
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended January 31, 2008

OR

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

For the transition period from _____ to _____

Commission file number 0-21964

SHILOH INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

51-0347683
(I.R.S. Employer
Identification No.)

Suite 202, 103 Foulk Road, Wilmington, Delaware 19803
(Address of principal executive offices—zip code)

(302) 656-1950
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Number of shares of Common Stock outstanding as of February 18, 2008 was 16,355,867.

INDEX

	<u>Page</u>
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	22
PART II. <u>OTHER INFORMATION</u>	
Item 6. <u>Exhibits</u>	23

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SHILOH INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands)

(Unaudited)

	January 31, 2008	October 31, 2007
ASSETS		
Cash and cash equivalents	\$ 410	\$ 131
Accounts receivable, net of allowance for doubtful accounts of \$606 and \$685 at January 31, 2008 and October 31, 2007, respectively	85,321	97,985
Related-party accounts receivable	6,048	2,138
Inventories, net	31,737	32,345
Deferred income taxes	6,756	6,691
Prepaid expenses	677	965
Total current assets	<u>130,949</u>	<u>140,255</u>
Property, plant and equipment, net	193,769	199,845
Other assets	928	1,010
Total assets	<u>\$325,646</u>	<u>\$341,110</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current debt	\$ 10,694	\$ 11,411
Accounts payable	70,882	77,852
Accrued income taxes	1,350	1,970
Other accrued expenses	24,294	27,756
Accrued restructuring charges	77	251
Total current liabilities	<u>107,297</u>	<u>119,240</u>
Long-term debt	59,177	64,563
Deferred income taxes	15,340	15,871
Long-term benefit liabilities	5,993	5,909
Other liabilities	2,387	264
Total liabilities	<u>190,194</u>	<u>205,847</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, 16,355,867 and 16,354,699 shares issued and outstanding at January 31, 2008 and October 31, 2007, respectively	164	164
Paid-in capital	59,924	59,791
Retained earnings	87,525	87,469
Accumulated other comprehensive loss	(12,161)	(12,161)
Total stockholders' equity	<u>135,452</u>	<u>135,263</u>
Total liabilities and stockholders' equity	<u>\$325,646</u>	<u>\$341,110</u>

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

SHILOH INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(Unaudited)

	Three months ended	
	January 31,	
	2008	2007
Revenues	\$134,894	\$147,625
Cost of sales	124,139	136,037
Gross profit	10,755	11,588
Selling, general and administrative expenses	6,921	7,615
Operating income	3,834	3,973
Interest expense	1,294	1,706
Interest income	9	13
Other income, net	16	275
Income before income taxes	2,565	2,555
Provision for income taxes	982	1,073
Net income	<u>\$ 1,583</u>	<u>\$ 1,482</u>
Earnings per share:		
Basic earnings per share	<u>\$.10</u>	<u>\$.09</u>
Basic weighted average number of common shares	16,355	16,331
Diluted earnings per share	<u>\$.10</u>	<u>\$.09</u>
Diluted weighted average number of common shares	16,477	16,484
Special cash dividend declared and paid, per share	<u>\$ —</u>	<u>\$ 2.50</u>

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

SHILOH INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)

(Unaudited)

	Three months ended January 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,583	\$ 1,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,245	7,596
Asset impairment charges	—	59
Amortization of deferred financing costs	65	72
Deferred income taxes	(15)	(84)
Stock-based compensation expense	128	51
Loss (gain) on sale of assets	—	9
Changes in operating assets and liabilities:		
Accounts receivable	8,754	3,007
Inventories	608	3,040
Prepays and other assets	305	1,688
Payables and other liabilities	(7,692)	(9,095)
Income taxes receivable, and estimated payments	(620)	3,066
Net cash provided by operating activities	11,361	10,891
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,773)	(2,128)
Net cash used in investing activities	(1,773)	(2,128)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of short-term borrowings	(328)	(202)
Payment of capital lease	(48)	(76)
Decrease in overdraft balances	(3,211)	(9,149)
Proceeds from long-term borrowings	—	41,800
Repayments of long-term borrowings	(5,727)	(452)
Payment of dividends	—	(40,872)
Proceeds from exercise of stock options	5	192
Tax benefit on employee stock options and stock compensation	—	1
Net cash used in financing activities	(9,309)	(8,758)
Net increase in cash and cash equivalents	279	5
Cash and cash equivalents at beginning of period	131	367
Cash and cash equivalents at end of period	\$ 410	\$ 372
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 1,238	\$ 1,617
Cash paid (refund of) for income taxes	\$ 1,557	\$ (2,071)

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, 2007.

Revenues and operating results for the three months ended January 31, 2008 are not necessarily indicative of the results to be expected for the full year.

Note 2—New Accounting Standards

In July 2006, the FASB issued FIN No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.” FIN No. 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006.

The Company adopted the provisions of FIN No. 48 on November 1, 2007. Previously, the Company accounted for income tax contingencies in accordance with FASB Statement No. 5, “Accounting for Contingencies.” As required by FIN No. 48, which clarifies FASB Statement No. 109, “Accounting for Income Taxes,” the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN No. 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN No. 48, the Company recognized a net increase of approximately \$1,527 in the liability for unrecognized income tax benefits, which was accounted for as a reduction to the November 1, 2007 balance of retained earnings.

The amount of unrecognized tax benefits as of November 1, 2007 was \$2,388. This includes approximately \$972 for the payment of interest and penalties. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense for all periods presented. There have been no material changes in unrecognized tax benefits, interest, and penalties since November 1, 2007.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state, local, and foreign jurisdictions. Tax rules, regulations and case law within each jurisdiction are subject to the interpretation and require significant judgment to apply. With few exceptions, the Company is no longer subject to income tax examinations by tax authorities for fiscal years ending before November 1, 2004.

The Company is not currently under examination by any jurisdiction for income taxes. The statute of limitations in several jurisdictions will expire during the next 12 months. The Company has net unrecognized tax benefits, interest, and penalties of \$176 that will be recognized if the statute of limitations expires without the relevant taxing authorities examining the applicable returns. If this amount is ultimately recognized, it will reduce the Company’s annual effective tax rate.

Note 3—Asset Impairment and Restructuring Charges

In October 2006, management presented to the Board of Directors an assessment of its current business at its Cleveland Stamping facility 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. A summary of these charges, and cash payments made as a result of the closure, is below.

	<u>Restructuring Reserves at October 31, 2007</u>	<u>Restructuring Charges</u>	<u>Cash Payments</u>	<u>Restructuring Reserves at January 31, 2008</u>
Restructuring				
Severance and benefits	\$ 251	\$ —	\$ (174)	\$ 77

	<u>Restructuring Reserves at October 31, 2006</u>	<u>Restructuring Charges</u>	<u>Cash Payments</u>	<u>Restructuring Reserves at January 31, 2007</u>
Restructuring				
Severance and benefits	\$ 750	\$ —	\$ —	\$ 750

Note 4—Inventories

Inventories consist of the following:

	<u>January 31, 2008</u>	<u>October 31, 2007</u>
Raw materials	\$ 12,237	\$ 13,493
Work-in-process	5,251	5,441
Finished goods	12,035	11,893
Total material	29,523	30,827
Tooling	2,214	1,518
Total inventory	<u>\$ 31,737</u>	<u>\$ 32,345</u>

Total cost of inventory is net of reserves to reduce certain inventory from cost to net realizable value. Such reserves aggregated \$2,890 and \$2,832 at January 31, 2008 and October 31, 2007, respectively.

Note 5—Property, Plant and Equipment

Property, plant and equipment consist of the following:

	<u>January 31, 2008</u>	<u>October 31, 2007</u>
Land and improvements	\$ 8,588	\$ 8,588
Buildings and improvements	104,403	104,109
Machinery and equipment	335,699	333,919
Furniture and fixtures	10,481	10,402
Construction in progress	8,991	8,977
Total, at cost	468,162	465,995
Less: Accumulated depreciation	274,393	266,150
Property, plant and equipment, net	<u>\$193,769</u>	<u>\$199,845</u>

Note 6—Financing Arrangements

Debt consists of the following:

	<u>January 31, 2008</u>	<u>October 31, 2007</u>
Amended and Restated Credit Agreement —interest at 4.89% and 6.86% at January 31, 2008 and October 31, 2007, respectively	\$ 68,300	\$ 73,600
Insurance broker financing agreement	166	496
State of Ohio promissory note	1,211	1,291
Two-year notes	160	504
Capital lease debt	34	83
Total debt	69,871	75,974
Less: Current debt	10,694	11,411
Total long-term debt	<u>\$ 59,177</u>	<u>\$ 64,563</u>

The weighted average interest rate of all debt excluding the capital lease debt was 6.43% and 6.82 % for the three months ended January 31, 2008 and 2007, respectively.

The Company's Amended and Restated Credit Agreement (the "Amended Credit Agreement") provides the Company with borrowing capacity of \$175,000 in the form of a five-year \$125,000 revolving credit facility and a five-year term loan of \$50,000, each maturing January 2010. The balance of the term loan at January 31, 2008 was \$20,000 and the balance of the revolving credit facility was \$48,300.

Under the Amended Credit Agreement, the Company has the option to select the applicable interest rate based upon two indices—a Base Rate, as defined in the Amended Credit Agreement, or the Eurodollar rate, as adjusted by the Eurocurrency Reserve Percentage, if any ("LIBOR"). The selected index is combined with a designated margin from an agreed upon pricing matrix. The Base Rate is the greater of the LaSalle Bank publicly announced prime rate or the Federal Funds effective rate plus 0.5% per annum. LIBOR is the published Bloomberg Financial Markets Information Service rate. At January 31, 2008, the interest rate for the revolving credit facility and the term loan was LIBOR plus 1.50%. The margins for the revolving credit facility and the term loan have decreased from the margins in place at October 31, 2007 as a result of the reduced funds borrowed under the Amended Credit Agreement.

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

The Amended Credit Agreement requires the Company to observe several financial covenants. At January 31, 2008, the covenants required a minimum fixed charge coverage ratio of 1.25 to 1.00, a maximum leverage ratio of 2.75 to 1.00 and a minimum net worth equal to the sum of \$100,000 plus 50% of consolidated net income since October 31, 2004. The Amended Credit Agreement also establishes limits for additional borrowings, dividends, investments, acquisitions or mergers and sales of assets. At January 31, 2008, the Company was in compliance with the covenants under the Amended Credit Agreement.

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

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

In July 2007, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 5.79% and requires monthly payments of \$84 through April 2008. In July 2006, the Company entered into a finance agreement with an insurance broker for various insurance policies that bore interest at a fixed rate of 6.67% and required monthly payments of \$103 through April 2007. As of January 31, 2008 and October 31, 2007 \$166 and \$496, respectively, remained outstanding under these agreements and were classified as current debt in the Company's consolidated balance sheet.

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

During fiscal 2006, the Company entered into two two-year note agreements with a bank to finance the purchase of equipment that the Company formerly leased. The first note was repaid in December 2007 and the remaining note bears interest at 6.91%, and requires monthly payments of \$81 through March 2008. In addition, the Company entered into a two-year capital lease agreement in the amount of \$463 for computer software, which concluded in December 2007.

After considering letters of credit of \$4,571 that the Company has issued, available funds under the Amended Credit Agreement were \$72,129 at January 31, 2008. Overdraft balances were \$13,859 and \$17,071 at January 31, 2008 and October 31, 2007, respectively, and are included in accounts payable in the Company's accompanying consolidated balance sheets.

Note 7—Fair Value of Derivative Financial Instruments

The Company does not engage in derivatives trading, market-making or other speculative activities. The intent of any contracts entered into by the Company is to reduce exposure to currency movements affecting foreign currency purchase commitments. The Company's risks related to foreign currency exchange risks have historically not been material. The Company does not expect the effects of these risks to be material in the future based on current operating and economic conditions in the countries and markets in which it operates. These contracts are marked-to-market and the resulting gain or loss is recorded in the consolidated statements of operations in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. As of January 31, 2008, there were no foreign currency forward exchange contracts outstanding.

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

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

Note 8—Pension and Other Post-Retirement Benefit Matters

The components of net periodic benefit cost for the three months ended January 31, 2008 and 2007 are as follows:

	Pension Benefits		Other Post-Retirement Benefits	
	2008	2007	2008	2007
Service cost	\$ 153	\$ 301	\$ 1	\$ 2
Interest cost	981	567	13	16
Expected return on plan assets	(1,115)	(592)	—	—
Recognized net actuarial loss	161	177	48	42
Amortization of prior service cost	23	25	(43)	(43)
Amortization of transition obligation	4	4	—	—
Net periodic benefit cost	<u>\$ 207</u>	<u>\$ 482</u>	<u>\$ 19</u>	<u>\$ 17</u>

The Company was not required to make any contributions to the defined benefit pension plans paid during the three months ended January 31, 2008. The Company expects estimated contributions to be \$495 for the remainder of fiscal 2008. Pension expense in fiscal 2008 has decreased as a result of the closure of the Company's Cleveland plant and the related freezing of benefits of the pension plan of the plant's workforce and the freezing of benefits of the Company's cash balance plan that covers all non-bargaining employees.

Note 9—Equity Matters

Effective November 1, 2005, the Company adopted SFAS No. 123 (Revised 2004), "Share-Based Payment." For the Company, SFAS No. 123R affects the stock options that have been granted and requires the Company to expense share-based payment ("SBP") awards with compensation cost for SBP transactions measured at fair value. The Company 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 to be zero.

1993 Key Employee Stock Incentive Plan

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

Non-qualified stock options and incentive stock options have been granted to date and all options have been granted at market price at the date of grant. The service period over which the stock options vest is three years from the date of grant. Options expire over a period not to exceed ten years from the date of grant. On February 14, 2007, options to purchase 156,000 shares were awarded to several officers and employees at an exercise price of \$14.74. The following assumptions were used to compute the fair value of the stock options granted during fiscal 2007:

	<u>Fiscal 2007</u>
Risk-free interest	4.70%
Expected life (in years)	6.0
Expected volatility factor	68.88%
Expected dividend yield	0.00%

Activity in the Company's stock option plan for the three months ended January 31, 2008 and 2007 was as follows:

	Fiscal 2008				Fiscal 2007			
	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	360,242	\$ 8.85			254,727	\$ 4.83		
Options:								
Granted	—				—			
Exercised	(1,168)	\$ 4.67		\$ 6	(35,149)	\$ 5.64		\$ 388
Canceled	(10,340)	\$ 10.64			(2,000)	\$ 13.06		
Options outstanding at January 31	348,734	\$ 8.81	6.91	\$ 1,206	217,578	\$ 4.62	6.38	\$ 2,001
Exercisable at January 31	183,401	\$ 3.58	5.07	\$ 1,206	177,579	\$ 3.04	5.93	\$ 1,914

At January 31, 2008, 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 months ended January 31, 2008 and 2007, the Company recorded compensation expense related to the stock options currently vesting, effectively reducing income before taxes and net income by \$128 and \$51, respectively. The impact on earnings per share was a reduction of \$.01 per share, basic and diluted in the first quarter of fiscal 2008 and 2007. The total compensation cost related to nonvested awards not yet recognized is expected to be a combined total of \$919 over the next three fiscal years.

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 months ended January 31, 2008 and 2007, 213,655 and 5,726 stock options, respectively, 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:

	Three months ended January 31,	
	2008	2007
Net income available to common stockholders	\$ 1,583	\$ 1,482
Basic weighted average shares	16,355	16,331
Effect of dilutive securities:		
Stock options	122	153
Diluted weighted average shares	16,477	16,484
Basic income per share	\$ 0.10	\$ 0.09
Diluted income per share	\$ 0.10	\$ 0.09

Comprehensive Income

Comprehensive income and net income for the three months ended January 31, 2008 were \$1,583. In the three months ended January 31, 2007, comprehensive income was \$1,344 and net income was \$1,482. In fiscal 2007, the difference between net income and comprehensive income is equal to the cumulative unrealized gains and losses on securities available for sale and the change in fair value of the interest rate collar. The securities available for sale were substantially liquidated in the first quarter of fiscal 2007 and the interest rate collar agreement concluded in January 2007.

Note 10—Commitments and Contingencies

In November 1999, the Company acquired the assets associated with the automotive division of MTD Products Inc. The Ohio Tax Commissioner (the "Commissioner") disputed the fair market value assigned by the Company to the purchased assets. Accordingly, the Commissioner claimed that the Company owed an additional amount of personal property tax for such assets. The Company appealed the Commissioner's decision to the Ohio Board of Tax Appeals, but in July 2006, the Board of Tax Appeals upheld the Commissioner's decision. Management of the Company strongly disagrees with the position of the Commissioner and the Board of Tax Appeals and the Company has presented its appeal of the decision of the Board of Tax Appeals to the Ohio Supreme Court. The Ohio Supreme Court, however, has ruled in favor of the Board of Tax Appeals and the Commissioner and against the Company. The Company, however, had previously considered the probability of an adverse ruling and as a result provided an accrual of \$2,324 during the fourth quarter of fiscal 2006. The Company is in the process of finalizing the tax due and expects to fund this liability later in fiscal 2008.

Previous management of the Company had entered an alleged purchase commitment with a supplier for the purchase of certain equipment. The supplier sued the Company for failure to fulfill the obligations under the alleged commitment. During the fourth quarter of fiscal 2006, a jury found in favor of the supplier and awarded the supplier damages and pre-judgment interest amounting to \$2,726. The Company is appealing this decision, and the Ohio Supreme Court has agreed to hear the Company's appeal. A date for the Company's appeal has not been established. However, considering the adverse decision the Company evaluated the probable outcome upon appeal and provided an accrual of \$2,726 representing damages plus pre-judgment interest.

During the second quarter of fiscal 2007, a jury verdict was entered against Shiloh Industries, Inc., VCS Properties, LLC, Shiloh Corporation, and Sectional Stamping, Inc. in the United States District Court in Akron, Ohio following a jury trial in a claim by the bankruptcy estate of Valley City Steel, LLC relating to the Company's sale of certain assets in 2001 (the "Valley City Steel Litigation"). Valley City Steel, LLC claimed that the sale of certain assets to Valley City Steel, LLC, in connection with the creation of the joint venture in which the Company was a minority shareholder, amounted to a constructive fraudulent conveyance under Ohio law. The plaintiff also alleged that certain amounts were due and owing on account to Valley City Steel, LLC. The jury rendered a verdict on the constructive fraudulent conveyance claims of approximately \$1,693 against Shiloh Industries, Inc., approximately \$1,693 against VCS Properties, LLC and approximately \$1,292 against Shiloh Corporation. The jury also held that Sectional Stamping, Inc. owed the bankruptcy estate of Valley City Steel, LLC approximately \$261 on account. Shiloh Industries, Inc., VCS Properties, LLC and Shiloh Corporation believe that the verdicts relating to the constructive fraudulent conveyance claims are contrary to the facts and the law and have filed post-trial motions including a motion for a new trial and other relief. They will vigorously appeal any final constructive fraudulent conveyance judgments if the court denies the post-trial motions. The Company believes that there are valid grounds to reverse, or reduce the damages applicable to, the portion of any final judgments relating to the constructive fraudulent conveyance claims on appeal. However, there can be no assurance that the appeals will be successful. As a result, during the second quarter of fiscal 2007, the Company provided a reserve of \$2,070 for this matter based upon management's estimate of the probable outcome of the legal decisions possible in this case. Offsetting this legal reserve, the Company recorded a credit of \$799, representing the difference between liabilities that the Company had accrued as payable to Valley City Steel, LLC and the payment of \$261 to the bankruptcy estate of Valley City Steel, LLC as a result of the jury's verdict against Sectional Stamping, Inc.

The table below summarizes the legal reserves recorded at January 31, 2008 and October 31, 2007. These amounts are reported in the accrued expenses in the accompanying consolidated balance sheets. The reserves have been updated to accrue interest.

<u>Item</u>	<u>Reserve</u>	
	<u>January 31, 2008</u>	<u>October 31, 2007</u>
Ohio Personal Property Tax Valuation	\$ 2,595	\$ 2,586
Alleged commitment to purchase equipment	\$ 2,853	\$ 2,841
Valley City Steel, LLC	\$ 2,090	\$ 2,060
	<u>\$ 7,538</u>	<u>\$ 7,487</u>

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

Note 11—Subsequent Event

On February 21, 2008, the Company's Board of Directors declared a cash dividend of \$1.00 per share on its common stock, par value \$0.01 per share, payable on March 11, 2008, to shareholders of record as of March 4, 2008.

In connection with the dividend, the Company further amended its Amended Credit Agreement on February 21, 2008, to allow the distribution of a dividend to the Company's shareholders. The covenants in the Amended Credit Agreement were revised to exclude the dividend paid from the fixed charge coverage ratio.

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 three months of fiscal 2008 declined by 5.7% and total North American car and light truck production for the first three months of fiscal 2008 decreased by 2.4%, in each case compared with production for the first three months of fiscal 2007.

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

Plant utilization levels are very important to profitability because of the capital-intensive nature of these operations. At January 31, 2008, the Company's facilities were operating at approximately 45.4% capacity, compared to 47.5% capacity at January 31, 2007. The Company defines capacity as 20 working hours per day and five days per week. Utilization of capacity is dependent upon the releases against customer purchase orders that are used to establish production schedules and manpower and equipment requirements for each month and quarterly period of the fiscal year.

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

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

In November 1999, the Company acquired the assets associated with the automotive division of MTD Products Inc. The Ohio Tax Commissioner (the "Commissioner") disputed the fair market value assigned by the Company to the purchased assets. Accordingly, the Commissioner claimed that the Company owed an additional amount of personal property tax for such assets. The Company appealed the Commissioner's decision to the Ohio Board of Tax Appeals, but in July 2006, the Board of Tax Appeals upheld the Commissioner's decision. Management of the Company strongly disagrees with the position of the Commissioner and the Board of Tax Appeals and the Company has presented its appeal of the decision of the Board of Tax Appeals to the Ohio Supreme Court. The Ohio Supreme Court, however, has ruled in favor of the Board of Tax Appeals and the Commissioner and against the Company. The Company, however, had previously considered the probability of an adverse ruling and as a result provided an accrual of \$2,324 during the fourth quarter of fiscal 2006. The Company is in the process of finalizing the tax due and expects to fund this liability later in fiscal 2008.

Critical Accounting Policies

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

credited to income and the related balance sheet account when actual experience differs from the expected experience underlying the estimates. The Company makes frequent comparisons of actual experience and expected experience in order to mitigate the likelihood that material adjustments will be required.

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

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

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

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

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

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

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

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

Share-Based Payments. The Company records compensation expense for the fair value of nonvested stock option awards over the remaining vesting period. The Company has elected to use the simplified method to calculate the expected term of the stock options outstanding at six years and has utilized historical volatility, most recently 68.88%. The Company determines the volatility and risk-free rate assumptions used in computing the fair value using the Black-Scholes option-pricing model, in consultation with an outside third party.

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

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

The discount rate reflects the estimated rate at which the pension and other post-retirement liabilities could be settled at the end of the year. When determining the discount rate, the Company considers the most recent available interest rates on Moody's Aa corporate bonds with maturities of at least twenty years as of year-end. Based upon this analysis, the Company increased the discount rate used to measure its pension and post-retirement liabilities to 6.00% at October 31, 2007 from 5.77% at October 31, 2006. A change of 25 basis points in the discount rate would increase or decrease expense on an annual basis by approximately \$107.

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 \$155.

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

For the twelve months ended October 31, 2007, the actual return on pension plans' assets for all of the Company's plans approximated 13.6% to 15.2%, which was a higher rate of return than the 7.25% to 7.50% expected rates of return on plan assets used to derive pension expense.

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

Results of Operations

Three Months Ended January 31, 2008 Compared to Three Months Ended January 31, 2007

REVENUES. Sales for the first quarter of fiscal 2008 were \$134,894, a decrease of \$12,731 from last year's first quarter sales of \$147,625, or 8.6%. During the first quarter of fiscal 2008, sales declined as a result of reduced 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 first quarter of fiscal 2008 declined 2.4% from production levels of the first quarter of fiscal 2007. For traditional domestic manufacturers, the production decrease in the first quarter of fiscal 2008 was 5.7% compared to the prior year first quarter period. Sales also declined due to the absence of all sales for the Company's Cleveland Stamping facility that is now closed and due to reduced demand of the heavy truck industry.

GROSS PROFIT. Gross profit for the first quarter of fiscal 2008 was \$10,755 compared to gross profit of \$11,588 in the first quarter of fiscal 2007, a decrease of \$833. Gross profit as a percentage of sales was 7.9% in the first quarter of fiscal 2008 compared to 7.8% for the same period a year ago. Gross profit in the first quarter of fiscal 2008 was adversely affected by the reduced volume of sales in the first quarter of fiscal 2008. The effect of reduced sales volume on first quarter 2008 gross profit was approximately \$4,500. Gross profit was also adversely affected by increased material costs during the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007. The effect of increased material cost was approximately \$1,100. The factors that reduced gross profit were offset by reduced manufacturing expenses that favorably affected gross profit by approximately \$4,600. Manufacturing expenses declined as a result of reduced personnel and personnel related expenses of approximately \$3,800 and reduced expenditures for repairs, supplies and utilities of approximately \$900. The closure of the Company's Cleveland Stamping facility contributed to the reduction of manufacturing expenses. A year ago, the Cleveland plant was operating as it completed its final operations leading to its complete closure in October 2007.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses of \$6,921 in the first quarter of fiscal 2008 were \$694 less than selling, general and administrative expenses of \$7,615 in the same period of the prior year. As a percentage of sales, these expenses were 5.1% of sales in first quarter of fiscal 2008 and 5.2% in the first quarter of fiscal 2007. The decrease in selling, general and administrative expenses reflect lower personnel and personnel related expenses of approximately \$300, lower professional fees of approximately \$300 and a lower provision for doubtful accounts.

OTHER. Interest expense for the first quarter of fiscal 2008 was \$1,294, compared to interest expense of \$1,706 during the first quarter of fiscal 2007. Interest expense decreased from the prior year first quarter as a result of a lower level of average borrowed funds and a lower weighted average interest rate in the first quarter of fiscal 2008 compared to the prior year. Borrowed funds averaged \$72,922 during the first quarter of fiscal 2008 and the weighted average interest rate was 6.43%. In the first quarter of fiscal 2007, borrowed funds averaged \$105,418 while the weighted average interest rate was 6.82%.

Other income, net was \$16 for the first quarter of fiscal 2008 compared to \$275 in the first quarter of fiscal 2007. During the prior year first quarter, the Company liquidated most of the assets of its rabbi trust that had been established to fund the Company's obligation in connection with its employment agreement and the related supplemental executive retirement plan with the Company's President and CEO. The obligation was paid on January 31, 2007 and the liquidation of the assets of the rabbi trust realized a gain of \$208.

The provision for income taxes in the first quarter of fiscal 2008 was \$982 on income before taxes of \$2,565 for an effective tax rate of 38.3%. The provision for income taxes in the first quarter of fiscal 2007 was \$1,073 on income before taxes of \$2,555 for an effective tax rate of 42.0%. The estimated effective tax rate for fiscal 2008 has declined in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 as a result of the absence of executive compensation beyond the amount deductible for tax purposes and less of an impact of losses that cannot be benefited from the Company's Mexican subsidiary.

NET INCOME. Net income for the first quarter of fiscal 2008 was \$1,583, or \$0.10 per share, diluted. Net income for the first quarter of fiscal 2007 was \$1,482, or \$0.09 per share, diluted.

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

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

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

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

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

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

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

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

Liquidity And Capital Resources

The Company's Amended and Restated Credit Agreement (the "Amended Credit Agreement") provides the Company with borrowing capacity of \$175,000 in the form of a five-year \$125,000 revolving credit facility and a five-year term loan of \$50,000, each maturing January 2010. The balance of the term loan at January 31, 2008 was \$20,000 and the balance of the revolving credit facility was \$48,300.

Under the Amended Credit Agreement, the Company has the option to select the applicable interest rate based upon two indices—a Base Rate, as defined in the Amended Credit Agreement, or the Eurodollar rate, as adjusted by the Eurocurrency Reserve Percentage, if any ("LIBOR"). The selected index is combined with a designated margin from an agreed upon pricing matrix. The Base Rate is the greater of the LaSalle Bank publicly announced prime rate or the Federal Funds effective rate plus 0.5% per annum. LIBOR is the published Bloomberg Financial Markets Information Service rate. At January 31, 2008, the interest rate for the revolving credit facility and the term loan was LIBOR plus 1.50%. The margins for the revolving credit facility and the term loan have decreased from the margins in place at October 31, 2007 as a result of the reduced funds borrowed under the Amended Credit Agreement.

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

The Amended Credit Agreement requires the Company to observe several financial covenants. At January 31, 2008, the covenants required a minimum fixed charge coverage ratio of 1.25 to 1.00, a maximum leverage ratio of 2.75 to 1.00 and a minimum net worth equal to the sum of \$100,000 plus 50% of consolidated net income since October 31, 2004. The Amended Credit Agreement also establishes limits for additional borrowings, dividends, investments, acquisitions or mergers and sales of assets. At January 31, 2008, the Company was in compliance with the covenants under the Amended Credit Agreement.

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

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

In July 2007, the Company entered into a finance agreement with an insurance broker for various insurance policies that bears interest at a fixed rate of 5.79% and requires monthly payments of \$84 through April 2008. In July 2006, the Company entered into a finance agreement with an insurance broker for various insurance policies that bore interest at a fixed rate of 6.67% and required monthly payments of \$103 through April 2007. As of January 31, 2008 and October 31, 2007 \$166 and \$496, respectively, remained outstanding under these agreements and were classified as current debt in the Company's consolidated balance sheet.

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

During fiscal 2006, the Company entered into two two-year note agreements with a bank to finance the purchase of equipment that the Company formerly leased. The first note was repaid in December 2007 and the remaining note bears interest at 6.91%, and requires monthly payments of \$81 through March 2008. In addition, the Company entered into a two-year capital lease agreement in the amount of \$463 for computer software, which concluded in December 2007.

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

<u>Twelve Months ended January 31,</u>	<u>Amended Credit Agreement</u>	<u>Other Debt</u>	<u>Total</u>
2009	\$ 10,000	\$ 694	\$10,694
2010	58,300	343	58,643
2011	—	353	353
2012	—	181	181
2013	—	—	—
Total	<u>\$ 68,300</u>	<u>\$ 1,571</u>	<u>\$69,871</u>

At January 31, 2008, total debt was \$69,871 and total equity was \$135,452, resulting in a capitalization rate of 34.0% debt, 66.0% equity. Current assets were \$130,949 and current liabilities were \$107,297, resulting in working capital of \$23,652.

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 \$10,006 in the first three months of fiscal 2008 compared to \$9,185 in the first three months of fiscal 2007. The increase of \$821 reflects higher net income and increased depreciation expense in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007.

Working capital changes since October 31, 2007 provided funds of \$1,355. During the first quarter of fiscal 2008, accounts receivable have decreased by \$8,754 and inventory decreased by \$608 since the end of fiscal 2007. Considering the decrease in overdraft balances of \$3,211, accounts payable, net have decreased \$6,970, in line with the reduced level of production in the first quarter of fiscal 2008.

Capital expenditures in the first three months of fiscal 2008 were \$1,773.

After considering letters of credit of \$4,571 that the Company has issued, available funds under the Amended Credit Agreement were \$72,129 at January 31, 2008. The Company believes that funds available under the Amended Credit Agreement and cash flow from operations will provide sufficient liquidity to meet its cash requirements through January 31, 2009 and until the expiration of the revolving credit facility in January 2010, including capital expenditures, pension obligations and scheduled repayments of \$10,000 in the aggregate under the Amended Credit Agreement in accordance with the repayment terms, plus repayments of \$694 on other debt. Furthermore, the Company does not anticipate at this time any change in business conditions or operations of the Company that could be deemed as a material adverse change by the agent bank or required lenders, as defined, and thereby result in declaring borrowed amounts as immediately due and payable.

Effect of Inflation

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

FORWARD-LOOKING STATEMENTS

Certain statements made by the Company in this Quarterly Report on Form 10-Q regarding earnings or general belief in the Company's expectations of future operating results are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, forward-looking statements are statements that relate to the Company's operating performance, events or developments that the Company believes or expects to occur in the future, including those that discuss strategies, goals, outlook, or other non-historical matters, or that relate to future sales, earnings expectations, cost savings, awarded sales, volume growth, earnings or general belief in the Company's expectations of future operating results. The forward-looking statements are made on the basis of management's assumptions and expectations. As a result, there can be no guarantee or assurance that these assumptions and expectations will in fact occur. The forward-looking statements are subject to risks and uncertainties that may cause actual results to materially differ from those contained in the statements. Some, but not all of the risks, include the ability of the Company to accomplish its strategic objectives with respect to implementing its sustainable business model; the ability to obtain future sales; changes in worldwide economic and political conditions, including adverse effects from terrorism or related hostilities; costs related to legal and administrative matters; the Company's ability to realize cost savings expected to offset price concessions; inefficiencies related to production and product launches that are greater than anticipated; changes in technology and technological risks; increased fuel and utility costs; work stoppages and strikes at the Company's facilities and that of the Company's customers; the Company's dependence on the automotive and heavy truck industries, which are highly cyclical; the dependence of the automotive industry on consumer spending, which is subject to the impact of domestic and

international economic conditions, including increased energy costs affecting car and light truck production, and regulations and policies regarding international trade; financial and business downturns of the Company's customers or vendors, including any production cutbacks or bankruptcies; increases in the price of, or limitations on the availability of, steel, the Company's primary raw material, or decreases in the price of scrap steel; the successful launch and consumer acceptance of new vehicles for which the Company supplies parts; the occurrence of any event or condition that may be deemed a material adverse effect under Amended Credit Agreement; pension plan funding requirements; and other factors, uncertainties, challenges and risks detailed in the Company's other public filings with the Securities and Exchange Commission. Any or all of these risks and uncertainties could cause actual results to differ materially from those reflected in the forward-looking statements. These forward-looking statements reflect management's analysis only as of the date of the filing of this Quarterly Report on Form 10-Q. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. In addition to the disclosures contained herein, readers should carefully review risks and uncertainties contained in other documents the Company files from time to time with the Securities and Exchange Commission.

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

(Dollars in thousands)

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

Interest Rate Risk

The Company is exposed to market risk through variable rate debt instruments. As of January 31, 2008, the Company had \$68,300 outstanding under the Amended Credit Agreement. Based on January 31, 2008 debt levels, a 50 basis point change in interest rates would have impacted interest expense by approximately \$89 for the three months ended January 31, 2008.

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

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, the Company had designated the interest rate collar as a cash flow hedge and recognized the fair value of the interest rate collar agreement on the consolidated balance sheet. Gains and losses related to a hedge and that result from changes in the fair value of the hedge are either recognized in income immediately to offset the gain or loss on the hedged item, or deferred and reported as a component of other comprehensive income (loss) in stockholders' equity and subsequently recognized in income when the hedged item affects net income. The ineffective portion of the change in fair value of a hedge is recognized in income immediately. There was no hedge ineffectiveness for the three months ended January 31, 2008.

Foreign Currency Exchange Rate Risk

In order to reduce the impact of changes in foreign exchange rates on the consolidated results of operations, the Company enters into foreign currency forward exchange contracts periodically. The intent of any contracts entered into by the Company is to reduce exposure to currency movements affecting foreign currency purchase commitments. Changes in the fair value of forward exchange contracts are recorded in the consolidated statements of operations. As of January 31, 2008, there were no foreign currency forward exchange contracts outstanding. The Company's risks related to foreign currency exchange risks have historically not been material. The Company does not expect the effects of these risks to be material in the future based on current operating and economic conditions in the countries and markets in which it operates.

Item 4. *Controls and Procedures*

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

There have been no changes in the Company's internal control over financial reporting during the first quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

EXHIBIT INDEX

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

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-
OXLEY ACT OF 2002**

I, Theodore K. Zampetis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shiloh Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Theodore K. Zampetis

Theodore K. Zampetis
President and Chief Executive Officer

Date: February 22, 2008

**PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-
OXLEY ACT OF 2002**

I, Stephen E. Graham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shiloh Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stephen E. Graham

Stephen E. Graham
Chief Financial Officer

Date: February 22, 2008

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Shiloh Industries, Inc. (the "Company") on Form 10-Q for the quarter ended January 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C Section 1350, as adopted pursuant the Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 22, 2008

/s/ Theodore K. Zampetis

Theodore K. Zampetis
President and Chief Executive Officer

/s/ Stephen E. Graham

Stephen E. Graham
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not filed as part of the Report or as a separate disclosure document.