TOWER AUTOMOTIVE INC
Form 10-Q
September 15, 2006

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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 June 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 September 8, 2006, was 58,548,651 shares.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 120,123	$ 65,791
Accounts receivable	392,484	363,040
Inventories	134,316	123,433
Prepaid tooling and other	134,006	185,646
Total current assets	780,929	737,910
Property, plant and equipment, net	983,926	1,038,794
Investments in joint ventures	242,852	228,634
Goodwill	164,524	153,037
Other assets, net	129,480	132,851
Total assets	$ 2,301,711	$ 2,291,226
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities not subject to compromise:		
Current maturities of long-term debt and capital lease obligations	$ 142,375	$ 151,755
Current portion of debtor-in-possession borrowings	607,000	
Accounts payable	371,878	378,816
Accrued liabilities	181,821	169,248
Total current liabilities	1,303,074	699,819
Liabilities subject to compromise	1,299,553	1,284,217
Non-current liabilities not subject to compromise:		
Long-term debt, net of current maturities	106,383	107,823
Debtor-in-possession borrowings		531,000
Capital lease obligations, net of current maturities	30,876	30,308
Other non-current liabilities	108,893	125,682
Total non-current liabilities	246,152	794,813
Stockholders deficit:		

Preferred stock		
Common stock	666	666
Additional paid-in-capital	681,653	681,102
Accumulated deficit	(1,192,564)	(1,106,840)
Deferred compensation plans		(6,798)
Accumulated other comprehensive income (loss)	12,501	(6,429)
Treasury stock	(49,324)	(49,324)
Total stockholders deficit	(547,068)	(487,623)
Total liabilities and stockholders deficit	$ 2,301,711	$ 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 June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenues	$ 766,907	$ 923,014	$ 1,536,627	$ 1,838,894
Cost of sales	708,778	843,625	1,428,710	1,694,714
Gross profit	58,129	79,389	107,917	144,180
Selling, general and administrative expenses	33,044	39,422	67,081	82,628
Restructuring and asset impairment charges, net	28,342	39,289	30,864	71,184
Other operating income			(520)	
Operating income (loss)	(3,257)	678	10,492	(9,632)
Interest expense (contractual interest of $40,929 and $79,810 in 2006 and $40,819 and $94,226 in 2005)	22,664	22,392	43,470	66,501
Interest income	(756)	(49)	(1,212)	(488)
Chapter 11 and related reorganization items	43,662	103,287	55,271	144,909
Loss before provision for income taxes, equity in earnings of joint ventures, and minority interest	(68,827)	(124,952)	(87,037)	(220,554)
Provision for income taxes	11,885	9,697	9,730	15,822
Loss before equity in earnings of joint ventures, and minority interest	(80,712)	(134,649)	(96,767)	(236,376)
Equity in earnings of joint ventures, net of tax	7,533	2,222	14,217	6,485
Minority interest, net of tax	(2,206)	(1,223)	(3,172)	(2,557)
Net loss	$ (75,385)	$ (133,650)	$ (85,722)	$ (232,448)
Basic and diluted loss per share	$ (1.29)	$ (2.28)	$ (1.46)	$ (3.96)
Weighted average basic and diluted shares outstanding	58,661	58,646	58,657	58,647

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)

	Six Months Ended June 30, 2006	2005 (as restated see Note 1)
OPERATING ACTIVITIES:		
Net loss	$ (85,722)	$ (232,448)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Chapter 11 and related reorganization items, net	38,682	131,535
Non-cash restructuring and impairment, net	26,313	63,722
Depreciation	81,405	89,931
Deferred income tax provision (benefit)	(7,448)	12,711
Equity in earnings of joint ventures, net	(14,217)	(6,485)
Change in working capital and other operating items	(9,994)	(170,509)
Net cash provided by (used in) operating activities	29,019	(111,543)
INVESTING ACTIVITIES:		
Cash disbursed for purchases of property, plant and equipment	(60,359)	(89,718)
Cash proceeds from asset disposal	32,664	
Net cash used in investing activities	(27,695)	(89,718)
FINANCING ACTIVITIES:		
Proceeds from borrowings	20,894	18,452
Repayments of borrowings	(43,886)	(449,871)
Proceeds from DIP credit facility	345,500	866,785
Repayments of DIP credit facility	(269,500)	(331,625)
Net cash provided by financing activities	53,008	103,741
NET CHANGE IN CASH AND CASH EQUIVALENTS	54,332	(97,520)
Cash and cash equivalents, beginning of period	65,791	149,101
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 120,123	$ 51,581
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	$ 38,920	$ 29,161

Income taxes paid (refunded)	$ 4,140	$ (292)
Non-cash investing activities:		
Net decrease in liabilities for purchases of property, plant and equipment	$ (12,321)	$ (38,181)

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) applies 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).

Restatement

Subsequent to the issuance of the Company s Condensed Consolidated Financial Statements for the period ended June 30, 2005 the Company concluded that the Company must correct the presentation of its Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2005. Previously, the Company was reporting capital expenditures in its Condensed Consolidated Statement of Cash Flows on an accrual basis rather than on a cash basis. Accordingly, the Company reported capital expenditures in the Condensed Consolidated Statement of Cash Flows in the period in which the Company acquired legal title to the related property, plant or equipment rather than when the

Company actually paid the vendor for such property, plant or equipment. The impact of restating this presentation in the Condensed Consolidated Statement of Cash Flows from an accrual basis to a cash basis decreases or increases cash provided by operations with corresponding decreases or increases in cash utilized in investing activities.

As a result, the accompanying Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2005, including the Consolidating Financial Statements in Note 17, have been restated to correct this error. A summary of the impact of this restatement is as follows (in thousands):

	Six Months Ended June 30, 2005	
Consolidated Financial Statement Caption	**As previously reported**	**As restated**
Consolidated Statement of Cash Flows		
Change in working capital and other operating items	(208,690)	(170,509)
Net cash used in operating activities	(149,724)	(111,543)
Cash disbursed for purchases of property, plant and equipment*	(51,537)	(89,718)
Net cash used in investing activities	(51,537)	(89,718)
Net decrease in liabilities for purchases of property, plant and equipment		(38,181)

* Previously referred to as Capital expenditures, net when amounts accrued were included.

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 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.

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 June 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):

	June 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	191,790	177,600
12% Senior notes	258,000	258,000
Total debt	833,539	819,349
Pension and other post-retirement benefits	153,854	162,886
Pre-petition accounts payable and accruals	175,181	195,294
Accrued interest on debt subject to compromise	21,343	21,343
Executory contracts	115,636	85,345
Total liabilities subject to compromise	$ 1,299,553	$ 1,284,217

The Debtors have incurred certain professional and other expenses directly associated with the bankruptcy proceedings. The Company disbursed cash of approximately $11.0 million and $9.9 million relating to these expenses during the three months ended June 30, 2006 and 2005, respectively and $16.6 million and $13.3 million for the six months ended June 30, 2006 and 2005, 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 June 30, 2006 and 2005 and for the six months ended June 30, 2006 and 2005 and consist of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Professional fees directly related to the filing	$ 12,556	$ 7,770	$ 21,136	$ 19,964
Key employee retention costs	875	1,657	3,836	1,693
Write off of deferred financing costs				29,135
Estimated executory contract rejection damages	30,231	93,712	30,299	93,920
Other expenses directly attributable to the Company s reorganization		148		197
Total	$ 43,662	$ 103,287	$ 55,271	$ 144,909

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)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,879	$ 858
Accounts receivable	159,811	173,206
Inventories	61,755	60,068
Prepaid tooling and other	27,546	65,882
Total current assets	300,991	300,014
Property, plant and equipment, net	511,457	538,598
Investments in and advances to non-debtor subsidiaries	856,264	796,662
Other assets, net	51,616	60,959
Total assets	$ 1,720,328	$ 1,696,233
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities not subject to compromise:		
Current maturities of long-term debt and capital lease obligations	$ 14,255	$ 14,257
Current portion of debtor-in-possession borrowings	607,000	
Accounts payable	129,809	134,069
Accrued liabilities	95,086	87,098
Total current liabilities	846,150	235,424
Liabilities subject to compromise	1,315,916	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	20,579	32,098
Total noncurrent liabilities	105,330	647,852

Total stockholders deficit	(547,068)	(487,623)
Total liabilities and stockholders deficit	$ 1,720,328	$ 1,696,233

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenues	$ 408,392	$ 557,522	$ 840,042	$ 1,135,139
Cost of sales	385,437	519,356	801,695	1,064,500
Gross profit	22,955	38,166	38,347	70,639
Selling, general and administrative expenses	18,229	25,277	39,487	54,059
Restructuring and asset impairment charges, net	7,853	37,538	10,264	69,433
Other operating income	(810)		(2,115)	
Operating loss	(2,317)	(24,649)	(9,289)	(52,853)
Interest expense	20,017	19,402	38,037	60,087
Interest income	(638)	(1)	(959)	(126)
Inter-company interest income	(6,436)	(5,708)	(12,530)	(11,598)
Chapter 11 and related reorganization items	43,662	103,287	55,271	144,909
Loss before provision for income taxes, equity in earnings of joint ventures and equity in earnings from non-Debtor subsidiaries	(58,922)	(141,629)	(89,108)	(246,125)
Provision for income taxes	1,166	4,964	2,104	&n