life of the related vehicles, which typically ranges from three to 10 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 customer. The liability for loss contracts was \$19.9 million and \$28.7 million at September 30, 2001 and December 31, 2000, respectively.

7. The Company has a 31 percent equity interest in Yorozu Corporation ("Yorozu") acquired from Nissan Motor Co. Ltd. ("Nissan"). The Company acquired its original 17 percent equity interest in Yorozu for approximately \$38 million in September 2000 payable to Nissan over two and one-half years. The Company exercised its option to purchase an additional 13.8 percent equity interest in Yorozu for approximately \$30 million in February 2001 payable to Nissan over two and one-half years.

The Company formed a product technology and development joint venture, DTA Development, with Defiance Testing & Engineering Services, Inc., a subsidiary of GenTek Inc. through an investment of \$2.1 million in March 2000, which represents a 40 percent equity interest.

8. 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"). The partnership agreement provides additional amounts of up to \$45 million payable by the Company based upon net earnings of Metalsa during 1998, 1999, and 2000. Based upon Metalsa's net earnings, the Company paid Proeza approximately \$9.0 million and \$7.9 million in additional consideration during 1999 and 2000, respectively. Based upon Metalsa's 2000 net earnings, the Company anticipates it will pay Proeza approximately \$8.0 million in additional

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

consideration during the first quarter of 2002.

9. On October 2, 2000, the Company's board of directors approved a comprehensive operational realignment plan (the "Plan"), which is intended to improve the Company's long-term competitive position and lower its cost structure. The Plan includes phasing out the heavy truck rail manufacturing in Milwaukee, Wisconsin; reducing stamping capacity by closing the Kalamazoo, Michigan facility; and consolidating related support activities across the enterprise. The Company recognized a charge to operations of approximately \$141.3 million in the fourth quarter of 2000, which reflects the estimated qualifying "exit costs" to be incurred over the next 12 months under the Plan.

The charge includes costs associated with asset impairments, severance, and outplacement costs related to employee terminations, loss contract provisions and certain other exit costs. Through September 30, 2001, the Company had eliminated approximately 850 employees pursuant to the Plan. The estimated

-11-

realignment charge does not cover certain aspects of the Plan, including movement of equipment and employee relocation and training. These costs are recognized as incurred.

The asset impairments consist of long-lived assets, including fixed assets, manufacturing equipment and land, from the facilities the Company intends to dispose of or discontinue. The Company measured impairment based on estimated proceeds on the sale of the facilities and equipment. For assets that will be held and used in the future, the Company prepared a forecast of expected undiscounted cash flows to determine whether asset impairment existed, and used fair values to measure the required write-downs. These asset impairments have arisen only as a consequence of the Company making the decision to exit these activities during the fourth quarter of 2000.

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

	ASSET IMPAIRMENTS	SEVERANCE AND OUTPLACEMENT COSTS	LOSS CONTRACTS	OTHER EXITS COSTS	TOTAL
Provision for operational realignment and other charges	\$103.7	\$25.2	\$ 8.1	\$ 4.3	\$141.3
Cash payments	--	(8.7)	(2.5)	(0.3)	(11.5)
Non cash charges	(103.7)	--	--	--	(103.7)
Balance at December 31, 2000	--	16.5	5.6	4.0	26.1
Cash payments	--	(9.9)	(4.2)	(2.1)	(16.2)
Non cash charges	--	--	--	--	--
Balance at September 30, 2001	\$ --	\$ 6.6	\$ 1.4	\$ 1.9	\$ 9.9

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

10. Supplemental cash flow information (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Cash paid for -				
Interest	\$29,966	\$19,232	\$68,948	\$51,505
Income taxes	1,235	1,128	4,516	17,345

11. The following table presents comprehensive income, defined as changes in the stockholders' investment of the Company, for the nine months ended September 30, 2001 and 2000 (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Net income (loss)	\$ (1,364)	\$ 6,965	\$ 28,169	\$ 83,381
Change in cumulative translation adjustment	1,394	6,511	(1,012)	5,761
Transition adjustment relating to loss on qualifying cash flow hedges	--	--	(4,200)	--
Unrealized gain (loss) on qualifying cash flow hedges	(4,654)	--	(5,789)	--
Comprehensive income (loss)	\$ (4,624)	\$ 13,476	\$ 17,168	\$ 89,142

-12-

12. On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," issued by the Financial Accounting Standards Board (the "FASB") in 1998. SFAS No. 133, as amended, establishes accounting and reporting standards requiring the recording of each derivative instrument in the balance sheet as either an asset or liability measured at fair value. Changes in the derivative instrument's fair value must be recognized currently in earnings unless specific hedge accounting criteria is met. For hedges which meet the criteria, the derivative instrument's gains and losses, to the extent effective, may be recognized in accumulated other comprehensive income or loss, rather than in earnings.

The Company has entered into an interest rate swap (see note 4) to hedge the exposure to interest rate fluctuations on the credit agreement. This agreement meets the specific hedge accounting criteria and is designated as a cash flow hedge. The effective portion of the cumulative gain or loss on

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

the derivative instrument has been reported as a component of accumulated other comprehensive loss in stockholders' investment and will be recognized into current earnings in the same period or periods during which the hedged transactions affect current earnings.

The adoption of SFAS No. 133 on January 1, 2001 resulted in a pretax charge to accumulated other comprehensive loss of \$6.8 million (\$4.2 million net of income tax benefit) for derivative instruments that were issued, acquired or modified after December 31, 1998. The accumulated other comprehensive loss was attributable to losses on effective cash flow hedges. Amounts currently recorded in accumulated other comprehensive loss (\$10.0 million at September 30, 2001) will be reclassified into current earnings by September 2005, the termination date for the current agreement.

Derivative liabilities relating to the interest rate swap agreement totaling \$16.2 million have been recorded in accrued liabilities on the balance sheet as of September 30, 2001. 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.

13. On June 29, 2001, the FASB approved for issuance, 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 September 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 and segment reporting; effective January 1, 2002, goodwill will no longer be subject to amortization. Management is currently reviewing the provisions of these Statements and their impact on the Company's results of operations.
14. On August 30, 2001, the Company issued 3,636,400 shares of common stock (par value \$0.01 per share) at a price of \$11.00 per share in a private placement transaction. The Company used the net proceeds of approximately \$37.6 million to repay outstanding indebtedness under its revolving credit facility.
15. On October 18, 2001, the Company announced that it will be relocating stamping and assembly operations currently performed at its Sebewaing, Michigan facility to other Tower Automotive locations, resulting in the closing of the Sebewaing facility by March 2002. This restructuring activity will result in a fourth quarter 2001 pre-tax charge of approximately \$95 million, which includes a cash portion of approximately \$23 million and a non-cash portion of approximately \$72 million.
16. On July 25, 2001, the Company offered to its existing colleagues, and certain consultants, the right to exchange Company stock options, having an exercise price of \$17.125 or more, for shares of restricted stock. As a result of the offer, effective September 17, 2001, the Company issued approximately 518,717 shares of its common stock in exchange for the surrender of options to purchase a total of 1,503,500 shares of the Company's Common Stock. The cost of this exchange was recorded in shareholders' investment as deferred compensation and will be expensed

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

as the restrictions lapse.

-13-

17. 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.

-14-

TOWER AUTOMOTIVE INC.
 CONSOLIDATING BALANCE SHEETS AT SEPTEMBER 30, 2001
 (AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-GUAR COMPAN
	-----	-----	-----	-----
ASSETS				
Current assets:				
Cash and cash equivalents	\$ --	\$ --	\$ 1,413	\$ 14
Accounts receivable, net	--	--	181,991	92
Subordinated interest in accounts receivable	--	--	--	--
Inventories, net	--	--	74,314	41
Prepaid tooling and other	--	--	76,692	39
	-----	-----	-----	-----
Total current assets	--	--	334,410	188
	-----	-----	-----	-----
Property, plant and equipment, net	--	--	902,871	287
Investments in joint ventures	236,638	45,982	3,496	1
Investment in subsidiaries	1,059,270	756,496	--	--
Goodwill and other assets, net	10,099	10,027	577,586	284
	-----	-----	-----	-----
	\$ 1,306,007	\$ 812,505	\$ 1,818,363	\$ 761
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT				
Current liabilities				
Current maturities of long-term debt and capital lease obligations	\$ 71,133	\$ --	\$ 2,675	\$ 91

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Accounts payable	--	--	249,066	103
Accrued liabilities	2,783	6,033	151,092	93
	-----	-----	-----	-----
Total current liabilities	73,916	6,033	402,833	288
	-----	-----	-----	-----
Long-term debt, net of current maturities	490,702	--	44,765	115
Obligations under capital leases, net of current maturities	--	--	5,325	
Convertible subordinated notes	--	200,000	--	
Due to/(from) affiliates	(25,000)	(408,774)	428,444	5
Deferred income taxes	--	--	32,209	4
Other noncurrent liabilities	--	--	140,689	61
	-----	-----	-----	-----
Total noncurrent liabilities	465,702	(208,774)	651,432	186
	-----	-----	-----	-----
Mandatorily redeemable trust convertible preferred securities	--	258,750	--	
Stockholders' investment	777,649	756,496	764,098	295
Accumulated other comprehensive loss	(11,260)	--	--	(9)
	-----	-----	-----	-----
Total stockholders' investment	766,389	756,496	764,098	285
	-----	-----	-----	-----
	\$ 1,306,007	\$ 812,505	\$ 1,818,363	\$ 761
	=====	=====	=====	=====

-15-

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON- GUARANTOR COMPANIES
	-----	-----	-----	-----
Revenues	\$ --	\$ --	\$ 350,279	\$ 207,
Cost of sales	--	--	320,617	181,
	-----	-----	-----	-----
Gross profit	--	--	29,662	25,
Selling, general and administrative expenses	--	--	25,110	7,
Amortization expense	453	328	3,694	1,
	-----	-----	-----	-----
Operating income (loss)	(453)	(328)	858	16,
Interest expense, net	15,273	1,879	(2,345)	4,
	-----	-----	-----	-----

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Income (loss) before provision for income taxes	(15,726)	(2,207)	3,203	11,
Provision for income taxes	(6,133)	(861)	1,249	2,
Income (loss) before equity in earnings of joint ventures and minority interest	(9,593)	(1,346)	1,954	8,
Equity in earnings of joint ventures and subsidiaries	12,239	2,646	--	--
Minority interest	--	(2,664)	--	(1,
Net income (loss)	\$ 2,646	\$ (1,364)	\$ 1,954	\$ 7,

-16-

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON- GUARANTOR COMPANIES
Revenues	\$ --	\$ --	\$ 1,220,914	\$ 607,914
Cost of sales	--	--	1,072,912	535,912
Gross profit	--	--	148,002	71,912
Selling, general and administrative expenses	--	--	77,130	26,130
Amortization expense	1,378	973	11,033	5,033
Operating income (loss)	(1,378)	(973)	59,839	40,839
Interest expense, net	50,949	5,430	(8,685)	11,430
Income (loss) before provision for income taxes	(52,327)	(6,403)	68,524	29,839
Provision for income taxes	(20,408)	(2,498)	26,725	9,839
Income (loss) before equity in earnings of joint ventures and minority interest	(31,919)	(3,905)	41,799	19,678
Equity in earnings of joint ventures and subsidiaries	71,985	40,066	--	--

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Minority interest	--	(7,992)	--	(1
	-----	-----	-----	-----
Net income (loss)	\$ 40,066	\$ 28,169	\$ 41,799	\$ 17
	=====	=====	=====	=====

-17-

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON GUARAN COMPAN
	-----	-----	-----	-----
OPERATING ACTIVITIES:				
Net income	\$ 40,066	\$28,169	\$ 41,799	\$ 17,8
Adjustments required to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	453	973	92,718	26,8
Deferred income tax provision	--	--	9,941	(5
Changes in other operating items	827,615	2,247	(327,126)	(36,9
	-----	-----	-----	-----
Net cash provided by (used in) operating activities	868,134	31,389	(182,668)	7,2
	-----	-----	-----	-----
INVESTING ACTIVITIES:				
Capital expenditures, net	--	--	(110,211)	(37,3
Acquisitions and other, net	(539,596)	(70,269)	294,674	3,5
	-----	-----	-----	-----
Net cash provided by (used in) investing activities	(539,596)	(70,269)	184,463	(33,8
	-----	-----	-----	-----
FINANCING ACTIVITIES:				
Proceeds from borrowings	1,935,525	--	--	83,4
Repayments of debt	(2,245,291)	--	(1,957)	(62,8
Net proceeds from the issuance of common stock	--	38,880	--	--
	-----	-----	-----	-----
Net cash provided by (used for) financing activities	(309,766)	38,880	(1,957)	20,6
	-----	-----	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,772	--	(162)	(6,0
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(18,772)	--	1,575	20,5
	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ --	\$ --	\$ 1,413	\$ 14,5
	=====	=====	=====	=====

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

-18-

TOWER AUTOMOTIVE INC.
 CONSOLIDATING BALANCE SHEETS AT DECEMBER 31, 2000
 (AMOUNTS IN THOUSANDS)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NO GUARA COMPA
	-----	-----	-----	-----
ASSETS				
Current assets:				
Cash and cash equivalents	\$ (18,772)	\$ --	\$ 1,575	\$ 2
Accounts receivable, net	6,983	381	172,332	9
Inventories, net	2,032	--	83,479	4
Prepaid tooling and other	24,704	--	171,107	2
	-----	-----	-----	-----
Total current assets	14,947	381	428,493	19
	-----	-----	-----	-----
Property, plant and equipment, net	37,245	--	836,175	23
Investments in joint ventures	221,165	43,912	2,140	
Investment in subsidiaries	541,468	734,624	--	
Goodwill and other assets, net	21,527	11,001	536,142	30
	-----	-----	-----	-----
	\$ 836,352	\$ 789,918	\$ 1,802,950	\$ 73
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT				
Current liabilities				
Current maturities of long-term debt and capital lease obligations	\$ 56,569	\$ --	\$ 1,477	\$ 9
Accounts payable	(13,260)	--	156,724	10
Accrued liabilities	35,183	4,167	101,001	3
	-----	-----	-----	-----
Total current liabilities	78,492	4,167	259,202	23
	-----	-----	-----	-----
Long-term debt, net of current maturities	800,401	--	44,787	8
Obligations under capital leases, net of current maturities	--	--	8,458	
Convertible subordinated notes	--	200,000	--	
Due to/(from) affiliates	(822,981)	(373,094)	915,331	28
Deferred income taxes	29,102	--	(631)	
Other noncurrent liabilities	9,060	--	132,105	4
	-----	-----	-----	-----
Total noncurrent liabilities	15,582	(173,094)	1,100,050	41
	-----	-----	-----	-----
Mandatorily redeemable trust convertible preferred securities	--	258,750	--	
Stockholders' investment	744,296	700,095	443,698	9
Accumulated other comprehensive income (loss) - cumulative translation adjustment	(2,018)	--	--	(

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Total stockholders' investment	742,278	700,095	443,698	9
	\$ 836,352	\$ 789,918	\$ 1,802,950	\$ 73

-19-

TOWER AUTOMOTIVE INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	N GUA COM
Revenues	\$ 17,538	\$ --	\$ 414,218	\$
Cost of sales	6,159	--	371,108	--
Gross profit	11,379	--	43,110	
Selling, general and administrative expenses	336	--	26,406	
Amortization expense	794	328	3,216	
Operating income (loss)	10,249	(328)	13,488	
Interest expense, net	17,482	1,737	(4,050)	
Income (loss) before provision for income taxes	(7,233)	(2,065)	17,538	
Provision for income taxes	(2,893)	(826)	7,015	
Income (loss) before equity in earnings of joint ventures and minority interest	(4,340)	(1,239)	10,523	
Equity in earnings of joint ventures and subsidiaries	18,151	10,823	--	
Minority interest - dividends on trust preferred, net	--	(2,619)	--	
Income (loss) before extraordinary item	13,811	6,965	10,523	
Extraordinary loss on early extinguishments of debt, net	2,988	--	--	
Net income (loss)	\$ 10,823	\$ 6,965	\$ 10,523	\$

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

-20-

TOWER AUTOMOTIVE INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON- GUARANTEE COMPANIES
	-----	-----	-----	-----
Revenues	\$ 59,884	\$ --	\$ 1,501,294	\$ 34,000
Cost of sales	38,216	--	1,268,815	30,000
Gross profit	21,668	--	232,479	3,000
Selling, general and administrative expenses	5,676	--	80,491	1,000
Amortization expense	2,392	1,087	9,543	
Operating income (loss)	13,600	(1,087)	142,445	2,000
Interest expense, net	40,221	5,787	(7,706)	
Income (loss) before provision for income taxes	(26,621)	(6,874)	150,151	1,000
Provision for income taxes	(10,648)	(2,749)	60,060	
Income (loss) before equity in earnings of joint ventures and minority interest	(15,973)	(4,125)	90,091	
Equity in earnings of joint ventures and subsidiaries	114,324	95,363	--	
Minority interest - dividends on trust preferred, net	--	(7,857)	--	
Income (loss) before extraordinary item	98,351	83,381	90,091	
Extraordinary loss on early extinguishments of debt, net	2,988	--	--	
Net income (loss)	\$ 95,363	\$ 83,381	\$ 90,091	\$ --
	=====	=====	=====	=====

-21-

TOWER AUTOMOTIVE INC.
CONSOLIDATING STATEMENTS OF CASH FLOWS

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	GUA COM
	-----	-----	-----	-----
OPERATING ACTIVITIES:				
Net income	\$ 95,363	\$ 83,381	\$ 90,091	\$
Adjustments required to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	5,252	1,087	93,100	
Deferred income tax provision	14,667	--	--	
Extraordinary loss on extinguishments of debt	2,988	--	--	
Changes in other operating items	(313,651)	(2,635)	15,866	2
	-----	-----	-----	-----
Net cash provided by (used in) operating activities	(195,381)	81,833	199,057	2
	-----	-----	-----	-----
INVESTING ACTIVITIES:				
Capital expenditures, net	(3,279)	--	(154,348)	
Acquisitions and other, net	(148,342)	(87,827)	(33,530)	(1
	-----	-----	-----	-----
Net cash provided by (used in) investing activities	(151,621)	(87,827)	(187,878)	(1
	-----	-----	-----	-----
FINANCING ACTIVITIES:				
Proceeds from borrowings	2,684,777	--	21	
Repayments of debt	(2,349,510)	--	(9,383)	(1
Net proceeds from the issuance of common stock	--	5,994	--	
	-----	-----	-----	-----
Net cash provided by (used for) financing activities	335,267	5,994	(9,362)	(
	-----	-----	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,735)	--	1,817	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,312	--	484	
	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ (9,423)	\$ --	\$ 2,301	\$
	=====	=====	=====	=====

-22-

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

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2001 TO THE THREE MONTHS ENDED SEPTEMBER 30, 2000

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Revenues -- Revenues for the third quarter of 2001 were \$557.8 million, a 4.0 percent increase, compared to \$536.2 million for the prior period. The increase in revenues is due to the incremental revenue associated with the Presskam acquisition and the consolidation of Seojin and Tower Golden Ring, which contributed revenues of \$106.6 million. These increases are offset by volume declines on the Dodge Durango, Dakota and Ram pickup, the Chrysler LH, and the Ford Focus, Taurus, and Econoline and the Lincoln LS/Jaguar S-Type. These declines, which primarily affected the U.S. and Canada business units, accounted for \$63.6 million of the revenue decline as compared to the third quarter of 2000. Other declines of \$21.4 million are attributable to the exit of the heavy truck business. The strength of sales volumes for the remainder of 2001 continues to be uncertain.

Cost of Sales -- Cost of sales as a percentage of revenues for the third quarter of 2001 was 90.1 percent compared to 87.9 percent for the prior period. The decline in gross profit percentage was primarily due to decreased production volumes and product mix on light truck, sport utility and other models served by the Company in North America and increasing sales with lower margins in Europe, Asia, and South America. Increased costs associated with the launch of the Ford Explorer, Dodge Ram truck and GM Sigma programs also contributed to the decline in gross margins as compared to the third quarter of 2000.

S, G & A Expenses -- Selling, general and administrative expenses increased to \$33.0 million, or 5.9 percent of revenues, for the third quarter of 2001 compared to \$31.5 million, or 5.9 percent of revenues for the prior period. This increase was due primarily to incremental costs associated with the Company's acquisition of Presskam and the consolidation of the Seojin and Tower Golden Ring joint ventures of \$4.1 million. This increase was offset by \$2.6 million in decreased costs due mainly to reductions in headcount in the consolidation of the Company's engineering and support activities.

Amortization Expense -- Amortization expense for the third quarter of 2001 was \$6.2 million compared to \$5.6 million for the prior period. The increase was due to incremental goodwill amortization related to the acquisitions of Presskam and Seojin.

Interest Expense -- Interest expense for the third quarter of 2001 was \$19.1 million compared to \$16.4 million for the prior period. Interest expense was affected by increased borrowings incurred to fund the Company's acquisitions of Presskam and Seojin and by lower capitalized interest in the 2001 period. These increases were offset by decreases in expense due to decreased interest rates in 2001.

Income Taxes -- The effective income tax rate for the third quarter of 2001 is not meaningful due to the very small pre-tax loss. 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 -- Equity in earnings of joint ventures, net of tax, was \$3.1 million and \$5.8 million for the third quarters of 2001 and 2000, respectively. These amounts represent the Company's share of the earnings from its joint venture interests in Metalsa, DTA Development and Yorozu in the 2001 period and in Metalsa, Tower Golden Ring, Seojin, and Yorozu in the 2000 period.

Minority Interest -- Minority interest for the third quarter of 2001 represents dividends, net of income tax benefits, on the Preferred Securities, and the minority interest held by the 40 percent joint venture partners in Tower Golden Ring. Minority interest for the third quarter of 2000 represents dividends, net of income tax benefits, on the Preferred Securities.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

-23-

\COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2001 TO THE NINE MONTHS ENDED SEPTEMBER 30, 2000

Revenues -- Revenues for the first nine months of 2001 were \$1,828.6 million, a 3.9 percent decrease, compared to \$1,902.6 million for the prior period. The decrease primarily affected the U.S. and Canada business units and accounted for approximately \$272.0 million of the change as compared to the 2000 period. Additional declines of \$112.4 million are attributable to the balance-out of the General Motors light truck programs and the exit of the heavy truck business. These declines were offset by incremental revenue of \$310.4 million from the acquisitions of Algoods and Presskam and the consolidation of Caterina, Seojin and Tower Golden Ring. The strength of sales volumes for the remainder of 2001 continues to be uncertain.

Cost of Sales -- Cost of sales as a percentage of revenues for the first nine months of 2001 was 88.0 percent compared to 84.7 percent for the prior period. The decline in gross profit percentage was primarily due to decreased production volumes and product mix on light truck, sport utility and other models served by the Company in North America and increasing sales with lower margins in Europe, Asia, and South America. Increased costs associated with the launch of the Ford Explorer, Dodge Ram truck and GM Sigma programs also contributed to the decline in gross margins as compared to the first nine months of 2000.

S, G & A Expenses -- Selling, general and administrative expenses increased to \$103.3 million, or 5.7 percent of revenues, for the first nine months of 2001 compared to \$99.6 million, or 5.2 percent of revenues for the prior period. This increase was due primarily to incremental costs associated with the Company's acquisitions of Algoods, Caterina and Presskam and the consolidation of the Seojin and Tower Golden Ring joint ventures of \$11.7 million. This increase was offset by \$8.0 million in decreased costs due mainly to reductions in headcount in the consolidation of the Company's engineering and support activities.

Amortization Expense -- Amortization expense for the first nine months of 2001 was \$18.4 million compared to \$15.8 million for the prior period. The increase was due to incremental goodwill amortization related to the acquisitions of Algoods, Caterina, Presskam, and Seojin.

Interest Expense -- Interest expense for the first nine months of 2001 was \$58.9 million compared to \$43.1 million for the prior period. Interest expense was affected by increased borrowings incurred to fund the Company's acquisitions of Algoods, Caterina, Presskam and Seojin. These increases were offset by an increase in capitalized interest of \$3.2 million.

Income Taxes -- The effective income tax rate was 34.9 percent and 40.0 percent for the nine months ended September 30, 2001 and 2000, respectively. The decrease in the effective rate is due primarily as a result of increased income in lower tax jurisdictions. 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 -- Equity in earnings of joint ventures, net of tax, was \$12.3 million and \$14.9 million for the first nine months of 2001 and 2000, respectively. These amounts represent the Company's share of the earnings from its joint venture interests in Metalsa, DTA Development, Tower Golden Ring and Yorozu in the 2001 period and Metalsa, Caterina, Tower Golden Ring, Seojin and Yorozu in the 2000 period.

Minority Interest -- Minority interest for the nine months ended September 30, 2001 represents dividends, net of income tax benefits, on the Preferred

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Securities and the minority interest held by the 40 percent joint venture partners in Tower Golden Ring. Minority interest for the nine months ended September 30, 2000 represents dividends, net of income tax benefits, on the Preferred Securities.

-24-

RESTRUCTURING AND ASSET IMPAIRMENT CHARGE

On October 2, 2000, the Company's board of directors approved a comprehensive operational realignment plan (the "Plan"), which is intended to improve the Company's long-term competitive position and lower its cost structure. The Plan includes phasing out the heavy truck rail manufacturing in Milwaukee, Wisconsin; reducing stamping capacity by closing the Kalamazoo, Michigan facility; and consolidating related support activities across the enterprise. The Company recognized a charge to operations of approximately \$141.3 million in the fourth quarter of 2000, which reflects the estimated qualifying "exit costs" to be incurred over the next 12 months under the Plan.

The charge includes costs associated with asset impairments, severance, and outplacement costs related to employee terminations, loss contract provisions and certain other exit costs. Through September 30, 2001, the Company had eliminated approximately 850 employees pursuant to the Plan. The estimated realignment charge does not cover certain aspects of the Plan, including movement of equipment and employee relocation and training. These costs are recognized as incurred.

The asset impairments consist of long-lived assets, including fixed assets, manufacturing equipment and land, from the facilities the Company intends to dispose of or discontinue. The Company measured impairment based on estimated proceeds on the sale of the facilities and equipment. For assets that will be held and used in the future, the Company prepared a forecast of expected undiscounted cash flows to determine whether asset impairment existed, and used fair values to measure the required write-downs. These asset impairments have arisen only as a consequence of the Company making the decision to exit these activities during the fourth quarter of 2000.

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

	ASSET IMPAIRMENTS	SEVERANCE AND OUTPLACEMENT COSTS	LOSS CONTRACTS	OT
Provision for operational realignment and other charges	\$103.7	\$25.2	\$ 8.1	
Cash payments	--	(8.7)	(2.5)	
Non cash charges	(103.7)	--	--	
Balance at December 31, 2000	--	16.5	5.6	
Cash payments	--	(9.9)	(4.2)	
Non cash charges	--	--	--	

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Balance at September 30, 2001	\$ --	\$ 6.6	\$ 1.4
-------------------------------	-------	--------	--------

=====

Additionally, on October 18, 2001, the Company announced that it will be relocating stamping and assembly operations currently performed at its Sebewaing, Michigan, facility to other Tower Automotive locations, resulting in the closing of the Sebewaing facility by March 2002. This restructuring activity will result in a fourth-quarter pre-tax charge of approximately \$95 million, which includes a cash portion of approximately \$23 million and a non-cash portion of approximately \$72 million. Based on prevailing economic conditions, the Company will continue its evaluation for potential additional fourth-quarter restructuring activities and asset valuation issues.

-25-

LIQUIDITY AND CAPITAL RESOURCES

In July 2000, the Company replaced its existing \$750 million amortizing credit agreement with a new six-year \$1.15 billion senior unsecured credit agreement. The new credit agreement includes a non-amortizing revolving facility of \$825 million along with an amortizing term loan of \$325 million. The new facility 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 \$100 million. As of September 30, 2001, approximately \$22.0 million of the outstanding borrowings are denominated in Japanese yen and \$68.4 million of the outstanding borrowings are denominated in Euro. Interest on the new credit facility 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 7.25 percent for the nine months ended September 30, 2001. The new credit agreement has a final maturity of July 2006. As a result of the debt replacement, the Company recorded an extraordinary loss, net of tax, of \$3.0 million during the third quarter of 2000.

The Credit Agreement requires the Company to meet certain financial tests, 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 September 30, 2001, the Company was in compliance with all debt covenants.

In July 2000, R. J. Tower (the "Issuer"), a wholly-owned subsidiary of the Company, issued Euro-denominated senior unsecured notes in the amount of 150 (euro) million (approximately \$136.7 million at September 30, 2001). 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 existing credit facility. The notes mature on August 1, 2010.

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 its \$1.15 billion senior unsecured credit facility. 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 revolving credit facility. The interest rate swap contract was executed to balance the Company's fixed-rate and floating-rate debt portfolios and it expires in September 2005.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Effective January 1, 2001, unrealized gains and losses on interest rate swap agreements used to hedge the Company's exposure to interest rate fluctuations are recognized currently for financial reporting purposes. The swap agreement is marked to market on a quarterly basis. The effect of this change as of January 1, 2001, was a pretax charge to accumulated other comprehensive loss of \$6.8 million (\$4.2 million net of income tax benefit). During the nine months ended September 30, 2001, pretax other comprehensive loss increased by \$9.4 million (\$5.8 million net of income tax benefit) to reflect an unrealized loss on the swap agreement from January 1, 2001 to September 30, 2001.

As discussed in note 5, the Company sold all of its eligible domestic receivables pursuant to a revolving securitization agreement with an independent third party funding agent. The domestic subsidiaries of the Company sell receivables to a special purpose bankruptcy-remote subsidiary, which then receives proceeds for receivables sold. The Company received \$40.9 million from the sale of receivables at September 30, 2001. This amount is repaid monthly as the underlying accounts receivable are collected, along with funding costs of approximately 7.6 percent.

During the first nine months of 2001, the Company generated \$426.5 million of cash from operations compared to \$137.2 million in the 2000 period. Cash provided by net income, depreciation, amortization, deferred income tax provision, and the extraordinary loss was \$158.5 million during the first nine months of 2001 and \$213.8 million during the first nine months of 2000. Other operating items and working capital requirements increased operating cash

-26-

flow by \$268.0 million during the first nine months of 2001 and decreased operating cash flow by \$76.5 million during the comparable 2000 period.

Net cash used in investing activities was \$161.7 million during the first nine months of 2001 as compared to \$390.2 million in the prior period. Net capital expenditures totaled \$147.6 million in the first nine months of 2001 for equipment and dedicated tooling purchases related to new or replacement programs. This compares with net capital expenditures of \$157.5 million for the prior period.

Net cash used in financing activities totaled \$252.2 million for the first nine months of 2001 compared with net cash provided by financing activities of \$250.8 million in 2000. The reduction of debt totaled approximately \$291.1 million, excluding acquired debt of approximately \$21.8 million, during the first nine months of 2001 due in large part to the Company's working capital and balance sheet management.

At September 30, 2001, the Company had borrowed approximately \$96 million under its revolving credit facility of \$825 million. Based on the most restrictive debt covenant, availability under the revolving credit facility was limited to approximately \$100 million at September 30, 2001, compared to availability of approximately \$326 million at December 31, 2000. This reduction in availability reflects a decrease due to the calculation of earnings before interest, taxes, depreciation and amortization (as defined in the credit agreement) of approximately \$471 million, offset by an increase due to the reduction of borrowings between the periods (as defined in the credit agreement) of approximately \$245 million. The Company believes the borrowing availability 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

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

expenditures, and other operating needs. The Company estimates its 2001 net capital expenditures will be approximately \$170 million. Under present conditions, management does not believe access to funds will restrict its ability to pursue its business strategy.

During the nine months ended September 30, 2001, working capital decreased by approximately \$313 million. This decrease is comprised of the effects of the accounts receivable securitization, which decreased working capital by approximately \$41 million; a change in the accounts payable payment terms, which decreased working capital by approximately \$70 million; accelerated collections of amounts due from customers, which decreased working capital by approximately \$110 million; the receipt of amounts due from lessors, which decreased working capital by approximately \$88 million; and other net changes in the components of working capital of approximately \$4 million.

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 not to enter into derivatives or other financial instruments for trading or speculative purposes. The Company 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 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 and cash flows.

-27-

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 September 30, 2001, the Company had total debt and obligations under capital leases of \$1.0 billion. The debt is comprised of fixed rate debt of \$496.7 million and floating rate debt of \$525.0 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 \$5.3 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 revenue was 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

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

in its respective currency and translated into U. S. dollars. The effects of foreign currency fluctuations in Europe, Asia, and South America are somewhat 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 is based in its foreign operations and is 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 September 30, 2001, 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended on January 1, 2001 (see note 11). The effect of this change as of January 1, 2001, was a pretax charge to accumulated other comprehensive loss of \$6.8 million (\$4.2 million net of income tax benefit). During the first nine months of 2001, pretax other comprehensive loss increased by \$9.4 million (\$5.8 million net of income tax benefit) to reflect an unrealized loss on the swap agreement from January 1, 2001 through September 30, 2001.

On June 29, 2001, the FASB approved for issuance, 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 September 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

-28-

goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective January 1, 2002, goodwill will no longer be subject to amortization. Management is currently reviewing the provisions of these Statements and their impact on the Company's results of operations.

FORWARD-LOOKING STATEMENTS

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

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. 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 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; and (vii) the highly competitive nature of the automotive supply industry. 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.

-29-

PART II. OTHER INFORMATION

TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 1. Legal Proceedings:

None

Item 2. Change in Securities and Use of Proceeds:

On August 30, 2001, the Company completed a private placement of 3,636,400 shares of its common stock to six investors. The gross proceeds of the offering were approximately \$40.0 million. The shares were sold with the assistance of Robert W. Baird & Co., Inc. ("Baird"). As the placement agent, Baird received a fee of approximately \$2.4 million.

The shares of common stock were sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 (the "Securities Act"). The private placement was made without any general solicitation or advertising and each investor represented to the Company in writing that it was either: (i) a "qualified institutional buyer" as defined in Rule 144A under the Securities Act; or (ii) an "institutional accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D.

Item 3. Defaults Upon Senior Securities:

None

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

None.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Item 5. Other Information:

None

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

(a) Exhibits

10.1 Receivables Purchase Agreement, dated as of June 19, 2001, among Tower Automotive Receivables Company, Inc., as seller, R.J. Tower Corporation, as initial servicer, Blue Ridge Asset Funding Corporation and Wachovia Bank, N.A., as agent.

(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 July 30, 2001, under Item 9 (Commission File No. 1-12733).
2. The Company's current report on Form 8-K dated September 4, 2001, under Item 5 and 7. (Commission File No. 1-12733).
3. The Company's current report on Form 8-K/A dated September 5, 2001, under Item 5 (Commission File No. 1-12733).
4. The Company's current report on Form 8-K dated September 28, 2001, under Item 9 (Commission File No. 1-12733).

-30-

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: November 14, 2001

By /s/ Anthony A. Barone

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

-31-

TOWER AUTOMOTIVE, INC.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

EXHIBIT INDEX TO FORM 10-Q
For the quarter ended September 30, 2001

Exhibits

10.1

Receivables Purchase Agreement, dated as of June 19, 2001, among Tower Automotive Receivables Company, Inc., as seller, R.J. Tower Corporation, as initial servicer, Blue Ridge Asset Funding Corporation and Wachovia Bank, N.A., as agent.