SHILOH INDUSTRIES INC
Form 10-Q
May 25, 2010
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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 April 30, 2010

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	**(I.R.S. Employer**
incorporation or organization)	**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 ¨ 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 accelerated filer and large 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 18, 2010 was 16,534,862.

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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)

(Unaudited)

	April 30, 2010	October 31, 2009
ASSETS		
Cash and cash equivalents	$ 167	$ 127
Accounts receivable, net of allowance for doubtful accounts of $702 and $729 at April 30, 2010 and October 31, 2009, respectively	64,756	65,008
Related-party accounts receivable	4,569	1,295
Income tax receivable		6,546
Inventories, net	21,153	23,538
Deferred income taxes	2,124	2,124
Prepaid expenses	3,099	1,178
Total current assets	95,868	99,816
Property, plant and equipment, net	139,443	151,798
Other assets	907	817
Total assets	$ 236,218	$ 252,431
LIABILITIES AND STOCKHOLDERS EQUITY		
Current debt	$ 432	$ 880
Accounts payable	59,301	60,301
Other accrued expenses	12,146	13,648
Total current liabilities	71,879	74,829
Long-term debt	33,941	51,620
Deferred income taxes	962	1,093
Long-term benefit liabilities	29,484	27,808
Other liabilities	1,459	1,589
Total liabilities	137,725	156,939
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 per share; 5,000,000 shares authorized; no shares issued and outstanding at April 30, 2010 and October 31, 2009, respectively		
	165	165

Common stock, 16,534,862 and 16,502,929 shares issued and outstanding at April 30, 2010 and October 31, 2009, respectively		
Paid-in capital	61,891	61,344
Retained earnings	61,172	58,619
Accumulated other comprehensive loss	(24,735)	(24,636)
Total stockholders equity	98,493	95,492
Total liabilities and stockholders equity	$ 236,218	$ 252,431

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 April 30,		Six months ended April 30,	
	2010	2009	2010	2009
Revenues	$ 117,836	$ 62,239	$ 215,727	$ 125,261
Cost of sales	106,781	63,381	199,641	130,658
Gross profit (loss)	11,055	(1,142)	16,086	(5,397)
Selling, general and administrative expenses	5,316	4,857	9,914	9,843
Asset impairment (recovery), net		1,633	(48)	714
Restructuring charges		906		906
Operating income (loss)	5,739	(8,538)	6,220	(16,860)
Interest expense	944	568	2,270	1,387
Interest income	1	13	2	25
Other income (expense), net	(6)	35	(25)	247
Income (loss) before income taxes	4,790	(9,058)	3,927	(17,975)
Provision (benefit) for income taxes	1,702	(2,826)	1,374	(5,608)
Net income (loss)	$ 3,088	$ (6,232)	$ 2,553	$ (12,367)
Earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.19	$ (0.38)	$ 0.15	$ (0.76)
Basic weighted average number of common shares	16,524	16,356	16,514	16,356
Diluted earnings (loss) per share	$ 0.19	$ (0.38)	$ 0.15	$ (0.76)
Diluted weighted average number of common shares	16,654	16,356	16,630	16,356

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, 2010	Six months ended April 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,553	$ (12,367)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,590	15,006
Asset impairment	(48)	714
Amortization of deferred financing costs	428	98
Deferred income taxes	(230)	(5,501)
Stock-based compensation expense	390	257
Loss on sale of assets	20	
Changes in operating assets and liabilities:		
Accounts receivable	(3,022)	36,205
Inventories	2,385	10,985
Prepaids and other assets	(2,081)	370
Payables and other liabilities	(4,010)	(30,378)
Income taxes payable (receivable) and estimated payments	6,725	(2,393)
Net cash provided by operating activities	16,700	17,782
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,155)	(3,932)
Proceeds from sale of assets	48	1,009
Net cash used in investing activities	(1,107)	(2,923)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of short-term borrowings	(453)	(385)
Payment of capital lease		(2)
Increase in overdraft balances	2,865	292
Proceeds from long-term borrowings	3,450	8,600
Repayments of long-term borrowings	(21,124)	(25,422)
Payment of deferred financing costs	(358)	
Proceeds from exercise of stock options	67	
Net cash used in financing activities	(15,553)	(16,917)
Net increase (decrease) in cash and cash equivalents	40	(2,058)
Cash and cash equivalents at beginning of period	127	2,210
Cash and cash equivalents at end of period	$ 167	$ 152

Supplemental Cash Flow Information:		
Cash paid for interest	$ 1,951	$ 1,465
Cash refund of income taxes	$ (5,323)	$ (2,401)

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

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, 2009.

Revenues and operating results for the six months ended April 30, 2010 are not necessarily indicative of the results to be expected for the full year.

Note 2 New Accounting Standards

Effective July 1, 2009, the FASB ASC (Topic 105, Generally Accepted Accounting Principles), became the single source for authoritative nongovernmental U.S. generally accepted accounting principles. New accounting standards regarding subsequent events and financial instruments became effective in fiscal 2009, and are included in FASB ASC Topic 855, Subsequent Events and Topic 825, Financial Instruments. The Company has determined that the changes to the accounting standards in fiscal 2009 do not have a material effect on the Company s consolidated financial statements.

In December 2008, the FASB issued guidance related to ASC Topic 715, Compensation Retirement Benefits, the objective being to provide guidance on an employer s disclosure about plan assets of a defined benefit pension plan. Such disclosures should provide users of financial statements with an understanding of (i) how investment allocation decisions are made, (ii) major categories of plan assets, (iii) how fair value of plan assets are measured, (iv) the effect of fair value measurements on changes in plan assets during a period and (v) significant concentrations of risk within a plan assets. For disclosures about plan assets, the requirements of the guidance is required for fiscal years ending after December 15, 2009 which for the Company will be its fiscal year ending October 31, 2010. The new guidance will impact the Company s disclosures relative to the assets held in its various defined benefit pension plans.

Note 3 Asset Impairment and Restructuring Charges

At October 31, 2009, there was no restructuring reserve remaining related to the closure of the Company s former Cleveland or Liverpool facilities and there were no restructuring charges recorded during the first quarter or second quarter of fiscal 2010. Impairment recoveries of $919 during the first quarter of fiscal 2009, and $48 during the first quarter of 2010 were recorded for cash received upon the sale of assets that were previously impaired.

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Note 4 Inventories

Inventories consist of the following:

	April 30, 2010	October 31, 2009
Raw materials	$ 6,887	$ 8,746
Work-in-process	5,225	5,696
Finished goods	7,293	6,393
Total material	19,405	20,835
Tooling	1,748	2,703
Total inventory	$ 21,153	$ 23,538

Total cost of inventory is net of reserves to reduce certain inventory from cost to net realizable value. Such reserves aggregated $1,752 and $1,385 at April 30, 2010 and October 31, 2009, respectively.

Note 5 Property, Plant and Equipment

Property, plant and equipment consist of the following:

	April 30, 2010	October 31, 2009
Land and improvements	$ 8,664	$ 8,635
Buildings and improvements	104,476	102,330
Machinery and equipment	342,895	339,473
Furniture and fixtures	10,506	10,359
Construction in progress	1,555	6,174
Total, at cost	468,096	466,971
Less: Accumulated depreciation	328,653	315,173
Property, plant and equipment, net	$ 139,443	$ 151,798

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Note 6 Financing Arrangements

Debt consists of the following:

	April 30, 2010	October 31, 2009
Credit Agreement interest at 7.01% and 7.02% at April 30, 2010 and October 31, 2009, respectively	$ 33,850	$ 51,350
Insurance broker financing agreement	76	529
State of Ohio promissory note	447	621
Total debt	34,373	52,500
Less: Current debt	432	880
Total long-term debt	$ 33,941	$ 51,620

The weighted average interest rate of all debt was 6.95% and 6.94% for the three and six months ended April 30, 2010, respectively. The weighted average interest rate of all debt was 3.08% and 3.55% for the three and six months ended April 30, 2009, respectively.

On August 1, 2008, the Company entered into a credit agreement with a syndicate of lenders with National City Bank, since succeeded by PNC Bank National Association, as co-lead arranger, sole book runner and administrative agent and The Privatebank and Trust Company as co-lead arranger and syndication agent. The initial agreement provided the Company with a revolving line of credit up to $120 million with the opportunity to borrow up to an additional $80 million at then current market rates. The Credit Agreement also established limits for additional borrowings, dividends, investments, acquisitions or mergers and sales of assets. Borrowings under the former credit agreement were repaid with the proceeds from the new agreement.

On November 13, 2009, the Company entered into a Fourth Amendment Agreement (the Fourth Amendment) of the Credit Agreement. The Fourth Amendment provides the Company with a revolving line of credit up to $80 million through July 31, 2012, subject to a borrowing formula requirement. The Company also has the opportunity to borrow up to an additional $80 million, at then current market rates. The Company may prepay the borrowings under the revolving credit facility without penalty. The borrowing formula is the sum of the Company s accounts receivable and inventory, minus accounts payable, plus an amount of $35,000 for the period from January 31, 2010 through July 30, 2010, $30,000 for the period from July 31, 2010 through July 30, 2011 and $25,000 for the period from July 31, 2011 to the conclusion of the Credit Agreement. Under the Fourth Amendment, the Company has the option to select the applicable interest rate based upon two indices a Base Rate, a daily rate based on the highest of the prime rate, the Federal Funds Open Rate plus one-half of one percent or the daily Libor Rate plus one percent, as defined in the Fourth Amendment, or the Eurodollar Rate, as defined in the Fourth Amendment. The selected index is combined with a designated margin of 500 basis points for Eurodollar loans or 400 basis points for Base Rate loans. At April 30, 2010, the interest rate for the revolving credit facility was at 7.00% for Eurodollar rate loans and 7.25% for base rate loans.

The Fourth Amendment requires the Company to maintain compliance with fixed charge and leverage ratio requirements. The Fourth Amendment also specifies that the leverage ratio shall not exceed 5.80 to 1.00 from January 31, 2010 through April 29, 2010, 4.75 to 1.00 from April 30, 2010 through July 30, 2010, 2.75 to 1.00 from July 31, 2010 through January 30, 2011, 2.50 to 1.00 from January 31, 2011 through July 30, 2011, and 2.00 to 1.00 from July 31, 2011 to the conclusion of the Credit Agreement. Also, the Fourth Amendment specifies that the fixed charge coverage ratio shall not be less than 1.75 to 1.00 from January 31, 2010 through April 29, 2010, 2.25 to 1.00 from April 30, 2010 through July 30, 2010, 3.00 to 1.00 from July 31, 2010 through January 30, 2011, 2.50 to 1.00 from January 31, 2011 through April 29, 2011, and 2.75 to 1.00 from April 30, 2011 to the conclusion of the Credit Agreement. The Company must also maintain agreed to levels of EBITDA (as defined) for the 3 three month periods ending at each month end date from October 31, 2009 to July 31, 2010. The Company was in compliance with the financial covenants at April 30, 2010.

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The 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 Credit 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 change by the lenders.

Borrowings under the 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.

In July 2009, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 3.25% and requires monthly payments of $76 through April 2010. In July 2008, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 3.24% and required monthly payments of $78 through April 2009. As of April 30, 2010 and October 31, 2009, $76 and $529, 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 bears 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. The balance due the State of Ohio at April 30, 2010 and October 31, 2009 was $447 and $621, respectively.

After considering letters of credit of $2,415 that the Company has issued, available funds under the Credit Agreement applying the borrowing formula described above were $29,913 at April 30, 2010.

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Note 7 Pension and Other Post-Retirement Benefit Matters

The components of net periodic benefit cost for the three and six months ended April 30, 2010 and 2009 are as follows:

	Pension Benefits Three months ended April 30,		Other Post-Retirement Benefits Three months ended April 30	
	2010	2009	2010	2009
Service cost	$ 44	$ 164	$ 2	$ 1
Interest cost	951	1,017	9	9
Expected return on plan assets	(646)	(694)		
Recognized net actuarial loss	315	300	15	41
Amortization of prior service cost	14	348		(43)
Amortization of transition obligation		2		
Net periodic benefit cost	$ 678	$ 1,137	$ 26	$ 8

	Pension Benefits Six months ended April 30,		Other Post-Retirement Benefits Six months ended April 30,	
	2010	2009	2010	2009
Service cost	$ 87	$ 247	$ 3	$ 2
Interest cost	1,901	2,035	18	19
Expected return on plan assets	(1,291)	(1,389)		
Recognized net actuarial loss	631	600	31	81
Amortization of prior service cost	28	371		(86)
Amortization of transition obligation		3		
Net periodic benefit cost	$ 1,356	$ 1,867	$ 52	$ 16

The Company made contributions of $423 to the defined benefit pension plans during the six months ended April 30, 2010. The Company expects contributions to be $1,168 for the remainder of fiscal 2010.

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.

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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 March 17, 2010) (the Incentive Plan), which authorizes grants to officers and other key employees of the Company and its subsidiaries (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 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. Options expire over a period not to exceed ten years from the date of grant and vest ratably over a three year period.

Activity in the Company s stock option plan for the six months ended April 30, 2010 and 2009 was as follows:

	Fiscal 2010				Fiscal 2009			
	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	776,805	$ 5.88			335,734	$ 8.29		
Options:								
Granted		$			319,200	$ 2.13		
Exercised	(31,933)	$ 2.11				$		
Canceled	(7,000)	$ 7.32			(15,767)	$ 10.58		
Options outstanding at April 30	737,872	$ 6.03	8.11	$ 2,419	639,167	$ 5.15	7.40	$ 162
Exercisable at April 30	213,439	$ 10.43	6.85	$ 375	270,067	$ 7.09	5.14	$ 94

At April 30, 2010 and 2009, the exercise price of some of the Company s stock option grants are 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, 2010, the Company recorded compensation expense related to the stock options currently vesting, effectively reducing income before taxes and net income by $161 and $390, respectively. For the three and six months ended April 30, 2009, the Company recorded compensation expense related to the stock options currently vesting, effectively reducing income before taxes and net income by $142 and $257, respectively. For the three and six months ended April 30, 2010, the impact on earnings per share was a reduction of $.01 per share and $.02 per share, basic and diluted, respectively. For the three and six months ended April 30, 2009, the impact on earnings per share was a reduction of $.01 per share and $.02 per share, basic and diluted, respectively. The total compensation cost related to no vested awards not yet recognized is expected to be a combined total of $1,038 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 month periods ended April 30, 2010, 489,704 stock options were excluded from the computation of diluted earnings per share because they were anti-dilutive. For the three and six month periods ended April 30, 2009, 639,167 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,**	
	2010	**2009**	**2010**	**2009**
Net income (loss) available to common stockholders	$ 3,088	$ (6,232)	$ 2,553	$ (12,367)
Basic weighted average shares	16,524	16,356	16,514	16,356
Effect of dilutive securities:				
Stock options	130		116	
Diluted weighted average shares	16,654	16,356	16,630	16,356
Basic income (loss) per share	$ 0.19	$ (0.38)	$ 0.15	$ (0.76)
Diluted income (loss) per share	$ 0.19	$ (0.38)	$ 0.15	$ (0.76)

Comprehensive Income

Comprehensive income for the three and six months ended April 30, 2010 was $3,088 and $2,454, respectively. In addition to the net income of $2,553, comprehensive income for the six months ended April 30, 2010 includes the effect of tax adjustments of $(99) to adjust the estimated pension related tax accrual to the tax return as filed. Comprehensive loss for the three and six months ended April 30, 2009 was $6,232 and $12,367, respectively.

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 made its final payment of $924 in February 2010 and completed its settlement agreement with the state of Ohio concerning personal property taxes related to assets that the Company acquired from MTD Products Inc.

In addition, 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 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, Chrysler and Ford. According to industry statistics, traditional domestic manufacturer production for the first six months of fiscal 2010 increased by 36.6% and total North American car and light truck production for the first six months of fiscal 2010 increased by 42.3%, in each case compared with production for the first six months of fiscal 2009. 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 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 April 30, 2010, the Company s facilities were operating at approximately 40.6%, compared to 22.0% capacity at April 30, 2009. 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 programs. 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. During the current fiscal year, 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.

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.

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Company s Response to Current Economic Conditions Affecting the Automotive Industry

After the difficult year of fiscal 2009, the Company continues to exercise caution as fiscal year 2010 proceeds. The same disciplined approach that was followed in fiscal 2009 remains in place. According to industry forecasts (published by CSM Worldwide), car and light truck production is predicted to increase to 11,517,000 units, a level that represents a 37.1% improvement over fiscal 2009 s production but still 15.5% below the average production levels of the preceding five years. As described below, the Company s approach to monitoring customer release volumes and the adjustment of the Company s cost structure remains appropriate given the uncertainty that exists in the automotive industry including the supplier community. The Company, therefore, intends to adjust manning levels and discretionary spending in support of operations as necessary in relation to customer releases as the releases are updated.

The Company continues to follow these action plans to respond to varying 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.

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 adjusted 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 were initiated to monitor selling, general and administrative costs as well, such as temporary layoffs, salary reductions, suspension of the 401k Company match, travel restrictions, and overall reductions of controllable spending. As production volumes have begun to improve, the Company has gradually recalled personnel previously laid off or hired new personnel and has gradually restored reductions in salaries.

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.

The Company has also evaluated plant operations in view of the announced plant closures by our customers. The Company closed its Liverpool Manufacturing plant and consolidated the on-going Liverpool Manufacturing work into the Company s Liverpool Coil plant. The steps described above are intended to maintain the Company s focus on cost reduction, to generate cash with a focus on working capital management and capital investment efficiency and to maintain liquidity and covenant compliance with the Fourth Amendment of the Company s Credit Agreement.

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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 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. 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, 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.

In view of the current economic conditions affecting the automotive industry, the Company is carefully assessing its risk with each of its customers and considering compliance with terms and conditions, aging of the customer accounts, intelligence learned through contact with customer representatives and net account receivable / account payable positions with customers, if applicable.

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 reviews 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.

In view of the current economic conditions affecting the automotive industry, the Company is carefully monitoring purchases of inventory to insure 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 loss 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 of losses or credits is permitted under the tax law. The calculation 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, the payment of additional taxes will be required. Interest and penalties related to uncertain income tax positions are included in the Company s provision for 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, such as at April 30, 2009 when General Motors and Chrysler were experiencing severe financial difficulties, 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 CSM Worldwide), 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, as was the case at April 30, 2009. 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 process 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 longed-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 totally 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. 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 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 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, dependant upon the location where the claim is incurred. At April 30, 2010 and October 31, 2009, the amount accrued for group insurance and workers compensation claims was $2,080 and $2,277, respectively. The Company does not self-inure for any other types of losses.

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, approximately 85.8%. 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. The discount rate is determined by selecting a single rate that produces a result equivalent to discounting expected benefit payments from the plans using the Citigroup Pension Discount Curve. This concept of matching the duration of cash flow of benefit payments with the discount rate is recommended by the FASB (Financial Accounting Standards Board) Accounting Standards Codification (ASC) Topic 715, Compensation Retirement Benefits . Based upon this analysis using the Citigroup Pension Discount Curve, the Company used a discount rate to measure its pension and post-retirement liabilities of 5.75% at October 31, 2009 and 8.00% at October 31, 2008. A change of 25 basis points in the discount rate would increase or decrease expense on an annual basis by approximately $38.

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 $95.

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, 2009, the actual return on pension plans assets for all of the Company s plans approximated 7.67% to 10.05%, which exceeded the expected rate of return on plan assets of 7.25% to 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 the Company s defined benefit plans will increase in fiscal 2010, and that pension expense will increase in fiscal 2010 and beyond.

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Results of Operations

Three Months Ended April 30, 2010 Compared to Three Months Ended April 30, 2009

REVENUES. Sales for the second quarter of fiscal 2010 were $117,836, an increase of $55,597 from last year s second quarter sales of $62,239, or 89.3%. Sales increased during the second quarter of fiscal 2010 as a result of increased production volumes experienced by the North American automotive and heavy truck industries for which the Company supplies parts and, most significantly, by the traditional domestic manufacturers, which include some of the Company s largest customers. According to industry statistics, traditional domestic manufacturer production for the second quarter of fiscal 2010 increased 46.4% and total North American car and light truck production for the second quarter of fiscal 2010 increased by 53.6%, in each case compared with production for the second quarter of fiscal 2009.

GROSS PROFIT. Gross profit for the second quarter of fiscal 2010 was $11,055 compared to a loss of $1,142 in the second quarter of fiscal 2009, an increase of $12,197. Gross profit as a percentage of sales was 9.4% in the second quarter of fiscal 2010 compared to a negative 1.8% for the same period a year ago. Gross profit in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 was favorably affected by the increased volume of sales in the quarter by approximately $15,600. Gross profit was also favorably affected by material costs including improvements in revenue realized from the sale of engineered scrap during the second quarter of 2010 compared to second quarter of 2009. The net effect was reduced material costs of approximately $2,200. These favorable factors resulting in increased gross profit were offset by increasing manufacturing expenses of $5,600. Manufacturing expenses have increased in relation to the increased production volumes experienced in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. Increased expenses were noted in personnel and personnel related expenses of $4,100 and repairs and maintenance and manufacturing supplies of $1,900. These increases were offset by reduced depreciation expense of $500.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $5,316 in the second quarter of fiscal 2010, an increase of $459 from $4,857 in the same period of the prior year. As a percentage of sales, these expenses were 4.5% of sales in the second quarter of fiscal 2010 and 7.8% of sales in the second quarter of fiscal 2009. The increase in selling, general, and administrative expenses reflects increased personnel and personnel-related expenses of approximately $475 due to increased market demand.

ASSET IMPAIRMENT AND RESTRUCTURING CHARGES. In March 2009, the Company presented to the Board of Directors its plan to close the operations of its Liverpool Manufacturing Division due to declining levels of sales. The Company has relocated certain machinery and equipment to another of the Company s plants to service business that will continue and closed its operations at Liverpool in August 2009. As a result, the Company recorded an impairment charge of $1,644 to reduce long-lived assets that will not be transferred to their estimated fair value. The Company also recorded a restructuring charge of $906 based on negotiated settlement for approximately 100 employees for severance, health insurance, and curtailment of the retirement plan of Liverpool Manufacturing employees.

In fiscal 2006, management presented to the Board of Directors an assessment of its current business at its Cleveland Stamping facility and committed to a plan to cease operation of the Cleveland facility as of October 31, 2007, as a result of declining volumes. The Company recorded an impairment charge to reduce long-lived assets to their estimated fair value and 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. An impairment recovery of $11 was recorded in the second quarter of fiscal 2009 for cash received upon the sale of assets that were previously impaired.

OTHER. Interest expense for the second quarter of fiscal 2010 was $944, compared to interest expense of $568 during the second quarter of fiscal 2009. Interest expense increased from the prior year second quarter as a result of an increase in the interest rate due to the effect of the Fourth Amendment of the Company s Credit Agreement offset by a lower level of average borrowed funds in the second quarter of fiscal 2010 compared to the prior year. Borrowed funds averaged $44,131 during the second quarter of fiscal 2010 and the weighted average interest rate was 6.95%. In the second quarter of fiscal 2009, borrowed funds averaged $58,488 while the weighted average interest rate was 3.07%.

Other expense, net was $(6) for the second quarter of fiscal 2010 compared to other income, net of $35 for the second quarter of fiscal 2009.

In the second quarter of fiscal 2010, the provision for income taxes was $1,702 on income before taxes of $4,790 for an effective tax rate of 35.5%. The provision for income taxes in the second quarter of fiscal 2009 was a benefit of $2,826 on loss before taxes of $9,058 for an effective tax rate of 31.2%. The estimated effective tax rate for fiscal 2010 has increased in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 as a result of increasing state income taxes. As a result of the improved sales volumes and operating results, the Company has generated pre tax income in the second quarter of fiscal 2010 compared to the prior year second quarter period and the result has been a provision for income taxes in fiscal 2010 compared to a benefit in fiscal 2009.

NET INCOME. The net income for the second quarter of fiscal 2010 was $3,088, or $0.19 per share, diluted. The net loss for the second quarter of fiscal 2009 was $6,232, or $0.38 per share, diluted.

Six Months Ended April 30, 2010 Compared to Six Months Ended April 30, 2009

REVENUES. Sales for the first six months of fiscal 2010 were $215,727, an increase of $90,466 from last year s first six months sales of $125,261, or 72.2%. For the first half of fiscal 2010, North American car and light truck production increased by 42.3%, compared with production for the first half of fiscal 2009.

GROSS PROFIT. Gross profit for the first six months of fiscal 2010 was $16,086 compared to a loss of $5,397 in the first six months of fiscal 2009, an increase of $21,483. Gross profit as a percentage of sales was 7.5% in the first six months of fiscal 2010 compared to a negative 4.3% for the same period a year ago. For the first six months of fiscal 2010, gross profit increased as a result of the increased sales volume compared to the prior year first six-month period. The effect of the increased sales volume on gross profit was approximately $24,400. Gross profit was also favorably affected by material costs including improvements in revenue realized from the sale of engineered scrap during the first half of 2010 compared to first half of 2009. The net effect was reduced material costs of approximately $4,700. Increasing manufacturing expenses of approximately $7,600 offset the favorable effects of increasing sales volumes and reduced material costs. Manufacturing expenses increased in personnel and personnel related expenses by approximately $6,300 and in repairs and maintenance and manufacturing supplies by approximately $2,900. These increases were offset by reduced depreciation and utility costs of approximately $1,600.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $9,914, or 4.6% of sales in the first six months of fiscal 2010, compared to $9,843, or 7.9% of sales in the same period of the prior year. The increase in selling, general, and administrative expenses reflects increasing personnel and personnel-related expenses of approximately $10.

ASSET IMPAIRMENT AND RESTRUCTURING CHARGES. In March 2009, the Company presented to the Board of Directors its plan to close the operations of its Liverpool Manufacturing Division due to declining levels of sales. The Company therefore relocated certain machinery and equipment to another of the Company s plants to service business that will continue and closed operations at Liverpool in August 2009. As a result, the Company recorded an impairment charge of $1,644 to reduce long-lived assets that will not be transferred to their estimated fair value. The Company also recorded a restructuring charge of $906 based on a negotiated settlement for approximately 100 employees for severance, health insurance, and curtailment of the retirement plan of the Liverpool Manufacturing employees.

In fiscal 2006, management presented to the Board of Directors an assessment of its current business at its Cleveland Stamping facility and committed to a plan to cease operation of the Cleveland facility as of October 31, 2007, as a result of declining volumes. The Company recorded an impairment charge to reduce long-lived assets to their estimated fair value and 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. An impairment recovery of $930 was recorded during the first six-month periods of fiscal 2009 for cash received upon the sale of assets that were previously impaired.

OTHER. For the first six months of fiscal 2010, interest expense was $2,270, an increase of $883 from interest expense of $1,387 in the first six months of fiscal 2009. The increase in interest expense compared to the prior year six-month period resulted from the net effect of a lower level of average borrowed funds and an increase in the interest rate. The rate of interest increased as a result of the terms of the Fourth Amendment of the Company s Credit Agreement. Borrowed funds averaged $46,920 during the first six months of fiscal 2010 and the weighted average interest rate was 6.95%. For the first six months of fiscal 2009, borrowed funds averaged $62,643 while the weighted average interest rate was 3.55%.

Other expense, net was $(25) for the first six months of fiscal 2010 compared to other income, net of $247 for the second quarter of fiscal 2009. Other income in fiscal 2009 is the result of currency transaction gains realized by the Company s Mexican subsidiary.

In the first six months of fiscal 2010, the provision for income taxes was $1,374 on income before taxes of $3,927 for an effective tax rate of 35.0%. The provision for income taxes in the first six months of fiscal 2009 was a benefit of $5,608 on loss before taxes of $17,975 for an effective tax rate of 31.2%. The estimated effective tax rate for fiscal 2010 has increased in the first six months of fiscal 2010 compared to the first six months of fiscal 2009 as a result of increasing state income taxes offset by changes in estimates of prior year tax accruals. As a result of the improved sales volumes and operating results, the Company has generated pre tax income in the first six months of fiscal 2010 compared to the first six month period of fiscal 2009 and the result has been a provision for income taxes in fiscal 2010 compared to a benefit in fiscal 2009.

NET INCOME. The net income for the first six months of fiscal 2010 was $2,553, or $0.15 per share, diluted. The net loss for the first six months of fiscal 2009 was $12,367, or $0.76 per share, diluted.

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Liquidity And Capital Resources

On August 1, 2008, the Company entered into a credit agreement with a syndicate of lenders with National City Bank, since succeeded by PNC Bank National Association, as co-lead arranger, sole book runner and administrative agent and The Privatebank and Trust Company as co-lead arranger and syndication agent. The initial agreement provided the Company with a revolving line of credit up to $120 million with the opportunity to borrow up to an additional $80 million at then current market rates. The Credit Agreement also established limits for additional borrowings, dividends, investments, acquisitions or mergers and sales of assets. Borrowings under the former credit agreement were repaid with the proceeds from the new agreement.

On November 13, 2009, the Company entered into a Fourth Amendment Agreement (the Fourth Amendment) of the Credit Agreement. The Fourth Amendment provides the Company with a revolving line of credit up to $80 million through July 31, 2012, subject to a borrowing formula requirement. The Company also has the opportunity to borrow up to an additional $80 million, at then current market rates. The Company may prepay the borrowings under the revolving credit facility without penalty. The borrowing formula is the sum of the Company s accounts receivable and inventory, minus accounts payable, plus an amount of $35,000 for the period from January 31, 2010 through July 30, 2010, $30,000 for the period from July 31, 2010 through July 30, 2011 and $25,000 for the period from July 31, 2011 to the conclusion of the Credit Agreement. Under the Fourth Amendment, the Company has the option to select the applicable interest rate based upon two indices a Base Rate, a daily rate based on the highest of the prime rate, the Federal Funds Open Rate plus one-half of one percent or the daily Libor Rate plus one percent, as defined in the Fourth Amendment, or the Eurodollar Rate, as defined in the Fourth Amendment. The selected index is combined with a designated margin of 500 basis points for Eurodollar loans or 400 basis points for Base Rate loans. At April 30, 2010, the interest rate for the revolving credit facility was at 7.00% for Eurodollar rate loans and 7.25% for base rate loans.

The Fourth Amendment requires the Company to maintain compliance with fixed charge and leverage ratio requirements. The Fourth Amendment specifies that the leverage ratio shall not exceed 5.80 to 1.00 from January 31, 2010 through April 29, 2010, 4.75 to 1.00 from April 30, 2010 through July 30, 2010, 2.75 to 1.00 from July 31, 2010 through January 30, 2011, 2.50 to 1.00 from January 31, 2011 through July 30, 2011, and 2.00 to 1.00 from July 31, 2011 to the conclusion of the Credit Agreement. Also, the Fourth Amendment specifies that the fixed charge coverage ratio shall not be less than 1.75 to 1.00 from January 31, 2010 through April 29, 2010, 2.25 to 1.00 from April 30, 2010 through July 30, 2010, 3.00 to 1.00 from July 31, 2010 through January 30, 2011, 2.50 to 1.00 from January 31, 2011 through April 29, 2011, and 2.75 to 1.00 from April 30, 2011 to the conclusion of the Credit Agreement. The Company must also maintain agreed to levels of EBITDA (as defined) for the three month periods ending at each month end date from October 31, 2009 to July 31, 2010. The Company was in compliance with the financial covenants at April 30, 2010.

The 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 Credit 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 change by the lenders.

Borrowings under the 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.

In July 2009, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 3.25% and requires monthly payments of $76 through April 2010. In July 2008, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 3.24% and required monthly payments of $78 through April 2009. As of April 30, 2010 and October 31, 2009, $76 and $529, 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 bears 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. The balance due the State of Ohio at April 30, 2010 and October 31, 2009 was $447 and $621, respectively.

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

Twelve Months ended April 30,	Credit Agreement	Other Debt	Total
2011	$	$ 432	$ 432
2012		91	91
2013	33,850		33,850
2014			
2015			
Total	$ 33,850	$ 523	$ 34,373

At April 30, 2010, total debt was $34,373 and total equity was $98,493, resulting in a capitalization rate of 25.9% debt, 74.1% equity. Current assets were $95,868 and current liabilities were $71,879 resulting in positive working capital of $23,989.

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 $16,703 compared to $1,793 consumed in the first half of 2009. The improvement in cash flow from operations resulted from the improvement in net income in the first six months of fiscal 2010 compared to the net loss incurred in the first six months of fiscal 2009.

Working capital changes since October 31, 2009 used funds of $3. Accounts receivable increased by $3,022 on the increased sales volume realized in the first half of fiscal 2010. Likewise, payables and other liabilities increased by $3,921 on the rising level of manufacturing activity. Inventories, however, declined by $2,385 since the end of fiscal 2009 as a result of the Company s emphasis on optimizing inventory turnover. Income taxes provided funds of $6,521 based on the recovery of taxes paid in prior years resulting from the carry back of the fiscal 2009 federal net operating loss.

Cash capital expenditures in the first six months of fiscal 2010 were $1,155. The Company had unpaid capital expenditures of approximately $100 and such amounts are included in accounts payable and excluded from capital expenditures in the accompanying consolidated statement of cash flows.

After considering letters of credit of $2,415 that the Company has issued, available funds under the Credit Agreement applying the borrowing formula described above were $29,913 at April 30, 2010. Considering the fact that the amounts in the borrowing formula are subject to change daily, the available funds could be as high as $43,735 considering the revolving line of credit of $80 million. For fiscal 2010, the Fourth Amendment specifies varying requirements for the financial covenants for varying periods of fiscal 2010 and beyond, as described above. At this time, the Company believes that funds available under the Credit Agreement and cash flow from operations will provide sufficient liquidity to meet its cash requirements, including capital expenditures, pension obligations of $1,168 and repayments of other debt, through April 30, 2011 and to meet the requirements of the financial covenants of the Credit Agreement, as revised in the Fourth Amendment, during fiscal 2010. 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 declining borrowed amounts as immediately due and payable.

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; 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 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.

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Item 4.T. ***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, an evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), 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 management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures were effective as of April 30, 2010.

There have been no changes in the Company s internal control over financial reporting during the first six months of fiscal 2010 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***

10.11	Credit and Security Agreement Second Amendment, dated April 27, 2009, among Shiloh Industries, Inc., the other loan parties thereto, National City Bank, since succeeded by PNC Bank National Association, as co-lead arranger, sole book runner and administrative agent and The Privatebank and Trust Company as co-lead arranger and syndication agent, is incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 10-Q filed with the Commission on May 26, 2009 (Commission File No. 0-21964).
10.12	Credit and Security Agreement Third Amendment, dated June 30, 2009, among Shiloh Industries, Inc., the other loan parties thereto, National City Bank, since succeeded by PNC Bank National Association, as co-lead arranger, sole book runner and administrative agent and The Privatebank and Trust Company as co-lead arranger and syndication agent, is incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed with the Commission on July 7, 2009 (Commission File No. 0-21964).
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/ Kevin Bagby **Kevin Bagby** **Chief Financial Officer**

Date: May 25, 2010

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