Manitex International, Inc.
Form 10-Q
April 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

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

MANITEX INTERNATIONAL, INC.

(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)
9725 Industrial Drive, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's common stock, no par, outstanding at February 10, 2018 was 16,662,386

MANITEX INTERNATIONAL, INC. AND SUBSIDIARIES

GENERAL

This Quarterly Report on Form 10-Q filed by Manitex International, Inc. speaks as of September 30, 2017 unless specifically noted otherwise. Unless otherwise indicated, Manitex International, Inc., together with its consolidated subsidiaries, is hereinafter referred to as “Manitex,” the “Registrant,” “us,” “we,” “our” or the “Company.”

Forward-Looking Information

Certain information in this Quarter Report includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995). These statements relate to, among other things, the Company’s expectations, believes, intentions, future strategies, future events or future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, performance or achievements express or implied by such forward-looking statements. In addition, when included in this Quarterly Report or in documents incorporated herein by reference the words “may,” “expects,” “should,” “intends,” “anticipates,” “believes,” “plans,” “projects,” “estimates” and the negatives there analogous or similar expressions are intended to identify forward-looking statements. However, the absence of these words does not mean that the statement is not forward-looking. We have based these forward-looking statements on current expectations and projections about future events. These statements are not guarantees of future performance. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties, many of which are beyond our control, include, without limitation, those described below and in our 2016 Annual Report on Form 10-K/A for the fiscal year ended December 31, 2016, in the section entitled “Item 1A. Risk Factors”:

- a future substantial deterioration in economic conditions, especially in the United States and Europe;
- government spending, fluctuations in the construction industry, and capital expenditures in the oil and gas industry;
- our level of indebtedness and our ability to meet financial covenants required by our debt agreements;
- our ability to negotiate extensions of our credit agreements and to obtain additional debt or equity financing when needed;
- the cyclical nature of the markets we operate in;
- the impact that the restatement of our previously issued financial statements could have on our business reputation and relations with our customers and suppliers;
- increase in interest rates;
- our increasingly international operations expose us to additional risks and challenges associated with conducting business internationally;
- our customers’ diminished liquidity and credit availability;
- the performance of our competitors;
- shortages in supplies and raw materials or the increase in costs of materials;
- potential losses under residual value guarantees;

- product liability claims, intellectual property claims, and other liabilities;
- the volatility of our stock price;
- future sales of our common stock;
- the willingness of our stockholders and directors to approve mergers, acquisitions, and other business transactions;
- currency transaction (foreign exchange) risks and the risk related to forward currency contracts;
- compliance with changing laws and regulations;
- a substantial portion of our revenues are attributed to limited number of customers which may decrease or cease purchasing any time;

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- impairment in the carrying value of goodwill could negatively affect our operating results;
- difficulties in implementing new systems, integrating acquired businesses, managing anticipated growth, and responding to technological change;
- a disruption or breach in our information technology systems;
- certain provisions of the Michigan Business Corporation Act and the Company's Articles of Incorporation, as amended, Amended and Restated Bylaws, and the Company's Preferred Stock Purchase Rights may discourage or prevent a change in control of the Company;
- Potential negative effect related to the SEC inquiry into our Company;
- Potential risk of being delisted if we are unable to file our Annual Report and Quarterly Reports in a timely manner; and
- other factors.

The risks described in our Annual Report on Form 10-K/A, for the fiscal year ended December 31, 2016, 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. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. We do not undertake, and expressly disclaim, any obligation to update this forward-looking information, except as required under applicable law.

MANITEX INTERNATIONAL, INC.

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EXPLANATORY NOTE

The corrections contained in these financial statements restated for the prior comparative period, which we refer to herein as the “Restatement,” were prepared following an independent review by the Audit Committee (the “Audit Committee”) of the Company’s Board of Directors into certain accounting matters, which is further described herein.

The Company’s Current Report on Form 8-K filed on November 6, 2017, in 2016 the Company sold 39 cranes for total sales revenues of approximately $15 million to a single broker customer in a series of transactions (the “Transactions”) that were each structured as a customary “bill and hold” arrangement. The revenue for the Transactions was originally recognized in 2016. Ten of these units that were sold for an aggregate value of approximately $3 million were returned during 2016 (and were subsequently sold to other customers), such that for 2016, a net of 29 cranes were sold for approximately $12 million. In addition, the Company made various payments to the broker and its wholly-owned subsidiary that were expensed in 2016 and 2017. Furthermore, the debt taken on by the broker customer to purchase the cranes was effectively guaranteed by the Company pursuant to certain related agreements. In connection with its review of its financial results for the quarter ended September 30, 2017, the Company became aware that the prior accounting treatment for the Transactions was not correct. Specifically, the Company has concluded that the relationship with the Broker and its wholly-owned subsidiary qualified as a Variable Interest Entity (“VIE”) and should therefore have resulted in a different accounting treatment resulting in the debt of the VIE being reflected in the Company’s consolidated balance sheet. The Company has concluded that the revenue recognition criteria for 2016 sales were not met and payments to the Broker were not expenses of the Company. In addition, disclosures were incomplete.

In connection with the foregoing matters, on November 2, 2017, the Audit Committee of the Board of Directors of the Company, in consultation with the Company’s management and UHY LLP, the Company’s independent registered public accounting firm, determined that the Company’s previously issued financial statements for the quarters ended March 31, June 30 and September 30, 2016, year ended December 31, 2016 and quarters ended March 31 and June 30, 2017 included in the Company’s Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q for such periods and together with all three, six and nine-month financial information contained therein (collectively, the “Non-Reliance Periods”) can no longer be relied upon.

Description of the Restatement related to SVW

When the earlier “Explanatory Note” refers to a broker and its wholly-owned subsidiary, the reference is to SVW Crane & Equipment Company and its wholly owned subsidiary Rental Consulting Service Company (collectively “SVW”)

The following describes the impact of corrections that affect the three and nine months ended September 30, 2016. Information concerning 2016 impact is discussed in the Company’s amended 10-K/A for the year ended December 31, 2016.

Effect of Recording SVW Debt

As disclosed in Note 11, SVW has five notes outstanding with four financial institutions, each of which was effectively guaranteed by the Company. At September 30, 2017 the value of these notes totaled $6.3 million, net of debt issuance costs of $.2 million. Given SVW's treatment as a VIE, and the fact that the Company effectively guaranteed it, this debt has been consolidated into the restated financial statement.

Effect of Recording Sales to Third Party

Recognizing sales when SVW related inventory was sold to third parties.

Effect of Recording Crane Rentals

Income on the rental of SVW related inventory to third parties has been recorded as revenues for the corresponding.

Effect of Treating Funds Sent to SVW's Wholly-Owned Subsidiary as Advances

During the three and nine months ended September 30, 2017 there were no payments that the Company had originally classified as expenses paid to SVW's wholly-owned subsidiary. Given SVW's treatment as a VIE prior payments have been reclassified as intercompany advances.

Recording of Payments Made by SVW to Lenders

The balance sheet table in Note 2, Restatement of Previously Issued Financial Statements, shows the impact of payments made in connection with the aforementioned SVW debt.

Cumulative Income Tax Effect

This includes the impact on the income taxes for the three and nine months ended September 30, 2017 related to the discontinued operations and SVW restatements discussed above.

Description of the Restatement not related to SVW

Other

The Company disclosed a partial residual value guarantee to support a customer's financing of equipment purchased from the Company that was previously not disclosed (see Note 15). A residual value guarantee involves a guarantee that a piece of equipment will have a minimum fair market value at a future date if certain conditions are met by the customer. The Company has issued partially residual guarantees that have maximum exposure of approximately $1.6 million. The Company, however, does not have any reason to believe that any exposure from such a guarantee is either probable or estimable at this time, as such, no liability has been recorded. The Company's ability to recover losses from its guarantees may be affected by economic conditions in used equipment markets at the time of loss.

This also includes minor rounding and reclassification adjustments not included in previous categories.

Effect of Reclassifying ASV to Discontinued Operations

For the three and nine months ended September 30, 2016, the Company owned a 51% interest in ASV Holdings, Ins., which was formerly known as A.S.V., LLC ("ASV Holdings"). On May 11, 2017, in anticipation of an initial public offering, ASV Holdings converted from an LLC to a C-Corporation and the Company's 51% interest was converted to 4,080,000 common shares of ASV Holdings. On May 17, 2017, in connection within its initial public offering, ASV Holdings sold 1,800,000 of its own shares and the Company sold 2,000,000 shares of ASV Holdings common stock. The Company held a 21.2% interest in ASV Holdings, but no longer has a controlling interest in ASV holdings. ASV Holdings was deconsolidated during the quarter ended June 30, 2017 and is recorded as an equity investment starting with quarter ended June 30, 2017. Since this 10-Q/A is being filed after the above described events, prior period financial statements included in this 10-Q/A have been restated to reflect ASV Holdings as a discontinued operation.

Additional entries not related to SVW

Adjustments were made to reverse a sale transaction, adjust a deferred gain, increase an inventory reserve and to record additional rent expense and other corrections and reclassification. These adjustments were identified in prior periods but were immaterial for recording at that time. As the Company has identified the restatement adjustments for recording in prior periods, management made the determination that it would also record these previously passed adjustments as part of the restatement of the financial statements.

See Note 2 to the consolidated financial statements which details the impact of the restatement on the Consolidated Statement of Operations for the three and nine months ended September 30, 2016, and Consolidated Statement of Cash Flow for the nine months ended September 30, 2016.

Internal Control and Disclosure Controls Considerations

Our Chief Executive Officer has determined that there were deficiencies in our internal control over financial reporting that constitute material weaknesses, as defined by SEC regulations, at September 30, 2017, with respect to procedures for:

1. We did not maintain an adequate process for the intake of new contracts, customers and vendors, particularly for contracts involving unique transaction structures or unusual obligations on the part of the Company, to ensure that all contracts are appropriately reviewed and approved, and the associated financial reporting requirements associated with such contracts and transactions structures are properly identified and complied with in accordance with Generally Accepted Accounting Principles.

2. We did not maintain adequate entity-level controls with respect to ensuring adequate supporting documentation of journal entries and proper review and approval of journal entries and disbursements that were unusual in nature and of significant amounts.

3.We did not maintain an adequate review process with respect to the accounting of bill-and-hold transactions and ensure proper revenue recognition.

4.We did not maintain a formal and consistent policy for establishing inventory reserves for excess and obsolete inventory.

5.We did not maintain an adequate communication policy with respect to compliance with the Company's Code of Ethics

and availability of the Company's whistleblower hotline to report compliance issues

Accordingly, our Chief Executive Officer has concluded that our internal control over financial reporting and disclosure controls and procedures, as defined by SEC regulations, were not effective at September 30, 2017, as discussed in Part I, Item 4 of this Form 10-Q.

PART 1—FINANCIAL INFORMATION

Item 1—Financial Statements

MANITEX INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2017 Unaudited	As Restated December 31, 2016
ASSETS		
Current assets		
Cash	$ 2,968	$ 4,541
Cash - restricted	352	773
Trade receivables (net)	44,800	32,982
Other receivables	2,508	1,082
Inventory (net)	63,422	69,487
Prepaid expense and other	4,322	4,624
Current assets of discontinued operations	—	46,645
Total current assets	118,372	160,134
Total fixed assets (net)	22,287	21,839
Intangible assets (net)	31,247	30,985
Goodwill	43,014	39,669
Equity investment in ASV Holdings, Inc.	14,844	—
Other long-term assets	1,548	1,605
Deferred tax asset	545	545
Long-term assets of discontinued operations	—	72,177
Total assets	$ 231,857	$ 326,954
LIABILITIES AND EQUITY		
Current liabilities		
Notes payable	$ 31,967	$ 26,204
Current portion of capital lease obligations	362	338
Accounts payable	36,455	33,801
Accounts payable related parties	1,569	2,098
Accrued expenses	10,372	10,278
Other current liabilities	2,635	2,150
Current liabilities of discontinued operations	—	23,631
Total current liabilities	83,360	98,500
Long-term liabilities		
Revolving term credit facilities	12,575	19,957
Notes payable (net)	29,724	32,832
Capital lease obligations, (net of current portion)	5,589	6,004
Convertible note related party (net)	6,968	6,862
Convertible note (net)	14,257	14,098

Deferred gain on sale of property	1,001	1,058
Deferred tax liability	3,559	3,242
Other long-term liabilities	3,737	4,127
Long-term liabilities of discontinued operations	—	42,645
Total long-term liabilities	77,410	130,825
Total liabilities	160,770	229,325
Commitments and contingencies		
Equity		
Preferred Stock—Authorized 150,000 shares, no shares issued or outstanding at September 30, 2017 and December 31, 2016	—	—
Common Stock—no par value 25,000,000 shares authorized, 16,585,062 and 16,200,294 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	97,468	94,324
Paid in capital	2,743	2,918
Retained deficit	(27,761)	(20,505)
Accumulated other comprehensive loss	(1,363)	(4,272)
Equity attributable to shareholders of Manitex International, Inc.	71,087	72,465
Equity attributable to noncontrolling interests	—	25,164
Total equity	71,087	97,629
Total liabilities and equity	$ 231,857	$ 326,954

The accompanying notes are an integral part of these financial statements

MANITEX INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017 Unaudited	As Restated 2016 Unaudited	2017 Unaudited	As Restated 2016 Unaudited
Net revenues	$56,464	$39,131	$148,634	$132,106
Cost of sales	46,591	32,589	121,965	108,658
Gross profit	9,873	6,542	26,669	23,448
Operating expenses				
Research and development costs	619	725	1,902	2,203
Selling, general and administrative expenses	8,282	8,985	25,797	27,473
Total operating expenses	8,901	9,710	27,699	29,676
Operating income (loss)	972	(3,168)	(1,030)	(6,228)
Other income (expense)				
Interest expense:				
Interest expense	(1,716)	(1,384)	(4,498)	(4,658)
Interest expense related to write off of debt issuance costs	—	—	—	(1,439)
Foreign currency transaction loss	(799)	(82)	(1,138)	(991)
Other income	18	281	361	883
Total other expense	(2,497)	(1,185)	(5,275)	(6,205)
Income (loss) before income taxes and income (loss) in equity interest from continuing operations	(1,525)	(4,353)	(6,305)	(12,433)
Income tax expense (benefit) from continuing operations	281	(691)	416	(958)
Income (loss) from equity investments, net of taxes	284	(5,673)	284	(5,752)
Net loss from continuing operations	(1,522)	(9,335)	(6,437)	(17,227)
Discontinued operations				
Loss from operations of discontinued operations (including loss on disposal for the nine months 2017 of $1,133 and losses on disposal of $9,502 and $7,290 for the three and nine months 2016, respectively)	—	(9,608)	(573)	(4,745)
Income tax expense (benefit)	(15)	4,145	(28)	1,259
Loss from discontinued operations	15	(13,753)	(545)	(6,004)
Net loss	(1,507)	(23,088)	(6,982)	(23,231)
Net (income) attributable to noncontrolling interest from discontinued	—	(294)	(274)	(566)

operations				
Net loss attributable to shareholders of Manitex International, Inc.	$(1,507)	$(23,382)	$(7,256)	$(23,797)
Earnings (loss) Per Share				
Basic				
Earnings (loss) from continuing operations attributable to shareholders of Manitex International, Inc.	$(0.09)	$(0.58)	$(0.39)	$(1.07)
Loss from discontinued operations attributable to shareholders of Manitex International, Inc.	$0.00	$(0.87)	$(0.05)	$(0.41)
Net earnings (loss) attributable to shareholders of Manitex International, Inc.	$(0.09)	$(1.45)	$(0.44)	$(1.48)
Diluted				
Earnings (loss) from continuing operations attributable to shareholders of Manitex International, Inc.	$(0.09)	$(0.58)	$(0.39)	$(1.07)
Loss from discontinued operations attributable to shareholders of Manitex International, Inc.	$0.00	$(0.87)	$(0.05)	$(0.41)
Net earnings (loss) attributable to shareholders of Manitex International, Inc.	$(0.09)	$(1.45)	$(0.44)	$(1.48)
Weighted average common shares outstanding				
Basic	16,573,927	16,127,346	16,532,683	16,119,578
Diluted	16,573,927	16,127,346	16,532,683	16,119,578

The accompanying notes are an integral part of these financial statements

MANITEX INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017 Unaudited	As Restated 2016 Unaudited	2017 Unaudited	As Restated 2016 Unaudited
Net loss:	$(1,507)	$(23,088)	$(6,982)	$(23,231)
Other comprehensive income (loss)				
Foreign currency translation adjustments	795	1,481	2,909	2,569
Total other comprehensive income	795	1,481	2,909	2,569
Comprehensive loss	(712)	(21,607)	(4,073)	(20,662)
Comprehensive (income) attributed to noncontrolling interest	—	(294)	(274)	(566)
Total comprehensive loss attributable to shareholders of Manitex International, Inc.	$(712)	$(21,901)	$(4,347)	$(21,228)

The accompanying notes are an integral part of these financial statements

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MANITEX INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30,	
		As Restated
	2017	2016
	Unaudited	