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TOWER AUTOMOTIVE INC

Form 10-Q

August 03, 2001

1

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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☒ [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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	41-1746238
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
4508 IDS CENTER	55402
MINNEAPOLIS, MINNESOTA	(Zip Code)
(Address of principal executive offices)	

(612) 342-2310

(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 ☒ [X] No ☐ [ ]

The number of shares outstanding of the Registrant's common stock, par value \$.01 per share, at July 31, 2001 was 44,397,350 shares.

2

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, 2001 and 2000

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

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

Condensed Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 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 4. Submission of Matters to a Vote of Security Holders

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

-1-

3

## 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,	
	2001	2000
Revenues	\$ 642,407	\$ 681,020
Cost of sales	557,146	566,649
Gross profit	85,261	114,371
Selling, general and administrative expenses	35,020	33,431

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Amortization expense	6,130	5,118
	-----	-----
Operating income	44,111	75,822
Interest expense, net	20,121	13,534
	-----	-----
Income before provision for income taxes	23,990	62,288
Provision for income taxes	9,444	24,916
	-----	-----
Income before equity in earnings of joint ventures and minority interest	14,546	37,372
Equity in earnings of joint ventures	4,790	4,540
Minority interest - dividends on trust preferred securities, net	(2,664)	(2,619)
	-----	-----
Net income	\$ 16,672	\$ 39,293
	=====	=====
Basic earnings per share	\$ 0.38	\$ 0.83
	=====	=====
Diluted earnings per share	\$ 0.35	\$ 0.68
	=====	=====

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

-2-

4

## TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(AMOUNTS IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS - UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	-----	-----
Revenues	\$ 1,270,783	\$ 1,366,384
Cost of sales	1,106,251	1,140,291
	-----	-----
Gross profit	164,532	226,093
Selling, general and administrative expenses	70,319	68,087
Amortization expense	12,208	10,217
	-----	-----
Operating income	82,005	147,789
Interest expense, net	39,843	26,731
	-----	-----
Income before provision for income taxes	42,162	121,058
Provision for income taxes	16,472	48,424
	-----	-----
Income before equity in earnings of joint ventures and minority interest	25,690	72,634
Equity in earnings of joint ventures	9,171	9,020
Minority interest - dividends on trust preferred		

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securities, net	(5,328)	(5,238)
	-----	-----
Net income	\$ 29,533	\$ 76,416
	=====	=====
Basic earnings per share	\$ 0.67	\$ 1.62
	=====	=====
Diluted earnings per share	\$ 0.63	\$ 1.32
	=====	=====

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

-3-

5

## TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS)

ASSETS	JUNE 30, 2001 (unaudited)	DECEMBER 2000
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 11,185	\$ 3,
Accounts receivable, net	295,892	278,
Subordinated interest in accounts receivable	28,336	
Inventories, net	100,392	132,
Prepaid tooling and other	211,144	222,
	-----	-----
Total current assets	646,949	636,
	-----	-----
Property, plant and equipment, net	1,149,877	1,111,
Investments in joint ventures	306,525	267,
Goodwill and other assets, net	854,715	877,
	-----	-----
	\$ 2,958,066	\$ 2,892,
	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 152,816	\$ 149,
Accounts payable	360,896	248,
Accrued liabilities	267,037	175,
	-----	-----
Total current liabilities	780,749	572,
	-----	-----
Long-term debt, net of current maturities	768,891	933,
Obligations under capital leases, net of current maturities	6,016	8,
Convertible subordinated notes	200,000	200,
Deferred income taxes	38,120	33,

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Other noncurrent liabilities	181,940	185,
	-----	-----
Total noncurrent liabilities	1,194,967	1,361,
	-----	-----
Mandatorily redeemable trust convertible preferred securities	258,750	258,
Stockholders' investment:		
Preferred stock	--	
Common stock	481	
Additional paid-in capital	453,440	450,
Retained earnings	337,489	307,
Deferred income stock plan	(10,219)	(8,
Accumulated other comprehensive loss	(17,413)	(9,
Treasury stock, at cost	(40,178)	(40,
	-----	-----
Total stockholders' investment	723,600	700,
	-----	-----
	\$ 2,958,066	\$ 2,892,
	=====	=====

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

-4-

6

## TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS - UNAUDITED)

	SIX MONTHS ENDED JUN	
	2001	
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 29,533	\$
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	81,025	
Deferred income tax provision	7,463	
Changes in other operating items	182,389	(
	-----	-----
Net cash provided by operating activities	300,410	
	-----	-----
INVESTING ACTIVITIES:		
Acquisitions and investment in joint ventures	(13,535)	(
Capital expenditures, net	(102,073)	
	-----	-----

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Net cash used in investing activities	(115,608)	(
FINANCING ACTIVITIES:		
Proceeds from borrowings	1,181,978	1,
Repayment of debt	(1,359,880)	(1,
Proceeds from issuance of stock	912	
Net cash (used in) provided by financing activities	(176,990)	
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,812	
CASH AND CASH EQUIVALENTS:		
Beginning of period	3,373	
End of period	\$ 11,185	\$
NON-CASH FINANCING ACTIVITIES:		
Notes payable converted to common stock	\$ 800	\$
Deferred income stock plan	\$ 1,277	\$

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

-5-

7

## 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 six months ended June 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.

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

	JUNE 30, 2001 -----	DECEMBER 31, 2000 -----
Raw materials	\$ 43,493	\$ 54,958
Work in process	24,834	40,281
Finished goods	32,065	37,239
	-----	-----
	\$ 100,392	\$ 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 (in thousands, except for per share data):

-6-

8

	THREE MONTHS ENDED JUNE 30, -----		SIX MONTHS ENDED JUNE 30, -----	
	2001 -----	2000 -----	2001 -----	2000 -----
Net income	\$16,672	\$39,293	\$29,533	\$76,416
Interest expense on Edgewood notes, net of tax	3	8	10	16
Interest expense on Convertible Subordinated Notes, net of tax	1,653	1,626	3,305	3,252
Dividends on Preferred Securities, net of tax	2,664	2,619	5,328	5,238
	-----	-----	-----	-----
Net income applicable to common stockholders -- diluted	\$20,992	\$43,546	\$38,176	\$84,922
	=====	=====	=====	=====
Weighted average number of common shares outstanding	44,416	47,750	44,263	47,480
Dilutive effect of outstanding stock options and warrants after application of the treasury stock method	121	166	126	220
Dilutive effect of Edgewood notes, assuming conversion	125	289	194	289
Dilutive effect of Convertible Subordinated Notes, assuming conversion	7,730	7,730	7,730	7,730

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Dilutive effect of Preferred Securities, assuming conversion	8,424	8,424	8,424	8,424
	-----	-----	-----	-----
Diluted shares outstanding	60,816	64,359	60,737	64,143
	=====	=====	=====	=====
Basic earnings per share	\$ 0.38	\$ 0.83	\$ 0.67	\$ 1.62
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.35	\$ 0.68	\$ 0.63	\$ 1.32
	=====	=====	=====	=====

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

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
Revolving credit facility	\$ 211,778	\$ 345,919
Senior Euro notes	127,470	141,330
Term credit facility	325,000	325,000
Industrial development revenue bonds	43,765	43,765
Edgewood notes	78	878
Other foreign subsidiary indebtedness	151,943	151,171
Other	59,046	72,969
	-----	-----
	919,080	1,081,032
Less-current maturities	(150,189)	(147,590)
	-----	-----
Total long-term debt	\$ 768,891	\$ 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 June 30, 2001, approximately \$13.5 million of the outstanding borrowings are denominated in Japanese yen and \$52.3 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

-7-

9

weighted average interest rate for such borrowings was 7.35 percent for six months ended June 30, 2001. The new credit agreement has a final maturity of 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



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leverage ratio. As of June 30, 2001, the Company was in compliance with all debt covenants.

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 E150 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

5. During the quarter ended June 30, 2001 the Company entered into an agreement whereby the domestic operating units will 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.

During the quarter ended June 30, 2001, the Company sold approximately \$180.7 million of net accounts receivable in exchange for \$54.0 million of cash and a retained subordinated interest in the receivables sold of approximately \$126.7 million. The proceeds from the sale were used to pay down borrowings under the Company's revolving credit facility. As of June 30, 2001, the SPE recorded a liability to the funding agent of \$54.0 million and a subordinated interest in receivables sold of \$28.3 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 Strojarné 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 million for Presskam and intends to use the investment to further support Volkswagen's Bratislava assembly operation.

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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.

-8-

10

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. Melegny GmbH & Co. KG Werkzeugbau und Presswerk, Bergisch Gladbach ("Dr. Melegny") for approximately \$86.4 million. Dr. Melegny designs and produces structural stampings, assemblies, exposed surface panels and modules to the European automotive industry. Dr. Melegny also designs and manufactures tools and dies for use in their production and for the external market. Dr. Melegny operates three facilities in Germany and one facility in both Hungary and Poland. Dr. Melegny's main customers include DaimlerChrysler, Audi, Volkswagen, Ford, Opel and BMW. Products offered by Dr. Melegny include body side panels, floor pan assemblies and miscellaneous structural stampings. Based on the purchase contract, the Company anticipates it will pay an additional \$24 million during 2001 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 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 assets and liabilities of Caterina and Presskam have been recorded based on preliminary estimates of fair value as of the date of acquisition. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been recorded as goodwill. The Company is further evaluating the fair

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value of certain assets acquired and liabilities assumed in connection with the Caterina and Presskam acquisitions and as a result, will likely result in adjustments to the preliminary allocation of the purchase price.

In conjunction with its acquisitions, the Company has established reserves for certain costs associated with facility shutdown and consolidation activities and for general and payroll related costs primarily for planned employee termination activities. As of December 31, 2000, approximately \$7.3 million and \$3.9 million were recorded for facility shutdown and payroll related costs, respectively. Costs incurred and charged to such reserves amounted to \$0.8 million for facility shutdown costs and \$1.2 million for payroll related termination costs for the six months ended June 30, 2001. At June 30, 2001, liabilities of approximately \$6.5 million for costs associated with facility shutdown and consolidation activities and \$2.7 million of costs for planned employee termination activities remained. 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 June 30, 2001.

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

- 9 -

11

million payable 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 consideration during 2001.

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.

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The charge includes costs associated with asset impairments, severance and outplacement costs related to employee terminations, loss contract provisions and certain other exit costs. These activities are anticipated to result in a reduction of more than 800 employees. Through June 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 will be recognized in future periods 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. For assets that will be disposed of currently, the Company measured impairment based on estimated proceeds on the sale of the facilities and equipment. The carrying value of the long-lived assets held for sale or disposal is approximately \$3.8 million as of June 30, 2001. 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 assets will be abandoned or disposed of upon the exit of the activity, with expected completion during the first nine months of 2001.

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

	ASSET IMPAIRMENTS	SEVERANCE AND OUTPLACEMENT COSTS	LOSS CONTRACTS	OTHER EXIT COSTS
	-----	-----	-----	-----
Provision for operational realignment and other charges	\$ 103.7	\$ 25.2	\$ 8.1	\$ 4.3
Cash payments	--	(8.7)	(2.5)	(0.3)
Non cash charges	(73.1)	--	--	--
	-----	-----	-----	-----
Balance at December 31, 2000	30.6	16.5	5.6	4.0
Cash payments	--	(8.7)	(3.4)	(0.8)
Non cash charges	(10.6)	--	--	--
	-----	-----	-----	-----
Balance at June 30, 2001	\$ 20.0	\$ 7.8	\$ 2.2	\$ 3.2
	=====	=====	=====	=====

### 10. Supplemental cash flow information (in thousands):

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED
	-----	-----
	2001	2001
	-----	-----
Cash paid for -		
Interest	\$11,975	\$38,982
	\$14,800	

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Income taxes	1,598	9,815	3,281
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- 10 -

12

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED
	2001	2000	2001
Net income	\$ 16,672	\$ 39,293	\$ 29,533
Change in cumulative translation adjustment	1,428	204	(2,406)
Transition adjustment relating to loss on qualifying cash flow hedges	--	--	(4,200)
Unrealized gain(loss) on qualifying cash flow hedges	1,365	--	(1,135)
Comprehensive income	\$ 19,465	\$ 39,497	\$ 21,792

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 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 (\$5.3 million at June 30, 2001) will be reclassified into current earnings by September 2005, the termination date for the

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current agreement.

Derivative liabilities relating to the interest rate swap agreement totaling \$8.6 million have been recorded in accrued liabilities on the balance sheet as of June 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 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

- 11 -

13

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. 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.

- 12 -

14

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-GUARANTOR COMPANIES
	-----	-----	-----	-----
ASSETS				

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## Current assets:

Cash and cash equivalents	\$ 1,162	\$ --	\$ 109	\$ 9,9
Accounts receivable, net	4,416	--	184,363	107,1
Subordinated interest in accounts receivable	--	--	--	28,3
Inventories, net	1,695	--	63,586	35,1
Prepaid tooling and other	24,719	--	148,686	37,7
	-----	-----	-----	-----
Total current assets	31,992	--	396,744	218,2
	-----	-----	-----	-----
Property, plant and equipment, net	39,051	--	856,834	253,9
Investments in joint ventures	256,535	45,361	3,496	1,1
Investment in subsidiaries	682,889	723,600	--	
Goodwill and other assets, net	21,938	10,355	551,771	270,6
	-----	-----	-----	-----
	\$ 1,032,405	\$ 779,316	\$1,808,845	\$ 743,9
	=====	=====	=====	=====

## LIABILITIES AND STOCKHOLDERS' INVESTMENT

### Current liabilities

Current maturities of long-term debt and capital lease obligations	\$ 52,461	\$ --	\$ 2,627	\$ 97,7
Accounts payable	16,938	--	239,701	104,2
Accrued liabilities	62,622	4,167	93,221	107,0
	-----	-----	-----	-----
Total current liabilities	132,021	4,167	335,549	309,0
	-----	-----	-----	-----
Long-term debt, net of current maturities	646,937	--	44,765	77,1
Obligations under capital leases, net of current maturities	--	--	6,016	
Convertible subordinated notes	--	200,000	--	
Due to/(from) affiliates	(527,438)	(407,201)	839,744	94,8
Deferred income taxes	30,747	--	2,970	4,4
Other noncurrent liabilities	10,554	--	135,072	36,3
	-----	-----	-----	-----
Total noncurrent liabilities	160,800	(207,201)	1,028,567	212,8
	-----	-----	-----	-----
Manditorily redeemable trust convertible preferred securities	--	258,750	--	
Stockholders' investment	745,021	723,600	444,729	234,1
Accumulated other comprehensive loss	(5,437)	--	--	(11,9
	-----	-----	-----	-----
Total stockholders' investment	739,584	723,600	444,729	222,1
	-----	-----	-----	-----
	\$ 1,032,405	\$ 779,316	\$1,808,845	\$ 743,9
	=====	=====	=====	=====

- 13 -

15

TOWER AUTOMOTIVE INC.

CONSOLIDATING STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2001

(AMOUNTS IN THOUSANDS - UNAUDITED)

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	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-GUARANTOR COMPANIES
	-----	-----	-----	-----
Revenues	\$ 19,946	\$ --	\$ 432,190	\$ 190,271
Cost of sales	3,390	--	384,329	169,427
	-----	-----	-----	-----
Gross profit	16,556	--	47,861	20,844
Selling, general and administrative expenses	1,172	--	24,775	9,073
Amortization expense	481	324	3,633	1,692
	-----	-----	-----	-----
Operating income	14,903	(324)	19,453	10,079
Interest expense, net	17,158	1,879	(2,628)	3,712
	-----	-----	-----	-----
Income before provision for income taxes	(2,255)	(2,203)	22,081	6,367
Provision for income taxes	(879)	(859)	8,611	2,571
	-----	-----	-----	-----
Income before equity in earnings of joint ventures and minority interest	(1,376)	(1,344)	13,470	3,796
Equity in earnings of joint ventures and subsidiaries	22,056	20,680	--	--
Minority interest - dividends on trust preferred, net	--	(2,664)	--	--
	-----	-----	-----	-----
Net income	\$ 20,680	\$ 16,672	\$ 13,470	\$ 3,796
	=====	=====	=====	=====

- 14 -

16  
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	NO GUAR COMP
	-----	-----	-----	-----
Revenues	\$38,569	\$ --	\$832,066	\$400
Cost of sales	12,843	--	739,452	353
	-----	-----	-----	-----
Gross profit	25,726	--	92,614	46
Selling, general and administrative expenses	1,514	--	50,506	18



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Amortization expense	1,014	645	7,250	3
	-----	-----	-----	-----
Operating income	23,198	(645)	34,858	24
Interest expense, net	35,676	3,551	(6,340)	6
	-----	-----	-----	-----
Income before provision for income taxes	(12,478)	(4,196)	41,198	17
Provision for income taxes	(4,866)	(1,637)	16,067	6
	-----	-----	-----	-----
Income before equity in earnings of joint ventures and minority interest	(7,612)	(2,559)	25,131	10
Equity in earnings of joint ventures and subsidiaries	45,032	37,420	--	
Minority interest - dividends on trust preferred, net	--	(5,328)	--	
	-----	-----	-----	-----
Net income	\$37,420	\$29,533	\$25,131	\$ 10
	=====	=====	=====	=====

- 15 -

17

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-GUAR COMPAN
	-----	-----	-----	-----
OPERATING ACTIVITIES:				
Net income	\$ 37,420	\$ 29,533	\$ 25,131	\$ 10
Adjustments required to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	3,010	645	59,823	17
Deferred income tax provision	4,872	--	3,601	(1
Changes in other operating items	343,117	381	(8,614)	(8
	-----	-----	-----	-----
Net cash provided by (used in) operating activities	388,419	30,559	79,941	18
	-----	-----	-----	-----
INVESTING ACTIVITIES:				
Capital expenditures, net	(3,802)	--	(73,232)	(25
Acquisitions and other, net	(192,452)	(31,471)	(6,861)	
	-----	-----	-----	-----
Net cash provided by (used in) investing activities	(196,254)	(31,471)	(80,093)	(25
	-----	-----	-----	-----

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FINANCING ACTIVITIES:				
Proceeds from borrowings	1,133,522	--	--	48
Repayments of debt	(1,305,753)	--	(1,314)	(52)
Net proceeds from the issuance of common stock	--	912	--	
	-----	-----	-----	-----
Net cash provided by (used for) financing activities	(172,231)	912	(1,314)	(4)
	-----	-----	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,934	--	(1,466)	(10)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(18,772)	--	1,575	20
	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,162	\$ --	\$ 109	\$ 9
	=====	=====	=====	=====

- 16 -

18

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-GUARANTOR COMPANIES
	-----	-----	-----	-----
ASSETS				
Current assets:				
Cash and cash equivalents	\$ (18,772)	\$ --	\$ 1,575	\$ 20,5
Accounts receivable, net	6,983	381	172,332	99,0
Inventories, net	2,032	--	83,479	46,9
Prepaid tooling and other	24,704	--	171,107	26,3
	-----	-----	-----	-----
Total current assets	14,947	381	428,493	192,8
	-----	-----	-----	-----
Property, plant and equipment, net	37,245	--	836,175	238,3
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	308,4
	-----	-----	-----	-----
	\$ 836,352	\$ 789,918	\$ 1,802,950	\$ 739,6
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT				
Current liabilities				
Current maturities of long-term debt and capital lease obligations	\$ 56,569	\$ --	\$ 1,477	\$ 91,0
Accounts payable	(13,260)	--	156,724	104,9
Accrued liabilities	35,183	4,167	101,001	34,8
	-----	-----	-----	-----
Total current liabilities	78,492	4,167	259,202	230,8
	-----	-----	-----	-----
Long-term debt, net of current maturities	800,401	--	44,787	88,2

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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	280,7
Deferred income taxes	29,102	--	(631)	5,4
Other noncurrent liabilities	9,060	--	132,105	44,2
	-----	-----	-----	-----
Total noncurrent liabilities	15,582	(173,094)	1,100,050	418,6
	-----	-----	-----	-----
Manditorily redeemable trust convertible preferred securities	--	258,750	--	
Stockholders' investment	744,296	700,095	443,698	97,7
Accumulated other comprehensive income (loss) - cumulative translation adjustment	(2,018)	--	--	(7,6
	-----	-----	-----	-----
Total stockholders' investment	742,278	700,095	443,698	90,1
	-----	-----	-----	-----
	\$ 836,352	\$ 789,918	\$ 1,802,950	\$ 739,6
	=====	=====	=====	=====

- 17 -

19

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON-GUARANTOR COMPANIES
	-----	-----	-----	-----
Revenues	\$ 20,457	\$ --	\$ 537,883	\$ 122,68
Cost of sales	16,397	--	441,699	108,55
	-----	-----	-----	-----
Gross profit	4,060	--	96,184	14,12
Selling, general and administrative expenses	1,886	--	27,277	4,26
Amortization expense	1,234	324	2,767	79
	-----	-----	-----	-----
Operating income	940	(324)	66,140	9,06
Interest expense, net	12,210	2,119	(2,422)	1,62
	-----	-----	-----	-----
Income before provision for income taxes	(11,270)	(2,443)	68,562	7,43
Provision for income taxes	(4,507)	(977)	27,424	2,97
	-----	-----	-----	-----
Income before equity in earnings of joint ventures and minority interest	(6,763)	(1,466)	41,138	4,46

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Equity in earnings of joint ventures and subsidiaries	50,141	43,378	--	--
Minority interest - dividends on trust preferred, net	--	(2,619)	--	--
Net income	\$ 43,378	\$ 39,293	\$ 41,138	\$ 4,466

- 18 -

20

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

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON- GUARANTOR COMPANIES
Revenues	\$ 42,346	\$ --	\$1,087,076	\$236,966
Cost of sales	32,057	--	897,707	210,521
Gross profit	10,289	--	189,369	26,445
Selling, general and administrative expenses	5,340	--	54,085	8,666
Amortization expense	1,598	759	6,327	1,531
Operating income	3,351	(759)	128,957	16,248
Interest expense, net	22,739	4,050	(3,636)	3,591
Income before provision for income taxes	(19,388)	(4,809)	132,613	12,647
Provision for income taxes	(7,755)	(1,923)	53,045	5,051
Income before equity in earnings of joint ventures and minority interest	(11,633)	(2,886)	79,568	7,598

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Equity in earnings of joint ventures and subsidiaries	96,173	84,540	--	--
Minority interest - dividends on trust preferred, net	--	(5,238)	--	--
Net income	\$ 84,540	\$ 76,416	\$ 79,568	\$ 7,584

-19-

21

## TOWER AUTOMOTIVE INC. CONSOLIDATING STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2000 (AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES	NON- GUARANTOR COMPANIES
OPERATING ACTIVITIES:				
Net income	\$ 84,540	\$ 76,416	\$ 79,568	\$ 7,584
Adjustments required to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	3,581	759	63,817	8,147
Deferred income tax provision	21,197	-	-	-
Changes in other operating items	(92,049)	(187)	(91,356)	82,147
Net cash provided by (used in) operating activities	17,269	76,988	52,029	98,284
INVESTING ACTIVITIES:				
Capital expenditures, net	329	-	(39,362)	(2,147)
Acquisitions and other, net	(120,366)	(82,295)	(7,548)	(114,284)
Net cash provided by (used in) investing activities	(120,037)	(82,295)	(46,910)	(117,427)
FINANCING ACTIVITIES:				
Proceeds from borrowings	1,524,876	-	21	40,147
Repayments of debt	(1,418,831)	-	(7,322)	(17,147)
Net proceeds from the issuance of common stock	-	5,307	-	-
Net cash provided by (used for) financing activities	106,045	5,307	(7,301)	23,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,277	-	(2,182)	4,857
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,312	-	484	-

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CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,589	\$ -	\$ (1,698)	\$ 5,
	=====	=====	=====	=====

-20-

22

### 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, 2001 TO THE THREE MONTHS ENDED JUNE 30, 2000

Revenues -- Revenues for the second quarter of 2001 were \$642.4 million, a 5.7 percent decrease, compared to \$681.0 million for the prior period. The decrease in revenues is comprised of volume declines on the Dodge Ram pickup, the Chrysler LH, and the Ford Ranger, Econoline and the Lincoln LS/Jaguar S-Type. The volume declines, which primarily affected the U.S. and Canada business units, accounted for \$81.6 million of the revenue decline in the second quarter of 2001 as compared to the second quarter of 2000. Other declines in revenues from the second quarter of 2000 are attributable to the decline in General Motors light truck program sales and heavy truck business and amounted to \$46.0 million. These declines were offset by increases in revenue in the second quarter of 2001 due to the Algoods, Caterina, Presskam and Seojin acquisitions totaling \$89.0 million. 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 second quarter of 2001 was 86.7 percent compared to 83.2 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 second quarter of 2001 decline in gross margins from the second quarter of 2000.

S, G & A Expenses -- Selling, general and administrative expenses increased to \$35.0 million, or 5.4 percent of revenues, for the second quarter of 2001 compared to \$33.4 million, or 4.9 percent of revenues for the prior period. This increase was due primarily to incremental costs associated with the Company's acquisitions of Algoods, Caterina, Presskam and Seojin of \$3.3 million. This increase was offset by \$1.7 million in decreased costs due mainly to reductions in headcount in the consolidation of the Company's support activities.

Amortization Expense -- Amortization expense for the second quarter of 2001 was \$6.1 million compared to \$5.1 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 second quarter of 2001 was \$20.1 million compared to \$13.5 million for the prior period. Interest expense was affected by increased borrowings incurred to fund the Company's acquisitions of Algoods, Caterina, and Presskam. Rate increases on the credit facilities entered into in July 2000 along with the issuance of the senior Euro notes in July 2000 also contributed to the increase in interest expense. These increases were offset by an increase in capitalized interest of \$2.1 million.

Income Taxes -- The effective income tax rate was 39.4 percent and 40.0 percent for the second quarters of 2001 and 2000, respectively. The decrease in the

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effective rate is due primarily as a result of increased income in lower tax jurisdictions.

Equity in Earnings of Joint Ventures -- Equity in earnings of joint ventures, net of tax, was \$4.8 million and \$4.5 million for the second quarters of 2001 and 2000, respectively. These amounts represent the Company's share of the earnings from its joint venture interests in Metalsa, Caterina, Tower Golden Ring, Seojin, and Yorozu.

Minority Interest -- Minority interest for the second quarters of 2001 and 2000 represents dividends, net of income tax benefits, on the Preferred Securities.

-21-

23

### COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2001 TO THE SIX MONTHS ENDED JUNE 30, 2000

Revenues -- Revenues for the first six months of 2001 were \$1,270.8 million, a 7.0 percent decrease, compared to \$1,366.4 million for the prior period. The decrease in revenues is comprised of a volume declines on the Dodge Durango, the Chrysler LH, the Ford Ranger and the Lincoln LS/Jaguar S-Type. The volume declines which primarily affected the U.S. and Canada business units, accounted for \$208.4 million of the revenue decline in the first six months of 2001 as compared to the first six months of 2000. Other declines in revenues from the first six months of 2000 are attributable to the decline in General Motors light truck program sales and heavy truck business and amounted to \$91.0 million. These declines were offset by increases in revenue in the first six months of 2001 due to the Algoods, Caterina, Presskam and Seojin acquisitions totaling \$203.8 million. 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 six months of 2001 was 87.1 percent compared to 83.5 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 first six month of 2001 decline in gross margins from the first six months of 2000.

S, G & A Expenses -- Selling, general and administrative expenses increased to \$70.3 million, or 5.5 percent of revenues, for the first six months of 2001 compared to \$68.1 million, or 5.0 percent of revenues for the prior period. This increase was due primarily to incremental costs associated with the Company's acquisitions of Algoods, Caterina, Presskam and Seojin of \$7.6 million. This increase was offset by \$5.4 million in decreased costs due mainly to reductions in headcount in the consolidation of the Company's support activities.

Amortization Expense -- Amortization expense for the first six months of 2001 was \$12.2 million compared to \$10.2 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 six months of 2001 was \$39.8 million compared to \$26.7 million for the prior period. Interest expense was affected by increased borrowings incurred to fund the Company's acquisitions of Algoods, Caterina, and Presskam. Rate increases on the credit facilities entered into in July 2000 along with the issuance of the senior Euro notes in July 2000 also contributed to the increase in interest expense. These increases were

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offset by an increase in capitalized interest of \$2.9 million.

Income Taxes -- The effective income tax rate was 39.1 percent and 40.0 percent for the six months ended July 30, 2001 and 2000, respectively. The decrease in the effective rate is due primarily as a result of increased income in lower tax jurisdictions.

Equity in Earnings of Joint Ventures -- Equity in earnings of joint ventures, net of tax, was \$9.2 million and \$9.0 million for the first six months of 2001 and 2000, respectively. These amounts represent the Company's share of the earnings from its joint venture interests in Metalsa, Caterina, Tower Golden Ring, Seojin, and Yorozu.

Minority Interest -- Minority interest for the six months ended June 30, 2001 and 2000 represents dividends, net of income tax benefits, on the Preferred Securities.

-22-

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. These activities are anticipated to result in a reduction of more than 800 employees. Through June 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 will be recognized in future periods 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. For assets that will be disposed of currently, the Company measured impairment based on estimated proceeds on the sale of the facilities and equipment. The carrying value of the long-lived assets held for sale or disposal is approximately \$3.8 million as of June 30, 2001. 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 assets will be abandoned or disposed of upon the exit of the activity, with expected completion during the first nine months of 2001.

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



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	ASSET IMPAIRMENTS	SEVERANCE AND OUTPLACEMENT COSTS	LOSS CONTRACTS	OTHER EXIT COSTS
	-----	-----	-----	-----
Provision for operational realignment and other charges	\$ 103.7	\$ 25.2	\$ 8.1	\$ 4.3
Cash payments	--	(8.7)	(2.5)	(0.3)
Non cash charges	(73.1)	--	--	--
	-----	-----	-----	-----
Balance at December 31, 2000	30.6	16.5	5.6	4.0
Cash payments	--	(8.7)	(3.4)	(0.8)
Non cash charges	(10.6)	--	--	--
	-----	-----	-----	-----
Balance at June 30, 2001	\$ 20.0	\$ 7.8	\$ 2.2	\$ 3.2
	=====	=====	=====	=====

-23-

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 June 30, 2001, approximately \$13.5 million of the outstanding borrowings are denominated in Japanese yen and \$52.3 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 7.35 percent for the six months ended June 30, 2001. The new credit agreement has a final maturity of 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.

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 E150 million (approximately \$127.5 million at June 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

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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.

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 six months ended June 30, 2001, pretax other comprehensive loss increased by \$1.8 million (\$1.1 million net of income tax benefit) to reflect an unrealized loss on the swap agreement from January 1, 2001 to June 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 \$54 million from the sale of receivables during the quarter ended June 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 six months of 2001, the Company generated \$300.4 million of cash from operations compared with generating \$73.3 million in the 2000 period. Cash provided by net income, depreciation, amortization, and deferred income tax provision was \$118.0 million in 2001 and \$174.3 million in 2000. Other operating items and working capital requirements increased operating cash flow by \$182.4 million during the first six months of 2001 and decreased operating cash flow by \$101.0 million during the comparable 2000 period.

-24-

26

Net cash used in investing activities was \$115.6 million during the first six months of 2001 as compared to \$195.0 million in the prior period. Net capital expenditures totaled \$102.1 million in the first six months of 2001 for equipment and dedicated tooling purchases related to new or replacement programs. This compares with net capital expenditures of \$41.6 million for the prior period.

Net cash used in financing activities totaled \$177.0 million for the first six month of 2001 compared with net cash provided by financing activities of \$127.4 million in 2000. Net reduction of debt totaled \$160.8 million (inclusive of debt associated with interests in joint ventures) during the first six months of 2001 due in large part to the Company's aggressive working capital management.

At June 30, 2001, the Company had borrowed approximately \$212 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 \$93.0 million. The Company believes the borrowing availability under its credit agreement, together with funds generated by operations, should provide liquidity and capital resources to pursue its business strategy for the foreseeable future, with respect to working capital, capital expenditures, and other operating needs. The Company estimates its 2001 net capital expenditures will approximate between \$150 million and \$175 million. Under present conditions, management does not believe access to funds will restrict its ability to pursue its business strategy.

### EFFECTS OF INFLATION

Inflation generally affects the Company by increasing the interest expense of

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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. 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, 2001, the Company had total debt and obligations under capital leases of \$1.1 billion. The debt is comprised of fixed rate debt of \$487.5 million and floating rate debt of \$640.2 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 \$6.4 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 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.

-25-

27

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 June 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.

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To maximize its operational efficiencies, the Company continually reviews the utilization of its facilities and equipment, and where appropriate, makes corresponding adjustments. As a part of that objective, the Company has entered into decision based bargaining with one of its unions to address the possible transfer or relocation of certain of the Milwaukee press operations. This or similar actions may result in near term restructuring costs, with the objective of achieving long-term benefits.

### 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 six months of 2001, pretax other comprehensive loss increased by \$1.8 million (\$1.1 million net of income tax benefit) to reflect an unrealized loss on the swap agreement from January 1, 2001 through June 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 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 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

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;

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(iii) the cyclicalality 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.

-27-

29

### PART II. OTHER INFORMATION

#### TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES

##### Item 1. Legal Proceedings:

None

##### Item 2. Change in Securities:

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 24, 2001. Proxies for the meeting were solicited pursuant to Regulation 14. There was no solicitation in opposition to management's nominees for directors as listed in the Proxy Statement and all such nominees (S. A. Johnson, Dugald K. Campbell, Kim B. Clark, Jurgen M. Geissinger, Ali Jenab, F. J. Loughrey, James R. Lozelle, Scott D. Rued and Enrique Zambrano) were elected. Of the 39,909,353 shares voted, 39,690,349 shares granted authority to vote for these directors and 219,004 abstaining votes were cast.

The amendment to the Tower Automotive, Inc. Colleague Stock Discount Purchase Plan was approved by the stockholders. A total of 39,389,879 affirmative votes, 452,573 negative votes and 66,901 abstaining votes were cast on this proposal.

The retention of Arthur Andersen LLP as independent public accountants for the Company was approved by stockholders. A total of 39,414,986 affirmative votes, 462,293 negative votes and 32,074 abstaining votes were cast on this proposal.

##### Item 5. Other Information:

None

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

(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

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11, 2001, under Item 9 (Commission File No. 1-12733).

2. The Company's current report on Form 8-K dated April 19, 2001, Under Item 5 (Commission File No. 1-12733).

-28-

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: August 3, 2001

By /s/ Anthony A. Barone

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

-29-