

SHILOH INDUSTRIES INC
Form 10-Q
February 22, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended January 31, 2007

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 0-21964

SHILOH INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

Suite 202, 103 Foulk Road, Wilmington, Delaware 19803

(Address of principal executive offices zip code)

51-0347683
(I.R.S. Employer

Identification No.)

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(302) 656-1950

(Registrant's telephone number, including area code)

N/A

(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of Common Stock outstanding as of February 20, 2007 was 16,398,698.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****SHILOH INDUSTRIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollar amounts in thousands)

(Unaudited)

| | January 31, | October 31, |
|---|-------------|-------------|
| | 2007 | 2006 |
| ASSETS | | |
| Cash and cash equivalents | \$ 372 | \$ 367 |
| Accounts receivable, net of allowance for doubtful accounts of \$647 and \$680 at January 31, 2007 and October 31, 2006, respectively | 89,376 | 99,433 |
| Related-party accounts receivable | 10,720 | 3,670 |
| Income taxes receivable | | 2,015 |
| Inventories, net | 41,604 | 44,644 |
| Deferred income taxes | 6,517 | 6,431 |
| Prepaid expenses | 713 | 971 |
| Investment in rabbi trust | 110 | 1,677 |
| Total current assets | 149,412 | 159,208 |
| Property, plant and equipment, net | 217,007 | 221,823 |
| Other assets | 1,932 | 2,004 |
| Total assets | \$ 368,351 | \$ 383,035 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current debt | \$ 12,448 | \$ 12,705 |
| Accounts payable | 63,260 | 77,474 |
| Accrued income taxes | 1,051 | |
| Other accrued expenses | 29,472 | 33,260 |
| Accrued restructuring charges | 750 | 750 |
| Total current liabilities | 106,981 | 124,189 |
| Long-term debt | 113,504 | 72,179 |
| Deferred income taxes | 16,239 | 16,237 |
| Long-term benefit liabilities | 8,509 | 7,987 |
| Other liabilities | 386 | 427 |
| Total liabilities | 245,619 | 221,019 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |

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Common stock, 16,348,698 and 16,313,883 shares issued and outstanding at January 31, 2007 and October 31, 2006, respectively

| | | |
|--|----------------|----------------|
| | 163 | 163 |
| Paid-in capital | 58,944 | 58,700 |
| Retained earnings | 79,401 | 118,791 |
| Accumulated other comprehensive loss | (15,776) | (15,638) |
| Total stockholders' equity | 122,732 | 162,016 |
| Total liabilities and stockholders' equity | \$ 368,351 | \$ 383,035 |

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

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SHILOH INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

(Unaudited)

| | Three months ended | |
|--|--------------------|------------|
| | January 31, | |
| | 2007 | 2006 |
| Revenues | \$ 147,625 | \$ 145,745 |
| Cost of sales | 136,037 | 129,311 |
| Gross profit | 11,588 | 16,434 |
| Selling, general and administrative expenses | 7,615 | 7,619 |
| Operating income | 3,973 | 8,815 |
| Interest expense | 1,706 | 1,488 |
| Interest income | 13 | 10 |
| Other income, net | 275 | 42 |
| Income before income taxes | 2,555 | 7,379 |
| Provision for income taxes | 1,073 | 2,804 |
| Net income | \$ 1,482 | \$ 4,575 |
| Earnings per share: | | |
| Basic earnings per share | \$.09 | \$ 0.29 |
| Basic weighted average number of common shares | 16,331 | 15,949 |
| Diluted earnings per share | \$.09 | \$ 0.28 |
| Diluted weighted average number of common shares | 16,484 | 16,422 |
| Special cash dividend declared and paid, per share | \$ 2.50 | \$ |

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

Table of Contents**SHILOH INDUSTRIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollar amounts in thousands)

(Unaudited)

| | Three months ended January 31, | |
|---|---------------------------------------|-------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 1,482 | \$ 4,575 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,596 | 8,325 |
| Asset impairment charges | 59 | |
| Amortization of deferred financing costs | 72 | 78 |
| Deferred income taxes | (84) | (2) |
| Stock-based compensation expense | 51 | 89 |
| Loss (gain) on sale of assets | 9 | (2) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,007 | 21,059 |
| Inventories | 3,040 | (8,720) |
| Prepays and other assets | 1,688 | (136) |
| Payables and other liabilities | (9,095) | (6,836) |
| Income taxes receivable, and estimated payments | 3,066 | 2,312 |
| Net cash provided by operating activities | 10,891 | 20,742 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (2,128) | (3,536) |
| Proceeds from sale of assets | | 2 |
| Purchase of investment securities | | (252) |
| Net cash used in investing activities | (2,128) | (3,786) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments of short-term borrowings | (202) | (278) |
| Payment of capital lease | (76) | (30) |
| Decrease in overdraft balances | (9,149) | (9,360) |
| Proceeds from long-term borrowings | 41,800 | 3,927 |
| Repayments of long-term borrowings | (452) | (11,025) |
| Payment of dividends | (40,872) | |
| Proceeds from exercise of stock options | 192 | 46 |
| Tax benefit on employee stock options and stock compensation | 1 | 18 |
| Net cash used in financing activities | (8,758) | (16,702) |
| Net increase in cash and cash equivalents | 5 | 254 |
| Cash and cash equivalents at beginning of period | 367 | 661 |
| Cash and cash equivalents at end of period | \$ 372 | \$ 915 |

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Supplemental Cash Flow Information:

| | | |
|--|------------|----------|
| Cash paid for interest | \$ 1,617 | \$ 1,439 |
| Cash (refund of) paid for income taxes | \$ (2,071) | \$ 510 |

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

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SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share data)

Note 1 Basis of Presentation

The condensed consolidated financial statements have been prepared by Shiloh Industries, Inc. and its subsidiaries (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished in the condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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 fiscal year ended October 31, 2006.

Revenues and operating results for the three months ended January 31, 2007 are not necessarily indicative of the results to be expected for the full year.

Note 2 New Accounting Standards

In July 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the impact that the adoption of FIN No. 48 will have on its consolidated financial position, results of operations and cash flow.

In September 2006, the FASB issued SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires an employer to recognize a plan's funded status in its statement of financial position, measure a plan's assets and obligations as of the end of the employer's fiscal year and recognize the changes in a defined benefit postretirement plan's funded status in comprehensive income in the year in which the changes occur. SFAS 158's requirement to recognize the funded status of a benefit plan and new disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company is currently assessing the impact SFAS 158 will have on its consolidated financial statements. Based on information as of October 31, 2006, the impact of adopting SFAS 158 would reduce assets and stockholders' equity by \$1,078, the amount of long-term pension assets.

Note 3 Asset Impairment and Restructuring Charges

In October 2006, management presented to the Board of Directors an assessment of its current business at its Cleveland Stamping facility. This facility, which is leased from MTD Products Inc. (MTD) as part of the acquisition by the Company of MTD Automotive in 1999, is faced with declining business volumes. The two major customers at the Cleveland Stamping facility are balancing out programs for which the Company provides components during the first and second quarters of fiscal 2007. The Company has therefore committed to a plan to cease operation of the Cleveland facility. As a result, the Company has recorded an impairment charge to reduce long-lived assets, acquired since the acquisition, to their estimated fair value. The Company has also recorded an estimated restructuring charge related to approximately 200 employees for severance, health insurance and curtailment of the retirement plan for employees of the Cleveland plant and such amounts are subject to change based on future restructuring charges, as incurred. During the fourth quarter of fiscal 2006, the Company recorded the restructuring charges shown in the table below, in addition to asset impairment of \$3,072. In the first quarter of fiscal 2007, the Company refined its estimate of asset impairments and recorded an additional charge of \$59. There has been no new activity related to the restructuring in the first quarter of fiscal 2007. The Company does not anticipate further adjustments to the cost of restructuring at this time.

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| | 2007 | 2006 |
|------------------------|----------|----------|
| Restructuring | | |
| Severance and benefits | \$ 750 | \$ 750 |
| Pension curtailment | 875 | 875 |
| Total restructuring | \$ 1,625 | \$ 1,625 |

Note 4 Inventories

Inventories consist of the following:

| | January 31, 2007 | October 31, 2006 |
|-----------------|---------------------|---------------------|
| Raw materials | \$ 15,528 | \$ 17,937 |
| Work-in-process | 6,321 | 6,232 |
| Finished goods | 12,084 | 12,961 |
| Total material | 33,933 | 37,130 |
| Tooling | 7,671 | 7,514 |
| Total inventory | \$ 41,604 | \$ 44,644 |

Total cost of inventory is net of reserves to reduce certain inventory from cost to net realizable value. Such reserves aggregated \$2,120 and \$2,238 at January 31, 2007 and October 31, 2006, respectively.

Note 5 Property, Plant and Equipment

Property, plant and equipment consist of the following:

| | January 31, 2007 | October 31, 2006 |
|------------------------------------|---------------------|---------------------|
| Land and improvements | \$ 8,530 | \$ 8,530 |
| Buildings and improvements | 103,914 | 103,814 |
| Machinery and equipment | 326,733 | 326,170 |
| Furniture and fixtures | 11,406 | 21,471 |
| Construction in progress | 10,598 | 8,775 |
| Total, at cost | 461,181 | 468,760 |
| Less: Accumulated depreciation | 244,174 | 246,937 |
| Property, plant and equipment, net | \$ 217,007 | \$ 221,823 |

Note 6 Financing Arrangements

Debt consists of the following:

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| | January 31, 2007 | October 31, 2006 |
|--|---------------------|---------------------|
| Amended and Restated Credit Agreement interest at 6.86% and 6.81% at January 31, 2007 and October 31, 2006, respectively | \$ 122,100 | \$ 80,300 |
| Insurance broker financing agreement | 307 | 508 |
| State of Ohio promissory note | 1,533 | 1,612 |
| Two-year notes | 1,662 | 2,035 |
| Capital lease debt | 350 | 429 |
| Total debt | 125,952 | 84,884 |
| Less: Current debt | 12,448 | 12,705 |
| Total long-term debt | \$ 113,504 | \$ 72,179 |

The weighted average interest rate of all debt excluding the capital lease debt was 6.82 % and 5.97% for the three months ended January 31, 2007 and 2006, respectively.

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The Company's Amended and Restated Credit Agreement (the "Amended Credit Agreement") provides the Company with borrowing capacity of \$175,000 in the form of a five-year \$125,000 revolving credit facility and a five-year term loan of \$50,000, each maturing January 2010. The balance of the term loan at January 31, 2007 was \$30,000.

Under the Amended Credit Agreement, the Company has the option to select the applicable interest rate based upon two indices: a Base Rate, as defined in the Amended Credit Agreement, or the Eurodollar rate, as adjusted by the Eurocurrency Reserve Percentage, if any ("LIBOR"). The selected index is combined with a designated margin from an agreed upon pricing matrix. The Base Rate is the greater of the LaSalle Bank publicly announced prime rate or the Federal Funds effective rate plus 0.5% per annum. LIBOR is the published Bloomberg Financial Markets Information Service rate. At January 31, 2007, the interest rate for the revolving credit facility and the term loan was LIBOR plus 1.50%. The margins for the revolving credit facility and the term loan have improved from the margins in place at October 31, 2005 because the Company achieved an improved ratio of funded debt to EBITDA, as defined in the Amended Credit Agreement.

Borrowings under the Amended Credit Agreement are collateralized by a first priority security interest in substantially all of the tangible and intangible property of the Company and its domestic subsidiaries and 65% of the stock of foreign subsidiaries.

The Amended Credit Agreement requires the Company to observe several financial covenants. At January 31, 2007, the covenants required a minimum fixed charge coverage ratio of 1.25 to 1.00, a maximum leverage ratio of 2.75 to 1.00 and a minimum net worth equal to the sum of \$100,000 plus 50% of consolidated net income since October 31, 2004. The Amended Credit Agreement also establishes limits for additional borrowings, dividends, investments, acquisitions or mergers and sales of assets. On December 20, 2006, the Amended Credit Agreement was further amended to permit a distribution of a special dividend to shareholders of the Company. The covenants of the Amended Credit Agreement remain in place with exceptions permitted for this special dividend. The Board of Directors of the Company declared a special dividend of \$2.50 per share, paid on January 19, 2007 to shareholders of record as of January 5, 2007. At January 31, 2007, the Company was in compliance with the covenants under the Amended Credit Agreement.

Borrowings under the revolving credit facility must be repaid in full in January 2010. Repayments of borrowings under the term loan began in March 2005 in equal quarterly installments of \$2,500 with the final payment due on December 31, 2009. The Company may prepay the borrowings under the revolving credit facility and the term loan without penalty.

The Amended Credit Agreement specifies that upon the occurrence of an event or condition deemed to have a material adverse effect on the business or operations of the Company, as determined by the administrative agent of the lending syndicate or the required lenders, as defined, of 51% of the aggregate commitment under the Amended Credit Agreement, the outstanding borrowings become due and payable. However, the Company does not anticipate at this time any change in business conditions or operations that could be deemed as a material adverse change by the lenders.

In July 2006, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 6.67% and requires monthly payments of \$103 through April 2007. In June 2005, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 4.99% and requires monthly payments of \$94 through April 2006. As of January 31, 2007 and October 31, 2006, \$307 and \$508, respectively, remained outstanding under these agreements and were classified as current debt in the Company's consolidated balance sheets.

In June 2004, the Company issued a \$2,000 promissory note to the State of Ohio related to specific machinery and equipment at one of the Company's Ohio facilities. The promissory note bore interest at 1% for the first year of the term and 3% per annum for the balance of the term, with interest only payments for the first year of the term. Principal payments began in August 2005 in the amount of \$25, and monthly principal payments continue thereafter increasing annually until July 2011, when the loan matures. The Company may prepay this promissory note without penalty.

During fiscal 2006, the Company entered into two two-year note agreements with a bank to finance the purchase of equipment that the Company formerly leased. The notes bear interest at 6.56% and 6.91%, respectively, and require monthly payments of \$55 and \$81, respectively, through December 2007 and March 2008. In addition, the Company entered into a two-year capital lease agreement in the amount of \$463 for computer software.

After considering letters of credit of \$4,930 that the Company has issued, available funds under the Amended Credit Agreement were \$27,970 at January 31, 2007. Overdraft balances were \$13,558 and \$22,708 at January 31, 2007 and October 31, 2006, respectively, and are included in accounts payable in the Company's accompanying consolidated balance sheets.

Table of Contents**Note 7 Fair Value of Derivative Financial Instruments**

The Company does not engage in derivatives trading, market-making or other speculative activities. The intent of any contracts entered into by the Company is to reduce exposure to currency movements affecting foreign currency purchase commitments. The Company's risks related to foreign currency exchange risks have historically not been material. The Company does not expect the effects of these risks to be material in the future based on current operating and economic conditions in the countries and markets in which it operates. These contracts are marked-to-market and the resulting gain or loss is recorded in the consolidated statements of operations in accordance with SFAS No. 133,

Accounting for Derivative Instruments and Hedging Activities, as amended. As of January 31, 2007, there were no foreign currency forward exchange contracts outstanding.

In the normal course of business, the Company employs established policies and procedures to manage exposure to changes in interest rates. The Company's objective in managing the exposure to interest rate changes is to limit the volatility and impact of interest rate changes on earnings and cash flows. In January 2005, the Company entered into a \$25,000 interest rate collar agreement that resulted in fixing the interest rate on a portion of the term loan under the Amended Credit Agreement between a floor of 3.08% and a cap of 5.25%. The collar agreement terminated on January 12, 2007.

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, the Company had designated the interest rate collar as a cash flow hedge and recognized the fair value of the interest rate collar agreement on the consolidated balance sheet. Gains and losses related to a hedge and that result from changes in the fair value of the hedge are either recognized in income immediately to offset the gain or loss on the hedged item, or deferred and reported as a component of other comprehensive income (loss) in stockholders' equity and subsequently recognized in income when the hedged item affects net income. The ineffective portion of the change in fair value of a hedge is recognized in income immediately. There was no hedge ineffectiveness for the three months ended January 31, 2007.

Note 8 Pension and Other Post-Retirement Benefit Matters

The components of net periodic benefit cost for the three months ended January 31, 2007 and 2006 are as follows:

| | Other Post-Retirement | | | |
|---------------------------------------|-----------------------|----------|----------|-------|
| | Pension Benefits | | Benefits | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 301 | \$ 926 | \$ 2 | \$ 3 |
| Interest cost | 567 | 906 | 16 | 15 |
| Expected return on plan assets | (592) | (917) | | |
| Recognized net actuarial loss | 177 | 545 | 42 | 37 |
| Amortization of prior service cost | 25 | 81 | (43) | (42) |
| Amortization of transition obligation | 4 | 22 | | |
| Net periodic benefit cost | \$ 482 | \$ 1,563 | \$ 17 | \$ 13 |

The total amount of Company contributions to the defined benefit pension plans paid for the three months ended January 31, 2007 was \$763. The Company expects estimated contributions to be \$3,939 for the remainder of fiscal 2007. Pension expense in fiscal 2007 has decreased as a result of the closure of the Company's Cleveland plant and the related freezing of benefits of the pension plan of the plant's workforce and the freezing of benefits of the Company's cash balance plan that covers all non-bargaining employees.

Under the Company's employment agreement with the Company's President and Chief Executive Officer, the Company established a supplemental executive retirement plan whereby the executive was entitled to a benefit of \$1,868 at the end of the five-year employment agreement in January 2007. This liability was funded at January 31, 2007, in accordance with the agreement.

Note 9 Equity Matters

Effective November 1, 2005, the Company adopted SFAS No. 123 (Revised 2004), Share-Based Payment. For the Company, SFAS No. 123R affects the stock options that have been granted and requires the Company to expense share-based payment (SBP) awards with compensation cost for SBP transactions measured at fair value. The Company adopted the modified-prospective-transition method and accordingly has not

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restated amounts in prior interim periods and fiscal years. The Company has elected to use the simplified method of calculating the expected term of the stock options and historical volatility to compute fair value under the Black-Scholes option-pricing model. The risk-free rate for periods within the

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contractual life of the option is based on the U.S. zero coupon Treasury yield in effect at the time of grant. Forfeitures have been estimated to be zero.

1993 Key Employee Stock Incentive Plan

The Company maintains the Amended and Restated 1993 Key Employee Stock Incentive Plan (the "Incentive Plan"), which authorizes grants to officers and other key employees of the Company and its subsidiaries of (i) stock options that are intended to qualify as incentive stock options, (ii) nonqualified stock options and (iii) restricted stock awards. An aggregate of 1,700,000 shares of Common Stock at an exercise price equal to 100% of the market value on the date of grant, subject to adjustment upon occurrence of certain events to prevent dilution or expansion of the rights of participants that might otherwise result from the occurrence of such events, has been reserved for issuance upon the exercise of stock options. An individual award is limited to 500,000 shares in a five-year period.

Non-qualified stock options and incentive stock options have been granted to date and all options have been granted at market price at the date of grant. The service period over which the stock options vest is three years from the date of grant. Options expire over a period not to exceed ten years from the date of grant. There were no grants of stock options during fiscal 2006 or the first quarter of fiscal 2007. On February 14, 2007, options to purchase 156,000 shares were awarded to several officers and employees at an exercise price of \$14.74. The following assumptions were used to compute the fair value of the stock options granted during fiscal 2005:

| | Fiscal 2005 |
|----------------------------|-------------|
| Risk-free interest | 4.45% |
| Expected life (in years) | 6.0 |
| Expected volatility factor | 72.23% |
| Expected dividend yield | 0.00% |

Activity in the Company's stock option plan for the three months ended January 31, 2007 and 2006 was as follows:

| | Fiscal 2007 | | | | Fiscal 2006 | | | |
|-----------------------------------|-------------|------------------|--------------|-----------|-------------|------------------|--------------|-----------|
| | Weighted | Weighted Average | | | Weighted | Weighted Average | | |
| | Average | Remaining | Aggregate | | Average | Remaining | Aggregate | |
| | Number of | Exercise Price | Contractual | Intrinsic | Number of | Exercise Price | Contractual | Intrinsic |
| | Shares | Per Share | Term (Years) | Value | Shares | Per Share | Term (Years) | Value |
| Options outstanding at November 1 | 254,727 | \$ 4.83 | | | 665,291 | \$ 3.34 | | |
| Options: | | | | | | | | |
| Granted | | | | | | | | |
| Exercised | (35,149) | \$ 5.64 | | \$ 388 | (8,164) | \$ 5.66 | | \$ 62 |
| Canceled | (2,000) | \$ 13.06 | | | | | | |
| Options outstanding at January 31 | 217,578 | \$ 4.62 | 6.38 | \$ 2,001 | 657,127 | \$ 3.31 | 7.04 | \$ 7,423 |
| Exercisable at January 31 | 177,579 | \$ 3.04 | 5.93 | \$ 1,914 | 479,294 | \$ 2.34 | 6.65 | \$ 5,883 |

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For the three months ended January 31, 2007 and 2006, the Company recorded compensation expense related to the stock options currently vesting, effectively reducing income before taxes and net income by \$51 and \$89, respectively. The impact on earnings per share was a reduction of \$.01 per share, basic and diluted in the first quarter of fiscal 2007 and 2006. The total compensation cost related to nonvested awards not yet recognized is expected to be a combined total of \$273 over the next two fiscal years, excluding the effect of the options most recently granted subsequent to January 31, 2007.

Earnings per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. In addition, the shares of Common Stock issuable pursuant to stock options outstanding under the Incentive Plan are included in the diluted earnings per share calculation to the extent they are dilutive. The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computation for net income per share:

| | Three months ended | |
|---|---------------------|----------|
| | January 31, 2007 | 2006 |
| Net income available to common stockholders | \$ 1,482 | \$ 4,575 |
| Basic weighted average shares | 16,331 | 15,949 |
| Effect of dilutive securities: | | |
| Stock options | 153 | 473 |
| Diluted weighted average shares | 16,484 | 16,422 |
| Basic income per share | \$ 0.09 | \$ 0.29 |
| Diluted income per share | \$ 0.09 | \$ 0.28 |

Comprehensive Income

Comprehensive income amounted to \$1,344 and \$4,565, net of tax, for the three months ended January 31, 2007 and 2006, respectively. In fiscal 2007, the difference between net income and comprehensive income is equal to the cumulative unrealized gains and losses on securities available for sale and the change in fair value of the interest rate collar. The securities available for sale were substantially liquidated in the first quarter of fiscal 2007 and the interest rate collar agreement concluded in January 2007. The difference between net income and comprehensive income for the three months ended January 31, 2006 is equal to the unrealized holding loss on securities available for sale and a change in the fair value of the interest rate collar.

Note 10 Commitments and Contingencies

In November 1999, the Company acquired the assets associated with the automotive division of MTD Products Inc. The Ohio Tax Commissioner (the "Commissioner") disputed the fair market value assigned by the Company to the purchased assets. Accordingly, the Commissioner claimed that the Company owed an additional amount of personal property tax for such assets. The Company appealed the Commissioner's decision to the Ohio Board of Tax Appeals, but in July 2006, the Board of Tax Appeals upheld the Commissioner's decision. Management of the Company strongly disagrees with the position of the Commissioner and the Board of Tax Appeals and the Company is currently appealing the decision of the Board of Tax Appeals to the Ohio Supreme Court. The Company, however, has carefully considered the probability of an adverse ruling and as a result has provided an accrual of \$2,324 included in cost of sales in the consolidated statement of operations during the fourth quarter of fiscal 2006. There has been no new activity regarding this matter during the first quarter of fiscal 2007.

Previous management of the Company had entered an alleged purchase commitment with a supplier for the purchase of equipment for the Company's operations. The supplier sued the Company for failure to fulfill the obligations under the

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commitment. During the fourth quarter of fiscal 2006, a jury found in favor of the supplier and awarded the supplier damages and pre-judgment interest amounting to \$2,726. The Company is appealing this decision. However, considering the adverse decision the Company evaluated the probable outcome upon appeal and provided an accrual of \$2,726 in the fourth quarter of fiscal 2006, representing damages plus pre-judgment interest. There has been no new activity regarding this matter during the first quarter of fiscal 2007.

In addition to the matters discussed above, the Company is a party to several lawsuits and claims arising in the normal course of its business. In the opinion of management, the Company's liability or recovery, if any, under pending litigation and claims, other than those matters discussed above, would not materially affect its financial condition, results of operations or cash flow.

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

(Dollars in thousands, except per share data)

General

Shiloh is a supplier of numerous parts to both automobile OEMs and, as a Tier II supplier, to Tier I automotive part manufacturers who in turn supply OEMs. The parts that the Company produces supply many models of vehicles manufactured by nearly all vehicle manufacturers that produce vehicles in North America. As a result, the Company's revenues are very dependent upon the North American production of automobiles and light trucks, particularly traditional domestic manufacturers, such as General Motors, DaimlerChrysler and Ford. According to industry statistics, traditional domestic manufacturer production for the first three months of fiscal 2007 declined by 10.4% and total North American car and light truck production for the first three months of fiscal 2007 decreased by 6.4%, in each case compared with production for the first three months of fiscal 2006.

Another significant factor affecting the Company's revenues is the Company's ability to successfully bid on the production and supply of parts for models that will be newly introduced to the market by the Company's customers. These new model introductions typically go through a start of production phase with build levels that are higher than normal because the consumer supply network is filled to ensure adequate supply to the market, resulting in an increase in the Company's revenues at the beginning of the cycle.

Plant utilization levels are very important to profitability because of the capital-intensive nature of these operations. At January 31, 2007, the Company's facilities were operating at approximately 47.5% capacity, compared to 47.7% capacity at January 31, 2006. The Company defines capacity as 20 working hours per day and five days per week. Utilization of capacity is dependent upon the releases against customer purchase orders that are used to establish production schedules and manpower and equipment requirements for each month and quarterly period of the fiscal year.

The significant majority of the steel purchased by the Company's stamping and engineered welded blank operations is purchased through the customers' steel program. Under these programs, the Company pays the steel suppliers and passes on to the customers the steel price the customers negotiated with the steel suppliers. Although the Company takes ownership of the steel, the customers are responsible for all steel price fluctuations. The Company also purchases steel directly from domestic primary steel producers and steel service centers. Domestic steel pricing has generally been increasing recently for several reasons, including capacity restraints, higher raw material costs and the weakening of the U.S. dollar in relation to foreign currencies. Finally, the Company blanks and processes steel for some of its customers on a toll processing basis. Under these arrangements, the Company charges a tolling fee for the operations that it performs without acquiring ownership of the steel and being burdened with the attendant costs of ownership and risk of loss. Toll processing operations result in lower revenues but higher gross margins than operations where the Company takes ownership of the steel. Revenues from operations involving directly owned steel include a component of raw material cost whereas toll processing revenues do not.

Changes in the price of scrap steel can have a significant effect on the Company's results of operations because substantially all of its operations generate engineered scrap steel. Engineered scrap steel is a planned by-product of the Company's processing operations, and net proceeds from the disposition of scrap steel contribute to gross margin by offsetting the increases in the cost of steel and the attendant costs of quality and availability. Changes in the price of steel impact the Company's results of operations because raw material costs are by far the largest component of cost of sales in processing directly owned steel. The Company actively manages its exposure to changes in the price of steel, and, in most instances, passes along the rising price of steel to its customers.

In November 1999, the Company acquired the assets associated with the automotive division of MTD Products Inc. The Ohio Tax Commissioner (the "Commissioner") disputed the fair market value assigned by the Company and MTD Products to the purchased assets. Accordingly, the Commissioner claimed that the Company owed an additional amount of

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personal property tax for such assets. The Company appealed the Commissioner's decision to the Ohio Board of Tax Appeals, but in July 2006, the Board of Tax Appeals upheld the Commissioner's decision. Management of the Company strongly disagrees with the position of the Commissioner and the Board of Tax Appeals and the Company is currently appealing the decision of the Board of Tax Appeals to the Ohio Supreme Court. If the Ohio Supreme Court upholds the decision of the Board of Tax Appeals, the Company will have to pay additional personal property tax for the 2001 through 2006 tax years in the approximate amount of \$2,324, including interest and will have increased personal property tax expense through the 2008 tax year in connection with these assets. The Company has carefully considered the probability of an adverse ruling and as a result provided an accrual of \$2,324 during the fourth quarter of fiscal 2006. There has been no new activity regarding this matter during the first quarter of fiscal 2007.

Critical Accounting Policies

Preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company believes its estimates and assumptions are reasonable; however, actual results and the timing of the recognition of such amounts could differ from those estimates. The Company has identified the items that follow as critical accounting policies and estimates utilized by management in the preparation of the Company's financial statements. These estimates were selected because of inherent imprecision that may result from applying judgment to the estimation process. The expenses and accrued liabilities or allowances related to these policies are initially based on the Company's best estimates at the time they are recorded. Adjustments are charged or credited to income and the related balance sheet account when actual experience differs from the expected experience underlying the estimates. The Company makes frequent comparisons of actual experience and expected experience in order to mitigate the likelihood that material adjustments will be required.

Revenue Recognition. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, the Company recognizes revenue when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and collectibility of revenue is reasonably assured. The Company records revenues upon shipment of product to customers and transfer of title under standard commercial terms. Price adjustments are recognized in the period when management believes that such amounts become probable, based on management's estimates.

Allowance for Doubtful Accounts. The Company evaluates the collectibility of accounts receivable based on several factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific allowance for doubtful accounts is recorded against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. Additionally, the allowance for doubtful accounts is estimated based on historical experience of write-offs and the current financial condition of customers. The financial condition of the Company's customers is dependent on, among other things, the general economic environment, which may substantially change, thereby affecting the recoverability of amounts due to the Company from its customers.

Inventory Reserves. Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out basis. Where appropriate, standard cost systems are used to determine cost and the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of lower of cost or market value of inventory are based upon current economic conditions, historical sales quantities and patterns, and in some cases, the specific risk of loss on specifically identified inventories.

The Company values inventories on a regular basis to identify inventories on hand that may be obsolete or in excess of current future projected market demand. For inventory deemed to be obsolete, the Company provides a reserve for the full value of the inventory, net of estimated realizable value. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates future demand. Additional inventory reserves may be required if actual market conditions differ from management's expectations.

Deferred Tax Assets. Deferred taxes are recognized at currently enacted tax rates for temporary differences between the financial reporting and income tax bases of assets and liabilities and operating loss and tax credit carryforwards. In assessing the realizability of deferred tax assets, the Company established a valuation allowance to record its deferred tax assets at an amount that is more likely than not to be realized. While future projections for taxable income and ongoing prudent and feasible tax planning strategies have been considered in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of their recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

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Impairment of Long-lived Assets. The Company's long-lived assets primarily include property, plant and equipment. If an indicator of impairment exists for certain groups of property, plant and equipment, the Company will compare the forecasted undiscounted cash flows attributable to the assets to their carrying value. If the carrying values exceed the undiscounted cash flows, the Company then determines the fair values of the assets. If the carrying value exceeds the fair value of the assets, then an impairment charge is recognized for the difference.

The Company cannot predict the occurrence of future impairment-triggering events. Such events may include, but are not limited to, significant industry or economic trends and strategic decisions made in response to changes in the economic and competitive conditions impacting the Company's business. Based on current facts, the Company believes there is currently no impairment to the Company's long-lived assets, except as discussed in Note 3 to the Condensed Consolidated Financial Statements.

Group Insurance and Workers' Compensation Accruals. The Company is self-insured for group insurance and workers' compensation and reviews these accruals on a monthly basis to adjust the balances as determined necessary. The Company reviews claims data and lag analysis as the primary indicators of the accruals. Additionally, the Company reviews specific large insurance claims to determine whether there is a need for additional accrual on a case-by-case basis. Changes in the claim lag periods and the specific occurrences could materially impact the required accrual balance period-to-period.

Share-Based Payments. The Company records compensation expense for the fair value of nonvested stock option awards over the remaining vesting period. The Company has elected to use the simplified method to calculate the expected term of the stock options outstanding at six years and has utilized historical volatility, most recently 72.23%. The Company determines the volatility and risk free rate assumptions used in computing the fair value using the Black-Scholes option-pricing model, in consultation with an outside third party.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions used are management's best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the recorded and pro forma stock-based compensation expense could have been materially different from that depicted in the financial statements. In addition, the Company has estimated a zero forfeiture rate. If actual forfeitures materially differ from the estimate, the share-based compensation expense could be materially different.

Pension and Other Post-retirement Costs and Liabilities. The Company has recorded significant pension and other post-retirement benefit liabilities that are developed from actuarial valuations. The determination of the Company's pension liabilities requires key assumptions regarding discount rates used to determine the present value of future benefit payments and the expected return on plan assets. The discount rate is also significant to the development of other post-retirement liabilities. The Company determines these assumptions in consultation with, and after input from, its actuaries.

The discount rate reflects the estimated rate at which the pension and other post-retirement liabilities could be settled at the end of the year. When determining the discount rate, the Company considers the most recent available interest rates on Moody's Aa corporate bonds with maturities of at least twenty years as of year-end. Based upon this analysis, the Company increased the discount rate used to measure its pension and post-retirement liabilities to 5.77% at October 31, 2006 from 5.50% at October 31, 2005. A change of 25 basis points in the discount rate would increase or decrease expense on an annual basis by approximately \$134.

The assumed long-term rate of return on pension assets is applied to the market value of plan assets to derive a reduction to pension expense that approximates the expected average rate of asset investment return over ten or more years. A decrease in the expected long-term rate of return will increase pension expense whereas an increase in the expected long-term rate will reduce pension expense. Decreases in the level of plan assets will serve to increase the amount of pension expense whereas increases in the level of actual plan assets will serve to decrease the amount of pension expense. Any shortfall in the actual return on plan assets from the expected return will increase pension expense in future years due to the amortization of the shortfall whereas any excess in the actual return on plan assets from the expected return will reduce pension expense in future periods due to the amortization of the excess. A change of 25 basis points in the assumed rate of return on pension assets would increase or decrease pension assets by approximately \$140.

The Company's investment policy for assets of the plans is to maintain an allocation generally of 40 to 60 percent in equity securities, 40 to 60 percent in debt securities, and 0 to 10 percent in real estate. Equity security investments are structured to achieve an equal balance between growth and value stocks. The Company determines the annual rate of return on pension assets by first analyzing the composition of its asset portfolio. Historical rates of return are applied to the portfolio. The Company's investment advisors and actuaries review this computed rate of return. Industry comparables and other outside guidance are also considered in the annual selection of the expected rates of return on pension assets.

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For the twelve months ended October 31, 2006, the actual return on pension plans' assets for all of the Company's plans approximated 13.0% to 15.9%, which was a higher rate of return than the 7.25% to 7.50% expected rates of return on plan assets used to derive pension expense. The higher actual return on plans assets reflects the recovery of the equity markets experienced from depressed levels, which have existed since the end of 2001. Based on recent and projected market and economic conditions, the Company revised its estimate for the expected long-term return on its plan assets to 7.25% to 7.50% for fiscal 2006, from 7.25% to 8.00%, the assumptions used to derive fiscal 2005 expense.

If the fair value of the pension plans' assets are below the plans' accumulated benefit obligation (ABO), the Company is required to record a minimum liability. If the amount of the ABO in excess of the fair value of plan assets is large enough, the Company may be required, by law to make additional contributions to the pension plans. Actual results that differ from these estimates may result in more or less future Company funding of the pension plans than is planned by management.

Results of Operations

Three Months Ended January 31, 2007 Compared to Three Months Ended January 31, 2006

REVENUES. Sales for the first quarter of fiscal 2007 were \$147,625, an increase of \$1,880 from last year's first quarter sales of \$145,745, or 1.3%. During the first quarter of fiscal 2007, sales improved as a result of new parts that the Company supplies for several new vehicle programs that began production during the latter part of the fourth quarter of fiscal 2006 and during the first quarter of fiscal 2007.

GROSS PROFIT. Gross profit for the first quarter of fiscal 2007 was \$11,588 compared to gross profit of \$16,434 in the first quarter of fiscal 2006, a decrease of \$4,846. Gross profit as a percentage of sales was 7.8% in the first quarter of fiscal 2007 compared to 11.3% for the same period a year ago. Gross profit in the first quarter of fiscal 2007 decreased compared to the first quarter of the previous year as a result of an increase in the material content of products sold during the first quarter of fiscal 2007. The effect of increased material content reduced gross profit by approximately \$5,300. Gross profit in the first quarter of fiscal 2007 was also adversely affected by increased material costs including the effect of lower market prices for engineered scrap material during the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006. The effect of lower market prices of engineered scrap reduced gross profit by approximately \$1,700. Gross profit in the first quarter of fiscal 2007 compared to the prior year was favorably affected by the gross profit realized on increased sales of approximately \$1,300. Lastly, gross profit was favorably affected by reduced manufacturing expenses. Manufacturing expenses declined by approximately \$900 due to lower personnel and personnel related expenses of approximately \$500 and lower depreciation of approximately \$400.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses of \$7,615 in the first quarter of fiscal 2007 were even with selling, general and administrative expenses of \$7,619 in the same period of the prior year. As a percentage of sales, these expenses were 5.2% of sales in each first quarter period of fiscal 2007 and 2006.

OTHER. Interest expense for the first quarter of fiscal 2007 was \$1,706, compared to interest expense of \$1,488 during the first quarter of fiscal 2006. Interest expense increased from the prior year first quarter as a result of an increase in the interest rate and higher level of average borrowed funds in the first quarter of fiscal 2007 compared to the prior year. Borrowed funds averaged \$105,418 during the first quarter of fiscal 2007 and the weighted average interest rate was 6.82%. In the first quarter of fiscal 2006, borrowed funds averaged \$99,574 while the weighted average interest rate was 5.97%.

Other income, net was \$275 for the first quarter of fiscal 2007. During the quarter, the Company liquidated most of the assets of its rabbi trust that had been established to fund the Company's obligation in connection with its employment agreement and the related supplemental executive retirement plan with the Company's President and CEO. The obligation was paid on January 31, 2007 and the liquidation of the assets of the rabbi trust realized a gain of \$208.

The provision for income taxes in the first quarter of fiscal 2007 was \$1,073 on income before taxes of \$2,555 for an effective tax rate of 42.0%. The provision for income taxes in the first quarter of fiscal 2006 was \$2,804 on income before taxes of \$7,379 for an effective tax rate of 38.0%. The effective tax rate in the first quarter of fiscal 2007 reflects the gradual elimination of the tax on income in the state of Ohio and the estimated benefit of the domestic production activities deduction provided by the American Jobs Creation Act of 2004. Offsetting these favorable items was the loss of the Company's Mexican subsidiary for which a tax benefit cannot be provided and the effect of executive compensation beyond the amount deductible for tax purposes.

NET INCOME. Net income for the first quarter of fiscal 2007 was \$1,482, or \$0.09 per share, diluted. Net income for the first quarter of fiscal 2006 was \$4,575, or \$0.28 per share, diluted.

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Liquidity And Capital Resources

The Company's Amended and Restated Credit Agreement (the "Amended Credit Agreement") provides the Company with borrowing capacity of \$175,000 in the form of a five-year \$125,000 revolving credit facility and a five-year term loan of \$50,000, each maturing January 2010. The balance of the term loan at January 31, 2007 was \$30,000.

Under the Amended Credit Agreement, the Company has the option to select the applicable interest rate based upon two indices: a Base Rate, as defined in the Amended Credit Agreement, or the Eurodollar rate, as adjusted by the Eurocurrency Reserve Percentage, if any ("LIBOR"). The selected index is combined with a designated margin from an agreed upon pricing matrix. The Base Rate is the greater of the LaSalle Bank publicly announced prime rate or the Federal Funds effective rate plus 0.5% per annum. LIBOR is the published Bloomberg Financial Markets Information Service rate. At January 31, 2007, the interest rate for the revolving credit facility and the term loan was LIBOR plus 1.50%. The margins for the revolving credit facility and the term loan have improved from the margins in place at October 31, 2005 since the Company achieved an improved ratio of funded debt to EBITDA, as defined in the Amended Credit Agreement.

Borrowings under the Amended Credit Agreement are collateralized by a first priority security interest in substantially all of the tangible and intangible property of the Company and its domestic subsidiaries and 65% of the stock of foreign subsidiaries.

The Amended Credit Agreement requires the Company to observe several financial covenants. At January 31, 2007, the covenants required a minimum fixed charge coverage ratio of 1.25 to 1.00, a maximum leverage ratio of 2.75 to 1.00 and a minimum net worth equal to the sum of \$100,000 plus 50% of consolidated net income since October 31, 2004. The Amended Credit Agreement also establishes limits for additional borrowings, dividends, investments, acquisitions or mergers and sales of assets. On December 20, 2006, the Amended Credit Agreement was further amended to permit a distribution of a special dividend to shareholders of the Company. The covenants of the Amended Credit Agreement remain in place with exceptions permitted for this special distribution. The Board of Directors of the Company declared a special dividend of \$2.50 per share, paid on January 19, 2007 to shareholders of record as of January 5, 2007. At January 31, 2007, the Company was in compliance with the covenants under the Amended Credit Agreement.

Borrowings under the revolving credit facility must be repaid in full in January 2010. Repayments of borrowings under the term loan began in March 2005 in equal quarterly installments of \$2,500 with the final payment due on December 31, 2009. The Company may prepay the borrowings under the revolving credit facility and the term loan without penalty.

The Amended Credit Agreement specifies that upon the occurrence of an event or condition deemed to have a material adverse effect on the business or operations of the Company, as determined by the administrative agent of the lending syndicate or the required lenders, as defined, of 51% of the aggregate commitment under the Amended Credit Agreement, the outstanding borrowings become due and payable. However, the Company does not anticipate at this time any change in business conditions or operations that could be deemed as a material adverse change by the lenders.

In July 2006, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 6.67% and requires monthly payments of \$103 through April 2007. In June 2005, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 4.99% and requires monthly payments of \$94 through April 2006. As of January 31, 2007 and October 31, 2006, \$307 and \$508, respectively, remained outstanding under these agreements and were classified as current debt in the Company's consolidated balance sheets.

In June 2004, the Company issued a \$2,000 promissory note to the State of Ohio related to specific machinery and equipment at one of the Company's Ohio facilities. The promissory note bore interest at 1% for the first year of the term and 3% per annum for the balance of the term, with interest only payments for the first year of the term. Principal payments began in August 2005 in the amount of \$25, and monthly principal payments continue thereafter increasing annually until July 2011, when the loan matures. The Company may prepay this promissory note without penalty.

During fiscal 2006, the Company entered into two two-year note agreements with a bank to finance the purchase of equipment that the Company formerly leased. The notes bear interest at 6.56% and 6.91%, respectively, and require monthly payments of \$55 and \$81, respectively, through December 2007 and March 2008. In addition, the Company entered into a two-year capital lease agreement in the amount of \$463 for computer software.

Scheduled repayments under the terms of the Amended Credit Agreement plus repayments of other debt for the next five years are listed below:

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| | Amended | | |
|---------------------------------|------------------|------------|------------|
| Twelve Months ended January 31, | Credit Agreement | Other Debt | Total |
| 2008 | \$ 10,000 | \$ 2,448 | \$ 12,448 |
| 2009 | 10,000 | 528 | 10,528 |
| 2010 | 102,100 | 343 | 102,443 |
| 2011 | | 353 | 353 |
| 2012 | | 180 | 180 |
| Total | \$ 122,100 | \$ 3,852 | \$ 125,952 |

At January 31, 2007, total debt was \$125,952 and total equity was \$122,732, resulting in a capitalization rate of 50.6% debt, 49.4% equity. Current assets were \$149,412 and current liabilities were \$106,981, resulting in working capital of \$42,431.

Current assets and liabilities reflect the liquidation of most of the assets in the Company's rabbi trust and the use of those assets to fund the Company's obligation under the employment agreement with the Company's President and Chief Executive Officer. As part of the agreement, the Company had established a supplemental executive retirement plan whereby the executive received a benefit of \$1,868 at the end of the five-year employment agreement in January 2007.

Cash was generated by net income and by expenses charged to earnings to arrive at net income that do not require a current outlay of cash amounting to \$9,185 in the first three months of fiscal 2007 compared to \$13,063 in the first three months of fiscal 2006. The decrease of \$3,878 reflects lower net income level in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006.

Working capital changes since October 31, 2006 provided funds of \$1,706. During the first quarter of fiscal 2007, accounts receivable have decreased by \$3,007 and inventory decreased by \$3,040 since the end of fiscal 2006. Considering the decrease in overdraft balances of \$9,149, accounts payable, net have decreased \$14,214, in line with the reduced level of production in the first quarter of fiscal 2007.

Capital expenditures in the first three months of fiscal 2007 were \$2,128.

Financing activity in the first three months of fiscal 2007 reflects the borrowing of funds of \$40,872 that were used to pay the aforementioned special dividend of \$2.50 per share paid on January 19, 2007.

After considering letters of credit of \$4,930 that the Company has issued, available funds under the Amended Credit Agreement were \$27,970 at January 31, 2007. The Company believes that funds available under the Amended Credit Agreement and cash flow from operations will provide sufficient liquidity to meet its cash requirements through January 31, 2008 and until the expiration of the revolving credit facility in January 2010, including capital expenditures, pension obligations and scheduled repayments of \$10,000 in the aggregate under the Amended Credit Agreement in accordance with the repayment terms, plus repayments of \$2,448 on other debt. Furthermore, the Company does not anticipate at this time any change in business conditions or operations of the Company that could be deemed as a material adverse change by the agent bank or required lenders, as defined, and thereby result in declaring borrowed amounts as immediately due and payable.

Effect of Inflation

Inflation generally affects the Company by increasing the interest expense of floating rate indebtedness and by increasing the cost of labor, equipment and raw materials. The general level of inflation has not had a material effect on the Company's financial results.

FORWARD-LOOKING STATEMENTS

Certain statements made by the Company in this Quarterly Report on Form 10-Q regarding earnings or general belief in the Company's expectations of future operating results are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, forward-looking statements are statements that relate to the Company's operating performance, events or developments that the Company believes or expects to occur in the future, including those that discuss strategies, goals, outlook, or other non-historical matters, or that relate to future sales, earnings expectations, cost savings, awarded sales, volume growth, earnings or general belief in the Company's expectations of future operating results. The forward-looking statements are made on the basis of management's assumptions and expectations. As a result, there can be no guarantee or assurance that these assumptions and expectations will in fact occur. The forward-looking statements are subject to risks and uncertainties that may cause actual results to materially differ from those contained in the statements. Some, but not all of the risks, include the ability of the Company to accomplish its strategic

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objectives with respect to implementing its sustainable business model; the ability to obtain future sales; changes in worldwide economic and political conditions, including adverse effects from terrorism or related hostilities; costs related to legal and administrative matters; the Company's ability to realize cost savings expected to offset price concessions; inefficiencies related to production and product launches that are greater than anticipated; changes in technology and technological risks; increased fuel and utility costs; work stoppages and strikes at the Company's facilities and that of the Company's customers; the Company's dependence on the automotive and heavy truck industries, which are highly cyclical; the dependence of the automotive industry on consumer spending, which is subject to the impact of domestic and international economic conditions, including increased energy costs affecting car and light truck production, and regulations and policies regarding international trade; financial and business downturns of the Company's customers or vendors, including any production cutbacks or bankruptcies; increases in the price of, or limitations on the availability of, steel, the Company's primary raw material, or decreases in the price of scrap steel; the successful launch and consumer acceptance of new vehicles for which the Company supplies parts; the occurrence of any event or condition that may be deemed a material adverse effect under Amended Credit Agreement; pension plan funding requirements; and other factors, uncertainties, challenges and risks detailed in the Company's other public filings with the Securities and Exchange Commission. Any or all of these risks and uncertainties could cause actual results to differ materially from those reflected in the forward-looking statements. These forward-looking statements reflect management's analysis only as of the date of the filing of this Quarterly Report on Form 10-Q. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. In addition to the disclosures contained herein, readers should carefully review risks and uncertainties contained in other documents the Company files from time to time with the Securities and Exchange Commission.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

(Dollars in thousands)

The Company's major market risk exposure is primarily due to possible fluctuations in interest rates as they relate to its variable rate debt. The Company does not enter into derivative financial investments for trading or speculation purposes. As a result, the Company believes that its market risk exposure is not material to the Company's financial position, liquidity or results of operations.

Interest Rate Risk

The Company is exposed to market risk through variable rate debt instruments. As of January 31, 2007, the Company had \$122,100 outstanding under the Amended Credit Agreement. Based on January 31, 2007 debt levels, a 50 basis point change in interest rates would have impacted interest expense by approximately \$118 for the three months ended January 31, 2007.

In the normal course of business, the Company employs established policies and procedures to manage exposure to changes in interest rates. The Company's objective in managing the exposure to interest rate changes is to limit the volatility and impact of interest rate changes on earnings and cash flows. In January 2005, the Company entered into a \$25,000 interest rate collar agreement that resulted in fixing the interest rate on a portion of the term loan under the Amended Credit Agreement between a floor of 3.08% and a cap of 5.25%. The collar agreement terminated on January 12, 2007.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the Company had designated the interest rate collar as a cash flow hedge and recognized the fair value of the interest rate collar agreement on the consolidated balance sheet. Gains and losses related to a hedge and that result from changes in the fair value of the hedge are either recognized in income immediately to offset the gain or loss on the hedged item, or deferred and reported as a component of other comprehensive income (loss) in stockholders' equity and subsequently recognized in income when the hedged item affects net income. The ineffective portion of the change in fair value of a hedge is recognized in income immediately. There was no hedge ineffectiveness for the three months ended January 31, 2007.

Foreign Currency Exchange Rate Risk

In order to reduce the impact of changes in foreign exchange rates on the consolidated results of operations, the Company enters into foreign currency forward exchange contracts periodically. The intent of any contracts entered into by the Company is to reduce exposure to currency movements affecting foreign currency purchase commitments. Changes in the fair value of forward exchange contracts are recorded in the consolidated statements of operations. As of January 31, 2007, there were no foreign currency forward exchange contracts outstanding. The Company's risks related to foreign currency exchange risks have historically not been material. The Company does not expect the effects of these risks to be material in the future based on current operating and economic conditions in the countries and markets in which it operates.

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Item 4. *Controls and Procedures*

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this Quarterly Report, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting during the first quarter of fiscal 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 6. *Exhibits*

- 31.1 Principal Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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.

SHILOH INDUSTRIES, INC.

By: */s/ Theodore K. Zampetis*
Theodore K. Zampetis
President and Chief Executive Officer

By: */s/ Stephen E. Graham*
Stephen E. Graham
Chief Financial Officer

Date: February 22, 2007

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EXHIBIT INDEX

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