

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

TOWER AUTOMOTIVE INC  
Form 10-Q  
May 10, 2004

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 March 31, 2004

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.)
27175 HAGGERTY ROAD NOVI, MICHIGAN (Address of principal executive offices)	48377 (Zip Code)

(248) 675-6000  
(Registrant's telephone number, including area code)

NOT APPLICABLE  
(Former name, former address and former fiscal year, if changed since last  
report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the Registrant's common stock, par value \$.01 per share, at May 3, 2004 was 58,035,678 shares.

TOWER AUTOMOTIVE, INC.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

FORM 10-Q

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

	Page
	-----
Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets (unaudited) at March 31, 2004 and December 31, 2003	2
Condensed Consolidated Statements of Operations (unaudited) for the Three Months Ended March 31, 2004 and 2003	3
Condensed Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2004 and 2003	4
Notes to Condensed Consolidated Financial Statements (unaudited)	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk See "Market Risk" section of Item 2	
Item 4. Controls and Procedures	22
PART II OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	23
Signature	24

PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

MARCH 31,  
2004

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

ASSETS		
Current assets:		
Cash and cash equivalents		\$ 78,346
Accounts receivable		374,089
Inventories		127,089
Deferred income taxes, net		15,295
Prepaid tooling and other		160,110
		-----
Total current assets		754,929
		-----
Property, plant and equipment, net		1,117,322
Investments in joint ventures		204,257
Deferred income taxes, net		144,512
Goodwill		495,209
Other assets, net		151,086
		-----
		\$ 2,867,315
		=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations		\$ 120,595
Convertible Subordinated Notes		199,984
Accounts payable		579,311
Accrued liabilities		243,996
		-----
Total current liabilities		1,143,886
		-----
Long-term debt, net of current maturities		1,042,570
Obligations under capital leases, net of current maturities		39,551
Other noncurrent liabilities		220,979
		-----
Total noncurrent liabilities		1,303,100
		-----
Stockholders' investment:		
Preferred stock		--
Common stock		661
Additional paid-in capital		680,759
Retained deficit		(169,831)
Deferred compensation plans		(8,027)
Accumulated other comprehensive loss		(29,683)
Treasury stock, at cost		(53,550)
		-----
Total stockholders' investment		420,329
		-----
		\$ 2,867,315
		=====

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

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS - UNAUDITED)

	THREE MONTHS END
	2004
Revenues	\$ 781,236
Cost of sales	720,591
	-----
Gross profit	60,645
Selling, general and administrative expenses	34,154
Restructuring charge reversal, net	(5,607)
	-----
Operating income	32,098
Interest expense, net	31,470
	-----
Income before provision for income taxes	628
Provision for income taxes	478
	-----
Income before equity in earnings of joint ventures, gain on sale of joint venture and minority interest	150
Equity in earnings of joint ventures, net	3,447
Gain on sale of joint venture	9,732
Minority interest, net	(1,311)
	-----
Net income	\$ 12,018
	-----
Basic earnings per common share	\$ 0.21
	-----
Weighted average basic shares outstanding	57,342
	-----
Diluted earnings per common share	\$ 0.21
	-----
Weighted average diluted shares outstanding	58,110
	-----

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

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

3

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

	THREE MONTHS END
	----- 2004 -----
OPERATING ACTIVITIES:	
Net income	\$ 12,018
Adjustments required to reconcile net income to net cash provided by (used in) operating activities -	
Non-cash restructuring charge reversal	(6,276)
Depreciation	38,357
Deferred income tax provision (benefit)	(4,104)
Gain on sale of joint venture investment	(9,732)
Equity in earnings of joint ventures, net	(3,447)
Change in working capital and other operating items	(89,700)
	-----
Net cash provided by (used in) operating activities	(62,884)
	-----
INVESTING ACTIVITIES:	
Capital expenditures, net	(53,186)
Divestitures and other	54,595
Acquisitions	(21,299)
	-----
Net cash used in investing activities	(19,890)
	-----
FINANCING ACTIVITIES:	
Proceeds from borrowings	14,630
Repayments of debt	(14,409)
Net proceeds from issuance of stock	--
	-----
Net cash provided by financing activities	221
	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	(82,553)
CASH AND CASH EQUIVALENTS:	
Beginning of period	160,899
	-----
End of period	\$ 78,346
	=====
Supplemental Cash Flow Information:	
Interest paid, net of amounts capitalized	\$ 29,118
Income taxes paid (refunded)	\$ (863)

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

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

4

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

#### 1. BASIS OF PRESENTATION

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 primarily 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, 2003.

Revenues and operating results for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year or any future period.

#### 2. INVENTORIES

Inventories are valued at the lower of first-in-first-out ("FIFO") cost or market, and consisted of the following (in thousands):

	MARCH 31, 2004	DECEMBER 31, 2003
	-----	-----
Raw materials	\$ 61,146	\$ 56,100
Work in process	25,731	23,288
Finished goods	40,212	50,616
	-----	-----
	\$ 127,089	\$ 130,004
	=====	=====

#### 3. STOCKHOLDERS' INVESTMENT

##### EARNINGS PER SHARE:

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share for the three months ended March 31, 2004 was determined based on the assumption that the stock options were exercised at the beginning of the period. Diluted earnings per share for the three months ended March 31, 2003 were determined based on the assumption that the Edgewood notes were converted at the beginning of the period. The Convertible Subordinated Notes and the Convertible

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Preferred Securities issued by Tower Automotive Capital Trust, totaling approximately 16.2 million shares, are not included in the computation of earnings per share for the three months ended March 31, 2004 and 2003 due to their anti-dilutive effect (in thousands, except for per share data):

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Weighted average number of common shares outstanding	57,342	56,194
Dilutive effect of stock options	768	-
Dilutive effect of Edgewood notes, assuming conversion	-	16
Weighted average number of diluted shares outstanding	58,110	56,210

5

STOCK-BASED COMPENSATION:

The Company accounts for stock options under the provisions of Accounting Principles Board Opinion ("APB") No. 25, under which no compensation expense is recognized when the stock options are granted to colleagues and directors at fair market value as of the grant date. The Company may also grant stock options to outside consultants. The fair value of these option grants are expensed over the period services are rendered based on the Black-Scholes valuation model.

The Company has three stock option plans: the 1994 Key Employee Stock Option Plan, the Long Term Incentive Plan and the Independent Director Stock Option Plan and three stock purchase plans: the Employee Stock Purchase Plan, the Key Leadership Deferred Income Stock Purchase Plan and the Director Deferred Income Stock Purchase Plan. Had compensation cost for these plans been determined as required under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," amended by SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure," the Company's pro forma net income and pro forma income per share would have been as follows (in thousands, except per share data):

Net income

As Reported

Add: Stock-based employee compensation expense included in reported net income, net of related tax effects

Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects

Pro Forma

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

Basic earnings per share  
As Reported  
Pro Forma  
Diluted earnings per share  
As Reported  
Pro Forma

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rates of 3.92% in the 2004 period and risk free interest rates of 2.91% and 4.17% in the 2003 period; expected life of seven years for the 2004 and 2003 periods; expected volatility of 58% in the 2004 and 2003 periods; and expected dividends of zero in both years.

#### 4. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

Senior Euro notes  
Term credit facility  
Industrial development revenue bonds  
Senior notes (net of discount of \$6,893 and \$6,955, respectively)  
Due to Tower Automotive Capital Trust  
Other foreign subsidiary indebtedness  
Other

Less-current maturities

Total long-term debt

6

As of March 31, 2004, the Company's senior credit facility (the "Credit Agreement") consists of a \$240 million Term credit facility and a \$360 million revolving credit facility. The amount available to borrow under the revolver portion of the credit facility is restricted by \$137.0 million of letters of credit and \$200 million to provide flexibility for the Company to redeem its \$200 million convertible subordinated notes (due August 1, 2004), in the event it elects to do so without refinancing the convertible notes in another manner. The Credit Agreement also includes a multi-currency borrowing feature that allows the Company to borrow up to \$316 million in certain freely tradable offshore currencies, and letters of credit sublimits of \$250 million. As of March 31, 2004, there were no revolver borrowings outstanding. Interest on the Credit Agreement is at the financial institutions' reference rate, LIBOR, or the Eurodollar rate plus a margin ranging from 100 to 325 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



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

borrowings was 9.94% for the three months ended March 31, 2004 (including the effect of the interest rate swap contract discussed below). The Credit Agreement has a final maturity of 2006.

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 limits the Company's ability to pay dividends. As of March 31, 2004, the Company was in compliance with all debt covenants and anticipates achieving covenant compliance for the remainder of 2004.

During the third quarter of 2003, the Company elected to adopt the current provisions of FASB Interpretation Number (FIN) 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51" as it relates to its mandatorily redeemable convertible trust preferred securities prior to the required effective date. Under FIN 46, the Tower Automotive Capital Trust, which was previously consolidated by the Company, is no longer consolidated. As a result, the Company no longer presents the mandatorily redeemable convertible trust preferred securities as mezzanine financing, but instead records a debt obligation for the proceeds which are owed to the Trust by the Company. Interest is recorded at 6 3/4 % on the amount owed by the Company to the Trust, which is equal to the amount that was previously presented as minority interest (net of tax) for the dividends on the preferred stock. Interest expense increased by \$4.4 million in the three months ended March 31, 2004 related to this reclassification. Pursuant to the guidance in FIN 46, the Company has elected not to reclassify the presentation in prior periods. The \$258.8 million trust convertible preferred securities held by the Trust were issued in June 1998 at a dividend rate of 6 3/4 % and are redeemable, in whole or in part, after June 30, 2001 but before June 30, 2018. The preferred securities are also convertible at the option of the holder into common stock of Tower at an equivalent conversion price of \$30.713 per share. As of December 31, 2003, the Company consolidated the variable interest entity related to its Lansing, Michigan building and equipment leasing arrangement and, therefore, recorded property, plant and equipment of \$25.7 million and related indebtedness of \$25.7 million. At March 31, 2004, this indebtedness amounted to \$24.8 million.

The Company utilizes a rate swap contract to manage its interest rate exposure on approximately \$160 million of its floating rate indebtedness under its Credit Agreement. The contracts have the effect of converting the floating rate interest to a fixed rate of approximately 6.9%, 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.

The Company has designated the swap as a cash flow hedge. Accordingly, gains and losses are recorded in accumulated other comprehensive income (loss), net of income taxes. As of March 31, 2004, \$ 7.5 million (net of tax) is recorded in accumulated other comprehensive loss related to the cash flow hedge. Derivative liabilities relating to the interest rate swap agreement totaling \$12.8 million have been recorded in accrued liabilities in the condensed consolidated balance sheet as of March 31, 2004. The fair value of the interest rate swap agreement is based upon the difference between the contractual rates and the present value of the expected future cash flows on the hedged interest rate.

### 5. ACQUISITIONS

Effective February 27, 2004, the Company acquired the remaining 34% ownership interest in Seojin Industrial Company Limited ("Seojin") for consideration of

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

approximately \$21.3 million. Such consideration consisted of cash of \$21.3 million offset by the repayment of \$11.0 million of loans to Seojin's minority shareholder, resulting in a net cash outflow of \$10.3 million. Seojin is a supplier of frames, modules and structural components to the Korean automotive industry with primary customers of Hyundai and Kia. The Company financed the acquisition through Korean debt facilities, which are not covered under the Company's Credit Agreement (Note 4). The acquisition was accounted for under the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at the Company's preliminary estimate 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, if any, will be recorded as goodwill. The purchase price and related allocation may be revised up to one year from the date of the acquisition. The Company can provide no assurances as to whether any revisions to the original purchase price allocation will be significant. Adjustments to the purchase price and related allocation may occur as a result of obtaining more information regarding property valuations, liabilities assumed and revisions of preliminary estimates of fair values made at the date of purchase. As the Company previously consolidated Seojin, its results of operations have been included in all periods presented and, as a result, no pro forma information is presented.

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

	FACILITY SHUTDOWN COSTS -----	LOSS CONTRACTS -----
December 31, 2003	\$ 2.0	\$ 2.9
Utilization	(0.1)	(0.7)
	-----	-----
March 31, 2004	\$ 1.9	\$ 2.2
	=====	=====

As of March 31, 2004, all of the identified facilities have been shutdown, but the Company continues to incur costs related to maintenance, taxes and other costs related to the buildings. The Company's acquisition reserves have been utilized as originally intended and management believes that the liabilities recorded for shutdown and consolidation activities are adequate as of March 31, 2004.

### 6. ACCOUNTS RECEIVABLE SECURITIZATION

In June 2001, the Company entered into a financing agreement whereby its domestic operating units sold eligible customer receivables on an ongoing basis to a fully consolidated financing entity. In February 2004, the financing agreement was terminated. During the first quarter of 2004, no customer receivables were sold.

### 7. INVESTMENTS IN JOINT VENTURES

In March 2004, the Company sold its 30.76% ownership interest in Yorozu Corporation ("Yorozu") to Yorozu, through a share buy-back transaction on the Tokyo Stock Exchange. Yorozu is a supplier of suspension modules and structural parts to the Asian and North American automotive markets. The Company received proceeds of approximately \$51.7 million through this sale. The consideration for

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

the sale was based on the prevailing price of Yorozu, as traded on the Tokyo Stock Exchange. The Company recognized a gain on the sale of \$9.7 million. The proceeds of this divestiture were utilized for tooling purchases and other capital expenditures.

8

On February 10, 2004, the Company announced that a decision had been finalized by DaimlerChrysler to move the current production of the frame assembly for the Dodge Ram light truck from the Company's Milwaukee, Wisconsin facility to the Company's 40% owned joint venture partner, Metalsa, located in Monterrey, Mexico. The current Dodge Ram frame program produced in the Milwaukee facility was expected to run through 2009. The production move to Mexico is planned for mid-2005. The Company is in the process of determining the expected net economic impact, if any, of DaimlerChrysler's decision to move the Dodge Ram frame line on its future consolidated results. The Company is also currently in negotiations with DaimlerChrysler regarding a settlement pertaining to costs associated with the move and/or replacement programs.

### 8. INCOME TAXES

The Company recognized income tax expense of approximately \$0.5 million and \$7.8 million, respectively, for the three months ended March 31, 2004 and 2003. The associated effective tax rates were 76.1% and 34.0%, respectively. The relatively high effective tax rate for the 2004 period was due to the high proportion of non-deductible items in relation to pre-tax income.

### 9. RETIREMENT PLANS

The following table provides the components of net periodic pension benefit cost and other post retirement benefit cost for the quarters ended March 31, (in thousands):

	PENSION BENEFITS		OTHER BENEFITS	
	2004	2003	2004	2003
	-----	-----	-----	-----
Service cost	\$ 2,140	\$ 1,629	\$ 94	\$
Interest cost	3,626	3,487	1,935	2,
Expected return on plan assets	(3,045)	(2,438)	-	
Amortization of transition assets	(1)	(8)	-	
Amortization of prior service cost	1,054	595	-	
Amortization of net losses	941	1,109	1,495	
	-----	-----	-----	-----
Net periodic benefit cost	\$ 4,715	\$ 4,374	\$ 3,524	\$ 3,
	=====	=====	=====	=====

The reversal of the pension curtailment loss of \$6.3 million associated with the Company's decision to not move the Ford Ranger frame assembly is not reflected in the table above but is reflected in the Company's statement of operations for the three months ended March 31, 2004 as a restructuring charge reversal. (See Note 11 to the Condensed Consolidated Financial Statements).

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

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2003 that it expects its minimum pension funding requirements to be \$38 million during 2004. During the three months ended March 31, 2004, the Company made contributions of \$5.9 million to its pension plans. The Company presently anticipates contributing an additional \$25.8 million to fund its pension plans in 2004 for a total of \$31.7 million based upon the Company's most recent estimate.

The Company contributed \$6.8 million and \$6.2 million during the three months ended March 31, 2004 and 2003, respectively, to its defined contribution employee savings plans.

The Company presently anticipates that the Medicare Prescription Drug, Improvement and Modernization Act of 2003 will not have a material impact on net periodic benefit cost.

### 10. SEGMENT INFORMATION

The Company produces a broad range of assemblies and modules for vehicle body structures and suspension systems for the global automotive industry. These operations have similar characteristics including the nature of products, production processes and customers, and produce lower vehicle structures, body structures (including Class A

9

surfaces), suspension components, and suspension and powertrain modules for the automotive industry. Management reviews the operating results of the Company and makes decisions based upon two operating segments: United States/Canada and International.

Financial information by segment is as follows (in thousands):

	UNITED STATES/ CANADA -----	INTERNATIONAL -----	TOTAL -----
<b>THREE MONTHS ENDED MARCH 31, 2004:</b>			
Revenues	\$ 533,881	\$ 247,355	\$ 781,236
Operating income	15,357	16,741	32,098
Total assets	\$ 1,886,526	\$ 980,789	\$ 2,867,315
<b>THREE MONTHS ENDED MARCH 31, 2003:</b>			
Revenues	\$ 532,062	\$ 200,516	\$ 732,578
Operating income	21,839	18,009	39,848
Total assets	\$ 1,883,351	\$ 765,634	\$ 2,648,985

The change in the carrying amount of goodwill for the three months ended March 31, 2004, by operating segment, is as follows (in thousands):

	UNITED STATES/ CANADA -----	INTERNATIONAL -----	TOTAL -----
--	-----------------------------------	------------------------	----------------

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

Balance at December 31, 2003	\$ 336,468	\$ 162,195	\$ 498,663
Currency translation adjustment	(131)	(3,323)	(3,454)
	-----	-----	-----
Balance at March 31, 2004	\$ 336,337	\$ 158,872	\$ 495,209
	=====	=====	=====

### 11. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

#### MILWAUKEE RANGER AND NORTH AMERICA/CORPORATE OFFICE CONSOLIDATION ACTIVITIES (2003 PLAN):

In October 2003, the Company announced plans to consolidate its Novi, Michigan North America oversight and Grand Rapids, Michigan corporate office activities and close its Rochester Hills, Michigan prototype tooling and technical center facility. Qualifying exit costs (in accordance with SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities") relating to these activities were recognized by the Company in the fourth quarter of 2003 totaling \$3.7 million, comprised of cash charges of \$2.1 million and non-cash asset impairment charges of \$1.6 million. These costs incurred to date as well as any additional costs expected to be incurred relating to these activities are within the United States/ Canada segment. The Company does not anticipate any significant additional expenses related to this restructuring activity.

On May 27, 2003, the Company announced that it would transfer the production of high-volume frame assemblies for the Ford Ranger from its Milwaukee, Wisconsin facility to its Bellevue, Ohio facility. During 2003, the Company recorded \$25.0 million pre-tax restructuring and asset impairment charges relating to this event. These charges reflect estimated qualifying "exit costs" comprising cash charges of \$6.1 million, pension and other post-retirement benefit plan curtailment costs of \$6.3 million and non-cash asset impairment charges of \$12.6 million, all within the United States/Canada segment. These charges did not cover certain aspects of the 2003 Plan, including movement of equipment and colleague relocation and training, which are recognized in future periods as incurred. On December 5, 2003, the Company announced that it had decided not to proceed with the relocation of the Ford Ranger line based on revised economic factors from the original May 2003 decision principally due to concessions received from the Milwaukee labor unions and a need for management to focus on its 2004 new product launch schedule. Because the Company's measurement date for pension and post-retirement benefits is September 30, the decision to continue Ranger frame production in Milwaukee made in December 2003 resulted in a reversal of the curtailment loss on a three-month lag in the first quarter of 2004. The remaining charges related to the original decision to move the Ranger frame production have been incurred.

10

During the three months ended March 31, 2004, the Company recognized restructuring charges pertaining to previously announced plans of \$0.7 million.

The accrual for the 2003 Plan is included in accrued liabilities in the accompanying condensed consolidated balance sheets as of March 31, 2004 and December 31, 2003. The table below summarizes the accrual for the 2003 Plan through March 31, 2004 (in millions):

SEVERANCE AND

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

OUTPLACEMENT COSTS	
-----	
Balance at December 31, 2003	\$ 2.0
Cash usage	(0.4)
-----	
Balance at March 31, 2004	\$ 1.6
=====	

### 12. COMPREHENSIVE INCOME

The following table presents comprehensive income (in thousands):

	THREE MONTHS ENDED	
	MARCH 31,	
	2004	2003
	-----	-----
Net income	\$ 12,018	\$ 11,577
Change in cumulative translation adjustment	(7,678)	2,377
Unrealized gain on qualifying cash flow hedges, net of tax	746	51
-----		-----
Comprehensive income	\$ 5,086	\$ 14,455
=====		=====

### 13. COMMITMENTS AND CONTINGENCIES

#### LITIGATION:

The Company is party to certain claims arising in the ordinary course of business. In the opinion of management, based upon the advice of legal counsel, the outcomes of such claims are impossible to ascertain or are not expected to be material to the Company's financial position, results of operations or cash flows.

### 14. CONSOLIDATING GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION:

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% senior unsecured Euro notes issued by R. J. Tower Corporation in 2000 and the 12% senior unsecured notes issued by R.J. Tower Corporation in 2003, on a joint and several basis. Tower Automotive, Inc. (the parent company) has also fully and unconditionally guaranteed the notes and is reflected as the Parent Guarantor in the consolidating financial information. The Non-Guarantor Restricted Companies are the Company's foreign subsidiaries except for Seojin Industrial Company Limited, which is reflected as the Non-Guarantor Unrestricted Company in the consolidating financial information. Separate financial statements and other disclosures concerning the Guarantors have not been presented because management believes that such information is not material to investors.

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

TOWER AUTOMOTIVE INC.  
CONSOLIDATING BALANCE SHEETS AT MARCH 31, 2004  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARA COMPA
	-----	-----	-----
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 40,113	\$ -	\$ -
Accounts receivable	2,871	-	1
Inventories	-	-	-
Deferred income taxes, net	14,249	-	-
Prepaid tooling and other	4,182	-	1
	-----	-----	-----
Total current assets	61,415	-	3
	-----	-----	-----
Property, plant and equipment, net	1,380	-	6
Investments in joint ventures	204,257	-	-
Investment in subsidiaries	514,907	420,329	-
Deferred income taxes, net	94,619	21,716	-
Goodwill	-	-	3
Other assets, net	21,268	6,772	-
	-----	-----	-----
	\$ 897,846	\$ 448,817	\$ 1,4
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT			
Current liabilities:			
Current maturities of long-term debt and capital lease obligations	\$ 12,500	\$ -	\$ -
Convertible subordinated notes	-	199,984	-
Accounts payable	2,327	-	3
Accrued liabilities	50,307	1,667	1
	-----	-----	-----
Total current liabilities	65,134	201,651	5
	-----	-----	-----
Long-term debt, net of current maturities	662,754	258,750	-
Obligations under capital leases, net of current maturities	-	-	-
Due to/(from) affiliates	(356,699)	(431,913)	6
Other noncurrent liabilities	89,646	-	-
	-----	-----	-----
Total noncurrent liabilities	395,701	(173,163)	7
	-----	-----	-----
Stockholders' investment	437,011	420,329	1
	-----	-----	-----
	\$ 897,846	\$ 448,817	\$ 1,4
	=====	=====	=====

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	NON-GUARANTOR UNRESTRICTED COMPANIES	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 203	\$ -	\$ -
Accounts receivable	17,204	-	17,204
Inventories	12,626	-	12,626
Deferred income taxes, net	(532)	-	(532)
Prepaid tooling and other	9,469	-	9,469
	-----	-----	-----
Total current assets	38,970	-	38,970
	-----	-----	-----
Property, plant and equipment, net	171,305	-	171,305
Investments in joint ventures	-	-	-
Investment in subsidiaries	-	(935,236)	(935,236)
Deferred income taxes, net	(1,914)	-	(1,914)
Goodwill	-	-	-
Other assets, net	18,226	-	18,226
	-----	-----	-----
	\$ 226,587	\$ (935,236)	\$ 29,351
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT			
Current liabilities:			
Current maturities of long-term debt and capital lease obligations	\$ 74,689	\$ -	\$ 74,689
Convertible subordinated notes	-	-	-
Accounts payable	42,422	-	42,422
Accrued liabilities	8,211	-	8,211
	-----	-----	-----
Total current liabilities	125,322	-	125,322
	-----	-----	-----
Long-term debt, net of current maturities	41,568	-	41,568
Obligations under capital leases, net of current maturities	2,171	-	2,171
Due to/(from) affiliates	(3,053)	-	(3,053)
Other noncurrent liabilities	8,131	-	8,131
	-----	-----	-----
Total noncurrent liabilities	48,817	-	48,817
	-----	-----	-----
Stockholders' investment	52,448	(935,236)	(882,788)
	-----	-----	-----
	\$ 226,587	\$ (935,236)	\$ 29,351
	=====	=====	=====



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

CONSOLIDATING STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARA COMPA
	-----	-----	-----
Revenues	\$ -	\$ -	\$ 5
Cost of sales	(2,739)	-	4
	-----	-----	-----
Gross profit	2,739	-	
Selling, general and administrative expenses	(8,415)	-	
Restructuring charge reversal	217	-	
	-----	-----	-----
Operating income	10,937	-	
Interest expense (income), net	21,250	7,191	
	-----	-----	-----
Income (loss) before provision for income taxes	(10,313)	(7,191)	
Provision (benefit) for income taxes	(3,242)	(2,445)	
	-----	-----	-----
Income (loss) before equity in earnings of joint ventures, gain on sale of joint venture and minority interest	(7,071)	(4,746)	
Equity earnings in joint ventures and subsidiaries, net	14,103	16,764	
Gain on sale of joint venture investment, net	9,732	-	
Minority interest, net	-	-	
	-----	-----	-----
Net income (loss)	\$ 16,764	\$ 12,018	\$
	=====	=====	=====
	NON-GUARANTOR UNRESTRICTED COMPANIES	ELIMINATIONS	CONSOLI
	-----	-----	-----
Revenues	\$ 67,288	\$ -	\$ 7
Cost of sales	61,450	-	7
	-----	-----	-----
Gross profit	5,838	-	
Selling, general and administrative expenses	2,592	-	

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Restructuring charge reversal	-	-	
	-----	-----	-----
Operating income	3,246	-	
Interest expense (income), net	1,967	-	
	-----	-----	-----
Income (loss) before provision for income taxes	1,279	-	
Provision (benefit) for income taxes	435	-	
	-----	-----	-----
Income (loss) before equity in earnings of joint ventures, gain on sale of joint venture and minority interest	844	-	
Equity earnings in joint ventures and subsidiaries, net	-	(27,420)	
Gain on sale of joint venture investment, net	-	-	
Minority interest, net	-	-	
	-----	-----	-----
Net income (loss)	\$ 844	\$ (27,420)	\$
	=====	=====	=====

13

TOWER AUTOMOTIVE INC.  
CONSOLIDATING STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2004  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARA COMPA
	-----	-----	-----
OPERATING ACTIVITIES:			
Net income (loss)	\$ 16,764	\$ 12,018	\$
Adjustments required to reconcile net income to net cash provided by (used in) operating activities			
Non-cash restructuring charge reversal	-	-	
Depreciation	65	-	
Deferred income tax provision (benefit)	(2,217)	-	
Gain on sale of joint venture investment	(9,732)	-	
Equity in earnings of joint ventures, net	(3,447)	-	
Changes in working capital and other operating items	(5,338)	(2,499)	(1
	-----	-----	-----
Net cash provided by (used in)			

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

operating activities	(3,905)	9,519	(
INVESTING ACTIVITIES:			
Capital expenditures, net	(608)	-	(
Divestitures and Other	44,626	(9,519)	
Acquisitions	-	-	
Net cash provided by (used in) investing activities	44,018	(9,519)	(
FINANCING ACTIVITIES:			
Proceeds from borrowings	-	-	
Repayment of debt	-	-	
Net cash provided by (used for) financing activities	-	-	
NET CHANGE IN CASH AND CASH EQUIVALENTS	40,113	-	(1
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-	1
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 40,113	\$ -	\$
	=====	=====	=====
	NON-GUARANTOR UNRESTRICTED COMPANIES	ELIMINATIONS	CONSOLIDATED
OPERATING ACTIVITIES:			
Net income (loss)	\$ 844	\$ (27,420)	\$
Adjustments required to reconcile net income to net cash provided by (used in) operating activities			
Non-cash restructuring charge reversal	-	-	
Depreciation	4,190	-	
Deferred income tax provision (benefit)	250	-	
Gain on sale of joint venture investment	-	-	
Equity in earnings of joint ventures, net	-	-	
Changes in working capital and other operating items	10,850	7,932	(
Net cash provided by (used in) operating activities	16,134	(19,488)	(
INVESTING ACTIVITIES:			
Capital expenditures, net	(3,672)	-	(
Divestitures and Other	-	19,488	
Acquisitions	(21,299)	-	(
Net cash provided by (used in) investing activities	(24,971)	19,488	(

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

FINANCING ACTIVITIES:

Proceeds from borrowings	11,252	-	(
Repayment of debt	(4,340)	-	(
Net cash provided by (used for) financing activities	6,912	-	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,925)	-	(
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,128	-	1
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 203	\$ -	\$

14

TOWER AUTOMOTIVE INC.  
CONSOLIDATING BALANCE SHEETS AT DECEMBER 31, 2003  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARA COMPA
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 1
Accounts receivable	-	-	1
Inventories	-	-	
Deferred income taxes, net	-	-	
Prepaid tooling and other	-	-	
Total current assets	-	-	4
Property, plant and equipment, net	-	-	6
Investments in joint ventures	247,756	-	
Investment in subsidiaries	411,267	413,510	
Deferred income taxes, net	-	21,716	1
Goodwill	-	-	3
Other assets, net	14,881	7,096	
	\$ 673,904	\$ 442,322	\$ 1,5
LIABILITIES AND STOCKHOLDERS' INVESTMENT			
Current liabilities:			
Current maturities of long-term debt and capital lease obligations	\$ -	\$ -	\$
Convertible subordinated notes	-	199,984	
Accounts payable	-	-	3



Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

Due to/(from) affiliates	8,337	-	
Other noncurrent liabilities	8,383	-	2
	-----	-----	-----
Total noncurrent liabilities	60,323	-	1,3
	-----	-----	-----
Stockholders' investment	28,808	(824,777)	4
	-----	-----	-----
	\$ 203,436	\$ (824,777)	\$ 2,8
	=====	=====	=====

15

TOWER AUTOMOTIVE INC.  
CONSOLIDATING STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2003  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARA COMPA
	-----	-----	-----
Revenues	\$ -	\$ -	\$ 5
Cost of sales	-	-	4
	-----	-----	-----
Gross profit	-	-	
Selling, general and administrative expenses	-	-	
	-----	-----	-----
Operating income	-	-	
Interest expense (income), net	12,026	6,866	
	-----	-----	-----
Income (loss) before provision for income taxes	(12,026)	(6,866)	
Provision (benefit) for income taxes	(4,089)	(2,334)	
	-----	-----	-----
Income (loss) before equity in earnings of joint ventures and minority interest	(7,937)	(4,532)	
Equity earnings in joint ventures and subsidiaries, net	26,923	18,986	
Minority interest, net	-	(2,882)	
	-----	-----	-----
Net income	\$ 18,986	\$ 11,572	\$
	=====	=====	=====

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

	NON-GUARANTOR UNRESTRICTED COMPANIES	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----
Revenues	\$ 76,990	\$ -	\$ 76,990
Cost of sales	70,021	-	70,021
Gross profit	6,969	-	6,969
Selling, general and administrative expenses	1,539	-	1,539
Operating income	5,430	-	5,430
Interest expense (income), net	1,857	-	1,857
Income (loss) before provision for income taxes	3,573	-	3,573
Provision (benefit) for income taxes	1,215	-	1,215
Income (loss) before equity in earnings of joint ventures and minority interest	2,358	-	2,358
Equity earnings in joint ventures and subsidiaries, net	-	(45,265)	(45,265)
Minority interest, net	-	-	-
Net income	\$ 2,358	\$ (45,265)	\$ (42,907)
	=====	=====	=====

16

TOWER AUTOMOTIVE INC.  
CONSOLIDATING STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2003  
(AMOUNTS IN THOUSANDS - UNAUDITED)

	R. J. TOWER CORPORATION	PARENT GUARANTOR	GUARANTOR COMPANIES
	-----	-----	-----
OPERATING ACTIVITIES:			
Net income (loss)	\$ 18,986	\$ 11,572	\$ 30,558
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	-	-	-
Deferred income tax provision			

Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

(benefit)	-	-	
Equity in earnings of joint ventures, net	(644)	-	
Changes in working capital and other operating items	6,967	(3,984)	
	-----	-----	
Net cash provided by (used in) operating activities	25,309	7,588	
	-----	-----	
INVESTING ACTIVITIES:			
Capital expenditures, net	-	-	
Divestitures and other, net	(93,897)	(7,891)	
	-----	-----	
Net cash provided by (used in) investing activities	(93,897)	(7,891)	
	-----	-----	
FINANCING ACTIVITIES:			
Proceeds from borrowings	690,726	-	
Repayment of debt	(622,138)	-	
Net proceeds from issuance of stock	-	303	
	-----	-----	
Net cash provided by (used for) financing activities	68,588	303	
	-----	-----	
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-	
	-----	-----	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ -	\$ -	\$ -
	=====	=====	=====
	NON-GUARANTOR UNRESTRICTED COMPANIES	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----
OPERATING ACTIVITIES:			
Net income (loss)	\$ 2,358	\$ (45,265)	\$ -
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	4,107	-	
Deferred income tax provision (benefit)	49	-	
Equity in earnings of joint ventures, net	-	-	
Changes in working capital and other operating items	(4,368)	18,972	
	-----	-----	
Net cash provided by (used in) operating activities	2,146	(26,293)	
	-----	-----	
INVESTING ACTIVITIES:			
Capital expenditures, net	(2,300)	-	
Divestitures and other, net	-	26,293	
	-----	-----	
Net cash provided by (used in) investing activities	(2,300)	26,293	
	-----	-----	



Edgar Filing: TOWER AUTOMOTIVE INC - Form 10-Q

FINANCING ACTIVITIES:			
Proceeds from borrowings	6,315	-	6
Repayment of debt	(7,221)	-	(6
Net proceeds from issuance of stock	-	-	
Net cash provided by (used for) financing activities	(906)	-	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,060)	-	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,508	-	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,448	\$ -	\$

17

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

OVERVIEW

The Company produces a broad range of assemblies and modules for vehicle frames, upper body structures and suspension systems for the global automotive industry. Including wholly owned subsidiaries and investments in joint ventures, the Company has production and engineering facilities in the United States, Canada, Italy, Germany Belgium, Poland, France, Spain, Brazil, India, Slovakia, Korea, Japan, China and Mexico.

The Company's products are manufactured utilizing steel and various purchased assemblies, primarily manufactured utilizing steel. The price of steel has increased significantly during the first quarter of 2004 compared to recent historical periods due to a shortage of certain raw materials necessary to produce steel and increased global demand, primarily in China. The Company purchases a substantial portion of its steel from its customers through the customers' resale programs. For these purchases, the Company has not been impacted by increased steel prices. The remainder of the Company's steel purchasing requirements is met through contracts with steel producers and market purchases. The Company's purchase price under such steel contracts and market purchases have rapidly increased during the first quarter of 2004 as compared to historical periods. We expect the effect of the increase in steel prices will be more pronounced in the second and third quarters of this year as the steel utilized in the first quarter was principally purchased prior to the recent heights of steel prices. The Company's agreements with its customers generally do not permit the Company to increase selling prices for increases in prices of raw material inputs. The Company is pursuing several initiatives to mitigate the impact of such raw material price increases on its results of operations. Such initiatives include pursuing selling price increases from customers and reducing other operating costs, among other initiatives. The Company can provide no assurances that it will not be materially impacted in the future by such raw material price increases.

On February 10, 2004, the Company announced that a decision had been finalized by DaimlerChrysler to move the current production of the frame assembly for the Dodge Ram light truck from the Company's Milwaukee, Wisconsin facility to the Company's 40% owned joint venture partner, Metalsa located in Monterrey, Mexico. The current Dodge Ram frame program produced in the Milwaukee facility was

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

expected to run through 2009. The production move to Mexico is planned for mid-2005. The Company is in the process of determining the expected net economic impact, if any, of DaimlerChrysler's decision to move the Dodge Ram frame line on its future consolidated results. The Company is also currently in negotiations with DaimlerChrysler regarding a settlement pertaining to costs associated with the move and/or replacement programs.

For a more detailed description of other factors that have had or may in the future have, a significant impact on the Company's business, please refer to "Forward Looking Statements", "Market Risks" and "Opportunities" contained in this Management's Discussion and Analysis for insight on opportunities, challenges and risks, such as those presented by known material trends and uncertainties, on which the Company's management is most focused for both the short term and long term, as well as the actions they are taking to address these opportunities, challenges and risks.

### RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2003

REVENUES. Revenues for the first quarter of 2004 increased by \$48.6 million, or 6.6%, to \$781.2 million from \$732.6 million during the first quarter of 2003. Increased volume and product mix increased revenue by \$34.4 million and foreign exchange effects increased revenues by \$19.5 million. These increases were partially offset by net selling price reductions of \$5.3 million.

GROSS PROFIT AND GROSS MARGIN. Gross margin for the first quarter of 2004 was 7.8% compared to 10.2% for the first quarter of 2003. Gross profit declined by \$13.9 million, or 18.6%, to \$60.6 million during the 2004 period compared to \$74.5 million during the 2003 period. The decrease in gross margin and gross profit were primarily attributable to increased costs associated with the Company's product launch activities during the 2004 quarter of \$10.8 million, customer selling price reductions of \$5.6 million and higher operating expenses of \$8.5 million, which includes the effects of higher health care costs (\$1.6 million), higher material costs, primarily steel (\$0.7 million) and general economic conditions (i.e. general labor rate increases, higher energy costs, etc.) pertaining to the Company (\$6.8 million). These declines were partially offset by operating efficiencies of \$6.0 million, favorable foreign currency effects of \$1.0 million and volume and product mix effects of \$4.6 million.

18

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses declined by \$0.5 million, or 1.5%, to \$34.2 million during the first quarter of 2004 from \$34.7 million during the first quarter of 2003. Selling, general and administrative expenses represented 4.4% of revenues during the 2004 period compared to 4.7% during the 2003 period. The decline is attributable to lower expenses resulting from the Company's 2003 Restructuring Plan involving the Company's corporate consolidation activities.

OPERATING INCOME. Operating income declined by \$7.8 million, or 19.4%, to \$32.1 million during the first quarter of 2004 from \$39.9 million during the first quarter of 2003. This decline was caused by the decrease in gross profit mentioned above. This decline was partially offset by net restructuring income of \$5.6 million. Such net restructuring income consists of the reversal of the pension curtailment loss of \$6.3 million associated with the Company's decision to not move the Ford Ranger frame assembly, as previously disclosed, offset by \$0.7 million of cash restructuring costs associated with the Company's corporate and North American operations consolidation (See Note 11 to Condensed

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

Consolidated Financial Statements).

**INTEREST EXPENSE.** Interest expense, net increased by \$14.7 million, or 87.7%, to \$31.5 million for the first quarter of 2004 from \$16.8 million for the first quarter of 2003. The increase was attributable to: (i) increased interest of \$7.9 million related to the senior notes issued in June 2003; (ii) \$4.4 million related to the Trust Preferred Securities which was recorded as minority interest in the first quarter of 2003; and (iii) \$2.4 million pertaining to increased borrowings and interest rates.

**PROVISION FOR INCOME TAXES.** The Company's effective income tax rate was 76.1% for the first quarter of 2004, compared to 34.0% for the first quarter of 2003. The relatively high effective tax rate for the 2004 period was due to the high proportion of non-deductible items in relation to pre-tax income.

**EQUITY IN EARNINGS OF JOINT VENTURES, NET.** Equity in earnings of joint ventures, net of tax increased by \$2.8 million to \$3.4 million during the three months ended March 31, 2004 from \$0.6 million during the three months ended March 31, 2003. The increase primarily resulted from improved performance at Yorozu in 2004, prior to the date of sale of Yorozu (March 11, 2004), compared to 2003.

**GAIN ON SALE OF JOINT VENTURE.** The gain on sale of joint venture in the amount of \$9.7 million for the first quarter of 2004 represents the Company's sale of its 30.76% ownership interest in Yorozu (See Note 7 to Condensed Consolidated Financial Statements).

**MINORITY INTEREST, NET.** Minority interest, net declined by \$3.0 million during the first quarter of 2004 to \$1.3 million from \$4.3 million during the first quarter of 2003. The 2003 period included dividends, net of income tax benefits, on the Trust Preferred Securities in the amount of \$2.9 million, which are now classified as interest expense (See Note 4 to Condensed Consolidated Financial Statements).

**NET INCOME.** Net income for the first quarter of 2004, amounted to \$12.0 million, or \$0.21 per basic and diluted share, compared to \$11.6 million, or \$0.21 per basic and diluted share, for the first quarter of 2003. Net income for 2004 reflected a restructuring charge reversal, net of tax of \$3.7 million and a divestiture gain, net of tax of \$9.7 million.

### RESTRUCTURING AND ASSET IMPAIRMENT

In October 2003, the Company announced plans to consolidate its Novi, Michigan North America oversight and Grand Rapids, Michigan corporate office activities and close its Rochester Hills, Michigan prototype tooling and technical center facility. In the fourth quarter of 2003, charges relating to these activities were recognized by the Company totaling \$3.7 million, comprised of cash charges of \$2.1 million and non-cash asset impairment charges of \$1.6 million. These costs incurred to date as well as any additional costs expected to be incurred relating to these activities are within the United States/ Canada segment. The Company does not anticipate any significant additional expenses related to this restructuring activity.

On May 27, 2003, the Company announced that it would transfer the production of high-volume frame assemblies for the Ford Ranger from its Milwaukee facility to its Bellevue, Ohio facility. During 2003, the Company recorded

\$25.0 million pre-tax restructuring and asset impairment charges relating to this event. These charges reflect estimated qualifying "exit costs" comprising

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

cash charges of \$6.1 million, pension and other post-retirement benefit plan curtailment costs of \$6.3 million and non-cash asset impairment charges of \$12.6 million, all within the United States/Canada segment. These charges did not cover certain aspects of the 2003 Plan, including movement of equipment and colleague relocation and training, which are being recognized as incurred. On December 5, 2003, the Company announced that it had decided not to proceed with the relocation of the Ford Ranger line based on revised economic factors from the original May 2003 decision principally due to concessions received from the Milwaukee labor unions and a need for management to focus on its 2004 new product launch schedule. Because the Company's measurement date for pension and post-retirement benefits is September 30, the decision to continue Ranger frame production in Milwaukee made in December 2003 resulted in a reversal of the curtailment loss on a three-month lag in the first quarter of 2004, as discussed above.

The remaining charges related to the original decision to move the Ranger frame production have been incurred.

The Company anticipates cash restructuring costs of \$1.0 to \$2.0 million per quarter for the remainder of 2004 relating to previously announced plans.

The Company has historically executed various restructuring plans and may execute additional plans in the future to respond to customer sourcing decisions, to realign manufacturing capacity to prevailing global automotive production and to improve the utilization of remaining facilities.

### LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2004, the Company's cash requirements were met through operations and commercial borrowings. At March 31, 2004, the Company had available liquidity in the amount of \$101.3 million, which consisted of cash on hand of \$78.3 million and \$23.0 million available through its revolving credit facility.

Net cash utilized in operating activities amounted to \$62.9 million during the first quarter of 2004 compared to net cash provided by operating activities of \$1.2 million during the first quarter of 2003. The amount utilized during the 2004 period primarily resulted from higher accounts receivable and prepaid tooling. Accounts receivable and prepaid tooling increased \$48.5 million and \$67.2 million, respectively, from December 31, 2003. This impact was partially offset by an increase in accounts payable and other accruals aggregating \$17.3 million. The increase in accounts receivable resulted from higher revenues during the 2004 quarter. The increase in prepaid tooling primarily resulted from the Company's significant launch activities. The increase in accounts payable and other accruals reflected the Company's higher business activity level.

Net cash utilized in investing activities amounted to \$19.9 million during the first quarter of 2004 compared to net cash utilized of \$38.0 million in the first quarter of 2003. The utilization for the 2004 period resulted from capital expenditures, net amounting to \$53.2 million and the acquisition of the remaining 34% interest in Seojin from the Company's joint venture partner for \$21.3 million. The impact of these items were partially offset by proceeds of \$51.7 million from the sale of Yorozu. Capital expenditures for 2004 are expected to be approximately \$240.0 million (\$195 million net of anticipated lease proceeds).

Net cash provided by financing activities amounted to \$0.2 million during the first quarter of 2004 compared to net cash provided of \$41.8 million for the first quarter of 2003. The 2004 period reflected significantly lower borrowing activity in comparison to the 2003 period. During the first quarter of 2004, the Company had proceeds from borrowings amounting to \$14.6 million compared to borrowings of \$699.6 million during the corresponding period of 2003.

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

At March 31, 2004, the Company had negative working capital of \$389.0 million, as a result of its continuing focus on minimizing the cash flow cycle.

The Company believes that funds generated by operations, together with cash on hand and available borrowing capacity should provide sufficient liquidity and capital resources to pursue its business strategy for the foreseeable future with respect to working capital, capital expenditures and other operating needs. The Company anticipates that it will meet its liquidity requirements through the prudent use of its cash resources, effective management of working capital and capital expenditures and also employing other potential financing and strategic alternatives, as required. Certain assumptions underlie this belief, including among others, that there will be no material adverse developments in the Company's business, the automotive market in general, or the Company's anticipated activities and costs associated with its new program launches scheduled for the next twelve months.

The Company is pursuing a refinancing plan with financial institutions that, if consummated, would improve the Company's financial flexibility by extending debt maturities and increasing available liquidity. As currently

20

envisioned by the Company, the refinancing plan would include a new senior secured credit facility as well as a private offering of convertible senior debentures which, when taken together, would provide sufficient proceeds to repay the Company's existing credit facilities; refinance the Company's 5% Convertible Subordinated Notes due August 1, 2004; and build additional liquidity for the Company. The primary objectives of this refinancing are to reduce the Company's near term debt service requirements and to provide the financial flexibility appropriate for the Company's operations and upcoming product launch activities. The Company expects that the refinancing will be completed prior to the end of the second quarter of 2004. However, there are no assurances that the refinancing plan will be consummated.

### MARKET RISK

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

Interest rate swaps are entered into as a hedge of underlying debt instruments to change the effective 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 or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant.

At March 31, 2004, the Company had total debt and obligations under capital leases of \$1,402.7 million. The debt is composed of fixed rate debt of \$1,054.5 million and floating rate debt of \$348.2 million. The pre-tax earnings and cash flow impact for the next year resulting from a one percentage point increase in interest rates on variable rate debt would be approximately \$3.5 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.

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

A portion of the Company's revenues were derived from manufacturing operations in Europe, Asia and South America. The results of operations and financial position of the Company's foreign operations are principally measured in their 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 the Company's assets are based in its foreign operations and are translated into U.S. dollars at foreign currency exchange rates in effect as of the end of each period, with the effect of such translation reflected as a separate component of stockholders' investment. Accordingly, the Company's consolidated stockholders' investment will fluctuate depending upon the weakening or strengthening of the U.S. dollar against the respective foreign currency.

The Company's strategy for management of currency risk relies primarily upon conducting its operations in a country's respective currency and may, from time to time, also involve hedging programs intended to reduce the Company's exposure to currency fluctuations. Management believes the effect of a 100 basis point movement in foreign currency rates versus the dollar would not have materially affected the Company's financial position or results of operations for the periods presented.

### OPPORTUNITIES

The Company's recent growth in Europe and Asia along with foreign transplant operations in the U.S. has reduced its reliance on Ford and DaimlerChrysler, increased penetration into certain existing customers and added new customers such as Fiat, BMW, Volkswagen, Nissan and Hyundai/Kia. The Company expects this trend to continue as a result of its anticipated organic growth outside the U.S., from recent awards to supply foreign transplant operations in the U.S. and its efforts to diversify its customer base.

21

### DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-Q or incorporated by reference herein, are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). When used in this Form 10-Q, the words "anticipate," "believe," "estimate," "expect," "intends", "project", "plan" 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 and the ability to generate sufficient cash flow from operations to meet future liquidity needs; (ii) the Company's reliance on major customers and selected vehicle platforms; (iii) the cyclicity and seasonality of the automotive market; (iv) the failure to realize the benefits of recent acquisitions and joint ventures; (v) the Company's ability to obtain new business on new and redesigned models; (vi) the Company's ability to achieve

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

the anticipated volume of production from new and planned supply programs; (vii) the general economic or business conditions affecting the automotive industry (which is dependent on consumer spending), either nationally or regionally, being less favorable than expected; (viii) the Company's failure to develop or successfully introduce new products; (ix) increased competition in the automotive components supply market; (x) unforeseen problems associated with international sales, including gains and losses from foreign currency exchange; (xi) implementation of or changes in the laws, regulations or policies governing the automotive industry that could negatively affect the automotive components supply industry; (xii) changes in general economic conditions in the United States and Europe; and (xiii) various other factors beyond the Company's control. 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.

### ITEM 4. CONTROLS AND PROCEDURES

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.** The Company's Chief Executive Officer and the Company's Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as defined in the Securities Exchange Act of 1934 Rule 13a-14( c ) as of March 31, 2004 and have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in the periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and regulations.

**CHANGES IN INTERNAL CONTROLS.** No changes in the Company's internal controls over financial reporting occurred during the quarter ended March 31, 2004 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

22

## PART II - OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit 31.1 - Rule 15d-14(a) certification of the Chief Executive Officer.

Exhibit 31.2 - Rule 15d-14(a) certification of the Chief Financial Officer.

Exhibit 32.1 - Section 1350 certification of the Chief Executive Officer.

Exhibit 32.2 - Section 1350 certification of the Chief Financial Officer.

(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 February 10, 2004, under Items 5 and 7 (Commission File No. 1-12733).
2. The Company's Current Report on Form 8-K dated February 12,

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

2004, under Items 7 and 12 (Commission File No. 1-12733).

3. The Company's Current Report on Form 8-K dated March 1, 2004, under Items 5 and 7 (Commission File No. 1-12733).
4. The Company's Current Report on Form 8-K dated March 8, 2004, under Items 5 and 7 (Commission File No. 1-12733).
5. The Company's Current Report on Form 8-K dated March 11, 2004, under Items 5 and 7 (Commission File No. 1-12733).
6. The Company's Current Report on Form 8-K dated March 26, 2004, under Items 2 and 7 (Commission File No. 1-12733).

23

### 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: May 10, 2004

By /s/ James A. Mallak

-----  
James A. Mallak  
Chief Financial Officer and Treasurer  
(principal accounting and financial officer)

24

### EXHIBIT INDEX

- |      |   |
|------|---|
| 31.1 | Rule 15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 15d-14(a) Certification of Chief Financial Officer |
| 32.1 | Section 1350 Certification of Chief Executive Officer   |
| 32.2 | Section 1350 Certification of Chief Financial Officer   |