

Veri-Tek International, Corp.
Form 10-Q
May 13, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from _____ to _____

Commission File Number: 001-32401

VERI-TEK INTERNATIONAL, CORP.

(Exact Name of Registrant as Specified in Its Charter)

Michigan
(State or Other Jurisdiction of

42-1628978
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

7402 W. 100th Place, Bridgeview, Illinois 60455

(Address of Principal Executive Offices)

(Zip Code)

(708) 430-7500

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller reporting company

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

The number of shares of the registrant's common stock, no par value, outstanding as of May 9, 2008 was 9,809,340.

Table of Contents

VERI-TEK INTERNATIONAL, CORP.

FORM 10-Q INDEX

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

ITEM 1:	<u>FINANCIAL STATEMENTS</u>	
	<u>Consolidated Balance Sheets as of March 31, 2008 (unaudited) and December 31, 2007</u>	3
	<u>Consolidated Statements of Operations (unaudited) for the Three Month Periods Ended March 31, 2008 and 2007</u>	5
	<u>Consolidated Statements of Cash Flows (unaudited) for the Three Month Periods Ended March 31, 2008 and 2007</u>	6
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
ITEM 2:	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	22
ITEM 3:	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	28
ITEM 4:	<u>CONTROLS AND PROCEDURES</u>	29

PART II: OTHER INFORMATION

ITEM 1:	<u>LEGAL PROCEEDINGS</u>	30
ITEM 2:	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	30
ITEM 3:	<u>DEFAULTS UPON SENIOR SECURITIES</u>	30
ITEM 4:	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	30
ITEM 5:	<u>OTHER INFORMATION</u>	30
ITEM 6:	<u>EXHIBITS</u>	31

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1 Financial Statements****Veri-Tek International Corp. and Subsidiaries****Condensed Consolidated Balance Sheet****(In thousands, except for per share amounts)**

	March 31, 2008	December 31, 2007
ASSETS		
Current assets		
Cash	\$ 274	\$ 569
Trade receivables (net)	16,767	16,548
Other receivables	171	226
Inventory (net)	18,134	16,048
Deferred tax asset	715	715
Prepaid expense and other	905	762
Current assets of discontinued operations	41	172
Total current assets	37,007	35,040
Total fixed assets (net)	5,675	5,778
Intangible assets (net)	20,907	21,352
Deferred tax asset	4,451	3,940
Goodwill	14,065	14,065
Total assets	\$ 82,105	\$ 80,175
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 584	\$ 807
Notes payable - short term	360	82
Current portion of capital lease obligations	264	281
Accounts payable	10,499	9,543
Accrued expenses	3,668	4,408
Other current liabilities	534	486
Current liabilities of discontinued operations	200	265
Total current liabilities	16,109	15,872
Long-term liabilities		
Line of credit	15,881	14,191
Deferred tax liability	4,655	4,655
Notes payable	4,829	5,211
Capital lease obligations	4,358	4,422
Deferred gain on sale of building	3,834	3,930
Other long-term liabilities	184	184
Total long-term liabilities	33,741	32,593

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

Total liabilities	49,850	48,465
Commitments and contingencies		
Minority interest	1,024	1,024
Shareholders' equity		
Common Stock no par value, Authorized, 20,000,000 shares authorized		
Issued and outstanding, 9,809,340 at March 31, 2008 and December 31, 2007	41,915	41,915
Warrants	1,788	1,788
Paid in capital	130	72
Accumulated deficit	(13,405)	(14,094)
Accumulated other comprehensive income	812	1,026

Table of Contents

	March 31, 2008	December 31, 2007
Sub-total	31,240	30,707
Less: Unearned stock based compensation	(9)	(21)
Total shareholders equity	31,231	30,686
Total liabilities and shareholders equity	\$ 82,105	\$ 80,175

The accompanying notes are an integral part of these financial statements

Table of Contents**VERI-TEK INTERNATIONAL, CORP.****CONSOLIDATED STATEMENT OF OPERATIONS**

(In thousands, except for per share amounts)

	Three Months Ended March 31,	
	2008 Unaudited	2007 Unaudited
Net revenues	\$ 23,547	\$ 23,138
Cost of Sales	19,275	18,934
Gross profit	4,272	4,204
Operating expenses		
Research and development costs	220	147
Selling, general and administrative expenses, including corporate expenses of \$904 and \$820 for 2008 and 2007, respectively	3,468	3,110
Total operating expenses	3,688	3,257
Operating income from continuing operations	584	947
Other income (expense)		
Interest income		5
Interest expense	(542)	(924)
Foreign currency transaction loss	(9)	(33)
Other income		93
Total other income (expense)	(551)	(859)
Income from continuing operations before income taxes	33	88
Income tax (benefit)	(478)	19
Net income from continuing operations	511	69
Discontinued operations		
Income (loss) from operations of the discontinued Testing and Assembly Equipment segment, net of income taxes (benefit) of \$10 and \$(0) for 2008 and 2007, respectively	178	(732)
Loss on sale or closure of discontinued operations net of income tax (benefits)		(366)
Net income (loss)	\$ 689	\$ (1,029)
Earnings Per Share		
Basic		
Earnings from continuing operations	\$ 0.05	\$ 0.01
Earnings (loss) from discontinued operations	0.02	(0.09)
Loss on sale or closure of discontinued operations net of income tax		(0.05)
Net earnings (loss)	\$ 0.07	\$ (0.13)
Diluted		
Earnings from continuing operations	\$ 0.05	\$ 0.01
Earnings (loss) from discontinued operations	0.02	(0.09)
Loss on sale or closure of discontinued operations net of income tax		(0.04)

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

Net earnings (loss)	\$	0.07	\$	(0.12)
Weighted average common share outstanding				
Basic		9,809,340		7,859,875
Diluted		10,255,805		8,512,189

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

Table of Contents**VERI-TEK INTERNATIONAL CORP.****CONSOLIDATED STATEMENT OF CASH FLOWS**

(In thousands)

	Three Months Ended March 31,	
	2008 Unaudited	2007 Unaudited
Cash flows from operating activities:		
Net income (loss)	\$ 689	\$ (1,029)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	483	571
Decrease in allowances for doubtful accounts	(8)	(43)
Loss on disposal of assets		4
Deferred income taxes	(511)	
Inventory reserves	(7)	303
Stock based deferred compensation	70	
Reserve for uncertain tax positions	25	
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(344)	(587)
(Increase) decrease in inventory	(2,301)	(1,330)
(Increase) decrease in prepaid expenses	(156)	(77)
Increase (decrease) in accounts payable	1,035	(1,501)
Increase (decrease) in accrued expense	(756)	462
Increase (decrease) in other current liabilities	63	(289)
Discontinued operations - cash provided by operating activities	66	378
Net cash used for operating activities	(1,652)	(3,138)
Cash flows from investing activities:		
Purchase of property and equipment	(69)	
Net cash used for investing activities	(69)	
Cash flows from financing activities:		
Borrowing on revolving credit facility	1,766	3,030
Note payments	(327)	
Payments on capital lease obligations	(81)	(86)
Net cash provided by financing activities	1,358	2,944
Effect of exchange rate change on cash	68	(1)
Net decrease in cash and cash equivalents	(363)	(194)
Cash and cash equivalents at the beginning of the year	569	615
Cash and cash equivalents at end of period	\$ 274	\$ 420

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

Table of Contents

VERI-TEK INTERNATIONAL, CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in thousands, except per share data)

Note 1. Nature of Operations

The Company is a leading provider of engineered lifting solutions. The Company designs, manufactures and distributes a diverse group of products that serve different functions and are used in a variety of industries. Through its Manitek subsidiary it markets a comprehensive line of boom trucks and sign cranes. Manitek's boom trucks and crane products are primarily used for industrial projects, energy exploration and infrastructure development, including, roads, bridges and commercial construction. The Manitek Lifting subsidiary sells a complete line of rough terrain forklifts and special mission oriented vehicles, as well as other specialized carriers, heavy material handling transporters and steel mill equipment. Manitek Lifting's rough terrain forklifts are used in both commercial and military applications. Specialty mission oriented vehicles and specialized carriers are designed and built to meet the Company's unique customer needs and requirements. The Company's specialized lifting equipment has met the particular needs of customers in various industries that include utility, ship building and steel mill industries.

Historically, the Company also designed, developed, and built specialty testing and assembly equipment for the automotive and heavy equipment industries that identifies defects through the use of signature analysis and in-process verification. Against the background of the operating losses generated in recent history by the Testing & Assembly Equipment segment operations based at Wixom, Michigan, the Company conducted a strategic review of these operations. On March 29, 2007, our Board of Directors approved a plan to sell our Testing & Assembly Equipment segment's operating assets including its inventory, machinery, equipments and patents. As a result, our Testing & Assembly Equipment segment has been accounted for as a discontinued operation starting with the first quarter of 2007. On August 1, 2007, the assets used in connection with the Company's diesel engine testing equipment were sold to EuroMaint Industry, Inc., a Delaware corporation (EuroMaint). As of August 31, 2007, all operations of the former Testing and Assembly Equipment segment had ceased. (See Note 5)

As result of discontinuing our former Testing and Assembly Equipment segment, the Company again operates in only a single business segment, Lifting Equipment. Accordingly, our financial statements no longer include segment information. The Company's consolidated financial statements reflects the Testing and Assembly Equipment segment as a discontinued operation.

2. Basis of Presentation

The condensed consolidated financial statements, included herein, have been prepared by the Company without audit pursuant to the rules and regulations of the United States Securities and Exchange Commission. Pursuant to these rules and regulations, certain information and footnote disclosures normally included in financial statements which are prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the Company's financial position as of March 31, 2008, and results of its operations and cash flows for the periods presented. The consolidated balances as of December 31, 2007 were derived from audited financial statements but do not include all disclosures required by generally accepted accounting principles. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting standards for interim financial statements and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2007. The results of operations for the interim periods are not necessarily indicative of the results of operations expected for the year.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation. A foreign currency loss of \$33 previously included in net revenue has been reclassified. Foreign currency transaction gains and losses are now shown as separate component of other income and expense.

3. Critical Accounting Policies

Revenue Recognition For products shipped FOB destination, sales are recognized when the product reaches its FOB destination, or when the services are rendered, which represents the point when the risks and rewards of ownership are transferred to the customer. For products shipped FOB shipping point, revenue is recognized when the product is shipped, as this is the point when title and risk of loss pass from us to our

customers.

Table of Contents

Customers may be invoiced prior to the time customers take physical possession. Revenue is recognized in such cases only when the customer has a fixed commitment to purchase the units, the units have been completed, tested and made available to the customer for pickup or delivery, and the customer has authorized in writing that we hold the units for pickup or delivery at a time specified by the customer. In such cases, the units are invoiced under our customary billing terms, title to the units and risks of ownership pass to the customer upon invoicing, the units are segregated from our inventory and identified as belonging to the customer and we have no further obligations under the order.

The Company establishes reserves for future warranty expense at the point when revenue is recognized by the Company and is based on percentage of revenues. The provision for estimated warranty claims is included in cost of sales.

Accrued Warranties The Company's products are typically sold with a warranty covering defects that arise during a fixed period of time. The specific warranty offered is a function of customer expectations and competitive forces. The liability is established using historical warranty claim experience. Historical warranty experience is, however, reviewed by management. The current provision may be adjusted to take into account unusual or non-recurring events in the past or anticipated changes in future warranty claims. Adjustments to the initial warranty accrual are recorded if actual claim experience indicates that adjustments are necessary. Warranty reserves are reviewed to ensure critical assumptions are updated for known events that may impact the potential warranty liability.

Income Taxes The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the Company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income prior to the expiration of any net operating loss carryforwards. The Company could not conclude that it was more likely than not that its deferred tax asset would be realized in the future and accordingly has established a valuation allowance against all of its net deferred tax assets with the exception of certain state tax credits.

Litigation Claims In determining whether liabilities should be recorded for pending litigation claims, the Company must assess the allegations and the likelihood that it will successfully defend itself. When the Company believes it is probable that it will not prevail in a particular matter, it will then make an estimate of the amount of liability based, in part, on advice of outside legal counsel.

Use of Estimates The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Discontinued Operations The consolidated financial statements present the Testing and Assembly Equipment Segment as a discontinued operation in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Impairment of Long Lived Assets In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews its long-lived assets, including property and equipment, and other identifiable intangibles for impairment annually in the fourth quarter of the year or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value. The Company has recorded no losses on impairment of long-lived assets during the three months ended March 31, 2008 or twelve months ended December 31, 2007.

Goodwill and Other Intangibles As required by SFAS No. 142, Goodwill and Other Intangibles, the Company evaluates goodwill for impairment annually in the fourth quarter of the year or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company evaluates goodwill for impairment using the required business valuation method, which is calculated as of a measurement date by determining the present value of debt-free, after-tax projected future cash flows, discounted at the weighted average cost of capital of a hypothetical third party buyer. The Company has recorded no losses on impairment of goodwill during the three months ended March 31, 2008 and 2007.

Table of Contents

Sale and Leaseback In accordance with FASB 13, 66 and 98, the Company has recorded deferred revenue in relationship to the sale and leaseback of one of our operating facilities. As such, the gain on the sale of the land and building has been deferred and is being amortized on a straight line basis over the life of the lease.

Computation of EPS Basic Earnings per Share (EPS) was computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period.

The number of shares related to options, warrants, restricted stock units and similar instruments included in diluted EPS (EPS) is based on the Treasury Stock Method prescribed in SFAS No. 128. This method assumes theoretical repurchase of shares using proceeds of the respective stock option or warrant exercise or in the case of restricted stock units the amount of deferred unearned compensation at a price equal to the issuer's average stock price during the related earnings period. Accordingly, the number of shares includable in the calculation of EPS in respect of the stock options, warrants, restricted stock units and similar instruments is dependent on this average stock price and will increase as the average stock price increases.

Securities of a subsidiary that are convertible into its parent company's common stock shall be considered among potential common shares of the parent company for the purposes of computing consolidated diluted EPS.

Stock Based Compensation In accordance with SFAS No. 123R Share Based Payments share-based payments to employees, including grants of restricted stock units, are measured at fair value as of the date of grant and are expensed in the consolidated statement of operations over the service period (generally the vesting period).

Comprehensive Income Statement of Financial Accounting Standard (SFAS) No. 130 Reporting Comprehensive Income requires reporting and displaying comprehensive income and its components. Comprehensive income includes, in addition to net earnings, other items that are reported as direct adjustments to stockholder's equity. Currently, the only comprehensive income adjustment required for the Company is a foreign currency translation adjustment, the result of consolidating its foreign subsidiary. Comprehensive income from continuing operations was \$297 and \$119 for the three months ended March 31, 2008 and 2007, respectively.

Foreign Currency Translation The financial statements of the Company's non-U.S. subsidiaries are translated using the current exchange rate for assets and liabilities and the weighted-average exchange rate for the year for income and expense items. Resulting translation adjustments are recorded to Accumulated Other Comprehensive Income (OCI) as a component of stockholders' equity.

The Company converts receivables and payables denominated in other than the Company's functional currency at the exchange rate as of the balance sheet date. The resulting transaction exchange gains or losses, except for certain transactions gains or loss related to intercompany receivable and payables, are included in other income and expense. Transaction gains and losses related to intercompany receivables and payables not anticipated to be settled in the foreseeable future are excluded from the determination of net income and are recorded as a translation adjustment to Accumulated Other Comprehensive Income (OCI) as a component of stockholders' equity.

Forward Currency Exchange Contracts Beginning in September 2007, the Company entered into forward currency exchange contracts in relationship such that the exchange gains and losses on the assets and liabilities denominated in other than the reporting units' functional currency would be offset by the changes in the market value of the forward currency exchange contracts it holds. In accordance with FAS No. 52, the Company records at the balance sheet date the forward currency exchange contracts at its market value with any associated gain or loss being recorded in current earnings. Both realized and unrealized gains and losses related to forward currency contracts are included in current earnings and are reflected in the Statement of Operations in the other income expense section on the line titled foreign currency transaction losses. During the three months ended March 31, 2008, the Company has recorded realized gains of approximately \$25 and unrealized losses of approximately \$185 related to forward currency contracts.

FAS No. 157 requires that assets and liabilities that are measured at fair value on recurring basis be categorized according to three level hierarchy established in the opinion which prioritizes the inputs used in measuring fair value. Fair value of the forward currency contracts are determined on the last day of each reporting period using quoted prices in active markets, which are supplied to the Company by the foreign currency trading operation of its bank. Under FAS No. 157, items valued based on quoted prices in active markets are Level 1 items. The following is summary of items that the Company measures at fair value:

	Level 1	Level 2	Level 3	Total
Liabilities:				

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

Forward currency exchange contracts	\$	26	\$	\$	\$	26
-------------------------------------	----	----	----	----	----	----

Table of Contents

Financial Instruments and Credit Risk Concentrations Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, trade receivables and payables.

The Company maintains its cash balances and marketable securities at banks in Detroit, Michigan and Toronto, Canada. Accounts in the United States are insured by the Federal Deposit Insurance Corporation up to \$100. At March 31, 2008 and December 31, 2007, the Company had uninsured balances of \$154 and \$469, respectively.

The Company purchases forward currency contracts in relationship so that gains and losses on its forward contracts offsets exchange gains and losses on its on the assets and liabilities denominated in other than the reporting units functional currency. Forward currency exchange contracts, if not offset by existing foreign currency positions, will result in the recognition of gains and losses which are not offset. At March 31, 2008, the Company had entered into a series of forward currency exchange contracts. The contracts obligate the Company to purchase approximately CND \$4,700 in total. The contracts which are in various amounts mature between April 15, 2008 and December 31, 2009. Under the contract, the Company will purchase Canadian dollars at exchange rates between .9558 and 1.011. The Canadian to US dollar exchange rates was .9742 at March 31, 2008.

For the three months ended March 31, 2008 two customers accounted for 12% and 10%, respectively of Company accounts receivable. For the fiscal year ended December 31, 2007 no single customer accounted for 10% or more of our accounts receivable.

For the quarter ended March 31, 2008, two customers individually accounted for 11% of total Company s revenues. One customer accounted for 13% of Company revenues in first quarter 2007. Conversely, the Company did not have a single supplier who exceeded 10% of the total Company purchases during the first quarter 2008. For the three months ended March 31, 2007, two suppliers each supplied 13% of the Company s total purchases.

Variable Interest Entities In December 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities (FIN No. 46R). This pronouncement clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, and changes the criteria by which one Company includes another entity in its consolidated financial statements. This may occur when equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial subordinated support from other parties. Although the Company is not required to consolidate under FIN 46R; the Company has determined that it has a variable interest in a related entity, for which it is not the primary beneficiary.

The Company has a variable interest in the related entity primarily because of the common shareholder ownership between the Company and GT Distribution, LLC; the Company is exposed to risk in regards to its variable interest. The Company both purchases from and sells to GT Distribution. The Company s exposure will vary in the future and is dependent on purchase from and sales to GT Distribution as well as payment made to or received from GT Distribution. The Company had net receivable from GT Distribution or its subsidiaries of approximately \$262 and \$300 at March 31, 2008 and December 31, 2007, respectively.

4. Noble Product Line Asset Acquisition

On July 31, 2007, Veri-Tek International, Corp. (the Company) entered into an asset purchase agreement with GT Distribution, LLC (GT Distribution) pursuant to which GT Distribution transferred all of its rights and interest in the Noble forklift product line (the Product Line) to the Company in exchange for the discharge of obligations and trade payables of GT Distribution and certain of its subsidiaries totaling \$4,219 and assumption by the Company of certain liabilities associated with the Product Line.

Table of Contents

David J. Langevin, the Company's Chairman and Chief Executive Officer, has a significant ownership interest in GT Distribution. As a result, the Company received a fairness opinion from an independent financial advisor and the approval of a special independent committee of the Company's board of directors prior entering into this transaction.

The Noble Product line production is being integrated into our two current production facilities which are located in Woodbridge, Ontario and Georgetown, Texas. The results for the Noble Product Line acquisition have been included in the accompanying consolidated statement of operations from the date of the acquisition.

The purchase price of \$4,219 has been allocated based on an estimate of the fair values of assets acquired and liabilities assumed. The Company is still in the process of assessing the fair value of assets and liabilities, particularly the inventory, acquired in the transaction. The final valuation of net assets is expected to be completed as soon as possible, but no later than one year from the acquisition date in accordance with generally accepted accounting principals.

The purchase price has been preliminarily allocated based on management's estimates as follows (in thousands):

Purchase Price Allocation:	
Trade receivables	\$ 195
Inventories	1,267
Trade names & trademarks	380
Patented & Unpatented Technology	780
Customer Relationships	1,130
Goodwill	675
Accounts payable	(156)
Accrued expenses & other current liabilities	(30)
Payable to related parties	(22)
Total purchase price paid	\$ 4,219

A reputation for superior product design, access to a preferred network of dealers and a leading presence in the lifting equipment industry resulted in the recognition of \$675 of Goodwill.

Proforma information is not being provided for the Noble Product Line, as it does not constitute an acquisition of a business, pursuant to applicable rules and regulations of the Securities and Exchange Commission. The Noble Product Line is being manufactured in the Company's two existing manufacturing facilities located in Georgetown, Texas and Woodbridge, Ontario.

5. Discontinued Operations

Against the background of operating losses generated in recent history by the Testing and Assembly Equipment segment operations based at Wixom, Michigan, the Company conducted a strategic review of these operations. On March 29, 2007, our Board of Directors approved a plan to sell our Testing and Assembly Equipment segment's operating assets including its inventory, machinery and equipment and patents. As a result, our Testing and Assembly Equipment segment has been accounted for as a discontinued operation starting with the first quarter of 2007.

On July 5, 2007 the Company entered into an Asset Purchase Agreement with EuroMaint Industry, Inc., a Delaware corporation (EuroMaint). Under the terms of the Asset Purchase Agreement, the Company agreed to sell and EuroMaint agreed to purchase certain assets of the Company used in connection with the Company's diesel engine testing equipment business. EuroMaint also assumed and agreed to pay, perform and discharge when due certain obligations of the Company arising in connection with the operation of the Company's diesel engine testing equipment business. In addition to the assumption of those certain assumed liabilities, EuroMaint agreed to pay to the Company the aggregate purchase price of \$1,100. This transaction closed on August 1, 2007. In August 2007, the Company sold at auction all the remaining tangible assets of the Testing and Assembly Equipment segment, comprised of inventory and fixed assets. The Company recorded a gain of \$209 on the sale of assets in the third quarter of 2007.

Table of Contents

The following table sets forth the detail of balance sheet captions for discontinued operations as of March 31, 2008 December 31, 2007.

	March 31, 2008	December 31, 2007
Accounts receivable, net	\$ 1	\$ 132
Cost and estimated earnings in excess of billings, net	40	40
Total assets	41	172
Total liabilities- accrued expenses	\$ 200	\$ 265

The following table sets forth the detail of the net Income (loss) from discontinued operations for the three months ended March 31, 2008 and 2007:

	For three months ended March 31,	
	2008	2007
Revenues from discontinued operations	\$	\$ 594
Income (loss) from discontinued operations before income taxes	188	(732)
Income tax	10	
Net (loss) from discontinued operations	\$ 178	\$ (732)

In 2007, the Company did not record a tax benefit attributable to losses from discontinued operations as the Company may not utilize such loss in future years.

The estimated loss on sale is shown below:

	For three months ended March 31, 2008	For three months ended March 31, 2007
Estimated loss on sale or closure of discontinued operations		
Employee termination costs	\$	\$ (166)
Provision for termination of contracts		(200)
Total loss on sale of discontinued operations	\$	\$ (366)

Table of Contents**6. Net Earnings (Loss) Per Common Share**

Basic net earnings (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of warrants, restricted stock units and convertible subsidiary stock. Details of the calculations are as follows:

	Three months ended March 31,	
	2008	2007
Net earnings (loss) for common share basic and diluted		
Earnings from continuing operations	\$ 511	\$ 69
Earnings (loss) from discontinued operations	178	(732)
Loss on sale and closure of discontinued operations net of income tax		(366)
Net earnings (loss) per common share	\$ 689	\$ (1,029)
Earnings (loss) per share		
Basic		
Earnings from continuing operations	\$ 0.05	\$ 0.01
Earnings (loss) from discontinued operations	0.02	(0.09)
Loss on sale and closure of discontinued operations net of income tax		(0.05)
Net earnings (loss) per common share	\$ 0.07	\$ (0.13)
Diluted		
Earnings from continuing operations	\$ 0.05	\$ 0.01
Earnings (loss) from discontinued operations	0.02	(0.09)
Loss on sale or closure of discontinued operations net of income tax		(0.04)
Net earnings (loss) per common share	\$ 0.07	\$ (0.12)
Weighted average common share outstanding		
Basic	9,809,340	7,859,875
Diluted:		
Basic	9,809,340	7,859,875
Dilutive effect of warrants	168,071	386,314
Dilutive effect of restricted stock units	12,394	
Dilutive effects of exchangeable subsidiary stock	266,000	266,000
Diluted	10,255,805	8,512,189

7. Equity***Issuance of Common Stock and Warrants******2007 Private Placement***

On September 10, 2007, the Company closed a \$9,000 private placement of its common stock (the 2007 Private Placement) pursuant to the terms of a security purchase agreement entered into among the Company and certain institutional investors on August 30, 2007 (the 2007 Securities Purchase Agreement). Pursuant to the 2007 Securities Purchase Agreement, Veri-Tek issued 1,500,000 shares of its common stock. The Company also issued warrants (as described below) to the investment banker who acted as its exclusive placement agent for the 2007 Private Placement. In connection with the 2007 Private Placement, the Company incurred investment banking fees of \$630 and legal fees and

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

expenses of approximately \$155. The Company's net cash proceeds after fees and expenses were \$8,215 with \$7,983 and \$231 being allocated to common stock and warrants, respectively.

In connection with the Private Placement, the Company has filed a Registration Statement on Form S-3 to register resale of shares issued in the Private Placement and the shares underlying the warrants. The registration statement was declared effective on October 15, 2007.

Table of Contents*Stock Issuance*

On December 31, 2007, the Company issued in aggregate 3,465 shares of common stock to three independent Directors as restricted stock units issued under the Company's 2004 Incentive Plan to these Directors vested on that day.

On July 30, 2007, Company issued 2,000 shares of common stock as a warrant holder exercised 1,000 Series A warrants and 1,000 Series B warrants. The exercise of warrants resulted in an increase in common stock of \$12 of which approximately \$8 represented cash received upon the exercise of the warrants and the balance of approximately \$3 represent the value of the exercised warrants as determined upon issuance of the warrants on November 15, 2006. As a result of exercise, the \$3 which was previously included in shareholders' equity under the caption warrants is transferred to common stock.

On July 5, 2007, Company issued 246,000 shares of common stock as warrant holders exercised 246,000 Series B warrants. The exercise of warrants resulted in an increase in common stock of \$1,463 of which approximately \$1,046 represented cash received upon the exercise of the warrants and the balance of approximately \$417 represent the value of the exercised warrants as determined upon issuance of the warrants on November 15, 2006. As a result of exercise, the \$417 which was previously included in shareholders' equity under the caption warrants is transferred to common stock.

On June 11, 2007, Company issued 198,000 shares of common stock as warrant holders exercised 99,000 Series A warrants and 99,000 Series B warrants. The exercise of warrants resulted in an increase in common stock of \$1,161, of which approximately \$822 represented cash received upon the exercise of the warrants and the balance of approximately \$339 represent the value of the exercised warrants as determined upon issuance of the warrants on November 15, 2006. As a result of exercise, the \$339 which was previously included in shareholders' equity under the caption warrants is transferred to common stock.

Stock Warrants

The Company accounts for equity instruments issued to non-employees based on the fair value of the equity instruments issued. The Warrants will be exercisable on a cashless basis under certain circumstances, and are callable by the Company on a cashless basis under certain circumstances. Roth Capital Partners, LLC acted as exclusive placement agent for the 2007 Private Placement and received cash and 105,000 warrants to purchase the Company's common stock as a placement agent fee. The Warrants were issued the day after the closing of the 2007 Private Placement (September 11, 2007) and will be exercisable after the sixth month anniversary of the issuance date of the Warrants until September 11, 2012. The warrant holder can purchase 105,000 shares of the Company's common stock. The Warrants have an exercise price of \$7.18 per share.

On June 18, 2007, the Company and Hayden Communications, Inc. (Hayden) entered into a contract under which Hayden will provide public and investor relation services to the Company for a period of one year. The contract provides for the issuance of 15,000 warrants to Hayden Communications, Inc. Each warrant allows Hayden to purchase one share of Company Common Stock for \$7.08 per share. The warrants are exercisable beginning on June 15, 2008 and expire on June 15, 2011. The warrants are exercisable on a cashless basis under certain circumstances. The warrants and underlying common stock are not registered under federal or state securities laws and, therefore, may not be sold or transferred by Hayden in the absence of registration or an exemption therefrom.

At March 31, 2008 and December 31, 2007, the Company had issued and outstanding warrants as follows:

Number of Warrant Shares**March 31,**

	December 31,				
2008	2007	Exercise Price	Expiration Date	In Connection With	
450,000	450,000	\$ 4.05	November 15, 2011	Private placement	
204,000	204,000	\$ 4.25	November 15, 2011	Private placement	
192,500	192,500	\$ 4.62	November 15, 2011	Placement Agent Fee	
15,000	15,000	\$ 7.08	June 15, 2011	Investor Relation Service	
105,000	105,000	\$ 7.18	September 11, 2012	Placement Agent Fee	

No warrants were exercised during the three months end March 31, 2008

2004 Equity Incentive Plan

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

In 2004, the Company adopted the 2004 Equity Incentive Plan and subsequently amended and restated the plan on September 13, 2007. The maximum number of shares of common stock reserved for issuance under the plan is 350,000 shares. The total number of shares reserved for issuance may, however, may be adjusted to reflect certain corporate transactions or changes in our capital structure. Our employees and members of our board of directors who are not our employees or employees of our affiliates are eligible

Table of Contents

to participate in the plan. The plan is administered by a committee of our board comprised of members who are outside directors. The plan provides that the committee has the authority to, among other things, select plan participants, determine the type and amount of awards, determine award terms, fix all other conditions of any awards, interpret the plan and any plan awards. Under the plan, the committee can grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units, except Directors may not be granted stock appreciation rights, performance shares and performance units. During any calendar year, participants are limited in the number of grants they may receive under the plan. In any year, an individual may not receive options for more than 15,000 shares, stock appreciation rights with respect to more than 20,000 shares, more than 20,000 shares of restricted stock and/or an award for more than 10,000 performance shares or restricted stock units or performance units. The plan requires that the exercise price for stock options and stock appreciation rights be not less than fair market value of our common stock on date of grant.

On November 12, 2007, the Company awarded under the Amended and Restated 2004 Equity Incentive Plan 55,615 and 10,500 restricted stock units to employees and to the independent Directors, respectively. No awards or grants were made under the 2004 Equity Incentive Plan prior to November 12, 2007. The restricted stock units are subject to the same conditions as the restricted stock awards except the restricted stock units will not have voting rights and the common stock will not be issued until the vesting criteria are satisfied. The employee restricted stock units will vest 33%, 33% and 34% on October 1, 2008, October 1, 2009 and October 1, 2010, respectively. Units granted to Directors will vest 33%, 33% and 34% on December 31, 2007, December 31, 2008 and December 31, 2009, respectively. The restricted stock units awarded were valued at \$416 or \$6.30 per share, which was the closing price of the Company's common stock on the date of grant. The value of the restricted stock units is being charged to compensation expense over the vesting period. For the three months ended March 31, 2008, the Company recognized compensation expense of \$58 with an offsetting credit to paid in capital related to restricted stock units granted to the Company's employees and Directors. During the three months ended March 31, 2007 no restricted stock units were granted or became vested. As of March 31, 2008, there were 62,650 restricted stock units outstanding.

As of March 31, 2008, total deferred compensation related to restricted stock units was \$265, additional compensation expense of \$145, \$90 and \$29 will be recognized in the remainder of 2008, 2009 and 2010, respectively.

8. Minority Interest

On November 30, 2006, the Company issued 266,000 shares of stock in Manitex Lifting Canadian Subsidiary with a value of \$1,024. These shares are exchangeable into 266,000 shares of the Company's Common Stock. As of March 31, 2008, the shares had not yet been exchanged for Veri-Tek International Corp. Common Stock. Until the shares are exchanged, the value of the exchangeable shares is shown as a minority interest. The Company expects that the shares will be exchanged for Veri-Tek International Corp. Common Stock.

9. New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements. On January 1, 2008, SFAS 157 was adopted by the Company. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). This statement requires balance sheet recognition of the over funded or under funded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in Accumulated Other Non-Shareowners' Changes in Equity, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company's fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. On January 1, 2007, the Company adopted SFAS No. 158, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

Table of Contents

The FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159) in February 2007. SFAS No. 159 permits a company to choose to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing a company with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. A company shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. On January 1, 2008, the Company adopted SFAS No. 159. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 requires companies to recognize a realized income tax benefit associated with dividends or dividend equivalents paid on nonvested equity-classified employee share-based payment awards that are charged to retained earnings as an increase to additional paid-in capital. EITF 06-11 was adopted on January 1, 2008. The adoption of EITF 06-11 did not have a material impact on our Condensed Consolidated Financial Statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 (Statement No. 160). Statement No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Statement No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. We are currently assessing the impact SFAS No. 160 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect SFAS 141R will have an impact on our accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities* An Amendment of SFAS No. 133 (SFAS 161). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS No. 161 will be effective for fiscal years that begin after November 15, 2008. We are in the process of evaluating the new disclosure requirements under SFAS 161.

Table of Contents**10. Inventory**

The components of inventory are as follows:

	March 31, 2008	December 31, 2007
Raw Materials and Purchased Parts,	\$ 14,090	\$ 13,047
Work in Process	2,191	1,429
Finished Goods and Replacement Parts	1,853	1,572
Inventories, net	\$ 18,134	\$ 16,048

11. Goodwill and Intangible Assets

	March 31, 2008	December 31, 2007	Useful lives
Patented and unpatented technology	\$ 10,671	\$ 10,684	10 years
Amortization	(1,767)	(1,501)	
Customer relationships	8,297	8,310	20 years
Amortization	(657)	(554)	
Trade names and trademarks	4,672	4,675	25 years
Amortization	(309)	(262)	
Customer Backlog	471	473	< 1 year
Amortization	(471)	(473)	
Intangible assets	20,907	21,352	
Goodwill	14,065	14,065	
Goodwill and other intangibles	\$ 34,972	\$ 35,417	

Amortization expense for intangible assets was \$413 and \$516 for the three months ended March 31, 2008 and 2007.

During the quarter ended March 31, 2007, the estimated purchase price allocation for Manitek Lifting was revised and resulted in a decrease in intangible assets of \$547.

12. Accrued Warranties

The liability is established using historical warranty claim experience. Historical warranty experience is, however, reviewed by management. The current provision may be adjusted to take into account unusual or non-recurring events in the past or anticipated changes in future warranty claims. Adjustments to the initial warranty accrual are recorded if actual claim experience indicates that adjustments are necessary. Warranty reserves are reviewed to ensure critical assumptions are updated for known events that may impact the potential warranty liability.

The following table summarizes the changes in product warranty liability:

	Three Months Ended	
	March 31, 2008	March 31, 2007
Balance January 1,	\$ 950	\$ 822
Accrual for warranties issued during the period	426	266

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

Warranty Services provided	(448)	(252)
Foreign currency translation	(30)	
Balance March 31	\$ 898	\$ 836

Table of Contents**13. Line of Credit and Debt***Revolving Credit Facility*

At March 31, 2008, the Company had drawn \$13,369 under a revolving credit facility. The Company is eligible to borrow up to \$18,500, with interest at prime rate (prime was 5.25% at March 31, 2008) plus .25%. The maximum amount of outstanding is limited to the sum of 85% of eligible receivable, 75% eligible Canadian accounts and the lesser of 65% of eligible inventory or \$8,000 plus \$2,000. On April 1, 2008 the \$2,000 is reduced to \$1,500 and is further reduced by \$500 on the first day of each subsequent quarter. At March 31, 2008, the maximum the Company could borrow based on available collateral was capped at \$16,588. The credit facility's original maturity date was January 2, 2005. The maturity date has subsequently been extended and the note is now due on April 1, 2009. The indebtedness is collateralized by substantially all of the Company assets. Additionally, certain shareholders or former shareholders of the Company have personally guaranteed \$2,000 of the note. The facility contains customary limitations including, but not limited to, acquisitions, dividends, repurchase of the Company's stock and capital expenditures. The Agreement also requires the Company to have a minimum Tangible Effective Net Worth, as defined in the agreement.

Revolving Canadian Credit Facility

At March 31, 2008, the Company had drawn \$2,512 (US) under a revolving credit agreement with a bank. The Company is eligible to borrow up to \$4,500 (US) with interest at the Canadian prime rate (the Canadian prime was 5.25% at March 31, 2008) plus 1.5%. The maximum amount outstanding is limited to the sum of 80% of eligible receivables and the lesser of 50% of eligible inventory or \$2,500 (US). At March 31, 2008, the maximum the Company could borrow based on available collateral was capped at approximately \$4,400. The indebtedness is collateralized by substantially all of Manitex Liftking ULC's assets.

Notes Payable Bank

At March 31, 2008, the Company has a \$42 note payable to a bank. The note dated October 21, 2007 had an original principal amount of \$109 and an annual interest rate of 6.25%. Under the terms of the note the company is required to make eight monthly payments of \$14 commencing November 13, 2007. The proceeds from the note were used to pay annual premiums for certain insurance policies carried by the Company. The holder of the note has a security interest the insurance policies it financed and has the right upon default to cancel these policies and receive any unearned premiums.

At March 31, 2008, the Company has a \$318 note payable to a bank. The note dated January 9, 2008 had an original principal amount of \$474 and an annual interest rate of 5.99%. Under the terms of the note the company is required to make nine monthly payments of \$54 commencing January 30, 2008. The proceeds from the note were used to pay annual premiums for certain insurance policies carried by the Company. The holder of the note has a security interest the insurance policies it financed and has the right upon default to cancel these policies and receive any unearned premiums.

Note Payable Issued to Acquire QVM

In connection with the Acquisition, the Company has a note payable to the former Members of QVM for \$1,072. The note matures on July 2, 2009 or earlier if there is a change in control as defined in the note or if the Company receives cash proceeds of at least \$25,000 from the sale of its common stock or securities convertible or exchange for its common stock. Interest is payable on the first day of each calendar quarter, commencing on September 1, 2006. The Interest is computed using the prime rate announced by Comerica Bank at its Detroit office on the last business day immediately preceding the applicable interest payment date. In the event of default interest is accelerated and increase to prime plus 3%.

Note Payable Issued to Acquire Liftking Industries

In connection with the Liftking Industries Acquisition, the Company has a note payable to the seller for \$2,200 (CDN) or \$2,143 (US). The Note shall provide for interest at 1% over the prime rate of interest charged by Comerica Bank for Canadian dollar loans, calculated from the closing date and payable quarterly in arrears commencing April 1, 2007, and for principal payments of two hundred thousand dollars (CDN) quarterly commencing April 1, 2007, with the final installment of principal and interest thereon due December 31, 2011. The note payable is subject to a general security agreement which subordinates the seller's security interest to the interest of the buyer's senior secured credit facility, but shall otherwise rank ahead of the seller's other secured creditors.

Table of Contents*Note Payable Bank*

At March 31, 2008, the Company has a \$2,198 note payable to a bank. The note payable to the bank was assumed in connection with the QVM acquisition. The note was due on September 10, 2006. The maturity date has subsequently been extended and the note is now due on April 1, 2009. The note has an interest rate of prime plus 1% until maturity, whether by acceleration or otherwise, or until default, as defined in the agreement, and after that at a default rate of prime plus 4%. Interest is payable the first day of each month. The bank has been granted security interest in substantially all the assets of the Company's Manitex subsidiary. Until October 18, 2007, the former members of QVM guaranteed the note. On October 18, 2007, the bank released the former members of QVM from their guarantees.

Capital Leases

The Company has a twelve year lease which expires in April 2018 that provides for monthly initial lease payments of \$68 for its Georgetown, Texas facility. The lease has been classified as a capital lease under the provisions of FASB Statement No. 13. The Company has also entered into several small equipment leases, with lease terms of three years or less that it has determined are required to be capitalized under the provisions of FASB Statement No. 13. The remaining minimum lease payments for these leases are approximately \$25. As of March 31, 2008, the Company had total capital lease obligations of \$4,622.

14. Legal Proceedings

The Company is involved in various legal proceedings, including product liability and workers' compensation matters which have arisen in the normal course of operations. The Company has product liability insurance with self insurance retention that range from \$50 to \$1,000. Certain cases are at a preliminary stage, and it is not possible to estimate the amount or timing of any cost to the Company. When it is probable that a loss has been incurred and possible to make a reasonable estimates of the Company's liability with respect to such matters, a provision is recorded for the amount of such estimate or the minimum amount of a range of estimates when it is not possible to estimate the amount within the range that is most likely to occur. However, the Company does not believe that these contingencies, in the aggregate, will have a material adverse effect on the Company.

The reserve for legal settlements decreased \$235 from \$370 at December 31, 2007 to \$135 at March 31, 2008. The change in the reserve is principally the result of making two settlement payments which totaled \$227 during the three months ended March 31, 2008. At December 31, 2007, reserves to settle these two cases had been established for \$227, as such there was no impact on earnings for the three months ended March 31, 2008 related to these two settlement payments. Except as noted above, there has been no material changes in amounts accrued for legal settlements.

It is reasonably possible that the Estimated Reserve for Product Liability Claims may change within the next 12 months. A change in estimate could occur if a case is settled for more or less than anticipated, or if additional information becomes known to the Company.

15. Transactions between the Company and Related Parties

In the course of conducting its business, the Company has entered into certain related party transactions. In April, 2006, prior to its acquisition by the Company, Manitex completed a sale and leaseback transaction of its Georgetown, Texas facility to an entity controlled by one of its affiliates, who was also a significant shareholder of the Company. The sale price was \$5,000 and the proceeds of the transactions were used to reduce Manitex's debt under its credit facility. The lease has a twelve year term and provides for an initial monthly rent of \$67 which is adjusted annually by the lesser of the increase in the Consumer Price Index (CPI) or 2%. The aforementioned CPI adjustment raised the monthly rent to \$68 effective April 2007. Although the Company did not obtain an independent valuation of the property or the terms of the sale and leaseback transaction in connection with its acquisition of Manitex, it believes the terms of the lease are at least as favorable to the Company as they could have obtained from an unaffiliated third party.

The Company, through its Manitex and Manitex Liftking subsidiaries, purchases and sells parts to GT Distribution, Inc. (including its subsidiaries) (GT) and has made advances to GT Distribution in connection therewith. GT is owned in part by the Company's Chairman and Chief Executive Officer. Although the Company does not independently verify the cost of such parts, it believes the terms of such purchases and sales were at least as favorable to the Company as terms that it could obtain from a third party. GT has three operating subsidiaries, BGI USA, Inc. (BGI), Crane & Machinery, Inc., and Schaeff Lift Truck, Inc. BGI is a distributor of assembly parts used to manufacture various lifting equipment. Crane & Machinery, Inc. distributes Terex and Manitex cranes, and services and sells replacement parts for most brands of light duty and rough terrain cranes. Schaeff Lift Truck, Inc. manufactures electric forklifts. Schaeff Lift Truck, Inc. has a 100% owned subsidiary domiciled in Bulgaria, SL Industries, Ltd.

Table of Contents

The following is a summary of the amounts attributable to certain related party transactions as described in the footnotes to the table, for the periods indicated:

	Three months ended March 31, 2008	Three months ended March 31, 2007
Rent paid -Georgetown Facility 1	\$ 205	\$ 201
Rent paid -Woodbridge Facility 2	\$ 116	96
Rent paid -Bridgeview Facility 3	\$ 13	
Sales to:		
Crane & Machinery, Inc	\$ 2	\$
BGI USA, Inc.	1	1
Schaeff Lift Truck, Inc.	155	60
SL Industries, LTD.	1	
Liftmaster	19	79
Total Sales	\$ 178	\$ 140
Purchases from:		
BGI USA, Inc	\$ 212	\$ 114
Crane & Machinery, Inc		
Schaeff Lift Truck, Inc.		530
SL Industries, LTD.	134	514
Liftmaster	171	16
Total Purchases	\$ 517	\$ 1,174
Miscellaneous Transactions:		
Professional services provided by Schaeff Lift Truck (Outsourced staffing)	\$ 28	\$

- The Company leases its 188,000 sq. ft. Georgetown, Texas manufacturing facility from an entity owned by one of the Company's former significant shareholders. Pursuant to the terms of the lease, the Company makes monthly lease payment of \$68. The Company is also responsible for all the associated operating expenses including, insurance, property taxes and repairs. Under the lease, which expires April 30, 2018, monthly rent is adjusted annually by the lesser of increase in the Consumer Price Index or 2%.
- The Company leases its 85,000 sq. ft. Woodbridge facility from an entity owned by a stockholder of the Company and relative of Manitex Liftking ULC's, president and CEO. Pursuant to the terms of the lease, the Company makes monthly lease payments of \$38. The Company is also responsible for all the associated operations expenses, including insurance, property taxes, and repairs. The lease will expire on May 31, 2009.
- The Company leases 11,750 sq. ft of office and warehouse space in GT Distribution Chicago facility for approximately \$4 per month. The lease will expire on May 31, 2010.

As of June 30, 2007, the Company has a receivable of \$4,219 from GT Distribution, net of amounts owed to Crane & Machinery, Inc. On July 31, 2007, Veri-Tek International, Corp. (the Company) entered into an asset purchase agreement with GT Distribution, LLC (GT Distribution) pursuant to which GT Distribution transferred all of its rights and interest in the Noble forklift product line (the Product Line) to the Company in exchange for the discharge of obligations and trade payables of GT Distribution and certain of its subsidiaries totaling \$4,219 and assumption by the Company of certain liabilities associated with the Product Line. David J. Langevin, the Company's Chairman and Chief Executive Officer, has a significant ownership interest in GT Distribution. As a result, the Company received a fairness opinion from an independent financial advisor and the approval of a special independent committee of the Company's board of directors prior entering into this transaction.

The receivable from GT Distribution was reduced from \$4,722 to \$4,144 during the quarter ended March 31, 2007, a decrease of \$578. During the quarter ended March 31, 2007, GT Distribution sold inventory to the Company. During the first quarter of 2007, it was agreed that the payable for certain inventory totaling \$462 sold to the Company in the first quarter of 2007 and which is still inventory at March 31, 2007 would be offset against the receivable the Company has from GT Distribution. Additionally, a payable in the amount of \$116 that the Company had to

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

GT Distribution was offset against the receivable the Company had from GT Distribution. The Statement of Cash Flow for March 31, 2007 excludes the \$578 decrease in the related party receivable, the \$462 increase in inventory and the \$116 decrease in accounts payable as these items are non-cash transactions.

Table of Contents

As of March 31, 2008, the Company had \$458 outstanding Accounts Receivable from GT and \$196 outstanding Accounts Payable due to GT.

The Company has a note payable to the former members of QVM for \$1,072 issued in connection with the acquisition of the membership interests of QVM. Upon the closing of such acquisition, Michael C. Azar, served as the Company's Vice President and Secretary and David Langevin served as the Company's Chief Executive Officer. In addition, three of the members of QVM, Michael Azar, David Langevin and Robert J. Skandalaris, owned 6.1%, 12.1% and 12.1%, respectively, of the Company's outstanding common stock at such time.

The Company has a note payable to the former owners of Liftking Industries, Inc. for \$2,143 (US) issued in connection with the acquisition of Liftking Industries ULC. It was determined subsequent to the acquisition, that the note would be a related party transaction since Manitex Liftking's President & CEO is a relative of the primary holder of the note.

Subsequent Related Party Transaction

On May 2, 2008, Veri-Tek International, Corp. (the Company) entered into an Exchange Agreement (the Exchange Agreement) with Michael Azar, David Langevin, Robert Skandalaris, Lubomir Litchev, Patrick Flynn, and Michael Hull (the Holders), and Michael Azar, as the Holders Representative. The Exchange Agreement was entered into in connection with a Non-Negotiable Subordinated Promissory Note (the Note), dated July 3, 2006, which was entered into in connection with the Company's acquisition of the membership interests of Quantum Value Management, LLC, and pursuant to which the Company was to pay to the Holders Representative as escrow agent for, and for distribution to, the Holders an amount equal to \$1,072 plus interest. As of the date of the Exchange Agreement, the principal amount outstanding under the Note was \$1,072 and the total amount of accrued and unpaid interest was \$5. Under the Exchange Agreement, the Company agreed (i) to pay to each Holder the percentage of the total accrued and unpaid interest due to such Holder and (ii) to issue to each Holder, in exchange for the principal amount outstanding under the Note, a certain number of shares of the Company's common stock. The aggregate amount of cash paid to the Holders as accrued and unpaid interest was \$5 and the aggregate number of shares of the Company's common stock issued in exchange for the principal amount outstanding under the Note was 211,074 shares. In exchange for these amounts, the Holders Representative agreed to return the Note to the Company for cancellation. The terms of the Exchange Agreement also provide the Holders with piggy-back registration rights for the shares issued to them pursuant to the Exchange Agreement.

David Langevin is currently the Company's Chairman and Chief Executive Officer. Due to the related-party aspect of this transaction, the Exchange Agreement and the transactions contemplated by the Exchange Agreement were approved by the Audit Committee of the Company's Board of Directors.

16. Income Taxes

The Company's provision for income taxes consists of U.S. and foreign taxes in amounts necessary to align the Company's year-to-date tax provision with the effective rate that the Company expects to achieve for the full year. Each quarter the Company updates its estimate of the annual effective tax rate, and if its estimated tax rate changes it will make a cumulative adjustment. The 2008 annual effective tax rate is estimated to be approximately 8.1% (which includes U.S., state and local and foreign taxes) based upon the Company's anticipated earnings both in the U.S. and in foreign jurisdictions.

For the three months ended March 31, 2008, the Company recorded an income tax benefit of \$478 which consisted primarily of anticipated federal alternative minimum tax, current year state and local tax and foreign taxes offset by a discrete item related to the recognition of a deferred tax asset for the Texas Temporary Margin Tax Credit as a result of a resolution of an income tax examination. For the three months ended March 31, 2007, the Company recorded a tax provision of \$19 which consisted primarily of anticipated federal alternative minimum tax, current year state and local tax and foreign taxes.

The Company adopted FIN 48 effective January 1, 2007 and had no material unrecognized tax benefits as of the adoption date. The Company's total unrecognized tax benefits as of March 31, 2008 were approximately \$200 which, if recognized, would affect the Company's effective tax rate. As of March 31, 2008, the Company had accrued immaterial amounts for the potential payment of interest and penalties.

Table of Contents

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements relating to future events and the future performance of the Company within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding the Company's expectations, beliefs, intentions or future strategies that are signified by the words "expects," "anticipates," "intends," "believes" or similar language. Our actual results may differ materially from information contained in these forward looking-statements for many reasons, including those described below and in our 2007 Annual Report on Form 10-K in the section entitled "Item 1A. Risk Factors,"

- (1) difficulties in implementing new systems, integrating acquired businesses, managing anticipated growth, and responding to technological change;
- (2) our ability to negotiate extensions of our current credit agreements and to obtain additional debt or equity financing when needed;
- (3) the cyclical nature of the markets we operate in;
- (4) increases in interest rates;
- (5) government spending, fluctuations in the construction industry, and capital expenditures in the oil and gas industry;
- (6) the performance of our competitors;
- (7) shortages in supplies and raw materials;
- (8) our level of indebtedness and ability to meet financial covenants required by our debt agreements;
- (9) product liability claims, intellectual property claims, and other liabilities;
- (10) the volatility of our stock price;
- (11) the willingness of our stockholders and directors to approve mergers, acquisitions, and other business transactions; and
- (12) currency transaction (foreign exchange) risk and the risks related to forward currency contracts.

The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. We do not undertake, and expressly disclaim, any obligation to update this forward-looking information, except as required under applicable law.

OVERVIEW

The Company is a leading provider of engineered lifting solutions. The Company designs, manufactures and distributes a diverse group of products that serve different functions and are used in a variety of industries. Through its Manitek subsidiary it markets a comprehensive line of boom trucks and sign cranes. Manitek's boom trucks and crane products are primarily used for industrial projects, energy exploration and infrastructure development, including, roads, bridges and commercial construction. The Manitek Liftking subsidiary sells a complete line of rough terrain forklifts and special mission oriented vehicles, as well as other specialized carriers, heavy material handling transporters and steel mill equipment. Manitek Liftking's rough terrain forklifts are used in both commercial and military applications. Specialty mission oriented vehicles and specialized carriers are designed and built to meet the Company's unique customer needs and requirements. The Company's specialized lifting equipment has met the particular needs of customers in various industries that include utility, ship building and steel mill industries.

Discontinued Operations

Historically, the Company also designed, developed, and built specialty testing and assembly equipment for the automotive and heavy equipment industries that identifies defects through the use of signature analysis and in-process verification. Against the background of the operating losses generated in recent history by this segment, the Company conducted a strategic review of these operations. On March 29, 2007, our Board of Directors approved a plan to sell our Testing & Assembly Equipment segment's operating assets, which were based in Wixom, Michigan, including its inventory, machinery, equipments and patents. As a result, our Testing & Assembly Equipment segment has been accounted for as a discontinued operation starting with the first quarter of 2007 until its disposition.

Table of Contents

On August 1, 2007, the assets used in connection with the Company's diesel engine testing equipment were sold to EuroMaint Industry, Inc., a Delaware corporation (EuroMaint). Under the terms of the Asset Purchase Agreement, the Company received \$1.1 million plus EuroMaint assumed certain of the Company's liabilities. As of August 31, 2007, all operations of the former Testing and Assembly Equipment segment had ceased. As a result of discontinuing our former Testing and Assembly Equipment segment, the Company again operates in only a single business segment, Lifting Equipment.

Summary of Recent Acquisitions

Effective July 3, 2006, the Company completed the purchase of Manitex, Inc. (Manitex) via an acquisition of all of the membership interests in Quantum Value Management, LLC (an entity owned by certain stockholders of the Company). On November 30, 2006, the Company, through its wholly owned subsidiary, Manitex Liftking, ULC, an Alberta unlimited liability corporation (Manitex Liftking), completed the acquisition (the Liftking Acquisition) of all of the operating assets of Liftking Industries, Inc., an Ontario, Canada corporation (Liftking). As the result of these two acquisitions, the Company is a leading provider of engineered lifting solutions including boom truck cranes, rough terrain forklifts and special mission oriented vehicles. Through the Company's Manitex subsidiary, it markets a comprehensive line of boom trucks and sign cranes. The Company's boom trucks and crane products are primarily used for industrial projects, energy exploration and infrastructure development, including roads, bridges and commercial construction. Through the Company's Manitex Liftking subsidiary, it sells a complete line of rough terrain forklifts and special mission oriented vehicles, as well as other specialized carriers, heavy material handling transporters and steel mill equipment. Manitex Liftking's rough terrain forklifts are used in both commercial and military applications. On July 31, 2007, the Company completed the purchase of all the Noble Forklift Product Line assets (the Product Line) from GT Distribution, LLC (GT Distribution), a related party. The Noble product line, which is comprised of four rough terrain forklifts in several configurations, is being produced in our two current production facilities located in Woodbridge, Ontario and Georgetown, Texas. See Note 4 to the Company's consolidated financial statement for further details regarding the Noble Product Line acquisition.

The financial results for these acquisitions are included in the accompanying consolidated statement of operations from the date of the respective acquisition.

Factors Affecting Revenues and Gross Profit

The Company derives most of its revenue from purchase orders from dealers and distributors. The demand for the Company's products depends upon the general economic conditions of the markets in which the Company competes. The Company's sales depend in part upon its customers replacement or repair cycles. Adverse economic conditions, including a decrease in commodity prices, may cause customers to forego or postpone new purchases in favor of repairing existing machinery. Additionally, our Manitex Liftking subsidiary revenues are impacted by the timing of orders received for military forklifts and residential housing starts.

Gross profit varies from period to period. Factors that affect gross profit include product mix, production levels and cost of raw materials. Margins tend to increase when production is skewed towards larger capacity cranes, special mission oriented vehicles, specialized carriers and heavy material transporters.

Results of Operations

The following discussion considers:

Net income for the three month periods ended March 31, 2008 and 2007.

Results of the continuing operations for the three month periods ended March 31, 2008 and 2007.

Results of the discontinued operations for the three month periods ended March 31, 2008 and 2007.

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

Net Income (loss) for the three month periods ended March 31, 2008 and 2007

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

The net income of \$0.7 million reported for the three month period ended March 31, 2008 consists of net income from continuing operations of \$0.5 million and income from discontinued operations of \$0.2 million. The Company reported a net loss of \$(1.0) million for the three months ended March 31, 2007, consisting of a net income from continuing operations of \$0.1 million and a loss from discontinued operations of \$(0.7) million and an expected loss on sale of discontinued operations of \$(0.4) million.

Table of Contents**Results of the continuing operations for the three month periods ended March 31, 2008 and 2007**

For the three months ended March 31, 2008, net income from continuing operations was \$0.5 million, which consists of revenue of \$23.5 million, cost of sales of \$19.3 million, research and development costs of \$0.2 million, SG&A costs excluding corporate expenses of \$2.6 million, Corporate SG&A expenses of \$0.9 million, net interest expense of \$0.5 million and income tax benefit of \$(0.5) million.

For the three months ended March 31, 2007, net income from continuing operations was \$0.1 million, which consists of revenue of \$23.1 million, cost of sales of \$18.9 million, research and development costs of \$0.1 million, SG&A costs excluding corporate expenses of \$2.3 million, Corporate SG&A expenses of \$0.8 million, net interest expense of \$0.9 million and other income of \$0.1 million.

Net Revenues and Gross Profit For the three months ended March 31, 2008, net revenues and gross profit were \$23.5 million and \$4.3 million, respectively. Gross profit as a percent of sales was 18.1% for the three months ended March 31, 2008. For the three months ended March 31, 2007 net sales and gross profit were \$23.1 million and \$4.2 million, respectively. Gross profit as a percent of sales was 18.2% for the three months ended March 31, 2007.

Net revenues increased \$0.4 million to \$23.5 million for the three months ended March 31, 2008 from \$23.1 million for the comparable three month period in 2007. The net increase in revenues is the result of an increase in crane product line sales of \$0.6 million offset by decrease in forklift product line/specialized carrier sales of \$(0.2). The increase in crane product line revenue is net of \$(0.3) decrease in low margin chassis sales. Chassis sales decreased as a greater number of customers elected to supply their own chassis instead of having the Company purchase one for them. The decrease in forklift /specialized carrier sales is attributed to a decrease in both commercial and military forklift sales. The decrease in commercial forklifts is in part the result of a decrease in economic activity, which was partially offset by the introduction of Noble rough terrain forklift product line. The decrease in military sales is attributable to timing of orders, which have historically fluctuated from period to period.

Our gross profit as a percent of net sales decreased slightly, declining 0.1% to 18.1% for the three months ended March 31, 2008 from 18.2% for the comparable 2007 period. An improvement in crane product line margins as a percent of net revenues was offset by a decrease in margins as a percent of net revenues for the forklift/specialized carrier product line. The increase in crane product line margins is attributable to several factors including the increase in sales of cranes with higher lifting capacity (which have higher gross margin), the benefit of an increase in sourcing materials from lower cost countries, a price increase that was instituted mid year 2007, and improved production efficiencies, partially offset by price increases on certain materials. The forklift/specialized carrier product line margin as percent of net revenue decreased due to a change in product mix and the negative impact of a stronger Canadian dollar had on our margins. Higher margin military and commercial forklift sales decreased and were partially replaced by Noble rough terrain forklift sales. Noble product line margins are currently below our typical margin levels, due to inefficiencies experienced in incorporating this new line and because these sales do not reflect the Company's recently announced price increase.

Selling, general and administrative expense Selling, general and administrative expense for the three months ended March 31, 2008 was \$3.5 million compared to \$3.1 million for the comparable period in 2007. Selling, general and administrative expense for the three months ended March 31, 2008 are comprised of corporate expense of \$0.9 million and \$2.6 million related to operating companies. Selling, general and administrative expense for the three months ended March 31, 2007 are comprised of corporate expense of \$0.8 million and \$2.3 million related to operating companies.

Selling, general and administrative expense, excluding corporate expenses, increased \$0.3 million to \$2.6 million for the three months ended March 31, 2008 from \$2.3 million for the comparable three month period in 2007. The increase is principally related to costs associated with participating in the Con Expo trade show in March 2008. The Con Expo show, which is held every three years, was held in Las Vegas from March 11 to March 15, 2008. This show is an international gathering place for the construction industries. It is estimated that 125,000 professionals from around the world attended the show.

Corporate expenses increased \$0.1 million to \$0.9 million for the three months ended March 31, 2008 from the \$0.8 million for the comparable 2007 three month period. The net increase in corporate expense is attributable to modest increases and decreases in a number of line items. Line items that reflect increases include recruiting expense, and public relation costs. The recruiting expense was incurred in conjunction with hiring a Director of Internal Audit. The increase in public relations cost is the result of engaging public relations firm in the second quarter of 2007.

Table of Contents

Operating income Operating income from continuing operations of \$0.6 million for the three months ended March 31, 2008 was equivalent to 2.5% of net revenues compared to an operating income of \$0.9 million for the three months ended March 31, 2007 or 4.1% of net revenues. The decrease in operating income as percent of sales is due to a slight decrease in the gross margin percent (0.1%) and an increase in both research and selling, general & administrative expenses.

Interest expense Interest expense was \$0.5 million and \$0.9 million for the three months ended March 31, 2008 and 2007, respectively. The decrease in interest is due to a decrease in outstanding debt and lower interest rates. Total debt outstanding decreased \$13.7 million to \$26.3 million at March 31, 2008 from \$40.0 million at March 31, 2007. As indicated the Company also benefited from lower interest rates as a significant portion of our debt is indexed to the prime rate. The prime rate decreased from 8.25% at March 31, 2007 to 5.25% at March 31, 2008. Due to the improved financial strength of the Company our bank has agreed to further lower the interest rate on domestic line of credit from prime plus 0.75% to prime plus 0.25%.

Foreign currency transaction loss The Company purchases forward currency exchange contracts such that the exchange gains and losses on the assets and liabilities denominated in other than the reporting units' functional currency will be offset by the changes in the market value of the forward currency exchange contracts it holds. In accordance with FAS No. 52, the Company records at the balance sheet date the forward currency exchange contracts at their market value with any associated gain or loss being recorded in current earnings as a currency gain or loss.

Canadian exchange rates during the three months ended March 31, 2008 have been relatively volatile. Currency exchange gains and loss tend to increase in periods when currency exchange rates are volatile. The Company had a net exchange loss for the three months ended March 31, 2008 of \$9 thousand, as the Company was successful in nearly eliminating currency risk for the three months ended March 31, 2008 through the purchase of forward currency exchange contracts.

Income tax (benefit) The income tax benefit for the three months ended March 31, 2008 was \$(0.5) million. The income tax expense for three months ended March 31, 2007 was \$0.02 million. The 2008 effective tax rate differs from the federal statutory rate due to the current utilization of prior year losses for which no benefit was previously received and a tax benefit related to a discrete item for the recognition of a deferred tax asset for the Texas Temporary Margin Tax Credit as a result of a resolution of an income tax examination

Net income from continuing operations Net income from continuing operations for the three months ended March 31, 2008 was \$0.5 million. This compares with a net income from continuing operations for the three months ended March 31, 2007 of \$0.1 million. The net income improvement is related to the income tax benefit recorded in the quarter ended March 31, 2008.

Discontinued operations of the Testing and Assembly Equipment segment for the three month periods ended March 31, 2008 and 2007

For the three months ended March 31, 2008, discontinued operations reported net income of \$0.2 million as compared to a loss of \$(0.7) million for the three months ended March 31, 2007. Discontinued operations had income for the three months ended March 31, 2008 resulting from the reversal of a \$0.1 million warranty reserve as it was determined that it was not needed and a \$0.1 million payment received related to the settlement of a contract dispute.

The net loss from discontinued operations of \$(0.7) million for the three months ended March 31, 2007 million is comprised costs of sales of \$0.9 million, operating expenses of \$0.4 million offset by revenue of \$0.6 million. Additionally, for the three months ended March 31, 2007 a reserve of \$0.4 million was established for the estimated loss on sale or closure of the Testing and Assembly Equipment segment. The reserve was established to cover estimated employee termination costs of \$0.2 million and an estimated provision of \$0.2 million to cover contract terminations.

Liquidity and Capital Resources

Cash and cash equivalents were \$0.3 million at March 31, 2008 compared to \$0.4 million at December 31, 2007. As of March 31, 2008, the Company had approximately \$3.2 million available to borrow under its credit facility with Comerica Bank. The interest rate on this facility was equal to prime plus .25 % (prime was 5.25% at March 31, 2008). The Company's revolving credit agreement contains customary limitations, including limitations on acquisitions, dividends, repurchases of the Company's stock and capital expenditures. It also requires the Company to have on the last date of the quarter a minimum Tangible Effective Net Worth, which is defined in the agreement as equity plus subordinated debt minus intangible assets and related party receivables. See Note 13 to our consolidated financial statements for a more detailed on the terms and conditions of our credit facilities. This credit facility matures on April 1, 2009. The Company is, however, currently working with the bank and expects to extend the maturity date of this credit facility.

Table of Contents

Additionally, the Company's Manitex Liftking subsidiary has a credit facility which allows for borrowings of up to \$4.5 (US) million as of March 31, 2008. At March 31, 2008, the Company had approximately CDN \$1.9 million available to borrow under this Canadian facility. This facility bears interest at Canadian prime rate plus 1.5% (Canadian prime was 5.25% at March 31, 2008). The maximum amount outstanding is limited to the sum of 80% of eligible receivables and the lesser of 50% of eligible inventory or CDN \$2,500. The indebtedness is collateralized by substantially all of Manitex Liftking ULC's assets. This credit facility matures on April 1, 2009. The Company is, however, currently working with the bank and expects to extend the maturity date of this credit facility.

In connection with the Company's acquisition of Manitex it issued a note to the former members of QVM for approximately \$1.1 million. The note bears interest at the prime rate announced by Comerica Bank at its Detroit office on the last business day immediately preceding the applicable interest payment date. Interest is payable on the first day of each calendar quarter, commencing on September 1, 2007. The note matures on the earlier of (1) July 2, 2009, (2) a change in control as defined in the note, or (3) the Company's receipt of cash proceeds of at least \$25.0 million from the sale of its common stock or securities convertible or exchange for its common stock.

In connection with the Company's acquisition of Liftking Industries, the Company issued a note payable to the seller for CDN \$3.2 million, or approximately USD \$3.2 million. The note bears interest at the prime rate of interest charged by Comerica Bank for Canadian dollar loans plus 1%. The note requires quarterly principal payments of CDN \$0.2 million plus interest commencing on April 1, 2008. The note payable is subject to a general security agreement which subordinates the seller's security interest to the interest of the Company's senior secured credit facility, but shall otherwise rank ahead of the seller's other secured creditors. The note has remaining unpaid balance as of March 31, 2008 of CDN \$2.2 million or approximately US \$2.1 million.

At March 31, 2008, the Company had a \$2.2 million note payable to Comerica Bank. This note was assumed by the Company in connection with its acquisition of Manitex. This note bears interest at the rate of prime plus 1% and matures on April 1, 2009. Interest is payable the first day of each month. The loan is secured by substantially all the assets of the Company's Manitex subsidiary. The former members of QVM guaranteed the note until October 18, 2007 when the bank released the former members of QVM from their guarantees.

At March 31, 2008, the Company has two notes payable to a bank with a total remaining principal balance of \$0.4 million. The notes have fixed interest rates of 6.25% and 5.99%. The first note requires monthly payment of \$14 thousand and will be paid in full by June 2008. The second note requires monthly interest payment of \$54 thousand and will be paid off by September 2008. The proceeds from the notes were used to pay annual premiums for certain insurance policies carried by the Company. The holder of the note has a security interest in the insurance policies it financed and has the right upon default to cancel these policies and receive any unearned premiums.

The Company's ability to meet its commitments and contractual obligations is dependent on the Company's ability to either negotiate extensions of its current credit agreements, replace the existing credit agreements with a new credit agreement with acceptable terms or to raise additional equity or debt financing. There is no assurance that the Company will be successful in renegotiating its current credit facilities or consummating additional financing transactions.

The Company needs cash to meet its working capital needs as the business grows, to acquire capital equipment, and to fund acquisitions and debt repayment. We intend to use cash flows from operations and existing availability under the current revolving credit facilities to fund anticipated levels of operations for approximately the next 12 months. We will likely need to raise additional capital through debt or equity financings to support our growth strategy, which may include additional acquisitions. There is no assurance that such financing will be available or, if available, on acceptable terms.

2008

Operating activities consumed cash of \$1.7 million for the three months ended March 31, 2008. Net income of \$0.7 million and non-cash items that totaled \$0.1 million were offset by changes in assets and liabilities, which consumed \$2.4 million. The principal non-cash items are depreciation and amortization of \$0.5 million and stock based deferred compensation of \$0.1 million which is offset by \$0.5 increase in a deferred tax asset. An increase in accounts receivable of \$0.3 million, an increase in inventory of \$2.3 million, an increase in prepaid expenses of \$0.2 million and a decrease in accruals of \$0.8 million in total consumed \$3.6 million of cash. Other changes, principally an increase in accounts payable of \$1.0 million generated cash of \$1.2 million.

The increase in inventory is principally split between an increase in raw materials and an increase in work in process and finished goods. Certain raw materials have long lead time. Raw material increased as delivery dates on certain customer orders were delayed and materials for these orders were already in house. The Company is currently building a specialized piece of equipment with a long lead time. As a result, work in process has increase significantly, which is a significant factor in the total increase in work in process

Table of Contents

and finished goods. The decrease in accrued expenses is related to decrease in accrued bonuses and accrued product liability. Certain bonuses accrued at December 31, 2007 were paid during the first quarter. The decrease in accrued product liability is principally the result of making settlement payments against amounts which were also accrued at December 31, 2007. The increase in accounts payable is related to the increase in raw material inventory purchases.

Cash flows related to investing activities were not significant for the three months ended March 31, 2008.

Financing activities generated \$1.4 million in cash for the three months ended March 31, 2008. An increase of \$1.8 million in borrowings under the Company's credit facilities was a source of cash. The increase borrowings were offset by note payments and a reduction of capital lease obligations that totaled \$0.4 million.

2007

Operating activities consumed cash of \$3.1 million for the quarter ended March 31, 2007. A net loss of \$1.0 million and a change in assets and liabilities, which consumed \$2.9 million, was partially offset by non-cash items that totaled \$0.8 million. An increase of \$1.3 million in inventory, a decrease of \$1.5 million in accounts payable was offset by a change in assets and liabilities of discontinued operations that generated \$0.4 million. Inventory increased in anticipation of increased sales. The change in assets and liabilities of discontinued operations is primarily accounted for by a \$0.4 million increase in an accrual established in the quarter for costs related to sales of the discontinued operation. Non-cash items are principally comprised of \$0.6 million of amortization and depreciation and a \$0.3 million increase in inventory reserves.

Financing activities contributed \$2.9 million in cash for the quarter ended March 31, 2007. An increase of \$3.0 million in borrowings under the Company's credit facilities off set by \$0.1 million decrease in capital lease obligations account for the change.

Contingencies

The Company is involved in various legal proceedings, including product liability and workers' compensation matters which have arisen in the normal course of operations. Certain cases are at a preliminary stage, and it is not possible to estimate the amount or timing of any cost to the Company. However, the Company does not believe that these contingencies, in aggregate, will have a material adverse effect on the Company.

Related Party Transactions

For a description of the Company's related party transactions, please see Note 15 to the Company's consolidated financial statements entitled Transactions between the Company and Related Parties.

Critical Accounting Policies

See Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for a discussion of the Company's other critical accounting policies.

Impact of Recently Issued Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements. On January 1, 2008, SFAS 157 was adopted by the Company. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). This statement requires balance sheet recognition of the over funded or under funded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in Accumulated Other Non-Shareowners' Changes in Equity, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company's fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. On January 1, 2007, the Company adopted SFAS No. 158,

Table of Contents

except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

The FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159) in February 2007. SFAS No. 159 permits a company to choose to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing a company with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. A company shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. On January 1, 2008, the Company adopted SFAS No. 158. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires companies to recognize a realized income tax benefit associated with dividends or dividend equivalents paid on nonvested equity-classified employee share-based payment awards that are charged to retained earnings as an increase to additional paid-in capital. EITF 06-11 was adopted on January 1, 2008. The adoption of EITF 06-11 did not have a material impact on our Condensed Consolidated Financial Statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 (Statement No. 160). Statement No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Statement No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. We are currently assessing the impact SFAS No. 160 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS 141R). SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect SFAS 141R will have an impact on our accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of SFAS No. 133 (SFAS 161). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS No. 161 will be effective for fiscal years that begin after November 15, 2008. We are in the process of evaluating the new disclosure requirements under SFAS 161.

Off-Balance Sheet Arrangements

None.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to various market risks as a part of its operations, and the Company anticipates that this exposure will increase as a result of its planned growth. In an effort to mitigate losses associated with these risks, the Company may at times enter

Table of Contents

into derivative financial instruments. These may take the form of forward sales contracts, option contracts, foreign currency exchange contracts and interest rate swaps. In September 2007, the Company first started to enter into forward currency exchange contracts to reduce foreign currency risks. The Company does not, and does not intend to, engage in the practice of trading derivative securities for profit.

Interest Rates The Company is exposed to market risks relating to changes in interest rates. The Company's credit facility allows for borrowings based on the prime rate, the Eurodollar rate or a base rate. The interest rate incurred by the Company is based on these rates plus a premium. If these rates rise, the Company's interest expense will increase accordingly.

Interest Rate Changes The Company's debt agreements allow for borrowings based on the Prime rate, Eurodollar rate or a base rate. The interest rate incurred by the Company is based on these rates plus a premium. If these rates rise, the Company's interest expense will increase accordingly. The effect of a 10% interest rate increase on all outstanding debt for Veri-Tek would have been an increase in annual interest expense of approximately \$125.

Foreign Exchange Risk The Company is exposed to fluctuations in the exchange rates principally of Canadian dollars and Euros which effects cash flows related to third party purchases and sales, intercompany product shipments and intercompany loans. The Company is also exposed to fluctuations in the value of foreign currency investment in the Company's Canadian subsidiary and cash flows related to repatriation of this investment. Additionally, the Company is exposed to volatility in the translation of foreign currency earnings to U.S. Dollars from Canadian dollars.

At March 31, 2008, the Company had entered into a series of forward currency exchange contracts. The contracts obligate the Company to purchase approximately CND \$4.7 million in total. The contracts which are in various amounts mature between April 15, 2008 and December 31, 2009. Under the contract, the Company will purchase Canadian dollars at exchange rates between .9558 and 1.011. The Canadian to US dollar exchange rates was .9742 at March 31, 2008. The Company purchases forward contracts in relationship so that gains and losses on its forward contracts offsets exchange gains and losses on its on the assets and liabilities denominated in other than the reporting units' functional currency. Forward exchange currency exchange contracts, if not offset by existing foreign currency positions, will result in the recognition of gains and loss which are not offset.

At March 31, 2008, the forward contracts held by the Company had market value of approximately \$(26). Fair value of the forward currency contracts are determined on the last day of each reporting period using quoted prices in active markets, which are supplied to the Company by the foreign currency trading operation of its bank. During the three months ended March 31, 2008, the Company has recorded realized gains of approximately \$25 and unrealized losses of approximately \$185 related to forward currency contracts. Both realized and unrealized gains and losses related to forward currency contracts are included in current earnings and are reflected in the Statement of Operations in the other income expense section on the line titled foreign currency transaction losses. The net loss of \$(160) related the forward currency contracts purchased by the Company is substantially offset by transaction currency gains of \$151. The net foreign currency loss for the months ended March 31, 2008 is \$(9).

The Company had foreign currency transaction losses of \$(33) for the three months ended March 31, 2007. The Company did not hold any foreign currency forward contract during the months ended March 31, 2007 and such had no gains or loss related to forward foreign currency contracts.

Item 4 Controls and Procedures

Disclosure Controls and Procedures

The Company under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report.

In its Annual Report on Form 10-K, the Company reported that a significant deficiency with respect to its internal control over financial reporting existed as of December 31, 2007 because it has limited finance and accounting personnel to prepare and review financial statements and its preparation of consolidated financial statements is completed without the aid of consolidation software. Since December 31, 2007, the Company has purchased consolidation software and is in the process of installing it. Additionally, the Company has hired a Director of Internal Audit. Nevertheless, the Company has concluded that the significant deficiencies described above still exist as of March 31, 2008.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant's financial statements. A material

Edgar Filing: Veri-Tek International, Corp. - Form 10-Q

weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable probability that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis by our internal controls.

Table of Contents

Notwithstanding the significant deficiency, based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (2) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

Except as described above, there has been no change in our internal control over financial reporting during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

The Company is involved in various legal proceedings, including product liability and workers' compensation matters which have arisen in the normal course of operations. The Company has product liability insurance with self insurance retention that ranges from \$50 thousand to \$1 million. Certain cases are at a preliminary stage, and it is not possible to estimate the amount or timing of any cost to the Company. However, the Company does not believe that these contingencies, in the aggregate, will have a material adverse effect on the Company. When it is probable that a loss has been incurred and possible to make a reasonable estimate of the Company's liability with respect to such matters, a provision is recorded for the amount of such estimate or the minimum amount of a range of estimates when it is not possible to estimate the amount within the range that is most likely to occur.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

The Company's credit agreement with Comerica Bank directly restricts the Company's ability to declare or pay dividends without Comerica's consent. In addition, pursuant to the Company's credit agreement with Comerica, the Company must maintain a minimum tangible effective net worth, as defined in the credit agreement. This tangible net worth requirement takes into account dividends paid to the Company's shareholders. Therefore, in determining whether the Company can pay dividends, or the amount of dividends that may be paid, the Company will also have to consider whether the payment of such dividends will allow the Company to maintain the tangible net worth requirement in the Company's credit agreement.

Item 3 Defaults Upon Senior Securities

Not applicable.

Item 4 Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5 Other Information

Not applicable.

Table of Contents**Item 6 Exhibits**

See the Exhibit Index set forth below for a list of exhibits included with this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit No.		
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.					X

Table of Contents

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.

May 13, 2008

By: /s/ David J. Langevin
David J. Langevin
Chairman and Chief Executive Officer

(Principal Executive Officer)

May 13, 2008

By: /s/ David H. Gransee
David H. Gransee
Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)