

SHILOH INDUSTRIES INC
Form 10-Q
September 07, 2018
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 July 31, 2018

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 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated filer Non-accelerated filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected no to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 September 4, 2018 was 23,398,565.

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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)

	July 31, 2018 (Unaudited)	October 31, 2017
ASSETS		
Cash and cash equivalents	\$ 17,276	\$ 8,736
Accounts receivable, net	193,135	188,664
Related-party accounts receivable	395	759
Prepaid income taxes	9,905	338
Inventories, net	75,115	61,812
Prepaid expenses and other assets	45,615	34,212
Total current assets	341,441	294,521
Property, plant and equipment, net	313,806	266,891
Goodwill	28,175	27,859
Intangible assets, net	15,480	15,025
Deferred income taxes	5,749	6,338
Other assets	10,572	7,949
Total assets	\$ 715,223	\$ 618,583
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current debt	\$ 818	\$ 2,027
Accounts payable	173,162	166,059
Other accrued expenses	64,686	46,171
Accrued income taxes	952	1,628
Total current liabilities	239,618	215,885
Long-term debt	237,331	181,065
Long-term benefit liabilities	20,674	21,106
Deferred income taxes	6,000	9,166
Other liabilities	2,518	3,040
Total liabilities	506,141	430,262
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 per share; 5,000,000 shares authorized; no shares issued and outstanding at July 31, 2018 and October 31, 2017, respectively	—	—
Common stock, par value \$.01 per share; 50,000,000 shares authorized; 23,404,906 and 23,121,957 shares issued and outstanding at July 31, 2018 and October 31, 2017, respectively	234	231
Paid-in capital	113,946	112,351
Retained earnings	144,269	117,976
Accumulated other comprehensive loss, net	(49,367)	(42,237)
Total stockholders' equity	209,082	188,321
Total liabilities and stockholders' equity	\$ 715,223	\$ 618,583

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		Nine Months Ended	
	July 31,		July 31,	
	2018	2017	2018	2017
Net revenues	\$294,883	\$256,847	\$839,889	\$777,816
Cost of sales	262,003	227,683	747,616	691,044
Gross profit	32,880	29,164	92,273	86,772
Selling, general & administrative expenses	22,773	21,233	66,159	63,080
Amortization of intangible assets	607	565	1,767	1,694
Asset impairment, net	—	—	—	41
Restructuring	1,965	—	4,962	—
Operating income	7,535	7,366	19,385	21,957
Interest expense	3,209	3,785	8,194	12,797
Interest income	(1	) (1	) (9	) (3
Other expense, net	289	1,125	1,119	2,248
Income before income taxes	4,038	2,457	10,081	6,915
Provision (benefit) for income taxes	(7,014	) 4,439	(9,854	) 6,686
Net income (loss)	\$11,052	\$(1,982	) \$19,935	\$229
Income (loss) per share:				
Basic earnings (loss) per share	\$0.47	\$(0.11	) \$0.86	\$0.01
Basic weighted average number of common shares	23,278	18,559	23,202	18,048
Diluted earnings (loss) per share	\$0.47	\$(0.11	) \$0.85	\$0.01
Diluted weighted average number of common shares	23,453	18,559	23,341	18,073

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

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SHILOH INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollar amounts in thousands)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Net income (loss)	\$11,052	\$(1,982)	\$19,935	\$229
Other comprehensive income (loss)				
Defined benefit pension plans & other post-retirement benefits				
Amortization of net actuarial loss	328	380	984	1,080
Cumulative effect of adoption of ASU 2018-02 reclassified to retained earnings	(6,138)	—	(6,138)	—
Income tax provision	(76)	(140)	(258)	(420)
Total defined benefit pension plans & other post-retirement benefits, net of tax	(5,886)	240	(5,412)	660
Marketable securities				
Unrealized gain (loss) on marketable securities	(22)	(20)	(151)	28
Cumulative effect of adoption of ASU 2018-02 reclassified to retained earnings	(7)	—	(7)	—
Income tax benefit (provision)	4	7	38	(10)
Reclassification of other-than-temporary impairment losses on marketable securities included in net income (loss)	122	435	122	435
Total marketable securities, net of tax	97	422	2	453
Derivatives and hedging				
Unrealized gain (loss) on interest rate swap agreements	171	(218)	1,331	1,217
Cumulative effect of adoption of ASU 2018-02 reclassified to retained earnings	(213)	—	(213)	—
Income tax provision	(76)	(42)	(533)	(919)
Reclassification adjustments for settlement of derivatives included in net income	153	329	648	1,115
Change in fair value of derivative instruments, net of tax	35	69	1,233	1,413
Foreign currency translation adjustments				
Unrealized gain (loss) on foreign currency translation	(2,834)	6,815	(2,953)	8,740
Comprehensive income, net	\$2,464	\$5,564	\$12,805	\$11,495

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)

	Nine Months Ended July 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 19,935	\$ 229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,775	30,946
Asset impairment, net	—	41
Restructuring	672	—
Amortization of deferred financing costs	935	2,495
Deferred income taxes	(2,251)	7,202
Stock-based compensation expense	1,557	1,372
Loss on sale of assets	2,300	474
Other than temporary impairment on marketable securities	154	695
Changes in operating assets and liabilities:		
Accounts receivable	18,599	30,260
Inventories	(2,656)	(698)
Prepays and other assets	(4,884)	6,191
Payables and other liabilities	(6,989)	(6,810)
Accrued income taxes	(10,266)	(2,879)
Net cash provided by operating activities	50,881	69,518
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(38,668)	(32,564)
Sale of joint venture	—	1,170
Acquisitions, net of cash acquired	(62,481)	—
Proceeds from sale of assets	2,696	7,515
Net cash used in investing activities	(98,453)	(23,879)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capital leases	(667)	(646)
Proceeds from long-term borrowings	218,300	117,700
Repayments of long-term borrowings	(161,793)	(196,984)
Payment of deferred financing costs	(105)	(221)
Proceeds from exercise of stock options	41	78
Proceeds from the issuance of common stock	—	40,236
Net cash provided by (used in) financing activities	55,776	(39,837)
Effect of foreign currency exchange rate fluctuations on cash	336	(227)
Net increase in cash and cash equivalents	8,540	5,575
Cash and cash equivalents at beginning of period	8,736	8,696
Cash and cash equivalents at end of period	\$ 17,276	\$ 14,271
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 7,661	\$ 10,305
Cash paid for income taxes	\$ 2,779	\$ 1,538

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Non-cash Activities:

Capital equipment included in accounts payable	\$2,201	\$3,554
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts and number of shares 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 (collectively referred to as the "Company," "Shiloh Industries," "us," "our" or "we"), without audit, and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). 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 ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the SEC. Although we believe that the disclosures are adequate to make the information presented not misleading, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

Revenues and operating results for the three and nine months ended July 31, 2018 are not necessarily indicative of the results to be expected for the full year.

Prior Year Reclassification

In the first quarter of fiscal 2018, we early adopted the provisions of Accounting Standards Update ("ASU") 2017-07 "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The reclassification of certain prior year amounts as a result of early adopting ASU 2017-07 is detailed in Note 2 - Recent Accounting Standards of the Notes to the Condensed Consolidated Financial Statements.

Prior year interest rate swap agreement amount of \$2,088 as reported on the Consolidated Balance Sheet at October 31, 2017 is now presented with Other liabilities as we entered into other derivatives and hedging instruments as discussed in Note 12 - Derivatives and Financial Instruments of the Notes to the Condensed Consolidated Financial Statements.

In the third quarter of fiscal 2018, we combined our investments in marketable securities with prepaid expenses and other assets as the amounts are immaterial. Prior year investments in marketable securities amount of \$194 as reported on the Consolidated Balance Sheet at October 31, 2017 is now presented with prepaid expenses and other assets.

Note 2—Recent Accounting Standards

Recently Issued Accounting Standards:

Standard	Description	Effective Date	Effect on our financial statements and other significant matters
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ASU 2018-09 Codification Improvements	These amendments provide clarifications and corrections to certain ASC subtopics including the following: Income Statement - Reporting Comprehensive Income – Overall (Topic 220-10), Debt - Modifications and Extinguishments (Topic 470-50), Distinguishing Liabilities from Equity – Overall (Topic 480-10), Compensation - Stock Compensation - Income Taxes (Topic 718-740), Business Combinations - Income Taxes (Topic 805-740), Derivatives and Hedging – Overall (Topic 815-10), and Fair Value Measurement – Overall (Topic 820-10).	The majority of the amendments will be effective November 1, 2019	We are currently evaluating and assessing the impact this guidance will have on the Company's condensed consolidated statements or financial statement disclosures.
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SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

<p>ASU 2017-09 Compensation - Stock Compensation (Topic 718)</p>	<p>This amendment clarifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. The amendment should be adopted on a prospective basis.</p> <p>The amendments require companies to recognize revenue when there is a transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The amendments should be applied on either a full or modified retrospective basis, which clarifies existing accounting literature relating to how and when a company recognizes revenue. The Financial Accounting Standards Board ("FASB"), through the issuance of Accounting Standards Updated ("ASU") No. 2015-14, "Revenue from Contracts with Customers," approved a one year delay of the effective date and permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. During fiscal 2016, the FASB issued ASUs 2016-10, 2016-11 and 2016-12. Finally, ASU 2016-20 makes minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.</p>	<p>November 1, 2018 with early adoption permitted.</p>	<p>We do not expect the adoption of these provisions to have a significant impact on the Company's condensed consolidated financial statements as it is not our practice to change either the terms or conditions of share-based payment awards once they are granted.</p>
<p>ASU 2014-09 Revenue from Contracts with Customers</p>	<p>The amendments should be applied on either a full or modified retrospective basis, which clarifies existing accounting literature relating to how and when a company recognizes revenue. The Financial Accounting Standards Board ("FASB"), through the issuance of Accounting Standards Updated ("ASU") No. 2015-14, "Revenue from Contracts with Customers," approved a one year delay of the effective date and permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. During fiscal 2016, the FASB issued ASUs 2016-10, 2016-11 and 2016-12. Finally, ASU 2016-20 makes minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.</p>	<p>November 1, 2018.</p>	<p>We will be adopting the new revenue standards in the first quarter of 2019 utilizing the modified retrospective transition method. To assess the impact of the new standard, the Company is analyzing the standard's impact on customer contracts, comparing its historical accounting policies and practices to the requirements of the new standard, and identifying potential differences from application of the new standard's requirements. While the Company has not yet completed its evaluation of the effects of adoption, the Company does not expect the adoption of the new revenue standards to have a material impact on its consolidated financial statements.</p>

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

ASU
2016-02
Leases

This amendment requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet and aligns many of the underlying principles of the new lessor model with those in Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers. The standard requires a modified retrospective transition for capital and operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial adoption. In January 2018, the FASB issued an amendment to ASC Topic 842 which permits companies to elect an optional transition practical expedient to not evaluate existing land easements under the new standard if the land easements were not previously accounted for under existing lease guidance. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842 which clarifies certain areas within ASU 2016-02. ASU 2018-11 Targeted Improvements to Topic 842, Leases. This amendment provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

November
1, 2019
with early
adoption
permitted.

We are in the process of evaluating the impact of adoption of this standard on our financial statements and disclosures. We are in the beginning stages of developing a project plan with key stakeholders throughout the organization and gathering and analyzing detailed information on existing lease arrangements. This includes evaluating the available practical expedients, calculating the lease asset and liability balances associated with individual contractual arrangements and assessing the disclosure requirements. In addition, we continue to monitor FASB amendments to ASC Topic 842.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

ASU 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities	In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which was further amended in February and in March 2018 by ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and ASU 2018-04, Investments - Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 to clarify certain aspects of ASU 2016-01 and to update SEC interpretive guidance in connection with the provisions of ASU 2016-01. These ASUs provide guidance for the recognition, measurement, presentation and disclosure of financial instruments. Most prominent among the amendments is the requirement for changes in the fair value of the Company's equity investments, with certain exceptions, to be recognized through net income rather than OCI. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet in year of adoption.	November 1, 2018 with early adoption permitted.	We do not expect the adoption of these provisions to have a significant impact on the Company's condensed consolidated statement of financial position or financial statement disclosures.
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Recently Adopted Accounting Standards:

Standard	Description	Adoption Date	Effect on our financial statements and other significant matters
ASU 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	This amendment allows a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "TCJA"). The amendments eliminate the stranded tax effects resulting from the TCJA and will improve the usefulness of information reported to financial statement users.	May 1, 2018.	Please refer to Note 11 of the condensed consolidated financial statements for additional detail on this adoption.
ASU 2017-12 Derivatives and Hedging (Topic 815)	This amendment changes how an entity assesses effectiveness of derivative instruments, potentially resulting in less ineffectiveness and more derivatives qualifying for hedge accounting. Entities may early adopt the standard in any interim period, with the effect of adoption being applied to existing hedging relationships as of the beginning of the fiscal year of	November 1, 2017.	The early adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements. Please refer to Note 12 of the condensed consolidated financial statements for additional detail on this

adoption.

adoption.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

<p>ASU 2017-07 Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost</p>	<p>This amendment requires the presentation of the service cost component of net benefit cost to be in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. All other components of net benefit cost should be presented separately from the service cost component and outside of a subtotal of earnings from operations, or separately disclosed. The amendments should be adopted on a retrospective basis.</p>	<p>November 1, 2017.</p>	<p>Prior to the adoption of ASU 2017-07, pension costs were reported as cost of sales and selling, general and administrative expenses on the Company's condensed consolidated statements of operations. As a result of the early adoption of ASU 2017-07, we reclassified \$327 and \$955 from cost of sales and selling, general and administrative expenses to other expense, net on the condensed consolidated statements of operations for the three and nine months ended July 31, 2017, respectively.</p>
<p>ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business</p>	<p>The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill impairment and consolidation. When substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the asset acquired would not represent a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. This amendment simplifies the measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. The amendment should be applied on a prospective basis.</p>	<p>November 1, 2017.</p>	<p>The adoption of this framework did not have a significant impact on the Company's condensed consolidated statement of financial position or financial statement disclosures.</p>
<p>ASU 2015-11 Inventory</p>	<p>inventory to be measured at the lower of cost and net realizable value. The amendment should be applied on a prospective basis.</p>	<p>November 1, 2017.</p>	<p>The adoption of these provisions did not have a significant impact on the Company's condensed consolidated statement of financial position or financial statement disclosures.</p>

Note 3—Acquisitions

On March 1, 2018, a subsidiary of the Company acquired all of the issued and outstanding capital of each of Brabant Alucast Italy Site Verres S.r.l., a limited liability company organized under the laws of Italy and Brabant Alucast The Netherlands Site Oss B.V., a limited liability company organized under the laws of the Netherlands (collectively "Brabant"). The acquisition was accounted for as a business combination under the acquisition method in accordance with the FASB ASC Topic 805, Business Combinations. The acquisition complements Shiloh's global footprint with the addition of aluminum casting and the expansion of magnesium casting capabilities in Europe, while providing

necessary capacity for growth.

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SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The aggregate fair value of consideration transferred was \$65,273 (\$62,481 net of cash acquired), on the date of the acquisition. The acquisition of Brabant has been accounted for using the acquisition method in accordance with FASB ASC Topic 805, Business Combinations. Assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The fair values of identifiable intangible assets were based on valuations using the income approach and estimates provided by management. The excess of the preliminary purchase price over the estimated fair values of the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The allocation of the preliminary purchase price is based upon a valuation of certain assets acquired and liabilities assumed. The preliminary purchase price allocation was as follows:

Cash and cash equivalents	\$2,792
Accounts receivable	22,719
Inventory	10,603
Other assets, net	2,026
Property, plant and equipment	54,034
Goodwill	408
Intangible assets	2,328
Accounts payable and accrued expenses	(29,637)
Net assets acquired	\$65,273

The purchase price allocation is provisional, pending completion of the valuation of acquired intangible assets, property, plant and equipment, and inventories. The Company is utilizing a third party to assist in the fair value determination of certain components of the purchase price allocation, namely inventory, property, plant and equipment and intangible assets. The final valuation may change the allocation of the purchase price, which could affect the fair values assigned to the assets.

The Company believes the amount of goodwill resulting from the purchase price allocation is attributable to the workforce of the acquired business (which is not eligible for separate recognition as an identifiable intangible asset) and the synergies expected after the Company's acquisition of Brabant. We do not expect that the preliminary goodwill amount of \$408 will be deductible for tax purposes under current Italian or Netherland tax law.

The \$2,328 of acquired intangible assets was assigned to developed technology that have a useful life of 13 years. The fair value assigned to identifiable intangible assets acquired have been determined primarily by using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. The Company is utilizing a third party to assist in assigning a fair value to acquired intangible assets. The Company does not expect that the total amount of identifiable intangible assets will be deductible for tax purposes under current Italian or Netherland tax law.

Supplemental pro forma disclosures are not included as the amounts are deemed immaterial.

Note 4—Accounts Receivable

Accounts receivable are expected to be collected within one year and are net of an allowance for doubtful accounts in the amount of \$1,041 and \$1,271 at July 31, 2018 and October 31, 2017, respectively. We recognized a benefit of \$32

from recoveries of receivables previously expensed and bad debt expense of \$14, net of recoveries during the three and nine months ended July 31, 2018, and recognized a benefit of \$257 and \$291 from recoveries of receivables previously expensed during the three and nine months ended July 31, 2017, respectively, in the condensed consolidated statements of operations.

We continually monitor our exposure with our customers and additional consideration is given to individual accounts in light of the market conditions in the automotive, commercial vehicle and industrial markets.

As a part of our working capital management, the Company has entered into factoring agreements with third party financial institutions ("institutions") for the sale of certain accounts receivable with recourse. The activity under these agreements is accounted for as sales of accounts receivable under ASC Topic 860 "Transfers and Servicing." These agreements relate exclusively to the accounts receivable of certain Italian and Swedish customers. The amounts sold vary each month based on the amount of underlying receivables and cash flow requirements of the Company. In addition, the agreement addresses events and conditions which may obligate us to immediately repay the institutions the outstanding purchase price of the receivables sold.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The total amount of accounts receivable factored was \$15,496 and \$7,567 as of July 31, 2018 and October 31, 2017, respectively. As these sales of accounts receivable are with recourse, \$12,412 and \$8,072 were recorded in accounts payable as of July 31, 2018 and October 31, 2017, respectively. The cost of selling these receivables is dependent upon the number of days between the sale date of the receivables and the date the customer's invoice is due and the interest rate. The expense associated with the sale of these receivables is recorded as a component of selling, general and administrative expense and interest expense in the accompanying condensed consolidated statements of operation.

Note 5—Related Party Receivables

Sales to MTD Products Inc. and its affiliates were \$1,114 and \$1,151 for the three months ended July 31, 2018 and 2017, respectively, and \$4,380 and \$4,369 for the nine months ended July 31, 2018 and 2017, respectively. At July 31, 2018 and October 31, 2017, we had related party receivable balances of \$395 and \$759, respectively, due from MTD Products Inc. and its affiliates.

Note 6—Inventories

Inventories consist of the following:

	July 31, 2018	October 31, 2017
Raw materials	\$29,074	\$ 23,389
Work-in-process	22,823	18,653
Finished goods	23,218	19,770
Total inventory	\$75,115	\$ 61,812

Total cost of inventory is net of reserves to reduce certain inventory from cost to net realizable value by an allowance for excess and obsolete inventories based on management's review of on-hand inventories compared to historical and estimated future sales and usage. Such reserves aggregated \$5,079 and \$5,535 at July 31, 2018 and October 31, 2017, respectively.

Note 7—Property, Plant and Equipment

Property, plant and equipment consist of the following:

	July 31, 2018	October 31, 2017
Land and improvements	\$10,955	\$ 11,416
Buildings and improvements	126,501	124,406
Machinery and equipment	558,745	504,785
Furniture and fixtures	23,570	22,209
Construction in progress	35,901	40,356
Total, at cost	755,672	703,172
Less: Accumulated depreciation	441,866	436,281
Property, plant and equipment, net	\$313,806	\$ 266,891

Depreciation expense was \$11,754 and \$10,281 for the three months ended July 31, 2018 and 2017, respectively, and \$32,008 and \$29,252 for the nine months ended July 31, 2018 and 2017, respectively.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Capital Leases:

	July 31, October 31,	
	2018	2017
Leased Property:		
Machinery and equipment	\$ 6,877	\$ 7,099
Less: Accumulated depreciation	2,901	2,420
Leased property, net	\$ 3,976	\$ 4,679

Total obligations under capital leases and future minimum rental payments to be made under capital leases at July 31, 2018 are as follows:

Twelve Months Ended July 31,

2019	\$730
2020	383
2021	1,848
	2,961
Plus amount representing interest ranging from 3.05% to 3.77%	258
Future minimum rental payments	\$3,219

Note 8—Goodwill and Intangible Assets

Goodwill:

The changes in the carrying amount of goodwill for the nine months ended July 31, 2018 are as follows:

Balance October 31, 2017	\$27,859
Acquisitions	408
Foreign currency translation	(92)
Balance July 31, 2018	\$28,175

Intangible Assets

The changes in the carrying amount of finite-lived intangible assets for the nine months ended July 31, 2018 are as follows:

	Customer Relationships	Developed Technology	Non-Compete	Trade Name	Trademark	Total
Balance October 31, 2017	\$ 11,648	\$ 1,997	\$ 31	\$ 1,254	\$ 95	\$ 15,025
Acquisitions	—	2,328	—	—	—	2,328
Amortization expense	(999)	(651)	(12)	(93)	(12)	(1,767)
Foreign currency translation	(3)	(103)	—	—	—	(106)
Balance July 31, 2018	\$ 10,646	\$ 3,571	\$ 19	\$ 1,161	\$ 83	\$ 15,480

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Intangible assets are amortized on the straight-line method over their legal or estimated useful lives. The following summarizes the gross carrying value and accumulated amortization for each major class of intangible assets at July 31, 2018:

	Weighted Average Useful Life (years)	Gross Carrying Value Net of Foreign Currency	Accumulated Amortization	Net
Customer relationships	13.2	\$ 17,566	\$ (6,920)	\$ 10,646
Developed technology	9.1	7,232	(3,661)	3,571
Non-compete	2.3	824	(805)	19
Trade Name	14.8	1,875	(714)	1,161
Trademark	10.0	166	(83)	83
		\$ 27,663	\$ (12,183)	\$ 15,480

Total amortization expense was \$607 and \$565 for the three months ended July 31, 2018 and 2017, respectively, and \$1,767 and \$1,694 for the nine months ended July 31, 2018 and 2017, respectively. Amortization expense related to intangible assets for the fiscal years ending is estimated to be as follows:

Twelve Months Ended July 31,

2019	\$ 1,883
2020	1,871
2021	1,868
2022	1,868
2023	1,861
Thereafter	6,129
	\$ 15,480

Note 9—Financing Arrangements

Debt consists of the following:

	July 31, 2018	October 31, 2017
Credit Agreement—interest rate of 3.98% at July 31, 2018 and 3.88% at October 31, 2017	\$ 235,100	\$ 178,200
Equipment security note	88	482
Capital lease obligations	2,961	3,760
Insurance broker financing agreement	—	650
Total debt	238,149	183,092
Less: Current debt	818	2,027
Total long-term debt	\$ 237,331	\$ 181,065

At July 31, 2018, we had total debt, excluding capital leases, of \$235,189, consisting of a revolving line of credit under the Credit Agreement (as defined below) of floating rate debt of \$235,100 and of fixed rate debt of \$88. The weighted average interest rate of all debt was 3.82% and 4.65% for the nine months ended July 31, 2018 and July 31, 2017, respectively.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Revolving Credit Facility:

The Company and its subsidiaries are party to a Credit Agreement, dated October 25, 2013, as amended (the "Credit Agreement") with Bank of America, N.A., as Administrative Agent, Swing Line Lender, Dutch Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A. as Syndication Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities, LLC as Joint Lead Arrangers and Joint Book Managers, CIBC Bank USA, Compass Bank and The Huntington National Bank, N.A., as Co-Documentation Agents, and the other lender parties thereto.

On October 31, 2017, we executed the Eighth Amendment ("Eighth Amendment") to the Credit Agreement which among other things: provides for an aggregate availability of \$350,000, \$275,000 of which is available to the Company through the Tranche A Facility and \$75,000 of which is available to the Dutch borrower through the Tranche B Facility, and eliminates the scheduled reductions in such availability; increases the aggregate amount of incremental commitment increases allowed under the Credit Agreement to up to \$150,000 subject to our pro forma compliance with financial covenants, the Administrative Agent's approval and the Company obtaining commitments for any such increase. The Eighth Amendment extended the commitment period to October 31, 2022.

On July 31, 2017, we executed the Seventh Amendment ("Seventh Amendment") which modifies investments in subsidiaries and various cumulative financial covenant thresholds, in each case, under the Credit Agreement. The Seventh Amendment also enhances our ability to take advantage of customer supply chain finance programs.

On October 28, 2016, we executed the Sixth Amendment which increases the permitted consolidated leverage ratio for periods beginning after July 31, 2016; increases the permitted consolidated fixed charge coverage ratio for periods beginning after April 30, 2017; modifies various baskets related to sale of accounts receivable, disposition of assets, sale-leaseback transactions, and makes other ministerial updates.

Borrowings under the Credit Agreement bear interest, at our option, at LIBOR or the base (or "prime") rate established from time to time by the administrative agent, in each case plus an applicable margin. The Eighth Amendment provides for an interest rate margin on LIBOR loans of 1.50% to 3.00% and of 0.50% to 2.00% on base rate loans depending on the Company's leverage ratio.

The Credit Agreement contains customary restrictive and financial covenants, including covenants regarding our outstanding indebtedness and maximum leverage and interest coverage ratios. The Credit Agreement also contains standard provisions relating to conditions of borrowing. In addition, the Credit Agreement contains customary events of default, including the non-payment of obligations by the Company and the bankruptcy of the Company. If an event of default occurs, all amounts outstanding under the Credit Agreement may be accelerated and become immediately due and payable. We were in compliance with the financial covenants under the Credit Agreement as of July 31, 2018 and October 31, 2017.

After considering letters of credit of \$5,241 that we have issued, unused commitments under the Credit Agreement were \$109,659 at July 31, 2018.

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 our domestic subsidiaries and 65% of the stock of our foreign subsidiaries.

Other Debt:

On September 2, 2013, we entered into an equipment security note that bears interest at a fixed rate of 2.47% and requires monthly payments of \$44 through September 2018. As of July 31, 2018, \$88 remained outstanding under this agreement and was classified as current debt in our condensed consolidated balance sheets.

We maintain capital leases for equipment used in our manufacturing facilities with lease terms expiring between 2018 and 2021. As of July 31, 2018, the present value of minimum lease payments under our capital leases amounted to \$2,961.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Scheduled repayments of debt for the next five years are listed below:

Twelve Months Ending July 31,	Credit Agreement	Equipment Security Note	Capital Lease Obligations	Total
2019	\$ —	\$ 88	\$ 730	\$818
2020	—	—	383	383
2021	—	—	1,848	1,848
2022	—	—	—	—
2023	235,100	—	—	235,100
Total	\$ 235,100	\$ 88	\$ 2,961	\$238,149

Note 10—Pension and Other Post-Retirement Benefit Matters

U.S. Plans

The components of net periodic benefit cost for the three and nine months ended July 31, 2018 and 2017 are as follows:

	Pension Benefits		Other Post-Retirement Benefits	
	Three Months Ended July 31,		Three Months Ended July 31,	
	2018	2017	2018	2017
Interest cost	\$ 791	\$ 821	\$ 3	\$ 3
Expected return on plan assets	(839)	(864)	—	—
Amortization of net actuarial loss	328	377	1	2
Net periodic cost	\$ 280	\$ 334	\$ 4	\$ 5

	Pension Benefits		Other Post-Retirement Benefits	
	Nine Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Interest cost	\$2,375	\$2,462	\$ 8	\$ 9
Expected return on plan assets	(2,519)	(2,592)	—	—
Amortization of net actuarial loss	984	1,131	5	8
Net periodic cost	\$840	\$1,001	\$ 13	\$ 17

We made a contribution of \$445 to our U.S. pension plans during the three months ended July 31, 2018. No further contributions for the remainder of fiscal 2018 are required.

Non-U.S. Plans

For our Polish operations, at July 31, 2018 and October 31, 2017, we had a pension obligation liability of \$1,211 and \$1,008, respectively, based on actuarial reports. The Polish operations recognized \$52 and \$42 of expense for the three months ended July 31, 2018 and 2017, respectively, and \$163 and \$119 for the nine months ended July 31, 2018 and 2017, respectively. For our Asian, other European and Mexican operations, contributions are made to government sponsored programs or private pension funds. No unfunded liability exists for these operations.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Early Adoption of ASU 2017-07 - Impact

In accordance with the Company's early adoption of ASU 2017-07, we report the service cost component of the net periodic pension and post-retirement costs in the same line item in the statements of income as other compensation costs arising from services rendered by the employees during the period for both our U.S. and Non-U.S. Plans. The other components of net periodic pension and post-retirement costs are presented in the statement of income separately from the service cost component and outside a subtotal of operating income. Therefore, \$52 and \$41 of service costs are included in cost of sales and \$284 and \$327 of net periodic pension and other post-retirement costs are included in other expense, net in the condensed consolidated statements of operations for the three months ended July 31, 2018 and 2017, respectively, and \$163 and \$154 of service costs are included in cost of sales and \$853 and \$955 of net periodic pension and other post-retirement costs are included in other expense, net in the condensed consolidated statements of operations for the nine months ended July 31, 2018 and 2017, respectively. Prior year amounts have been reclassified to conform to the current year presentation in our condensed consolidated financial statements.

Note 11—Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss in stockholders' equity by component for the three months ended July 31, 2018 is as follows:

	Pension and Post Retirement Plan Liability	Marketable Securities Adjustment (1)	Interest Rate Swap Adjustment (2)	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at April 30, 2018	\$(27,373)	\$ (97)	\$ (121)	\$(13,188)	\$(40,779)
Other comprehensive income (loss), net of tax	—	(18)	95	(2,834)	(2,757)
Amounts reclassified from accumulated other comprehensive loss, net of tax	252	122	153	—	527
Net current-period other comprehensive income (loss)	252	104	248	(2,834)	(2,230)
Reclassification to retained earnings (3)	(6,138)	(7)	(213)	—	(6,358)
Balance at July 31, 2018	\$(33,259)	\$ —	\$ (86)	\$(16,022)	\$(49,367)

Changes in accumulated other comprehensive loss in stockholders' equity by component for the nine months ended July 31, 2018 is as follows:

	Pension and Post Retirement Plan Liability	Marketable Securities Adjustment (1)	Interest Rate Swap Adjustment (2)	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at October 31, 2017	\$(27,847)	\$ (2)	\$ (1,319)	\$(13,069)	\$(42,237)
Other comprehensive income (loss), net of tax	—	(113)	798	(2,953)	(2,268)
Amounts reclassified from accumulated other comprehensive loss, net of tax	726	122	648	—	1,496

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Net current-period other comprehensive income (loss)	726	9	1,446	(2,953)	(772)		
Reclassification to retained earnings (3)	(6,138)	(7)	(213)	— (6,358)	
Balance at July 31, 2018	\$(33,259)	\$ —	\$ (86)	\$(16,022)	\$ (49,367)

(1) Amounts reclassified from accumulated other comprehensive loss, net of tax are classified with other expense included in the statements of operations.

(2) Amounts reclassified from accumulated other comprehensive income loss, net of tax are classified with interest expense included on the condensed consolidated statements of operations.

(3) In the nine months ended July 31, 2018, the Company early adopted the ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." As a result, the stranded tax effects resulting from the TCJA enacted in December 2017 were reclassified from accumulated other comprehensive loss to retained earnings.

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Note 12—Derivatives and Financial Instruments

The Company is exposed to, among other risks, the impact of changes in commodity prices, foreign currency exchange rates, and interest rates in the normal course of business. The Company's risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments to offset a portion of these risks. The Company does not enter into derivative financial instruments for trading or speculative purposes. On an on-going basis, the Company monitors counterparty credit ratings. The Company considers credit non-performance risk to be low because the Company enters into agreements with commercial institutions that have investment grade credit rating.

During the first quarter of 2018, the Company early-adopted ASU 2017-02 "Derivatives and Hedging (Topic 815)" which was issued with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to make certain targeted improvements to simplify the application of previously applicable hedge accounting guidance. This adoption did not have a material effect on our condensed consolidated financial statements, and did not result in any cumulative adjustment to equity as of the date of adoption.

Our derivatives consist of a cross-currency swap and an interest rate swap, all of which are over-the-counter and not traded through an exchange. The Company uses widely accepted valuation tools to determine fair value, such as discounting cash flows to calculate a present value for the derivatives. The models use Level 2 inputs, such as forward curves and other commonly quoted observable transactions and prices. The fair value of our derivatives and hedging instruments are all classified as Level 2 investments within the three-tier hierarchy.

On March 1, 2018, we entered into a cross-currency swap in which we settle interest on the notional amount in Euros and settle interest on the notional amount in dollars, both at a variable rate. The objective of the transaction is to protect the initial net investment in Brabant against adverse changes in the exchange rate between the US dollar and the Euro. Hedge effectiveness is assessed based upon changes in the spot foreign exchange rate. As such, the change in value of the cross-currency interest rate swap related to the change in spot rates is perfectly effective at offsetting changes in cumulative translation adjustment related to the portion of our net investment in Brabant up to the notional amount of the cross-currency interest rate swap.

Under the cross-currency interest rate swap, we received €53,000, on which we will settle interest at the 1-month Euribor rate, and we lent to the counterparty \$64,930, on which we will settle interest at the 1-month LIBOR rate. Interest payments will be made at the end of every month. The notional amounts in the respective currencies exchanged at the beginning of the cross-currency interest rate swap period will be repaid at the end of the cross-currency interest rate swap period on October 31, 2022.

On February 25, 2014, we entered into an interest rate swap with an aggregate notional amount of \$75,000 designated as a cash flow hedge to manage interest rate exposure on our floating rate LIBOR based debt under the Credit Agreement. The interest rate swap is an agreement to exchange payment streams based on the notional principal amount. This agreement fixes our future interest rate at 2.74% plus the applicable margin as provided in the Fifth Amendment discussed in Note 9 - Financing Arrangements, on an amount of our debt principal equal to the then-outstanding swap notional amount. The forward interest rate swap commenced on March 1, 2015 with an initial \$25,000 base notional amount. The second notional amount of \$25,000 commenced on September 1, 2015 and the

final notional amount of \$25,000 commenced on March 1, 2016. The base notional amount plus each incremental addition to the base notional amount has a five year maturity of February 29, 2020, August 31, 2020 and February 28, 2021, respectively. On the date the interest swap was entered into, we designated the interest rate swap as a hedge of the variability of cash flows to be paid relative to our variable rate monies borrowed. Any ineffectiveness in the hedging relationship is recognized immediately into earnings.

The following table discloses the fair value and balance sheet location of our derivative instruments:

		Asset (Liability) Derivatives	
		Balance Sheet Location	
		July 31, 2018	October 31, 2017
Net Investment Hedging Instruments:			
Cross-currency interest rate swap contract	Other assets	\$2,441	\$—
Cash Flow Hedging Instruments:			
Interest rate swap contracts	Other liabilities	\$(109)	\$(2,088)

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

As a result of the hedging relationships being highly effective, the net interest payments accrued each period are reflected in net income (loss) as adjustments of interest expense, and the remaining change in the fair value of the derivatives is recognized in accumulated other comprehensive loss ("AOCI").

The following table presents the effect of our derivative instruments on the condensed consolidated statements of operations and the effects of hedging on those line items:

Location	Three Months Ended July 31, 2018	Nine Months Ended July 31, 2018
Interest expense	\$3,209	\$ 8,194
Effect of hedging on interest expense	\$(274)	\$ 27

Location	Three Months Ended July 31, 2017	Nine Months Ended July 31, 2017
Interest expense	\$ 3,785	\$12,797
Effect of hedging on interest expense	\$ 329	\$ 1,115

Note 13—Stock Incentive Compensation

Stock Incentive Compensation falls under the scope of ASC Topic 718 "Compensation – Stock Compensation" and affects the stock awards that have been granted and requires us to expense share-based payment ("SBP") awards with compensation cost for SBP transactions measured at fair value. For restricted stock and restricted stock units, we are computing fair value based on a 20-day Exponential Moving Average ("EMA") as of the close of business the Friday preceding the award date. For stock options, we have elected to use the simplified method of calculating the expected term 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. In addition, we do not estimate a forfeiture rate at the time of grant, instead we elect to recognize share-based compensation expense when actual forfeitures occur.

2016 Equity and Incentive Compensation Plan

Long-Term / Annual Incentives

On March 9, 2016, stockholders approved and adopted the 2016 Equity and Incentive Compensation Plan ("2016 Plan") which replaced the Amended and Restated 1993 Key Employee Stock Incentive Program. The 2016 Plan authorizes the Compensation Committee of the Board of Directors of the Company to grant to officers and other key employees, including directors, of the Company and our subsidiaries (i) option rights, (ii) appreciation rights, (iii) restricted shares, (iv) restricted stock units, (v) cash incentive awards, performance shares and performance units and (vi) other awards. An aggregate of 1,500 shares of Common Stock, subject to adjustment upon occurrence of certain events to prevent dilution or expansion of the rights of participants that might otherwise result from the occurrence of such events, was reserved for issuance pursuant to the Incentive Plan. An individual's award of option

and / or appreciation rights is limited to 500 shares during any calendar year. Also, an individual's award of restricted shares, restricted share units and performance based awards is limited to 350 shares during any calendar year.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table summarizes the Company's Incentive Plan activity for the nine months ended July 31, 2018 and 2017:

Outstanding at:	Stock Options			Restricted Stock			Restricted Stock Units		
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Restricted Shares	20-day Average EMA	Weighted Average Remaining Contractual Life	Restricted Share Units	20-day Average EMA	Weighted Average Remaining Contractual Life
November 1, 2016	90	\$9.67	3.04	376	\$6.11	1.83	22	\$4.17	1.78
Granted	—	—		246	7.93		29	8.62	
Options exercised or restricted stock vested	(8)	9.79		(159)	5.71		(14)	4.17	
Forfeited or expired	(24)	13.38		(5)	9.20		—	—	
July 31, 2017	58	\$8.16	2.78	459	\$7.19	1.78	37	\$7.67	2.10
November 1, 2017	58	\$8.16	2.53	441	\$7.07	1.60	36	\$7.69	1.82
Granted	—	—		296	8.12		18	7.90	
Options exercised or restricted stock vested	(12)	3.26		(200)	7.51		(15)	8.30	
Forfeited or expired	(3)	12.04		(41)	7.08		(12)	6.18	
July 31, 2018	43	\$9.33	1.83	496	\$7.52	1.95	26	\$8.17	1.72

We recorded stock compensation expense related to stock options, restricted stock and restricted stock units during the three and nine months ended July 31, 2018 and 2017 as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Restricted stock	\$488	\$505	\$1,465	\$1,286
Restricted stock units	27	33	92	86
Total	\$515	\$538	\$1,557	\$1,372

Stock Options - The exercise price of each stock option equals the market price of our common stock on the grant date. Compensation expense is recorded at the grant date fair value, adjusted for forfeitures as they occur, and is recognized over the applicable vesting periods. Our stock options generally vest over three years, with a maximum term of ten years. Incentive stock options were not granted during the three and nine months ended July 31, 2018 and

2017.

Cash received from the exercise of options for the nine months ended July 31, 2018 and 2017 was \$41 and \$78, respectively. Options that have an exercise price greater than the market price are excluded from the intrinsic value computation. At July 31, 2018 and October 31, 2017, the options outstanding and exercisable had an intrinsic value of \$52 and \$137, respectively.

Restricted Stock Awards - The grant date fair value of each restricted stock award equals the fair value of our common stock based on a 20-day EMA as of the close of business on the Friday preceding the award date. Compensation expense is recorded at the grant date fair value, adjusted for forfeitures as they occur, and is recognized over the applicable vesting periods. The vesting periods range between one to four years. As of July 31, 2018, there was approximately \$2,630 of total unrecognized compensation expense related to non-vested restricted stock that is expected to be recognized over the applicable vesting periods.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Restricted Stock Units - The grant date fair value of each restricted stock unit equals the fair value of our common stock based on a 20-day EMA as of the close of business on the Friday preceding the award date. Compensation expense is recorded at the grant date fair value, adjusted for forfeitures as they occur, and is recognized over the applicable vesting periods. The vesting periods range between one to three years. As of July 31, 2018, there was approximately \$154 of total unrecognized compensation expense related to these restricted stock units that is expected to be recognized over the applicable vesting periods.

Cash Incentive Award Agreements - Under the provisions of the 2016 Plan, Cash Incentive Awards are granted annually to executives and director level employees. These awards were designed to provide the individuals with an incentive to participate in the long-term success and growth of the Company. The Cash Incentive Award amounts are based on 3-year return on capital employed and 3-year adjusted earnings before interest, taxes, depreciation and amortization goals, which could range from 0% to 200% based on the achievement of performance goals. The Cash Incentive Award Agreements cliff-vest after three years if the performance goals are achieved. These awards may be subject to payment upon a change in control or termination of employment, under certain circumstances, if certain performance goals are achieved. In addition, these awards represent unfunded, unsecured obligations of the Company.

During the three and nine months ended July 31, 2018, we recorded expense related to these awards of \$286 and \$666, respectively, and \$203 and \$485 during the three and nine months ended July 31, 2017. At July 31, 2018 and October 31, 2017, we had a liability of \$1,202 and \$536, respectively, related to these awards are presented as other accrued expenses in the condensed consolidated balance sheets.

Note 14—Fair Value of Financial Instruments

FASB ASC Topic 820, Fair Value Measurements and Disclosures ("FASB ASC 820"), clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the plans have the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the plans' own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The methods that we use may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain

financial instruments could result in a different fair value measurement at the reporting date.

Assets and liabilities remeasured and disclosed at fair value on a recurring basis:

The Company has marketable securities that are recorded the Company's condensed consolidated balance sheets included in prepaid expenses and other assets. During the three months ended July 31, 2018, we considered the decline in market value of our investment in our marketable securities to be other than temporary and recognized an other than temporary impairment loss of \$154, which was recorded within other expense, net in our condensed consolidated statement of operations. The fair value is measured using the closing stock price on the last business day of the quarter - a Level 1 observable input (Market Approach). At July 31, 2018 and October 31, 2017, the marketable securities had an asset fair value of \$43 and \$194, respectively.

The Company has a cross-currency swap and interest rate swap instruments that are recorded in other assets or other liabilities in the Company's condensed consolidated balance sheets and the fair value is measured using Level 2 observable inputs

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

such as foreign currency exchange rates, swap rates, cross currency basis swap spreads and quoted interest rate curves. The discount rates for all derivative contracts are based on quoted swap interest rates or bank deposit rates (Income Approach). For contracts which, when aggregated by counterparty, are in a liability position, the rates are adjusted by the credit spread that market participants would apply if buying these contracts from our counterparties. At July 31, 2018, the cross currency swap (net investment hedge of our European subsidiaries) had an asset fair value of \$2,441 and the interest rate swap had a liability fair value of \$109. At October 31, 2017, interest rate swap had a liability fair value of \$2,088.

Note 15—Restructuring Charges

During the fourth quarter of fiscal 2017, management initiated restructuring activities such as consolidating manufacturing facilities, making geographical shifts to place production closer to customer facilities, provide a more global and scaleable organization, centralizing departments, optimizing our product plan, and capturing synergies. Management believes these strategic moves will result in a stronger and more agile Company. During the three and nine months ended July 31, 2018, respectively, we incurred \$1,965 and \$4,962 related to employee, professional, legal and other restructuring related costs. We have incurred to date restructuring expenses of \$9,739. We expect to incur approximately an additional \$7,300 over the next eighteen months. The benefits from this initiative are expected to provide savings with less than a three-year payback. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

The following table presents information about restructuring costs recorded for the three and nine months ended July 31, 2018:

	Three Months Ended July 31, 2018	Nine Months Ended July 31, 2018
Professional and legal costs	\$ 58	\$ 1,170
Employee costs	1,352	2,931
Other	555	861
	\$ 1,965	\$ 4,962

The following table presents a rollforward of the beginning and ending liability balances related to the restructuring costs which are included in the condensed consolidated balance sheets in other accrued expenses for the above-mentioned actions through July 31, 2018:

	Balance as of October 31, 2017	Restructuring Expense	Payments	Balance as of July 31, 2018
Employee costs	\$ 65	\$ 2,931	\$ 1,990	\$ 1,006
Legal and professional costs	270	1,170	1,440	—
Other	—	861	861	—

\$ 335 \$ 4,962 \$ 4,291 \$ 1,006

Note 16—Income Taxes

The provision for income taxes for the three months ended July 31, 2018 was a benefit of \$7,014 on income before income taxes of \$4,038 for a consolidated effective tax rate of (173.7)%. Income taxes included a \$2,300 net benefit related to a return to provision due to a change in estimate and a \$5,500 benefit based on adjusting the estimated annual tax rate used to calculate the quarterly provision related to 2018.

The U.S. Internal Revenue Service has proposed disallowances of the majority of fiscal year 2012 and fiscal year 2013 U.S. R&D credits claimed. We are disputing this tax credit matter and intend to vigorously defend our position. We believe the ultimate resolution of the matters will not materially impact our results of operations, financial position or cash flows. With any tax controversy and litigation, there is, however, a chance of unforeseen loss which due to the number of years involved could materially impact our results, financial position and cash flows. For open tax years through fiscal year 2017, the total amounts related to the unreserved portion of the tax contingency, inclusive of any related interest, amounts to approximately \$4,700, of

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

which the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. We routinely assess tax matters as to the probability of incurring a loss and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable. The amount of unrecognized income tax benefits was increased year to date by \$2,015.

The provision for income taxes for the nine months ended July 31, 2018 was a benefit of \$9,854 on income before income taxes of \$10,081 for a consolidated effective tax rate of (97.7)%. The consolidated effective tax rate for the year decreased primarily due to a \$2,300 net tax benefit related to a return to provision due to a change in estimate, a \$5,500 tax benefit based on adjusting the estimated annual tax rate and a tax benefit of \$3,966 due to the enactment of the TCJA.

The provision for income taxes for the three months ended July 31, 2017 was an expense of \$4,439 on income before income taxes of \$2,457 for a consolidated effective tax rate of 180.7%. The consolidated effective tax rate was impacted by foreign losses without a tax benefit.

The provision for income taxes for the nine months ended July 31, 2017 was an expense of \$6,686 on income before income taxes of \$6,915 for a consolidated effective tax rate of 96.7%. The consolidated effective tax rate was impacted by foreign losses without a tax benefit.

Note 17—Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) 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 restricted stock awards, restricted stock units and stock options outstanding under the 2016 Plan are included in the diluted earnings per share calculation to the extent they are dilutive. For the nine months ended July 31, 2018 and 2017, approximately 316 and 7 stock awards, respectively, were excluded from the computation of diluted earnings (loss) 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 (loss) per share:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Net income (loss) available to common stockholders	\$11,052	\$(1,982)	\$19,935	\$229
Basic weighted average shares	23,278	18,559	23,202	18,048
Effect of dilutive securities:				
Restricted share units and stock options (1)	175	—	139	25
Diluted weighted average shares	23,453	18,559	23,341	18,073
Basic income (loss) per share	\$0.47	\$(0.11)	\$0.86	\$0.01
Diluted income (loss) per share	\$0.47	\$(0.11)	\$0.85	\$0.01

(1) Due to a loss for the for the three months ended July 31, 2017 no restricted share awards and units are included because the effect would be anti-dilutive.

Note 18—Business Segment Information

For the nine months ended July 31, 2018, we conducted our business and reported our information as one operating segment - Automotive and Commercial Vehicles. Our chief operating decision maker has been identified as the

executive leadership team, which includes certain Vice Presidents, all Senior Vice Presidents plus the Chief Executive Officer of the Company. This team has the final authority over performance assessment and resource allocation decisions. In determining that one operating segment is appropriate, we considered the nature of the business activities, the existence of managers responsible for the operating activities. Customers and suppliers are substantially the same in the automotive and commercial vehicle industry.

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SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Revenues of foreign geographic regions are attributed to external customers based upon the location of the entity recording the sale. These foreign revenues represent 28.5% and 26.9% for the three and nine months ended July 31, 2018, respectively and 19.3% and 18.5% for the three and nine months ended July 31, 2017, respectively.

Geographic Region:	Net Revenues Three Months Ended July 31,		Net Revenues Nine Months Ended July 31,	
	2018	2017	2018	2017
United States	\$210,840	\$207,187	\$613,858	\$633,950
Europe	\$73,678	\$41,808	196,023	119,980
Rest of World	\$10,365	\$7,852	30,008	23,886
Total Company	\$294,883	\$256,847	\$839,889	\$777,816

The foreign currency gain (loss) is included as a component of other expense, net in the condensed consolidated statements of operations.

Geographic Region:	Foreign Currency Gain (Loss) Three Months Ended July 31,		Foreign Currency Gain (Loss) Nine Months Ended July 31,	
	2018	2017	2018	2017
Europe	\$99	\$(143)	\$(219)	\$(175)
Rest of World	\$182	\$314	\$226	\$(90)

Long-lived assets consist primarily of net property, plant and equipment, goodwill and intangibles.

Geographic Region:	Long-Lived Assets July 31, October 2018 31, 2017	
	United States	\$228,066	$235,663
Europe	102,430	53,569
Rest of World	26,965	20,543
Total Company	\$357,461	\$309,775

Note 19—Commitments and Contingencies

Litigation:

A securities class action lawsuit was filed on September 21, 2015 in the United States District Court for the Southern District of New York against the Company and certain of our officers (the President and Chief Executive Officer and Vice President of Finance and Treasurer). As amended, the lawsuit claims in part that we issued inaccurate information to investors about, among other things, our earnings and income and our internal controls over financial reporting for fiscal 2014 and the first and second fiscal quarters of 2015 in violation of the Securities Exchange Act of 1934. The amended complaint seeks an award of damages in an unspecified amount on behalf of a putative class consisting of persons who purchased our common stock between January 12, 2015 and September 14, 2015, inclusive. The Company and such officers filed a Motion to Dismiss this lawsuit with the United States District Court for the

Southern District of New York on April 18, 2016. The District Court rendered an opinion and order granting our motion to dismiss the lawsuit on March 23, 2017. On April 6, 2017, the plaintiffs filed a motion for reconsideration of the dismissal order. We, in opposition to the plaintiff's motion, filed a motion for consideration of the dismissal on April 20, 2017 and the plaintiffs filed a reply motion in opposition for reconsideration on April 27, 2017. On July 7, 2017, the District Court denied the plaintiffs' request to vacate the District Court's March 23, 2017 order of dismissal and granted the plaintiff's request to further amend their complaint. The plaintiffs filed their Second Amended Complaint on August 4, 2017. We filed our Motion to Dismiss the Second Amended Complaint on August 18, 2017. The plaintiffs' filed their opposition brief on November 2, 2017 and we filed our reply in support of defendants' motion to dismiss the second amended complaint on November 22, 2017. On

SHILOH INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

March 16, 2018, the plaintiffs' filed a Notice of Supplemental Authority and we filed our response to such notice on March 23, 2018. On July 18, 2018, we filed a Notice of Supplemental Authority.

A shareholder derivative lawsuit was filed on April 1, 2016 in the Court of Common Pleas, Medina County, Ohio against the Company's President and Chief Executive Officer and Vice President of Finance and Treasurer and members of our Board of Directors. The lawsuit claims in part that the defendants breached their fiduciary duties owed to the Company by failing to exercise appropriate oversight over our accounting controls, leading to the accounting issues and the restatement announced in September 2015. The complaint seeks a judgment against the individual defendants and in favor of the Company for money damages, plus miscellaneous non-monetary relief. On May 2, 2016, the Court entered a stipulated order staying this case pending the outcome of the Motion to Dismiss in the securities class action lawsuit described in the previous paragraph.

In addition, from time to time, we are involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. We vigorously defend ourselves against such claims. In future periods, we could be subject to cash costs or non-cash charges to earnings if a matter is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claims, we do not expect that our legal proceedings or claims will have a material impact on our future consolidated financial condition, results of operations or cash flows.

FORWARD-LOOKING STATEMENTS

Certain statements made by Shiloh Industries set forth in this Quarterly Report on Form 10-Q regarding our operating performance, events or developments that we believe or expect to occur in the future, including those that discuss strategies, goals, outlook or other non-historical matters, or which relate to future sales, earnings expectations, cost savings, awarded sales, volume growth, earnings or general belief in our expectations of future operating results are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995.

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.

Listed below are some of the factors that could potentially cause actual results to differ materially from expected future results.

- our ability to accomplish our strategic objectives;
- our 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;
- our ability to realize cost savings expected to offset price concessions;
- our ability to successfully integrate acquired businesses, including businesses located outside of the United States;
- risks associated with doing business internationally, including economic, political and social instability, foreign currency exposure and the lack of acceptance of our products;
- inefficiencies related to production and product launches that are greater than anticipated;

- changes in technology and technological risks;
- work stoppages and strikes at our facilities and that of our customers or suppliers;
- our 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 affecting car and light truck production;
- regulations and policies regarding international trade;
- financial and business downturns of our customers or vendors, including any production cutbacks or bankruptcies;

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• increases in the price of, or limitations on the availability of aluminum, magnesium or steel, our primary raw materials, or decreases in the price of scrap steel;

• the successful launch and consumer acceptance of new vehicles for which we supply parts;

• the impact on financial statements of any known or unknown accounting errors or irregularities; and the magnitude of any adjustments in restated financial statements of our operating results;

• the occurrence of any event or condition that may be deemed a material adverse effect under our outstanding indebtedness or a decrease in customer demand which could cause a covenant default under our outstanding indebtedness;

• changes to tariffs or trade agreements, or the imposition of new tariffs or trade restrictions imposed on steel or aluminum materials which we use, including changes related to tariffs on automotive imports;

• pension plan funding requirements; and

• other factors besides those listed here could also materially affect our business.

See "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017 and "Part II, Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q for a more complete discussion of these risks and uncertainties. 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 this Quarterly Report on Form 10-Q.

We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of filing this Quarterly Report on Form 10-Q. In addition to the disclosures contained herein, readers should carefully review risks and uncertainties contained in other documents we file from time to time with the SEC.

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

(Dollars in thousands, except per share data)

General

We are a global innovative solutions provider to the automotive, commercial vehicle and other industrial markets with a strategic focus on designing, engineering and manufacturing lightweight technologies that improve performance and benefit the environment. We offer the broadest portfolio of lightweighting solutions in the industry through our BlankLight®, CastLight® and StampLight® brands and are uniquely qualified to supply product solutions utilizing multiple lightweighting solutions. This includes combining castings and stampings or innovative, multi-material products in aluminum, magnesium, steel and steel alloys. We design and manufacture components in body, chassis and powertrain systems with expertise in precision blanks, ShilohCore™ acoustic laminates, aluminum and steel laser welded blanks, complex stampings, modular assemblies, aluminum and magnesium die casting, as well as precision machined components. Additionally, we provide a variety of intermediate steel processing services, such as oiling, leveling, cutting-to-length, multi-blanking, slitting, edge trimming of hot and cold-rolled steel coils and inventory control services for automotive and steel industry customers. We have over 4,200 dedicated employees with operations, sales and technical centers throughout Asia, Europe and North America.

Recent Trends and General Economic Conditions Affecting the Automotive Industry

Our business and operating results are directly affected by the relative strength of the North American and European automotive industries, which are driven by factors that continue to be critical to our success including winning new business awards, managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business needs, maintaining competitive wages and benefits, maximizing efficiencies in manufacturing processes and reducing overall costs. In addition, our ability to adapt to key industry trends, such as a shift in consumer preferences to other vehicles in response to higher fuel costs and other economic and social factors, increasing technologically sophisticated content, increasing environmental standards and extended product life of automotive parts, also play a critical role in our success. Other factors that are critical to our success include adjusting to economic challenges such as increases in the cost of raw materials, our ability to successfully reduce the impact of any such cost increases through price concessions and cost reduction initiatives and other methods. In addition, recent trade actions initiated by the U.S. imposing tariffs on imports have been met with retaliatory tariffs by other countries, adding a level of tension and uncertainty to the global economic environment. These and other actions are likely to impact trade policies with other countries and the overall global economy. We are carefully monitoring capacity and availability of the alloys utilized in our production process. The automotive industry remains susceptible to these factors that impact consumer spending habits and could adversely impact consumer demand for vehicles.

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Our products are included in many models of vehicles manufactured by nearly all OEMs that produce vehicles in Europe and North America. Our revenues are dependent upon the production of automobiles and light trucks in both Europe and North America. According to industry statistics (published by IHS Automotive in August 2018), Europe and North America production volumes for the three and nine months ended July 31, 2018 and 2017 were as follows:

Production Volumes	Three Months		Nine Months	
	Ended July 31, 2018	2017	Ended July 31, 2018	2017
	(Number of Vehicles in Thousands)		(Number of Vehicles in Thousands)	
Europe	5,778	5,619	17,365	16,763
North America	4,146	4,171	12,554	12,816
Total	9,924	9,790	29,919	29,579

Europe:

Increase from prior year	159		602	
% Increase from prior year	2.8	%	3.6	%

North America

Decrease from prior year	(25	)	(262)
% Decrease from prior year	(0.6	)%	(2.0)%

Total

Increase from prior year	134		340	
% Increase from prior year	1.4	%	1.1	%

Europe:

Signs of an improved overall European economy have been evident, albeit mixed at times, during the past few years. Reflective of a modestly improved economy, light vehicle production levels have increased. Overall market stability continued in the first nine months of 2018 as automobiles and light truck production was modestly higher than the first nine months of 2017. The United Kingdom's decision to withdraw from the European Union along with political developments in other European countries has cast an element of uncertainty around continued economic improvement in the region.

North America:

Improving economic conditions during the past few years have contributed to strong light vehicle sales and production levels in North America. Overall economic conditions in North America have been relatively favorable with improving employment levels, strong consumer confidence levels and comparatively low/stable fuel prices. Strong sales levels the past few years have significantly reduced the built-up demand to replace older vehicles. As such, the overall North America light vehicle market began to show signs of weakening demand levels in 2017. Light vehicle volumes for the first nine months of 2018 were comparable with 2017. Helped by continued low fuel prices, light truck market demand has been relatively strong.

We expect the generally strong North America economic climate to continue for the remainder of 2018, albeit there is some uncertainty surrounding the potential effects of trade policies, restrictions and practices being implemented or considered by the existing government leadership in the United States. Increasing interest rates, high levels of consumer debt and declining used car prices are also developments that could constrict future demand for new vehicles.

We operate in an extremely competitive industry, driven by global vehicle production volumes. Business is typically awarded to the supplier offering the most favorable combination of cost, quality, technology and service. Customers continue to demand periodic cost reductions that require us to assess, redefine and improve operations, products, and manufacturing capabilities to maintain and improve profitability. Management continues to develop and execute initiatives designed to meet challenges of the industry and to achieve our strategy for sustainable global profitable growth.

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Capacity utilization levels are very important to profitability because of the capital-intensive nature of our operations. We continue to adapt our capacity to meet customer demand, both expanding capabilities in growth areas as well as reallocating capacity between manufacturing facilities as needs arise. We employ new technologies to differentiate our products from our competitors and to achieve higher quality and productivity. We believe that we have sufficient capacity to meet current and expected manufacturing needs.

Most of the steel is purchased through the customers' steel buying programs. Under these programs, the customer negotiates the price for steel with the steel suppliers. We pay for the steel based on these negotiated prices and pass on those costs to the customer. Although we take ownership of the steel, our customers are responsible for all steel price fluctuations under these programs. We also purchase steel directly from domestic primary steel producers and steel service centers. Current demand for construction and oil industry related steel products and stable automotive production have helped the market rebound from historic lows with steel pricing stabilizing. We have seen recent gradual downward pricing pressure since the rise, but this is likely related to historic seasonal pricing weakness as domestic summer shutdown periods are approaching. We refer to the "net steel impact" as the combination of the change in steel prices that are reflected in the price of our products, the change in the cost to procure steel from the source, and the change in our recovery of offal. Our strategy is to be economically neutral to steel pricing by having these factors offset each other. As the price of steel has risen, so have the scrap metal markets as they are highly correlated. We blank and process steel for some of our customers on a toll processing basis. Under these arrangements, we charge a tolling fee for the operations that we perform without acquiring ownership of the steel and being burdened with the attendant costs of ownership and risk of loss. Revenues from operations involving directly owned steel include a component of raw material cost whereas toll processing revenues do not.

For our aluminum and magnesium die casting operations, the cost of the materials is adjusted frequently to align with secured purchase commitments based on customer releases or based on referenced metal index plus additional material cost spreads agreed to by us and our customers.

Critical Accounting Policies

Preparation of our financial statements are in conformity with accounting principles generally accepted in the United States and requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and in the accompanying notes. We believe our estimates and assumptions are reasonable; however, actual results and the timing of the recognition of such amounts could differ from those estimates. We have identified the following items as critical accounting policies and estimates utilized by management in the preparation of the Company's accompanying 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 our 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. We make frequent comparisons of actual experience and expected experience in order to mitigate the likelihood that material adjustments will be required.

Revenue Recognition. We recognize revenue from the sales of products 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. We record 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. We enter into contracts with customers in the development of molds, dies and tools (collectively, "tooling") to be sold to such customers. We primarily record tooling income and costs net in cost of sales at the time of completion and final billing to the customer. These billings are recorded as progress billings (a reduction of the associated tooling costs) until the appropriate revenue recognition criteria have been met. The tooling contracts are separate arrangements between us and our customers and are recorded on a gross or net basis in accordance with current applicable revenue recognition accounting literature.

Pre-production and development costs. We enter into contractual agreements with certain customers to develop tooling. All such tooling contracts relate to parts that we will supply to customers under supply agreements. Tooling costs are capitalized in prepaid expenses and other assets we determined by the fact that tooling contracts are separate from standard production contracts. At July 31, 2018 and October 31, 2017, tooling costs of \$12,214 and \$13,629, respectively, were included in prepaid expenses and other assets. The classification in prepaid or other assets for tooling costs is based upon the period of reimbursement from the customer as either current or non-current.

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Income Taxes. In accordance with ASC Topic 740, our income tax expense is calculated based on expected income and statutory tax rates in the various jurisdictions in which we operate and require the use of management's estimates and judgments.

Business Combinations. We account for business combinations using the acquisition method, which requires the identification of the acquirer, the determination of the acquisition date and the allocation of the purchase price paid by the acquirer to the identifiable tangible and intangible assets acquired, the liabilities assumed, including any contingent consideration the acquisition date fair values. Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including the amount assigned to identifiable intangible assets. Identifiable intangible assets with finite-lives are amortized over their useful lives. Acquisition-related costs are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in our consolidated financial statements from the acquisition date.

Intangible Assets. Intangible assets with finite lives are amortized over their estimated useful lives. We amortize our acquired intangible assets with definitive lives on a straight-line basis over periods ranging from three months to 15 years. See Note 8 to the condensed consolidated financial statements for a description of the current intangible assets and their estimated amortization expense.

Finite-lived intangible assets are evaluated for impairment whenever events or changes in circumstances indicate their related carrying value may not be fully recordable.

Goodwill. Goodwill, which represents the excess cost over the fair value of the net assets of businesses acquired, was \$28,175 as of July 31, 2018, or 3.9% of total assets, and \$27,859 as of October 31, 2017, or 4.5% of total assets.

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill relates to and is assigned directly to specific reporting units. Goodwill is not amortized but is subject to impairment assessment. In accordance with ASC 350, "Intangibles-Goodwill and Other," we assess goodwill for impairment on an annual basis, or more frequently, if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount. Our annual impairment testing is performed as of September 30. Such assessment can be done on a qualitative or quantitative basis. When conducting a qualitative assessment, we consider relevant events and circumstances that affect the fair value or carrying amount of the reporting unit. A quantitative test is required only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount, or we elect not to perform a qualitative assessment of a reporting unit. We consider the extent to which each of the events and circumstances identified affect the comparison of the reporting unit's fair value or the carrying amount. Such events and circumstances could include macroeconomic conditions, industry and market considerations, overall financial performance, entity and reporting unit specific events, product brand level specific events and cost factors. We place more weight on the events and circumstances that may affect our determination of whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. These factors are all considered by management in reaching its conclusion about whether to perform a quantitative goodwill impairment test.

We perform a quantitative goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount exceeds the fair value, we recognize an impairment charge for the amount by which the carrying amount exceeds the fair value, not to exceed the total amount of goodwill in that reporting unit.

Share-based Payments. We record compensation expense for the fair value of nonvested stock option awards and restricted stock awards over the remaining vesting period. We have elected to use the simplified method to calculate the expected term of the stock options outstanding at five to six years and have utilized historical weighted average

volatility. We determine the volatility and risk-free rate assumptions used in computing the fair value using the Black-Scholes option-pricing model. The expected term for the restricted stock award is between three months and four years. In addition, we do not estimate a forfeiture rate at the time of grant instead we elected to recognize share-based compensation expense when actual forfeitures occur.

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.

The restricted stock and restricted stock units are valued based upon a 20-day EMA as of the Friday prior to the grant of an award.

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U.S. Pension and Other Post-retirement Costs and Liabilities. We have recorded pension and other post-retirement benefit liabilities that are developed from actuarial valuations for our U.S. operations. The pension plans were frozen in November of 2006 and therefore contributions by participants are not allowed. The determination of our 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. We determine these assumptions in consultation with, and after input from, our 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. For our U.S. operations, we use the Principal Pension Discount Yield Curve ("Principal Curve") as the basis for determining the discount rate for reporting pension and retiree medical liabilities. At October 31, 2017, the resulting discount rate from the use of the Principal Curve was 3.65%, a decrease of 0.05% from a year earlier that contributed to an increase of the benefit obligation of approximately \$59. A change of 25 basis points in the discount rate at October 31, 2017 would increase expense on an annual basis by approximately \$10 or decrease expense on an annual basis by approximately \$14.

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 \$168.

Our investment policy for assets of the plans is to maintain an allocation generally of 30% to 70% in equity securities, 30% 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. We determine 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. Our 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 year ended October 31, 2017, the actual return on pension plans' assets for all of our plans approximated 16.33%, which is higher than the expected rate of return on plan assets of 7.50% used to derive pension expense. The long-term expected rate of return takes into account years with exceptional gains and years with exceptional losses.

Actual results that differ from these estimates may result in more or less future Company funding into the pension plans than is planned by management. Based on plan performance and funding status, we had one contribution for fiscal 2018 required in the third quarter.

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Results of Operations

Three Months Ended July 31, 2018 Compared to Three Months Ended July 31, 2017

REVENUES. Revenues for the third quarter of fiscal 2018 were \$294,883 compared to revenues of \$256,847 in the third quarter of fiscal 2017, an increase of \$38,036, or 14.8%. Revenues from our recent acquisition contributed \$30,392 towards this increase with the balance being a mix of organic growth offset with the year over year change from business that has been exited.

GROSS PROFIT. Gross profit for the third quarter of fiscal 2018 was \$32,880 compared to gross profit of \$29,164 in the third quarter of fiscal 2017, an increase of \$3,716. Gross profit as a percentage of sales was 11.2% for the third quarter of 2018 and 11.4% for the third quarter of 2017. New program launches continued in the third quarter of fiscal 2018 as we prepare to introduce new lightweight products to the market. Additionally, we continued to integrate our recent acquisition and continued to invest in our new Asian and North American operations for production that will launch in the next several quarters.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses support the growth in sales opportunities, new technologies, new product launches and acquisition activities. Expenses were \$22,773 and \$21,233 in the third quarter of fiscal 2018 and 2017, respectively. As a percentage of sales, these expenses were 7.7% of sales for the third quarter of fiscal 2018 and 8.3% of sales for the third quarter of fiscal 2017, an improvement of 60 basis points.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets expense was \$607 and \$565, for the third fiscal quarter of 2018 and 2017, respectively.

RESTRUCTURING. Restructuring charges of \$1,965 were recorded in the third quarter of fiscal 2018 based upon our strategic decision to consolidate manufacturing facilities, to make geographical shifts to place production closer to customer facilities and to provide a more global and scaleable organization, including department centralization and synergies, and optimizing our product plan. These costs primarily included employee, professional, legal and other costs.

INTEREST EXPENSE. Interest expense for the third quarter of fiscal 2018 was \$3,209, compared to interest expense of \$3,785 in the third quarter of fiscal 2017. The decrease in interest expense was primarily the result of lower borrowing rates as a result of the cross-currency swap. Borrowed funds, which included funds borrowed for the Brabant acquisition, averaged \$247,435 during the third quarter of fiscal 2018, and the weighted average interest rate was 3.82%. In the third quarter of fiscal 2017, borrowed funds averaged \$211,529 and the weighted average interest rate of debt was 4.22%.

OTHER EXPENSE. Other expense, net was \$289 and \$1,125 for the third quarter of fiscal 2018 and 2017, respectively, an improvement of \$836. Other expense, net included an unfavorable impact from an other-than-temporary-impairment of marketable securities, other non-operating expenses, and impact from currency transaction realized by our Asian, European and Mexican subsidiaries.

PROVISION / BENEFIT FOR INCOME TAXES. The provision for income taxes in the third quarter of fiscal 2018 was a benefit of \$7,014 on income before income taxes of \$4,038 for a consolidated effective tax rate of (173.7)%. A tax benefit from the revision of available R&D tax credits of approximately \$2,300 resulting in a decrease of the consolidated effective tax rate for the three months ended July 31, 2018. The provision for income taxes in the third quarter of fiscal 2017 was an expense of \$4,439 on income before income taxes of \$2,457 for a consolidated effective tax rate of 180.7%. The consolidated effective tax rate was impacted by foreign losses without a tax benefit.

NET INCOME (LOSS). Net income for the three months ended July 31, 2018 was \$11,052 and net loss for the three months ended July 31, 2017 was \$1,982, reflecting an increase of \$13,034 driven by a tax benefit from available R&D tax credits, higher earnings and a decrease in interest expense. Net income per share, diluted, for the quarter was \$0.47 compared to net loss per share, diluted, of \$0.11, reflecting an increase of \$0.58 per share, diluted.

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Results of Operations

Nine Months Ended July 31, 2018 Compared to the Nine Months Ended July 31, 2017

REVENUES. Revenues for the first nine months of fiscal 2018 were \$839,889 compared to the first nine months of fiscal 2017 revenues of \$777,816, an increase of \$62,073. Revenues from our recent acquisition contributed \$53,855 towards this increase with the balance being a mix of organic growth offset with the year over year change from business that has been exited.

GROSS PROFIT. Gross profit for the first nine months of fiscal 2018 was \$92,273 compared to gross profit of \$86,772 in the first nine months of fiscal 2017, an increase of \$5,501. Gross profit as a percentage of sales was 11.0% in the first nine months of fiscal 2018 and 11.2% in the first nine months of fiscal 2017. New program launches continued for the first nine months of fiscal 2018 as we prepare to introduce new lightweight products to the market. Additionally, we continued to integrate our recent acquisition and continued to invest in our new Asian and North American operations for production that will launch in the next several quarters.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses support the growth in sales opportunities, new technologies, new product launches and acquisition activities. Expenses were \$66,159 and \$63,080 in the first nine months of fiscal 2018 and 2017, respectively. As a percentage of sales, these expenses were 7.9% and 8.1% for the first nine months of fiscal 2018 and 2017, respectively, an improvement of 20 basis points.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets expense for the first nine months of 2018 and 2017 was \$1,767 and \$1,694, respectively, an increase of \$73 due to the recent acquisition.

RESTRUCTURING. Restructuring charges of \$4,962 were recorded in the first nine months of fiscal 2018 based upon our strategic decision to consolidate manufacturing facilities, to make geographical shifts to place production closer to customer facilities and to provide a more global and scaleable organization, including department centralization and synergies, and optimizing our product plan. These costs primarily included employee, professional, legal and other costs.

INTEREST EXPENSE. Interest expense for the first nine months of fiscal 2018 was \$8,194, compared to interest expense of \$12,797 during the first nine months of fiscal 2017. The decrease in interest expense was the result of lower average borrowed funds and lower borrowing rates as a result of the cross-currency swap. Borrowed funds, which included funds borrowed for the Brabant acquisition, averaged \$215,502 during the first nine months of fiscal 2018 and the weighted average interest rate was 3.82%. In the first nine months of fiscal 2017, borrowed funds averaged \$230,106 and the weighted average interest rate of debt was 4.65%.

OTHER EXPENSE. Other expense, net was \$1,119 and \$2,248 for the first nine months of fiscal 2018 and 2017, respectively, an improvement of \$1,129. Other expense, net included an unfavorable impact from an other-than-temporary-impairment of marketable securities, other non-operating expenses, and impact from currency transaction realized by our Asian, European and Mexican subsidiaries.

PROVISION / BENEFIT FOR INCOME TAXES. The provision for income taxes for the first nine months of fiscal 2018 was a benefit of \$9,854 on income before income taxes of \$10,081 for a consolidated effective tax rate of (97.7)%. The decrease of the consolidated effective tax rate was a result of a \$2,300 increase in R&D tax credits and a \$3,980 reduction in deferred tax liability due to the TCJA. The provision for income taxes for the first nine months of fiscal 2017 was an expense of \$6,686 on income before income taxes of \$6,915 for a consolidated effective tax rate of 96.7%. The consolidated effective tax rate was impacted by foreign losses without a tax benefit.

NET INCOME. Net income was \$19,935 and \$229 for the first nine months of fiscal 2018 and 2017, respectively, reflecting an increase of \$19,706 driven by a tax benefit from available R&D tax credits, the reduction in deferred tax liability due to the TCJA, higher earnings offset by a decrease in interest expense. Net income per share, diluted, was \$0.85 and \$0.01 for the first nine months of fiscal 2018 and 2017, respectively, reflecting an increase of \$0.84 per share, diluted.

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Liquidity and Capital Resources

Cash Flows and Working Capital:

At July 31, 2018, total debt was \$238,149 and total equity was \$209,082, resulting in a capitalization rate of 53.2% debt, 46.8% equity. Current assets were \$341,441 and current liabilities were \$239,618, resulting in positive working capital of \$101,823.

The following table summarizes the Company's cash flows from operating, investing and financing activities:

	Nine Months Ended		2018 vs.
	July 31,		2017
	2018	2017	change
Net cash provided by operating activities	\$50,881	\$69,518	\$(19,309)
Net cash used in investing activities	\$(98,453)	\$(23,879)	\$(74,574)
Net cash provided by (used in) financing activities	\$55,776	\$(39,837)	\$95,613

Net Cash Provided by Operating Activities:

	Nine Months	
	Ended July 31,	
	2018	2017
Operational cash flow before changes in operating assets and liabilities	\$57,077	\$43,454
Changes in operating assets and liabilities:		
Accounts receivable	18,599	30,260
Inventories	(2,656)	(698)
Prepays and other assets	(4,884)	6,191
Payables and other liabilities	(6,989)	(6,810)
Accrued income taxes	(10,266)	(2,879)
Total change in operating assets and liabilities	\$(6,196)	\$26,064
Net cash provided by operating activities	\$50,881	\$69,518

Cash flows from operations before changes in operating assets and liabilities was \$13,623 higher for the nine months ended July 31, 2018 compared to the nine months ended July 31, 2017 which was mainly driven by higher net income and changes in deferred income taxes.

Cash inflow and outflow from changes in operating assets and liabilities:

Cash outflows from changes in operating assets and liabilities was \$6,196 for the nine months ended July 31, 2018 and cash inflows was \$26,064 for the nine months ended July 31, 2017 and was impacted by working capital initiatives and deferred tax changes related to the TCJA.

Cash inflows from changes in accounts receivable for the nine months ended July 31, 2018 and 2017, were \$18,599 and \$30,260, respectively. The cash inflows were due to continuing efforts in collecting receivables and sales volume changes.

Cash outflows from changes in inventory for the nine months ended July 31, 2018 and 2017 were \$2,656 and \$698, respectively. The increase was primarily driven by a change in customer mix and delivery.

Cash outflows from changes in prepaids and other assets for the nine months ended July 31, 2018 was \$4,884 and cash inflows from changes in prepaids and other assets for the nine months ended July 31, 2017 was \$6,191 resulting from investments and the timing of invoicing customer reimbursed tooling awards.

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- Cash outflows from changes in payables and other liabilities for the nine months ended July 31, 2018 and 2017 was \$6,989 and \$6,810, respectively, resulting from the matching of terms with our customers and vendors, offset partially by the timing of payments related to capital expenditures and customer funded tooling.

Cash outflows from changes in accrued income taxes for the nine months ended July 31, 2018 was \$10,266 and \$2,879 from changes in accrued income taxes for the nine months ended July 31, 2017. The changes were primarily because of the changes in the tax provision (benefit) and the effect of the TCJA.

Net Cash Used For Investing Activities:

Net cash used in investing activities for the nine months ended July 31, 2018 and 2017 was \$98,453 and \$23,879, respectively. The increase is primarily due to net cash paid of \$62,481 related to the acquisition of Brabant. Capital spending attributed to projects for new awards and product launches that will begin in the next several quarters was \$38,668 in the first nine months of 2018, as compared to \$32,564 in the first nine months of 2017.

Net Cash Provided By / Used For Financing Activities:

Net cash provided by financing activities for the nine months ended July 31, 2018 was \$55,776 and net cash used in financing activities for the nine months ended July 31, 2017 was \$39,837, and was the result of changes in cash flows from operating activities, capital expenditures, and the recent acquisition. As of July 31, 2018, the Company's long-term indebtedness was \$237,331. Refer to "Item 1. – Financial Statements – Notes to Condensed Consolidated Financial Statements – Note 9 – Financing Arrangements" of this Quarterly Report on Form 10-Q for more information.

Capitalization:

From time to time, in addition to cash provided by operating activities, we utilize uncommitted credit facilities to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries. As of October 31, 2017, outstanding commitments for capital expenditures was \$48,375.

Long-term debt and short-term borrowings:

As of July 31, 2018, we were in compliance with our long-term financial debt covenants. Refer to "Item 1. – Financial Statements – Notes to Condensed Consolidated Financial Statements – Note 9 – Financing Arrangements" of this Quarterly Report on Form 10-Q for more information.

We continue to closely monitor the business conditions affecting the automotive industry. In addition, we closely monitor our working capital needs and believe that the combination of cash from operations, cash balances and available credit facilities will be sufficient to satisfy our cash needs for our current level of operations and our planned operations for the foreseeable future.

Contractual Obligations

Our contractual obligations have not changed significantly from those disclosed in "Part I – Item 2. – Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations" of our Quarterly Report on Form 10-Q for the quarter ended April 30, 2018.

Effect of Inflation, Deflation

Inflation generally affects us by increasing the interest expense of floating rate indebtedness and by increasing the cost of labor, equipment and raw materials. The level of inflation has not had a material effect on our condensed

consolidated financial results for the past three years.

In periods of decreasing prices, deflation occurs and may also affect our results of operations. With respect to steel purchases, we purchase steel through customers' steel buying programs which protects recovery of the cost of steel through the selling price of our products. For non-steel buying programs, we align the cost of steel purchases with the related selling price of the product. For our aluminum and magnesium die casting business, the cost of the materials is adjusted frequently to align with

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secured purchase commitments based on customer releases or based on referenced metal index plus additional material cost spreads agreed to by us and our customers.

Item 3. Qualitative and Quantitative Market Risk Discussion

Market risk is the potential loss arising from adverse changes in market rates and prices. We are exposed to market risk throughout the normal course of our business operations due to purchases of metals, sales of scrap steel, our ongoing investing and financing activities, and exposure to foreign currency exchange rates. As such, we have established policies and procedures to govern our management of market risks. There have been no material changes to market risk exposures related to changes in commodity pricing, interest rates or currency exchange rates from those discussed in Item 7A of our 2017 Form 10-K.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information in the reports we file with the SEC under the Securities Exchange Act of 1934 (Exchange Act), as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including the Principal Executive Officer ("PEO"), Principal Financial Officer ("PFO") and Principal Accounting Officer ("PAO"), as appropriate to allow for timely required disclosure.

An evaluation was performed with the participation of our management, including the PEO, PFO and PAO, of the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(b) or 15d-15(b), as amended, and it was concluded that disclosure controls and procedures were effective as of July 31, 2018.

Changes in Internal Control Over Financial Reporting

In March 2018, we completed the acquisition of two subsidiaries of Brabant, both operating under their own set of systems and internal controls. We will continue maintaining those systems and much of the internal control environment until such time that we are able to incorporate the acquired processes into our Shiloh control environment. Management expects to be substantially complete with the incorporation of the acquired operations (as they relate to systems and internal controls) into our control environment during fiscal 2019.

There were no changes in our internal control over financial reporting during the three months ended July 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 19, Commitments and Contingencies, in Part I of this report, which is incorporated hereto by reference.

Item 1A. Risk Factors

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. Except for the addition of the following risk factors related to recent tax legislation and the addition of the new risk factor related to our effective tax rate, there have been no other material changes to the Risk Factors described in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended October 31, 2017 and Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended April 30, 2018.

New tariffs and other trade measures could adversely affect our consolidated results of operations, financial position and cash flows.

The current U.S. administration has expressed strong concerns about imports from countries that it perceives as engaging in unfair trade practices, and it is possible the administration could impose import duties or other restrictions on products, components or raw materials sourced from those countries, which may include countries from which we import components or raw materials. Any such import duties or restrictions could have a material adverse effect on our business, results of operations or financial condition. Moreover, these new tariffs, or other changes in U.S. trade policy, could trigger retaliatory actions by affected countries. Certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. Other foreign governments are considering the imposition of sanctions that will deny U.S. companies access to critical raw materials. A “trade war” of this nature or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the economic environments in which we operate and, thus, to adversely impact our businesses.

In addition, the U.S. administration is currently in negotiations with representatives from Canada and Mexico to renew the North American Free Trade Agreement ("NAFTA"). Any changes to NAFTA could impact our Mexican operations, which could adversely affect our operating results and our business.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. The U.S. recently enacted significant tax reform, and certain provisions of the new law may adversely affect us. In addition, governmental tax authorities are increasingly scrutinizing the tax positions of companies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in countries where we do business. If U.S. or other foreign tax authorities change applicable tax laws, our overall taxes could increase, and our business, financial condition and results of operations may be adversely impacted.

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Item 6. Exhibits

Exhibit #	Exhibit Description	Incorporated By Reference			Filed Herewith
		Form	File Number	Date of First Filing Number	
<u>10.1</u>	Employment Agreement by and between the Company and Lillian Etzkorn dated as of April 26, 2018.				X
<u>31.1</u>	Principal Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
<u>31.2</u>	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
<u>32.1</u>	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X

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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/ Lillian Etkorn

Lillian Etkorn

Senior Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

Date: September 7, 2018