TOWER AUTOMOTIVE INC
Form 10-Q
February 27, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2006

OR

o **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 incorporation or organization)	(I.R.S. Employer Identification No.)
27175 Haggerty Road Novi, Michigan	**48377**
(Address of principal executive offices)	(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 þ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12(b)-2 of the Securities and Exchange Act.

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12(b)-2 of the Securities and Exchange Act).

Yes o No þ

The number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, at January 31, 2007, was 58,548,801 shares.

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PART 1 FINANCIAL INFORMATION

ITEM 1. Financial Statements.

TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 103,443	$ 65,791
Accounts receivable	371,427	363,040
Inventories	125,744	123,433
Prepaid tooling and other	114,727	185,646
Total current assets	715,341	737,910
Property, plant and equipment, net	964,184	1,038,794
Investments in joint ventures	246,514	228,634
Goodwill	163,096	153,037
Other assets, net	125,855	132,851
Total assets	$ 2,214,990	$ 2,291,226
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities not subject to compromise:		
Current maturities of long-term debt and capital lease obligations	$ 134,158	$ 151,755
Current portion of debtor-in-possession borrowings	650,000	
Accounts payable	327,396	378,816
Accrued liabilities	186,907	169,248
Total current liabilities	1,298,461	699,819
Liabilities subject to compromise	1,279,838	1,284,217
Non-current liabilities not subject to compromise:		
Long-term debt, net of current maturities	105,514	107,823
Debtor-in-possession borrowings		531,000
Capital lease obligations, net of current maturities	29,632	30,308
Other non-current liabilities	114,714	125,682
Total non-current liabilities	249,860	794,813

Stockholders deficit:				
Preferred stock				
Common stock		666		666
Additional paid-in-capital		681,843		681,102
Accumulated deficit		(1,257,729)		(1,106,840)
Deferred compensation plans				(6,798)
Accumulated other comprehensive income (loss)		11,375		(6,429)
Treasury stock		(49,324)		(49,324)
Total stockholders deficit		(613,169)		(487,623)
Total liabilities and stockholders deficit	$	2,214,990	$	2,291,226

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

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TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues	$ 615,668	$ 712,664	$ 2,152,295	$ 2,551,558
Cost of sales	607,788	688,602	2,036,498	2,383,316
Gross profit	7,880	24,062	115,797	168,242
Selling, general and administrative expenses	32,176	36,200	99,257	118,828
Restructuring and asset impairment charges, net	22,793	37,693	53,657	108,877
Other operating income			(520)	
Operating loss	(47,089)	(49,831)	(36,597)	(59,463)
Interest expense (contractual interest of $41,913 and $121,723 in 2006 and $40,006 and $143,288 in 2005)	23,590	21,872	67,060	88,434
Interest income	(339)	(362)	(1,551)	(911)
Chapter 11 and related reorganization items	2,742	6,615	58,013	151,524
Loss before provision for income taxes, equity in earnings of joint ventures, and minority interest	(73,082)	(77,956)	(160,119)	(298,510)
(Benefit) provision for income taxes	(5,847)	1,522	3,883	17,344
Loss before equity in earnings of joint ventures, and minority interest	(67,235)	(79,478)	(164,002)	(315,854)
Equity in earnings of joint ventures, net of tax	4,065	4,316	18,282	10,801
Minority interest, net of tax	(1,995)	(1,394)	(5,167)	(3,951)
Net loss	$ (65,165)	$ (76,556)	$ (150,887)	$ (309,004)
Basic and diluted loss per share	$ (1.11)	$ (1.31)	$ (2.57)	$ (5.27)
Weighted average basic and diluted shares outstanding	58,661	58,643	58,659	58,646

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

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TOWER AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands Unaudited)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
OPERATING ACTIVITIES:		
Net loss	$ (150,887)	$ (309,004)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Chapter 11 and related reorganization items, net	36,058	133,171
Non-cash restructuring and impairment, net	35,372	101,632
Depreciation	120,892	135,788
Deferred income tax provision (benefit)	(13,105)	12,863
Equity in earnings of joint ventures, net	(18,282)	(10,801)
Change in working capital and other operating items	3,849	(189,450)
Net cash provided by (used in) operating activities	13,897	(125,801)
INVESTING ACTIVITIES:		
Cash disbursed for purchases of property, plant and equipment	(93,671)	(104,540)
Cash proceeds from asset disposal	32,664	
Net cash used in investing activities	(61,007)	(104,540)
FINANCING ACTIVITIES:		
Proceeds from borrowings	22,621	36,702
Repayments of borrowings	(56,859)	(465,583)
Proceeds from DIP credit facility	564,500	1,054,285
Repayments of DIP credit facility	(445,500)	(498,647)
Net cash provided by financing activities	84,762	126,757
NET CHANGE IN CASH AND CASH EQUIVALENTS	37,652	(103,584)
Cash and cash equivalents, beginning of period	65,791	149,101
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 103,443	$ 45,517
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	$ 59,280	$ 47,081

Income taxes paid (refunded)	$	7,291	$	(291)
Non-cash investing activities:				
Net decrease in liabilities for purchases of property, plant and equipment	$	(18,261)	$	(27,425)

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

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

Note 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 SEC). 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 disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to the rules and regulations of the SEC. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The interim results for the periods presented are not indicative of the Company s actual annual results.

As indicated in Note 2, Tower Automotive, Inc. and 25 of its U.S. Subsidiaries (collectively, the Debtors) are operating pursuant to Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) and continuation of the Company as a going concern is contingent upon, among other things, the Debtors ability: (i) to comply with the terms and conditions of the Debtor-in-Possession financing agreement described in Note 9; (ii) to obtain confirmation of a plan of reorganization under the Bankruptcy Code; (iii) to undertake certain restructuring actions relative to the Company s operations in North America; (iv) to reduce unsustainable debt and other liabilities and simplify the Company s complex and restrictive capital structure through the bankruptcy process; (v) to return to profitability; (vi) to generate sufficient cash flow from operations; and (vii) to obtain financing sources to meet the Debtors future obligations. The accompanying condensed consolidated financial statements do not reflect any adjustments relating to the recoverability and classification of liabilities that might result from the outcome of these uncertainties. In addition, a confirmed plan of reorganization will materially change amounts reported in the Company s consolidated financial statements, which do not give effect to any adjustments of the carrying value of assets and liabilities that are necessary as a consequence of reorganization under Chapter 11.

Subsequent to the bankruptcy filing date, the provisions in Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7), apply to the Debtors financial statements while the Debtors operate under the provisions of Chapter 11. SOP 90-7 does not change the application of U.S. GAAP in the preparation of financial statements. However, SOP 90-7 does require that the financial statements, for periods including and subsequent to the filing of the Chapter 11 petition, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the Company.

Change in Accounting Principle

Effective January 1, 2006, the Company accounts for stock-based compensation utilizing the fair value approach described in Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (Revised 2004) (SFAS No. 123 (R)), as this statement has been amended and revised. On September 20, 2005, the Company fully vested the entire unvested portion of its outstanding stock options. Therefore, the adoption of SFAS No. 123 (R) had no material impact on the Company s financial statements (see Note 12).

Prior to the adoption of SFAS No. 123 (R), the Company accounted for stock options granted to employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB Opinion No. 25).

Note 2. Chapter 11 Reorganization Proceedings

On February 2, 2005 (the Petition Date), the Debtors filed a voluntary petition for relief under the Bankruptcy Code in the United States Bankruptcy Court Southern District of New York (Bankruptcy Court). The cases were consolidated for administrative purposes. The filing was made necessary by: customer pricing pressures, North American automotive production cuts, significantly higher material costs (primarily steel) and the termination of accelerated payment programs of certain customers adversely affecting the Debtor s liquidity and financial condition, all of which raise substantial doubt as to the Company s ability to continue as a going

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concern. The Debtors are operating their businesses as debtors-in-possession (DIP) pursuant to the Bankruptcy Code. An official committee of unsecured creditors has been appointed.

Pursuant to the provisions of the Bankruptcy Code, all actions to collect upon any of the Debtors liabilities as of the Petition Date or to enforce pre-petition date contractual obligations are automatically stayed. As a general rule, absent approval from the Bankruptcy Court, the Debtors are prohibited from paying pre-petition obligations. In addition, as a consequence of the Chapter 11 filing, pending litigation against the Debtors is generally stayed, and no party may take any action to collect pre-petition claims except pursuant to an order of the Bankruptcy Court. However, the Debtors have requested that the Bankruptcy Court approve certain pre-petition liabilities, such as employee wages and benefits and certain other pre-petition obligations. Since the filing, all orders sufficient to enable the Debtors to conduct normal business activities, including the approval of the Debtors DIP financing, have been entered by the Bankruptcy Court. See Note 9 for a description of the DIP financing. While the Debtors are in bankruptcy, transactions of the Debtors outside the ordinary course of business will require the prior approval of the Bankruptcy Court.

The objectives of the Chapter 11 filing were to protect and preserve the value of assets and to restructure and improve the Debtors operational and financial affairs in order to return to profitability. While the Company believes it will be able to significantly reduce the Debtors unsustainable liabilities and simplify its complex and restrictive capital structure through the bankruptcy process, there can be no certainty that it will be successful in doing so.

The Debtors intend to file a plan of reorganization with the Bankruptcy Court. The Company is unable to estimate what recovery such a plan of reorganization will provide holders of the Debtors unsecured pre-petition debt. While the Debtors filed for Chapter 11 to gain relief from significant pre-petition debt levels and to address needed operational restructuring of the business, the extent to which such relief will be achieved is uncertain at this time. The Company requested an extension of the required due date for the filing of its plan of reorganization and the Bankruptcy Court approved an extension of the due date to February 28, 2007.

Financial Statement Classification

The majority of the Debtors pre-petition debt is in default and is classified as Liabilities Subject to Compromise in the accompanying Condensed Consolidated Balance Sheets at September 30, 2006 and December 31, 2005 (see Note 9).

In addition to the Debtors pre-petition debt which is in default, liabilities subject to compromise reflects the Debtors other liabilities incurred prior to the commencement of the bankruptcy proceedings. These amounts represent the Company s estimate of known or potential pre-petition claims to be resolved in connection with the bankruptcy proceedings. Such claims remain subject to future adjustments. Future adjustments may result from: (i) negotiations; (ii) actions of the Bankruptcy Court; (iii) further developments with respect to disputed claims; (iv) rejection of executory contracts and leases; (v) the determination of value of any collateral securing claims; (vi) proofs of claims; or (vii) other events. Payment terms for these claims will be established in connection with a plan of reorganization.

Liabilities subject to compromise consist of the following (in thousands):

	September 30, 2006	December 31, 2005
Debt:		
5.75% Convertible senior debentures	$ 124,999	$ 124,999
6.75% Subordinated debentures	258,750	258,750
9.25% Senior Euro notes	190,065	177,600
12% Senior notes	258,000	258,000
Total debt	831,814	819,349
Pension and other post-retirement benefits	141,669	162,886
Pre-petition accounts payable and accruals	169,557	195,294
Accrued interest on debt subject to compromise	21,343	21,343
Executory contracts	115,455	85,345

Total liabilities subject to compromise	$	1,279,838	$	1,284,217

The Debtors have incurred certain professional and other expenses directly associated with the bankruptcy proceedings. The Company disbursed cash of approximately $5.2 million and $5.0 million relating to these expenses during the three months ended September 30, 2006 and 2005, respectively and $21.8 million and $18.3 million for the nine months ended September 30, 2006 and 2005,

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respectively. In addition, the Debtors have made certain provisions to adjust the carrying value of certain pre-petition liabilities to reflect the Debtors estimate of allowed claims. Such costs are classified as Chapter 11 and related reorganization items in the accompanying Statements of Operations for the three months ended September 30, 2006 and 2005 and for the nine months ended September 30, 2006 and 2005 and consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Professional fees directly related to the filing	$ 7,807	$ 4,547	$ 28,943	$ 24,511
Key employee retention (forfeitures) costs	(738)	1,675	3,098	3,368
Write off of deferred financing costs				29,135
Estimated executory contract rejection (recoveries) damages	(181)	393	30,118	94,313
Other (reversals) expenses directly attributable to the Company s reorganization	(4,146)		(4,146)	197
Total	$ 2,742	$ 6,615	$ 58,013	$ 151,524

Pursuant to the Bankruptcy Code, the Debtors have filed schedules with the Bankruptcy Court setting forth the assets and liabilities of the Debtors as of the Petition Date. The Debtors have issued proof of claim forms to current and prior employees, known creditors, vendors and other parties with whom the Debtors have previously conducted business. To the extent the recipients disagree with the claims quantified on these forms, the recipient may file discrepancies with the Bankruptcy Court. Differences between the amounts recorded by the Debtors and claims filed by creditors will be investigated and resolved as part of the bankruptcy proceedings. The Bankruptcy Court ultimately will determine liability amounts that will be allowed for these claims. The Company is in the process of receiving, cataloging and reconciling claims received in conjunction with this process. Because the Debtors have not received all claims and have not completed the evaluation of the claims received in connection with this process, the ultimate number and allowed amount of such claims is not presently known. The resolution of such claims could result in a material adjustment to the Company s financial statements.

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Debtors Financial Statements

Presented below are the condensed combined financial statements of the Debtors. These statements reflect the financial position, results of operations and cash flows of the combined Debtors, including certain transactions and resulting assets and liabilities between the Debtors and non-Debtor subsidiaries of the Company, which are eliminated in the Company s condensed consolidated financial statements.

Debtors Condensed Combined Balance Sheet
Debtors- in-Possession
(Amounts in thousands)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,491	$ 858
Accounts receivable	146,119	173,206
Inventories	62,244	60,068
Prepaid tooling and other	17,115	65,882
Total current assets	259,969	300,014
Property, plant and equipment, net	507,427	538,598
Investments in and advances to non-debtor subsidiaries	857,915	796,662
Other assets, net	45,899	60,959
Total assets	$ 1,671,210	$ 1,696,233
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities not subject to compromise:		
Current maturities of long-term debt and capital lease obligations	$ 15,156	$ 14,257
Current portion of debtor-in-possession borrowings	650,000	
Accounts payable	115,703	134,069
Accrued liabilities	103,285	87,098
Total current liabilities	884,144	235,424
Liabilities subject to compromise	1,296,201	1,300,580
Non-current liabilities not subject to compromise:		
Long-term debt, net of current maturities	84,751	84,754
Long-term portion of debtor-in-possession borrowings		531,000
Other noncurrent liabilities	19,283	32,098
Total noncurrent liabilities	104,034	647,852

Total stockholders deficit	(613,169)	(487,623)
Total liabilities and stockholders deficit	$ 1,671,210	$ 1,696,233

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Debtors Condensed Combined Statement of Operations
Debtors-in-Possession
(Amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues	$ 295,061	$ 418,485	$ 1,135,103	$ 1,553,624
Cost of sales	303,972	412,218	1,105,667	1,476,718
Gross profit	(8,911)	6,267	29,436	76,906
Selling, general and administrative expenses	18,056	22,420	57,543	76,479
Restructuring and asset impairment charges, net	14,734	37,453	24,998	106,886
Other operating income	(828)		(2,943)	
Operating loss	(40,873)	(53,606)	(50,162)	(106,459)
Interest expense	20,927	18,754	58,964	78,841
Interest income	(322)	(9)	(1,281)	(135)
Intercompany interest income	(7,366)	(5,411)	(19,896)	(17,009)
Chapter 11 and related reorganization items	2,742	6,615	58,013	151,524
Loss before provision for income taxes, equity in earnings of joint ventures and equity in earnings from non-Debtor subsidiaries	(56,854)	(73,555)	(145,962)	(319,680)
Provision (benefit) for income taxes	1,248	(2,806)	3,352	5,409
Loss before equity in earnings of joint ventures and equity in earnings of non-Debtor subsidiaries	(58,102)	(70,749)	(149,314)	(325,089)
Equity in earnings of joint ventures, net of tax	79	48	215	48
Equity in earnings (losses) of non-Debtor subsidiaries, net of tax	(7,142)	(5,855)	(1,788)	16,037
Net loss	$ (65,165)	$ (76,556)	$ (150,887)	$ (309,004)

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Debtors Condensed Combined Statements of Cash Flows
Debtors- in-Possession
(Amounts in thousands)

	Nine Months Ended September 30,