Veri-Tek International, Corp.
Form 10-Q
May 15, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007

OR

¨ TRANSITION REPORT PURSUANT 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	**42-1628978**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 x No ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

The number of shares of the registrant s common stock, no par value, outstanding as of May 10, 2007 was 7,859,875.

Table of Contents

VERI-TEK INTERNATIONAL, CORP.

FORM 10-Q INDEX

TABLE OF CONTENTS

2

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)

ASSETS	March 31, 2007 (unaudited)	December 31, 2006 (restated)
Current Assets		
Cash	$ 420	$ 615
Trade receivables-net	14,764	14,137
Receivables from related parties	1,166	1,744
Other receivables	140	
Inventory (net)	18,398	16,830
Deferred tax assets	893	893
Prepaid expenses and other	544	465
Assets held for sale	1,486	1,430
Total current assets	37,811	36,114
Total fixed assets (net)	5,987	6,117
Receivables from related parties	2,978	2,978
Intangible assets (net)	20,219	21,283
Deferred tax assets	3,747	3,747
Goodwill	13,390	13,305
Assets held for sale	300	300
Total assets	$ 84,432	$ 83,844
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Notes payable - short term	$ 686	$ 515
Current portion of capital lease obligations	333	356
Accounts payable	12,198	14,181
Accrued expenses	3,405	2,965
Other current liabilities	445	732
Liabilities held for sale	1,006	572
Total current liabilities	18,073	19,321
Long-Term Liabilities		
Line of credit	17,180	14,121
Deferred tax liabilities	4,640	4,640
Notes payable	17,132	17,303
Capital lease obligations	4,622	4,685
Deferred gain on sale of building	4,215	4,310
Other long term liabilities	85	
Total long term liabilities	47,874	45,059
Total liabilities	65,947	64,380

Minority interest	1,024	1,024
Equity		
Common stock no par value, Authorized 20,000,000 shares authorized Issued and outstanding 7,859,875 at March 31, 2007 and December 31, 2006, respectively	31,274	31,274
Warrants	2,272	2,272
Retained earnings	(16,079)	(15,050)
Accumulated other comprehensive loss	(6)	(56)
Shareholders equity	17,461	18,440
Total liabilities & equity	$ 84,432	$ 83,844

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

Table of Contents

VERI-TEK INTERNATIONAL, CORP.

CONSOLIDATED STATEMENT OF INCOME

(In thousands, except for per share amounts)

	Three Months Ended March 31, 2007 Unaudited		2006 Unaudited and Restated	
Net sales	$	23,105	$	
Cost of Sales		18,934		
Gross profit		4,171		
Operating expenses				
Research and development costs		147		
Selling, general and administrative expenses, including corporate expenses of $820 and $74 for 2007 and 2006, respectively		3,110		74
Total operating expenses		3,257		74
Operating income (loss) from continuing operations		914		(74)
Other income (expense)				
Interest income		5		19
Interest expense		(924)		
Other income (expense)		93		
Total other income (expense)		(826)		19
Income (loss) from continuing operations before income taxes		88		(55)
Income tax (benefit)		19		(18)
Net income (loss) from continuing operations		69		(37)
Discontinued operations				
Loss from operations of the discontinued Testing and Assembly Equipment segment, net of income taxes (benefit) of $(0) and $(177) for 2007 and 2006, respectively		(732)		(333)
Loss on sale or closure of discontinued operations net of income tax (benefits)		(366)		
Net loss	$	(1,029)	($	370)
Earnings Per Share				
Basic				
Earnings (loss) from continuing operations	$	0.01	$	(0.01)
Loss from discontinued operations	$	(0.09)	$	(0.07)
Loss on sale or closure of discontinued operations net of income tax	$	(0.05)	$	
Net Loss	$	(0.13)	$	(0.08)
Diluted				
Earnings (loss) from continuing operations	$	0.01	$	(0.01)
Loss from discontinued operations	$	(0.09)	$	(0.07)
Loss on sale or closure of discontinued operations net of income tax	$	(0.04)	$	

Net Loss	$ (0.12)	$ (0.08)
Weighted average common share outstanding		
Basic	7,859,875	4,875,000
Diluted	8,512,189	4,875,000

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, 2007 Unaudited	2006 Unaudited and Restated
Cash flows from operating activities:		
Net income (loss) from continuing operations	$ 69	($ 37)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	571	6
Provisions for allowances for doubtful accounts	(43)	
Loss on disposal of assets	4	
Deferred income taxes		(179)
Inventory reserves	303	
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(587)	
(Increase) decrease in inventory	(1,330)	
(Increase) decrease in prepaid expenses	(77)	
Increase (decrease) in accounts payable	(1,501)	
Increase (decrease) in accrued expense	462	
Increase (decrease) in other current liabilities	(289)	
Discontinued operations - cash used by operating activities	(720)	(633)
Net cash used for operating activities	(3,138)	(843)
Cash flows from investing activities:		
Discontinued operations - cash used by investing activities		(292)
Net cash used for investing activities		(292)
Cash flows from financing activities:		
Borrowing on revolving credit facility	3,030	
Capital lease obligations	(86)	
Net cash provided by financing activities	2,944	
Effect of exchange rate change on cash	(1)	
Net decrease in cash and cash equivalents	(194)	(1,135)
Cash and cash equivalents at the beginning of the year	615	2,025
Cash and cash equivalents at end of year	$ 420	$ 890

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

VERI-TEK INTERNATIONAL, CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Nature of Operations

Prior to July 3, 2006, Veri-Tek International Corp. and its subsidiaries (the Company) had a single line of business. The Company designed and manufactured testing and assembly equipment used primarily in the manufacture of driveline components in the automotive and heavy equipment industries. In addition, the Company utilized this technology to provide testing services to original equipment manufacturers and tier 1 suppliers in order to verify the manufacturing process.

Effective July 3, 2006, the Company entered into a second line of business (Lifting Equipment segment) through 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). Manitex is based in Georgetown, Texas. Manitex designs, manufactures, and markets a comprehensive line of boom trucks, sign cranes and trolley boom unloaders. Manitex s boom trucks and crane products are primarily used for industrial projects, energy exploration, and infrastructure development including: roads, bridges and commercial construction.

On November 30, 2006, the Company completed the acquisition of the operating assets of Liftking Industries, Inc. headquartered in Woodbridge (Toronto), Ontario. Liftking manufactures a complete line of rough terrain forklifts, and specialty mission oriented vehicles, as well as other specialized carriers, and heavy material transporters and steel mill equipment. The acquired business will operate under the name Manitex Liftking, ULC and will be part of the Company s Lifting Equipment segment.

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 and 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. The Company expects that the final sale and disposal of the assets will be completed in the year 2007. See Note 4.

As result of discontinuing our Testing and Assembly Equipment segment, the Company again operates in only a single business segment, Lifting Equipment.

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, 2007, and results of its operations and cash flows for the periods presented. The consolidated balances as of December 31, 2006 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, 2006. 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 2006 financial statements to conform to the 2007 presentation.

Restatement

The Company s consolidated financial statement includes a restatement of the Balance Sheet as of December 31, 2006, Statement of Operations and the Statement of Cash Flows for the three months ended March 31, 2006 to reflect the Testing & Assembly Equipment segment as a discontinued operation.

6

Table of Contents

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. The proportionate performance method is used to recognize income from the design and manufacturing of testing equipment.

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, which is included in cost of sales, is based on 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 carry forwards. Based upon the weight of available evidence, the Company could not conclude that it was more likely than not that its net deferred tax assets at December 31, 2006 would be realized. As such a valuation allowances of $2,128 at December 31, 2006 was established, which represent the amount that total deferred tax assets exceed total deferred tax liabilities.

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

Table of Contents

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 Segments 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, 2007 and 2006. The Company did, however, record an impairment charge of $5,932 during the quarter ended December 31, 2006 related to certain of its long-lived assets in the dis