SHILOH INDUSTRIES INC
Form 10-Q
May 23, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2012

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	51-0347683
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

880 Steel Drive, Valley City, Ohio 44280
(Address of principal executive offices—zip code)

(330) 558-2600
(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨	Smaller Reporting Company x

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

Number of shares of Common Stock outstanding as of May 23, 2012 was 16,850,832.

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PART I— FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SHILOH INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)

	April 30, 2012 (Unaudited)	October 31, 2011
ASSETS		
Cash and cash equivalents	$70	$20
Accounts receivable, net of allowance for doubtful accounts of $611 and $568 at April 30, 2012 and October 31, 2011, respectively	92,743	76,632
Related-party accounts receivable	2,734	434
Income tax receivable	—	1,688
Inventories, net	41,945	33,976
Deferred income taxes	2,228	2,228
Prepaid expenses	1,204	1,725
Total current assets	140,924	116,703
Property, plant and equipment, net	117,579	121,467
Deferred income taxes	929	918
Other assets	1,335	1,586
Total assets	$260,767	$240,674
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current debt	$—	$428
Accounts payable	67,585	57,214
Other accrued expenses	26,755	23,733
Total current liabilities	94,340	81,375
Long-term debt	34,900	25,700
Long-term benefit liabilities	22,111	24,019
Other liabilities	2,022	1,928
Total liabilities	153,373	133,022
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 per share; 5,000,000 shares authorized; no shares issued and outstanding at April 30, 2012 and October 31, 2011, respectively	—	—
Common stock, par value $.01 per share; 25,000,000 shares authorized; 16,850,832 and 16,762,428 shares issued and outstanding at April 30, 2012 and October 31, 2011, respectively	169	168
Paid-in capital	64,630	63,950
Retained earnings	67,382	68,321
Accumulated other comprehensive loss: Pension related liability, net	(24,787)	(24,787)
Total stockholders' equity	107,394	107,652
Total liabilities and stockholders' equity	$260,767	$240,674

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

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SHILOH INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended April 30,		Six months Ended April 30,	
	2012	2011	2012	2011
Revenues	$162,831	$137,046	$295,202	$245,836
Cost of sales	146,374	125,450	269,083	227,895
Gross profit	16,457	11,596	26,119	17,941
Selling, general and administrative expenses	7,209	5,953	13,857	11,039
Asset recovery	(558)	(134)	(623)	(142)
Operating income	9,806	5,777	12,885	7,044
Interest expense	525	456	811	963
Other income (expense), net	(25)	112	22	111
Income before income taxes	9,256	5,433	12,096	6,192
Provision for income taxes	3,351	1,984	4,612	2,237
Net income	$5,905	$3,449	$7,484	$3,955
Earnings per share:				
Basic earnings per share	$0.35	$0.21	$0.45	$0.24
Basic weighted average number of common shares	16,844	16,729	16,804	16,678
Diluted earnings per share	$0.35	$0.20	$0.44	$0.23
Diluted weighted average number of common shares	16,903	16,868	16,883	16,849

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

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SHILOH INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Six months ended April 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$7,484	$3,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,802	11,690
Recovery of impairment	(623)	(142)
Amortization of deferred financing costs	163	353
Deferred income taxes	(11)	(3)
Stock-based compensation expense	413	373
Gain on sale of assets	(98)	(17)
Changes in operating assets and liabilities:		
Accounts receivable	(18,412)	(6,615)
Inventories	(7,969)	(13,099)
Prepaids and other assets	648	641
Payables and other liabilities	11,531	11,111
Accrued income taxes	2,907	973
Net cash provided by operating activities	5,835	9,220
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,749)	(10,571)
Proceeds from sale of assets	847	149
Net cash used in investing activities	(4,902)	(10,422)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of short-term borrowings	—	(179)
Payment of dividends	(8,422)	(2,004)
Increase in overdraft balances	(1,889)	(1,661)
Proceeds from long-term borrowings	17,900	9,100
Repayments of long-term borrowings	(8,700)	(3,700)
Payment of deferred financing costs	(40)	(775)
Proceeds from exercise of stock options	268	509
Net cash provided by (used) in financing activities	(883)	1,290
Net increase in cash and cash equivalents	50	88
Cash and cash equivalents at beginning of period	20	34
Cash and cash equivalents at end of period	$70	$122
Supplemental Cash Flow Information:		
Cash paid for interest	$605	$665
Cash paid for income taxes	$1,616	$1,088

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 the rules and regulations of the Securities and Exchange Commission. 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 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, 2011. Revenues and operating results for the six months ended April 30, 2012 are not necessarily indicative of the results to be expected for the full year.

Prior Year Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

Note 2—New Accounting Standards

The new accounting standard, "Comprehensive Income", becomes effective for fiscal years beginning after December 15, 2011 which for the Company would be the first quarter ended January 31, 2013. This standard requires that other comprehensive income be presented as either a separate statement, or as an addition to the statement of income and prohibits the presentation of other comprehensive income in the statement of shareholders' equity. As the Company has historically presented other comprehensive income as part of the statement of shareholders' equity, the Company will have to retroactively restate its financial statements for this change upon adoption of this accounting standard.
In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements with accounting principles generally accepted in the United States of America and IFRS. This guidance amends certain accounting and disclosure requirements related to fair value meaurements to ensure that fair value has the same meaning in US GAAP and IFRS and that their respective fair value measurement and disclosure requirements are the same. This amendment is effective for a reporting entity's interim and annual periods beginning after December 15, 2011. We adopted the guidance of the fair value accounting standard as required by this amendment and it did not have a material impact on our disclosures, financial position or results of operations for the period then ended.

Note 3—Asset Impairment and Restructuring Charges

Impairment recoveries of $623 were recorded during the first six months of fiscal 2012 for cash received upon sales of assets from the Company's Mansfield Blanking facility of $489, which was impaired in fiscal 2010, and the Company's Liverpool Stamping Facility, which was impaired in fiscal 2009 of $129, with the remaining $5 of recoveries coming from other assets impaired in prior periods. Impairment recoveries of $142 were recorded during the first six months of fiscal 2011 for cash received upon sales of assets from the Company's Liverpool Stamping facility.

During the third quarter of fiscal 2011, the Company recorded a restructuring charge of $352 based on a negotiated settlement with approximately 90 employees for severance and health insurance related to the previously announced planned closure of the Company's plant in Mansfield, Ohio.

An analysis of restructuring charges and related reserves of the Company for fiscal 2012 is as follows:

	Restructuring Reserves at October 31, 2011	Restructuring Charges	Cash Payments	Restructuring Reserves at April 30, 2012
Restructuring - Severance and benefits	$279		$(225)	$54

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Note 4—Inventories
Inventories consist of the following:

	April 30, 2012	October 31, 2011
Raw materials	$14,687	$14,433
Work-in-process	7,225	5,612
Finished goods	9,262	8,575
Total material	31,174	28,620
Tooling	10,771	5,356
Total inventory	$41,945	$33,976

Total cost of inventory is net of reserves to reduce certain inventory from cost to net realizable value. Such reserves aggregated $1,035 and $566 at April 30, 2012 and October 31, 2011, respectively.

The increase in tooling inventories of $5,415 is for customer reimbursed production tooling related to new program awards that go into production over the next several quarters.

Note 5—Property, Plant and Equipment
Property, plant and equipment consist of the following:

	April 30, 2012	October 31, 2011
Land and improvements	$9,681	$9,671
Buildings and improvements	109,381	109,293
Machinery and equipment	345,041	342,557
Furniture and fixtures	11,541	11,450
Construction in progress	9,616	8,744
Total, at cost	485,260	481,715
Less: Accumulated depreciation	367,681	360,248
Property, plant and equipment, net	$117,579	$121,467

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Note 6—Financing Arrangements

Debt consists of the following:

	April 30, 2012	October 31, 2011
Credit Agreement —interest at 2.87% and 2.79% at April 30, 2012 and October 31, 2011, respectively	$34,900	$25,700
Insurance broker financing agreement	—	428
Total debt	34,900	26,128
Less: Current debt	—	428
Total long-term debt	$34,900	$25,700

The weighted average interest rate of all debt was 2.80% and 3.32% for the six months ended April 30, 2012 and April 30, 2011, respectively.

On April 19, 2011, the Company entered into an amended and restated Credit and Security Agreement (the "Agreement") with a syndicate of lenders led by The Privatebank and Trust Company, as co-lead arranger, sole book runner and administrative agent and PNC Capital Markets, LLC as co-lead arranger and PNC Bank, National Association, as syndication agent. The Agreement amends and restates in its entirety the Company's Credit Agreement, dated as of August 1, 2008.

The Agreement has a five-year term and provides for an $80 million secured revolving line of credit (which may be increased up to $120 million subject to the Company's pro forma compliance with financial covenants, the administrative agent's approval and the Company obtaining commitments for such increase). The Company is permitted to prepay the borrowings under the revolving credit facility without penalty.

Borrowings under the Agreement bear interest, at the Company's option, at the London Interbank Offered Rate ("LIBOR") or the base (or "prime") rate established from time to time by the administrative agent, in each case plus an applicable margin set forth in a matrix based on the Company's leverage ratio. In addition to interest charges, the Company will pay in arrears a quarterly commitment fee ranging from 0.375% - 0.750% based on the Company's daily revolving exposure. At April 30, 2012, the interest rate for the credit facility was 2.74% for Eurodollar rate loans and 4.25% for base rate loans.

The Agreement contains customary restrictive and financial covenants, including covenants regarding the Company's outstanding indebtedness and maximum leverage and fixed charge coverage ratios. The Agreement specifies that the leverage ratio as defined in the Agreement shall not exceed 2.25 to 1.00 to the conclusion of the Agreement. Also, the Agreement specifies that the fixed charge ratio as defined in the Agreement shall not be less than 2.50 to 1.00 to the conclusion of the Agreement. The Company was in compliance with the financial covenants as of April 30, 2012.

The 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, defined as 51% of the aggregate commitment under the Agreement, the outstanding borrowings become due and payable at the option of the required lenders. The Company does not anticipate at this time any change in business conditions or operations that could be deemed a material adverse effect by the lenders.

On January 31, 2012, the Company entered into a First Amendment Agreement (the "First Amendment") to the Agreement.

The First Amendment continues the Company's revolving line of credit up to $80,000,000 through April 2016 with a modification to the calculation of the fixed charge coverage ratio to allow for payment of a special dividend declared on February 1, 2012 and other modifications to allow the Company to participate in certain customer-sponsored financing arrangements allowing for early, discounted payment of Company invoices.

After considering letters of credit of $1,748 that the Company has issued, available funds under the Agreement were $43,352 at April 30, 2012.

Borrowings under the 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.

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In July 2011, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 2.67% and requires monthly payments of $65 through April 2012. As of April 30, 2012, $0 remained outstanding under this agreement.

Note 7—Pension and Other Post-Retirement Benefit Matters

The components of net periodic benefit cost for the six months ended April 30, 2012 and 2011 are as follows:

	Pension Benefits		Other Post-Retirement Benefits	
	Three months ended April, 30		Three months ended April, 30	
	2012	2011	2012	2011
Service cost	$—	$35	$—	$2
Interest cost	921	955	11	7
Expected return on plan assets	(813)	(705)	—	—
Recognized net actuarial loss	260	311	14	15
Net periodic benefit cost	$368	$596	$25	$24

	Pension Benefits		Other Post-Retirement Benefits	
	Six months ended April 30,		Six months ended April 30,	
	2012	2011	2012	2011
Service cost	$—	$70	$—	$3
Interest cost	1,841	1,910	22	15
Expected return on plan assets	(1,625)	(1,411)	—	—
Recognized net actuarial loss	520	623	27	30
Net periodic benefit cost	$736	$1,192	$49	$48

The Company made contributions of $1,935 to the defined benefit pension plans during the six months ended April 30, 2012. The Company expects contributions to be $3,975 for the remainder of fiscal 2012.

Note 8—Equity Matters

For the Company, FASB ASC Topic 718 “Compensation – Stock Compensation” 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 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 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 based upon the Company’s historical experience.

1993 Key Employee Stock Incentive Plan

The Company maintains the Amended and Restated 1993 Key Employee Stock Incentive Program (as amended and restated December 12, 2002 and December 10, 2009) (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 2,700,000 shares of Common Stock, 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 pursuant to the Incentive Plan. An individual's 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. Options expire over a period not to exceed ten years from the date of grant and vest ratably over a three year period. In December 2011, options to purchase 56,500 shares were awarded to several officers and employees

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at an exercise price of $8.10. These stock options are intended to qualify as incentive stock options. The fair values of these options were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants awarded during fiscal year 2012:

	2012	
Risk-free interest	1.20	%
Dividend yield	0.00	%
Volatility factor—market	88.26	%
Expected life of options—years	6.00	

Activity in the Company's stock option plan for the six months ended April 30, 2012 and 2011 was as follows:

	Fiscal 2012				Fiscal 2011			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at November 1	520,185	$8.54			683,692	$6.13		
Options:								
Granted	56,500	$8.10			154,000	$12.10		
Exercised	(87,239)	$3.01			(189,775)	$3.56		
Canceled	(34,753)	$11.13			(96,900)	$7.79		
Options outstanding at April 30	454,693	$9.28	6.98	$789	551,017	$8.45	7.23	$2,089
Exercisable at April 30	219,394	$10.10	5.86	$374	132,895	$12.88	4.23	$159

At April 30, 2012 and 2011, the exercise price of some of the Company's stock option grants was higher than the market value of the Company's stock. These grants are excluded from the computation of aggregate intrinsic value of the Company's outstanding and exercisable stock options.

For the three and six months ended April 30, 2012, the Company recorded compensation expense related to stock options currently vesting, effectively reducing income before taxes by $204 and $413, respectively. For the three and six months ended April 30, 2011, the Company recorded compensation expense related to stock options currently vesting, effectively reducing income before taxes by $216 and $373, respectively. The impact on earnings per share was a reduction of $.01 per share basic and diluted in the second quarter of both fiscal 2012 and 2011. For the six months ended April 30, 2012, the impact on earnings per share was a reduction of $.02 per share basic and diluted and for the six months ended April 30, 2011, the impact on earnings per share was a reduction of $.01 per share basic and diluted. The total compensation cost related to unvested awards not yet recognized is expected to be a combined total of $967 over the next three fiscal years.

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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. For the three and six months ended April 30, 2012, 182,948 and 161,677, respectively, stock options were excluded from the computation of diluted earnings per share because they were anti-dilutive. For the three and six months ended April 30, 2011, 76,636 and 72,251, respectively, stock options were excluded from the computation of diluted earnings per share because they were anti-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:

(Shares in thousands)	Three months ended April 30,		Six months ended April 30,	
	2012	2011	2012	2011
Net income available to common stockholders	$5,905	$3,449	$7,484	$3,995
Basic weighted average shares	16,844	16,729	16,804	16,678
Effect of dilutive securities:				
Stock options	59	139	79	171
Diluted weighted average shares	16,903	16,868	16,883	16,849
Basic income per share	$0.35	$0.21	$0.45	$0.24
Diluted income per share	$0.35	$0.20	$0.44	$0.23

Comprehensive Income

Comprehensive income for the three and six months ended April 30, 2012 was $5,904 and $7,484, respectively, and comprehensive income for the three and six months ended April 30, 2011 was $3,449 and $3,841, respectively. In addition to the reported amounts of net income for the six months ended April 30, 2012 and 2011, comprehensive income includes the effect of tax adjustments of $0 and $(114), respectively, to adjust the estimated deferred taxes associated with the pension adjustments included in accumulated other comprehensive income.

Note 9—Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade receivables and payables approximate fair value because of the short maturity of those instruments. The carrying value of the Company’s debt is considered to approximate the fair value of these instruments based on the borrowing rates currently available to the Company for loans with similar terms and maturities.

Note 10—Commitments and Contingencies

The Company is a party to certain 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 would not materially affect its financial condition, results of operations or cash flow.

Note 11—Subsequent Events

As of May 23 2012, there were no transactions or events subsequent to the period ended April 30, 2012 that required recognition in the financial statements.

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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 original equipment manufactures ("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 heavily dependent upon the North American production of automobiles and light trucks, particularly production of traditional domestic manufacturers, such as General Motors, Chrysler and Ford. According to industry statistics, traditional domestic manufacturer production for the first six months of fiscal 2012 increased by 12.8% and total North American car and light truck production for the first six months of fiscal 2012 increased by 18.1%, in each case compared with production for the first six months of fiscal 2011. The continued viability of the traditional domestic manufacturers is critical to the profitability of the Company.

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 OEMs. 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 for related parts at the beginning of the cycle.

Plant utilization levels are very important to profitability because of the capital-intensive nature of the Company's operations. At April 30, 2012, the Company's facilities were operating at approximately 56.6%, compared to 47.2% capacity at April 30, 2011. The Company defines capacity as 20 working hours per day and five days per week (i.e. 3-shift operation). 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.

A significant majority of the steel purchased by the Company's stamping and engineered welded blank operations is purchased through the customers' steel programs. Under these programs, the customer negotiates the price for steel with the steel suppliers. The Company pays for the steel based on these negotiated prices and passes on those costs to the customer. Although the Company takes ownership of the steel, the customers are responsible for all steel price fluctuations under these programs. The Company also purchases steel directly from domestic primary steel producers and steel service centers. Domestic steel pricing has generally been rising on increased demand. 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.

Engineered scrap steel is a planned by-product of the Company's processing operations and part of our quoted cost to each customer. 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.

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Company's Response to Current Economic Conditions Affecting the Automotive Industry

The production of cars and light trucks for fiscal year 2012 in North America according to industry forecasts (published by IHS Automotive), is currently predicted to increase to approximately 14,800,000 units, which reflects an improvement of 15.7% over fiscal year 2011's vehicle production of approximately 12,800,000 units. The increased production volume predicted for fiscal year 2012 is 0.8% below the industry average production for the years 2005 to 2008 of 14,928,000 units. The improved vehicle production reflects an improvement in economic conditions and consumer demand. However, the automotive industry's recovery over the past several years remains susceptible to the impacts that consumer income and confidence levels, housing sales, gasoline prices, automobile discount and incentive offers, and perceptions about global economic stability have on consumer spending and could adversely impact consumer demand for vehicles.

The Company continues its approach of monitoring closely the customer release volumes as the overall outlook for the global economy continues to be an area of concern due to continued high levels of unemployment and geopolitical unrest. These uncertainties may impact the sustainability of improved forecasted production volumes.

The Company continues to follow its previously implemented action plans to respond to changes in customer production volumes. These include:

- Challenging customer releases. The Company's production scheduling is based on releases that are received weekly for thirteen week periods. The releases drive manning levels and inventory purchases. The Company's operations personnel review the releases each week to ensure that the releases are not overly optimistic, a problem that seems to impact Tier I customers and not OEM manufacturing plants.

- Inventory orders. The Company's operations personnel monitor daily the ordering and receipt of production material to ensure that inventory will be readily consumed in the manufacturing process and that cash outlays for purchases coincide with receipts for sale of parts to the Company's customers.

- Manning levels. The Company's operations personnel also monitor daily the level of personnel required to fulfill the production schedule by operating the equipment that produces the parts (direct personnel) and to support the direct personnel efforts (indirect, technical, and administrative staff). Manning is reviewed daily to react as necessary.

- Discretionary spending in support of operations. The Company's operating personnel also monitor the spending required for repair and maintenance, purchases of supplies consumed in operating production equipment and indirect support of operations, such as material handling equipment and utilities.

These daily activities are factored into forecasts for each plant for the balance of the fiscal year. The plant forecasts are consolidated to provide forecasts of operating results on a weekly and monthly basis, updated weekly to reflect the latest developments in terms of customer intelligence and new awards of business. This process is intended to address the cash needs of the Company considering capital asset and tooling needs related to new business as well as ongoing cash requirements for operations, payroll, pension contributions, debt repayment requirements, contingencies and other matters.

All of the above actions are intended to ensure that controllable variable spending is in line with the forecast of sales as indicated by the customer releases against open purchase orders. Actions are also initiated to monitor selling, general and administrative costs as well.

The Company also assesses the level of working capital risk with each customer by monitoring accounts receivable and payable levels to ensure that net balances are either equal or in favor of the Company. The Company also reviews

compliance of the Company’s customers with terms and conditions of their purchase orders and gathers market intelligence on the customers to consider in assessing any risk in the collection process.

Impairment recoveries of $623 were recorded during the first six months of fiscal 2012 for cash received upon sales of assets from the Company's Mansfield Blanking facility of $489, which was impaired in fiscal 2010, and the Company's Liverpool Stamping Facility, which was impaired in fiscal 2009 of $129, with the remaining $5 of recoveries coming from other assets impaired in prior periods. Impairment recoveries of $142 were recorded during the first six months of fiscal 2011 for cash received upon sales of assets from the Company's Liverpool Stamping facility.

During the third quarter of fiscal 2011, the Company recorded a restructuring charge of $352 based on a negotiated settlement with approximately 90 employees for severance and health insurance related to the previously announced planned

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closure of the Company's plant in Mansfield, Ohio.

The steps described above demonstrate the Company’s intent to stay focused on efficient cost management, to generate cash with a focus on working capital management and capital investment efficiency and to maintain liquidity and covenant compliance with the First Amendment.

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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 condensed 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 following items as critical accounting policies and estimates utilized by management in the preparation of the Company's preceding 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. The Company recognizes revenue both for sales from toll processing and sales of products made with Company owned steel when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and collectability 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, including those arising from resolution of quality issues, price and quantity discrepancies, surcharges for fuel and/or steel and other commercial issues 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 collectability 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, a general 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.

The Company carefully assesses its risk with each of its customers and considers compliance with terms and conditions, aging of the customer accounts, intelligence learned through contact with customer representatives and its net account receivable / account payable position with customers, if applicable, in establishing the allowance.

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.

The Company continues to monitor purchases of inventory to ensure that receipts coincide with shipments, thereby reducing the economic risk of holding excessive levels of inventory that could result in long holding periods or in

unsalable inventory leading to losses in conversion.

Income Taxes. The Company utilizes the asset and liability method in accounting for income taxes. Income tax expense includes U.S. and international income taxes minus tax credits and other incentives that will reduce tax expense in the year they are claimed. Deferred taxes are recognized at currently enacted tax rates for temporary differences between the financial accounting and income tax basis of assets and liabilities and operating losses and tax credit carryforwards. Valuation allowances are recorded to reduce net deferred tax assets to the amount that is more likely than not to be realized. The Company assesses both positive and negative evidence when measuring the need for a valuation allowance. Evidence typically assessed includes the operating results for the most recent three-year period and, to a lesser extent because of inherent uncertainty, the expectations of future profitability, available tax planning strategies, the time period over which the temporary differences will reverse and taxable income in prior carryback years if carryback is permitted under the tax law. The calculation

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of the Company's tax liabilities also involves dealing with uncertainties in the application of complex tax laws and regulations. The Company recognizes liabilities for uncertain income tax positions based on the Company's estimate of whether, and the extent to which, additional taxes will be required. The Company reports interest and penalties related to uncertain income tax positions as income taxes.

Impairment of Long-lived Assets. The Company has historically performed an annual impairment analysis of long-lived assets, which only includes property, plant and equipment since the Company has no intangible assets. However, when significant events, which meet the definition of a "triggering event" in the context of assessing asset impairments, occur within the industry or within the Company's primary customer base, an interim impairment analysis is performed. The analysis consists of reviewing the next five years outlook for sales, profitability, and cash flow for each of the Company's manufacturing plants and for the overall Company. The five-year outlook considers known sales opportunities for which purchase orders exist, potential sale opportunities that are under development, third party forecasts of North American car builds (published by IHS Automotive), and the potential sales that could result from new manufacturing process additions and lastly, strategic geographic localities that are important to servicing the automotive industry. All of this data is collected as part of our annual planning process and is updated with more current Company specific and industry data when an interim period impairment analysis is deemed necessary. In concluding the impairment analysis, the Company incorporates a sensitivity analysis by probability weighting the achievement of the forecasted cash flows by plant and achievements of cash flows that are 20% greater and less than the forecasted amounts.

The property, plant and equipment included in the analysis for each plant represents factory facilities devoted to the Company's manufacturing processes and the related equipment within each plant needed to perform and support those processes. The property, plant and equipment of each plant form each plant's asset group and typically certain key assets in the group form the primary processes at that plant that generate revenue and cash flow for that facility. Certain key assets have a life of ten to twelve years and the remainder of the assets in the asset group are shorter-lived assets that support the key processes. When the analysis indicates that estimated future undiscounted cash flows of a plant are less than the net carrying value of the long-lived assets of such plant, to the extent that the assets cannot be redeployed to another plant to generate positive cash flow, the Company will record an impairment charge, reducing the net carrying value of the fixed assets (exclusive of land and buildings, the fair value of which would be assessed through appraisals) to zero. Alternative courses of action to recover the carrying amount of the long-lived asset group are typically not considered due to the limited-use nature of the equipment and the full utilization of their useful life. Therefore, the equipment is of limited value in a used-equipment market. The depreciable lives of the Company's fixed assets are generally consistent between years unless the assets are devoted to the manufacture of a customized automotive part and the equipment has limited reapplication opportunities. If the production of that part concludes earlier than expected, the asset life is shortened to fully amortize its remaining value over the shortened production period.

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 then current facts, the Company recorded an impairment charge of $324 in the fourth quarter of fiscal 2011 related to long-lived assets. See Note 3 to the condensed consolidated financial statements for a discussion of the impairment charge recorded in fiscal year 2011. The Company continues to assess impairment to long-lived assets based on expected orders from the Company's customers and current business conditions.

The key assumptions related to the Company's forecasted operating results could be adversely impacted by, among other things, decreases in estimated North American car builds during the forecast period, the inability of the Company or its major customers to maintain their respective forecasted market share positions, the inability of the Company to achieve the forecasted levels of operating margins on parts produced, and a deterioration in property

values associated with manufacturing facilities.

Group Insurance and Workers' Compensation Accruals. The Company is self-insured for group insurance and workers' compensation claims and reviews these accruals on a monthly basis to adjust the balances as determined necessary. The Company reviews historical 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. The Company carries excess insurance coverage for group insurance and workers' compensation claims exceeding a range of $160-$170 and $100-$500 per plan year, respectively, dependent upon the location where the claim is incurred. At April 30, 2012 and 2011, the amount accrued for group insurance and workers' compensation claims was $2,605 and $2,201, respectively. The insurance reserves' established accruals are a result of safety statistics, changes in employment levels, changes in the number of open and active workers' compensation cases, and group insurance plan design features. The Company does not self-insure for any other types of losses.

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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 five to six years and has utilized historical weighted average volatility. 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 stock-based compensation expense could have been materially different from that depicted in the financial statements. In addition, the Company has estimated a 20% 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. Beginning in 2010, the Principal Pension Discount Yield Curve ("Principal Curve") has replaced the Citigroup Pension Discount Curve ("Citigroup Curve") as the basis for determining the discount rate for reporting pension and retiree medical liabilities. The Principal Curve has several advantages to the Citigroup Curve that was used in fiscal 2009, including: transparency of construction, lower statistical errors, and continuous forward rates for all years. At October 31, 2011, the resulting discount rate from the use of the Principal Curve was 5.00%, a decrease of .50% from a year earlier that resulted in an increase of the benefit obligation of approximately $4,297. A change of 25 basis points in the discount rate at October 31, 2011 would increase or decrease expense on an annual basis by approximately $18.

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 at October 31, 2011 would increase or decrease pension assets by approximately $119.

The Company's investment policy for assets of the plans is to maintain an allocation generally of 0% to 70% in equity securities, 0% to 70% in debt securities, and 0% to 10% 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.

For the twelve months ended October 31, 2011, the actual return on pension plans' assets for all of the Company's plans approximated 3.83% to 3.90%, which is below the expected rate of return on plan assets of 7.50% used to derive pension expense. The long term expected rate of return takes into account years with exceptional gains and years with exceptional losses.

Actual results that differ from these estimates may result in more or less future Company funding into the pension plans than is planned by management. Based on current market investment performance, the Company anticipates that contributions to and pension expense for the Company's defined benefit plans may increase or decrease in future years.

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Results of Operations
Three Months Ended April 30, 2012 Compared to Three Months Ended April 30, 2011

REVENUES. Sales for the second quarter of fiscal 2012 were $162,831, an increase of $25,785 from last year's second quarter sales of $137,046, or 18.8%. During the second quarter of fiscal 2012, sales increased as a result of increased production volumes of the North American car and light truck manufacturers, especially the traditional domestic manufacturers, the Company's major customers. According to industry statistics, North American car and light truck production in the second quarter of fiscal 2012 increased 20.3% from production levels of the second quarter of fiscal 2011. For traditional domestic manufacturers, the production increase in the second quarter of fiscal 2012 was 8.2% compared to the prior year second quarter period. Sales also increased due to improving demand of the heavy truck industry.

GROSS PROFIT. Gross profit for the second quarter of fiscal 2012 was $16,457 compared to gross profit of $11,596 in the second quarter of fiscal 2011, an increase of $4,861. Gross profit as a percentage of sales was 10.1% in the second quarter of fiscal 2012 and 8.5% in the second quarter of fiscal 2011. Gross profit in the second quarter of fiscal 2012 was favorably impacted by approximately $6,090 from the increased sales volume. Gross profit margin was unfavorably affected by a change in sales mix to increased sales with steel ownership and increasing material costs, net of revenue realized from the sales of engineered scrap during the second quarter of fiscal 2012 compared to the second quarter of 2011 resulting in a net material increase of approximately $1,680. In addition, manufacturing expenses were reduced by approximately $450 in the second quarter of fiscal 2012 compared to the second quarter of fiscal 2011. Personnel and personnel related expenses increased by approximately $650 as the Company's workforce was increased in anticipation of the improved production volumes, planning for future launches, and planning for further increases in North American vehicle production volumes. Expenses for repairs and maintenance and manufacturing supplies remained at the same level of spending in the second quarter of 2012 and the second quarter of 2011. These increases were offset by a reduction in depreciation and utilities of approximately $1,100.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses of $7,209 in the second quarter of fiscal 2012 were $1,256 more than selling, general and administrative expenses of $5,953 in the same period of the prior year. As a percentage of sales, these expenses were 4.4% of sales in the second quarter of fiscal 2012 and 4.3% in the second quarter of fiscal 2011. The increase in selling, general and administrative expenses reflects higher personnel and personnel related expenses of approximately $840 as result of an increase in the Company's workforce and an increase of approximately $420 in other administrative expenses.

ASSET IMPAIRMENT AND RESTRUCTURING CHARGES. Impairment recovery of $558 was recorded during the second quarter of fiscal 2012 compared to an impairment recovery of $134 that was recorded during the second quarter of fiscal 2011. The recoveries recorded in the second quarter of fiscal 2012 were for cash received upon sales of assets from the Company's Mansfield Blanking facility of $424, which was impaired in fiscal 2010, and the Company's Liverpool Stamping Facility, which was impaired in fiscal 2009 of $129, with the remaining $5 of recoveries coming from other assets impaired in prior periods. Impairment recoveries of $134 recorded in the second quarter of fiscal 2011 were for cash received upon sales of assets from the Company's Liverpool Stamping facility.

OTHER. Interest expense for the second quarter of fiscal 2012 was $525, compared to interest expense of $456 during the second quarter of fiscal 2011. Interest expense increased from the prior year second quarter as a result of an increase in the average borrowed funds and was partially offset by the reduction in the weighted average interest rate. Borrowed funds averaged $31,558 during the second quarter of fiscal 2012 and the weighted average interest rate was 2.82%. In the second quarter of fiscal 2011, borrowed funds averaged $28,866 while the weighted average interest rate was 3.25%.

Other expense, net was $25 for the second quarter of fiscal 2012 compared to other income, net of $112 in the second quarter of fiscal 2011. Other expense, net in the second quarter of fiscal 2012 was the result of currency transaction losses realized by the Company's Mexican subsidiary. Other income, net in the second quarter of 2011 consisted of $131 generated from the sale of stock received in the quarter in connection with the settlement of a customer bankruptcy and netted against an expense of $19 for currency transaction losses realized by the Company's Mexican subsidiary.

The provision for income taxes in the second quarter of fiscal 2012 was an expense of $3,351 on income before taxes of $9,256 for an effective tax rate of 36.2%. The provision for income taxes in the second quarter of fiscal 2011 was an expense of $1,984 on income before taxes of $5,433 for an effective tax rate of 36.5%. The estimated effective tax rate for the second quarter of fiscal 2012 has not materially changed compared to the second quarter of fiscal 2011.

NET INCOME. Net income for the second quarter of fiscal 2012 was $5,905, or $0.35 per share, diluted. Net income for the second quarter of fiscal 2011was $3,449 or $0.20 per share, diluted.

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Results of Operations
Six Months Ended April 30, 2012 Compared to Six Months Ended April 30, 2011

REVENUES. Sales for the first six months of fiscal 2012 were $295,202, an increase of $49,366 from last year's first six months sales of $245,836, or 20.1%. For the first half of fiscal 2012, sales increased as a result of increased production volumes of the North American car and light truck manufacturers, especially the traditional domestic manufacturers, the Company's major customers. According to industry statistics, North American car and light truck production for the first six months of fiscal 2012 increased 19.8% from production levels for the first six months of fiscal 2011. For traditional domestic manufacturers, the production increase in the first six months of fiscal 2012 was 13.6% compared to the first six months of the prior year. Sales also increased due to improving demand of the heavy truck industry.

GROSS PROFIT. Gross profit for the first six months of fiscal 2012 was $26,119 compared to gross profit of $17,941 in the first six months of fiscal 2011, an increase of $8,178. Gross profit as a percentage of sales was 8.8% in the first six months of fiscal 2012 and 7.3% in the first six months of fiscal 2011. Gross profit in the first six months of fiscal 2012 was favorably impacted by approximately $11,760 from the increased sales volume. Gross profit margin was unfavorably affected by a change in sales mix to increased sales with steel ownership and increasing material costs, net of revenue realized from the sales of engineered scrap during the first six months of fiscal 2012 compared to the first six months of 2011 resulting in a net material increase of approximately $3,220. In addition, manufacturing expenses increased by approximately $360 in the first six months of fiscal 2012 compared to the first six months of fiscal 2011. Personnel and personnel related expenses increased by approximately $1,330 as the Company's workforce was increased in anticipation of the improved production volumes, planning for future launches, and planning for further increases in North American vehicle production volumes. Expenses for repairs and maintenance and manufacturing supplies increased by approximately $960. These increases were offset by a reduction in depreciation and utilities of approximately $1,930.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses of $13,857 in the first six months of fiscal 2012 were $2,818 more than selling, general and administrative expenses of $11,039 in the first six months of fiscal 2011. As a percentage of sales, these expenses were 4.7% of sales in the first six months of fiscal 2012 and 4.5% of sales in the first six months of fiscal 2011. The increase in selling, general and administrative expenses reflects higher personnel and personnel related expenses of approximately $2,090 as result of an increase in the Company's workforce.

ASSET IMPAIRMENT AND RESTRUCTURING CHARGES. Impairment recovery of $623 was recorded during the first six months of fiscal 2012 compared to an impairment recovery of $142 that was recorded during the first six months of fiscal 2011. The recoveries recorded in the first six months of fiscal 2012 were for cash received upon sales of assets from the Company's Mansfield Blanking facility of $489, which was impaired in fiscal 2010 and the Company's Liverpool Stamping Facility, which was impaired in fiscal 2009 of $129 , with the remaining $5 of recoveries coming from other assets impaired in prior periods. Impairment recoveries of $142 recorded in the first six months of fiscal 2011 were for cash received upon sales of assets from the Company's Liverpool Stamping facility.

OTHER. Interest expense for the first six months of fiscal 2012 was $811, compared to interest expense of $963 during the first six months of fiscal 2011. Interest expense decreased from the prior year first six months as a result of the impact of the amended and restated Credit and Security Agreement, which lowered the weighted average interest rate in the first six months of fiscal 2012 compared to the prior year. Borrowed funds averaged $29,748 during the first six months of fiscal 2012 and the weighted average interest rate was 2.80%. In the first six months of fiscal 2011, borrowed funds averaged $28,451 while the weighted average interest rate was 3.32%.

Other income, net was $22 for the first six months of fiscal 2012 compared to other income, net of $111 in the first six months of fiscal 2011. Other income, net in the first six months of fiscal 2012 was the result of currency transaction gains realized by the Company's Mexican subsidiary. Other income, net in the first six months of fiscal 2011 consisted of $131 generated from the sale of stock received in the second quarter in connection with the settlement of a customer bankruptcy and netted against and expense of $20 for currency transaction losses realized by the Company's Mexican subsidiary.

The provision for income taxes for the first six months of fiscal 2012 was an expense of $4,612 on income before taxes of $12,096 for an effective tax rate of 38.1%. The provision for income taxes for the first six months of fiscal 2011 was an expense of $2,237 on income before taxes of $6,192 for an effective tax rate of 36.1%. The estimated effective tax rate for the first six months of fiscal 2012 has increased compared to the first six months of fiscal 2011 primarily from changes in estimates of prior year tax accruals and a reduced research and development tax credit because the law expired as of December 31, 2011.

NET INCOME. Net income for the first six months of fiscal 2012 was $7,484, or $0.44 per share, diluted. Net income for the first six months of fiscal 2011was $3,955 or $0.23 per share, diluted.

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Liquidity and Capital Resources

On April 19, 2011, the Company entered into an amended and restated Credit and Security Agreement (the "Agreement") with a syndicate of lenders led by The Privatebank and Trust Company, as co-lead arranger, sole book runner and administrative agent and PNC Capital Markets, LLC as co-lead arranger and PNC Bank, National Association, as syndication agent. The Agreement amends and restates in its entirety the Company's Credit Agreement, dated as of August 1, 2008.

The Agreement has a five-year term and provides for an $80 million secured revolving line of credit which may be increased up to $120 million subject to the Company's pro forma compliance with financial covenants, the administrative agent's approval and the Company obtaining commitments for such increase. The Company is permitted to prepay the borrowings under the revolving credit facility without penalty.

Borrowings under the Agreement bear interest, at the Company's option, at the London Interbank Offered Rate ("LIBOR") or the base (or "prime") rate established from time to time by the administrative agent, in each case plus an applicable margin set forth in a matrix based on the Company's leverage ratio. In addition to interest charges, the Company will pay in arrears a quarterly commitment fee ranging from 0.375% - 0.750% based on the Company's daily revolving exposure. At April 30, 2012, the interest rate for the credit facility was 2.74% for Eurodollar rate loans and 4.25% for base rate loans.

The Agreement contains customary restrictive and financial covenants, including covenants regarding the Company's outstanding indebtedness and maximum leverage and fixed charge coverage ratios. The Agreement specifies that the leverage ratio as defined in the Agreement shall not exceed 2.25 to 1.00 to the conclusion of the Agreement. Also, the Agreement specifies that the fixed charge ratio as defined in the Agreement shall not be less than 2.50 to 1.00 to the conclusion of the Agreement. The Company was in compliance with the financial covenants as April 30, 2012.

The 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, defined as 51% of the aggregate commitment under the Agreement, the outstanding borrowings become due and payable at the option of the required lenders. The Company does not anticipate at this time any change in business conditions or operations that could be deemed a material adverse effect by the lenders.

Borrowings under the 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.

On January 31, 2012, the Company entered into a First Amendment Agreement (the "First Amendment") to the Agreement.

The First Amendment continues the Company's revolving line of credit up to $80,000,000 through April 2016 with a modification to the calculation of the fixed charge coverage ratio to allow for payment of a special dividend declared on February 1, 2012 and other modifications to allow the Company to participate in certain customer-sponsored financing arrangements allowing for early, discounted payment of Company invoices.

After considering letters of credit of $1,748 that the Company has issued, available funds under the Agreement were $43,352 at April 30, 2012.

In July 2011, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 2.67% and requires monthly payments of $65 through April 2012. As of April 30,

2012, $0 remained outstanding under this agreement.

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

Twelve Months ended April 30,	Credit Agreement	Other Debt	Total
2013	$—	$—	$—
2014	—	—	—
2015	—	—	—
2016 and thereafter	34,900	—	34,900
Total	$34,900	$—	$34,900

At April 30, 2012, total debt was $34,900 and total equity was $107,394, resulting in a capitalization rate of 24.5% debt, 75.5% equity. Current assets were $140,924 and current liabilities were $94,340 resulting in positive working capital of $46,584.

For the six months ended April 30, 2012, operations generated $17,130 of cash flow compared to $16,209 for the six months ended 2011.

Working capital changes since October 31, 2011 were a use of funds of $11,295. During the first six months of fiscal 2012, accounts receivable and inventory have increased by $18,412 and $7,969, respectively.

The increase in tooling inventories of $5,415 is for customer reimbursed production tooling related to new program awards that go into production over the next several quarters.

Cash capital expenditures in the first six months of fiscal 2012 were $5,750. The Company had unpaid capital expenditures of approximately $289 and such amounts are included in accounts payable and excluded from capital expenditures in the accompanying condensed consolidated statement of cash flows. Total estimated capital expenditures for the remainder of fiscal 2012 are $7,000, subject to change based on business conditions.

The Company continues to closely monitor business conditions that are currently affecting the automotive industry and therefore, to closely monitor the Company's working capital position to insure adequate funds for operations. The Company anticipates that funds from operations will be adequate to meet the obligations under the Agreement through maturity of the Agreement in April 2016, as well as pension contributions totaling $5,910 during fiscal 2012 and capital expenditures for fiscal 2012.

Effect of Inflation, Deflation

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. Inflation has not generally had a material effect on the Company’s financial results.

In periods of decreasing prices, deflation occurs and may also affect the Company’s results of operations. With respect to steel purchases, the Company’s purchases of steel through customers’ resale steel programs protects recovery of the cost of steel through the selling price of the Company’s products. For non-resale steel purchases, the Company coordinates the cost of steel purchases with the related selling price of the product.

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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 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 or suppliers; 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 the 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.

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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 April 30, 2012, an evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer ("PEO") and Principal Financial Officer ("PFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended. The Company's PEO and PFO concluded that the Company's disclosure controls and procedures were effective as of April 30, 2012.

There were no changes in the Company's internal control over financial reporting during the second quarter of fiscal 2012 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/ Thomas M. Dugan
Thomas M. Dugan
Vice President of Finance and Treasurer

Date: May 23, 2012

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