

Manitex International, Inc.
Form 10-Q
November 02, 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, 2018

OR

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

For the transition period from to

Commission File Number: 001-32401

MANITEX INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Michigan

(State or Other Jurisdiction of

Incorporation or Organization)

9725 Industrial Drive, Bridgeview, Illinois
(Address of Principal Executive Offices)

42-1628978

(I.R.S.
Employer

Identification
Number)

60455
(Zip Code)

(708) 430-7500

Edgar Filing: Manitex International, Inc. - Form 10-Q

(Registrant's Telephone Number, Including Area Code)

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected 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 November 1, 2018 was 19,622,190

MANITEX INTERNATIONAL, INC. AND SUBSIDIARIES

GENERAL

This Quarterly Report on Form 10-Q filed by Manitex International, Inc. speaks as of September 30, 2018 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 Quarterly 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, beliefs, 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 expressed 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 thereof and 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 2017 Annual Report on Form 10-K for the fiscal year ended December 31, 2017, in the section entitled “Item 1A. Risk Factors”:

- 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;

1

- 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;
- 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 effects related to the SEC investigation into our Company;
- other factors.

The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 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.

FORM 10-Q INDEX

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

<u>ITEM 1: Financial Statements (Unaudited)</u>	4
<u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>	4
<u>Condensed Consolidated Statements of Operations for the Three- and Nine-Month Periods Ended September 30, 2018 and 2017</u>	5
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three- and Nine-Month Periods Ended September 30, 2018 and 2017</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>ITEM 2: Management's Discussion And Analysis Of Financial Condition And Results Of Operations</u>	34
<u>ITEM 3: Quantitative And Qualitative Disclosures About Market Risk</u>	42
<u>ITEM 4: Controls And Procedures</u>	42
PART II: <u>OTHER INFORMATION</u>	
<u>ITEM 1: legal proceedings</u>	43
<u>ITEM 1A: Risk Factors</u>	43
<u>ITEM 2: Unregistered Sales Of Equity Securities And Use Of Proceeds</u>	43
<u>ITEM 3: Defaults Upon Senior Securities</u>	44
<u>ITEM 4: Mine Safety Disclosures</u>	44
<u>ITEM 5: Other Information</u>	44
<u>ITEM 6: Exhibits</u>	44

PART 1—FINANCIAL INFORMATION

Item 1—Financial Statements

MANITEX INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, December 31,	
	2018	2017
	Unaudited	Unaudited
ASSETS		
Current assets		
Cash	\$ 20,265	\$ 5,014
Cash - restricted	306	352
Marketable equity securities	5,346	—
Trade receivables (net)	42,073	46,633
Other receivables	2,747	1,946
Inventory (net)	67,480	54,360
Prepaid expense and other	2,017	2,017
Total current assets	140,234	110,322
Total fixed assets, net of accumulated depreciation of \$14,350 and \$12,921		
at September 30, 2018 and December 31, 2017, respectively	20,366	22,038
Intangible assets (net)	28,260	31,014
Goodwill	42,508	43,569
Equity investment in ASV Holdings, Inc.	—	14,931
Other long-term assets	1,234	1,475
Deferred tax asset	1,839	1,839
Total assets	\$ 234,441	\$ 225,188
LIABILITIES AND EQUITY		
Current liabilities		
Notes payable	\$ 21,464	\$ 29,131
Current portion of capital lease obligations	409	378
Accounts payable	40,269	35,386
Accounts payable related parties	79	1,331
Accrued expenses	9,138	10,070
Customer deposits	1,777	2,242
Other current liabilities	—	890
Total current liabilities	73,136	79,428
Long-term liabilities		
Revolving term credit facilities	—	12,893
Notes payable (net)	26,651	26,656
Capital lease obligations (net of current portion)	5,173	5,483

Edgar Filing: Manitex International, Inc. - Form 10-Q

Convertible note related party (net)	7,119	7,005
Convertible note (net)	14,475	14,310
Deferred gain on sale of property	874	969
Deferred tax liability	3,789	3,384
Other long-term liabilities	3,910	4,215
Total long-term liabilities	61,991	74,915
Total liabilities	135,127	154,343
Commitments and contingencies		
Equity		
Preferred Stock—Authorized 150,000 shares, no shares issued or outstanding at		
September 30, 2018 and December 31, 2017	—	—
Common Stock—no par value 25,000,000 shares authorized, 19,615,390 and 16,617,932		
shares issued and outstanding at September 30, 2018 and December 31, 2017,		
respectively	130,111	97,661
Paid in capital	2,773	2,802
Retained deficit	(30,913)	(28,583)
Accumulated other comprehensive loss	(2,657)	(1,035)
Total equity	99,314	70,845
Total liabilities and equity	\$ 234,441	\$ 225,188

The accompanying notes are an integral part of these financial statements

MANITEX INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018 Unaudited	2017 Unaudited	2018 Unaudited	2017 Unaudited
Net revenues	\$60,938	\$56,464	\$181,517	\$148,634
Cost of sales	48,944	46,591	145,982	121,965
Gross profit	11,994	9,873	35,535	26,669
Operating expenses				
Research and development costs	801	619	2,179	1,902
Selling, general and administrative expenses	8,190	8,282	27,184	25,797
Total operating expenses	8,991	8,901	29,363	27,699
Operating income (loss)	3,003	972	6,172	(1,030)
Other (expense) income				
Interest expense	(1,294)	(1,716)	(4,350)	(4,498)
Interest income	68	—	95	—
Change in fair value of securities held	(907)	—	(2,308)	—
Foreign currency transaction loss	(410)	(799)	(635)	(1,138)
Other (expense) income	(3)	18	(355)	361
Total other expense	(2,546)	(2,497)	(7,553)	(5,275)
Income (loss) before income taxes and income (loss) in equity				
interest from continuing operations	457	(1,525)	(1,381)	(6,305)
Income tax expense from continuing operations	335	281	540	416
Income (loss) on equity investments (including loss on sale of shares)	—	284	(409)	284
Net income (loss) from continuing operations	122	(1,522)	(2,330)	(6,437)
Discontinued operations				
Loss from operations of discontinued operations (including loss on disposal for the three and nine months 2017 of \$1,133)	—	—	—	(573)
Income tax benefit	—	(15)	—	(28)
Income (loss) from discontinued operations	—	15	—	(545)
Net income (loss)	122	(1,507)	(2,330)	(6,982)
Net income attributable to noncontrolling interest from discontinued operations	—	—	—	(274)
Net income (loss) attributable to shareholders of	\$122	\$(1,507)	\$(2,330)	\$(7,256)

Edgar Filing: Manitex International, Inc. - Form 10-Q

Manitex International, Inc.				
Earnings (loss) Per Share				
Basic				
Earnings (loss) from continuing operations attributable to				
shareholders of Manitex International, Inc.	\$0.01	\$(0.09)	\$(0.13)	\$(0.39)
Loss from discontinued operations attributable to				
shareholders of Manitex International, Inc.	\$—	\$0.00	\$—	\$(0.05)
Net earnings (loss) attributable to shareholders of				
Manitex International, Inc.	\$0.01	\$(0.09)	\$(0.13)	\$(0.44)
Diluted				
Earnings (loss) from continuing operations attributable to				
shareholders of Manitex International, Inc.	\$0.01	\$(0.09)	\$(0.13)	\$(0.39)
Loss from discontinued operations attributable to				
shareholders of Manitex International, Inc.	\$—	\$0.00	\$—	\$(0.05)
Net earnings (loss) attributable to shareholders of				
Manitex International, Inc.	\$0.01	\$(0.09)	\$(0.13)	\$(0.44)
Weighted average common shares outstanding				
Basic	19,610,168	16,573,927	18,003,829	16,532,683
Diluted	19,694,379	16,573,927	18,003,829	16,532,683

The accompanying notes are an integral part of these financial statements

MANITEX INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	Unaudited	Unaudited	Unaudited	Unaudited
Net Income (loss):	\$122	\$ (1,507)	\$ (2,330)	\$ (6,982)
Other comprehensive (loss) income				
Foreign currency translation adjustments	(236)	795	(1,622)	2,909
Total other comprehensive (loss) income	(236)	795	(1,622)	2,909
Comprehensive loss	(114)	(712)	(3,952)	(4,073)
Comprehensive (income) attributed to noncontrolling interest	—	—	—	(274)
Total comprehensive loss attributable to shareholders of				
Manitex International, Inc.	\$ (114)	\$ (712)	\$ (3,952)	\$ (4,347)

The accompanying notes are an integral part of these financial statements

MANITEX INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended	
	September 30, 2018	2017
	Unaudited	Unaudited
Cash flows from operating activities:		
Net loss	\$(2,330)	\$(6,982)
Adjustments to reconcile net loss to cash used for operating activities:		
Depreciation and amortization	3,789	3,908
Loss on sale of discontinued operations	87	1,133
Changes in allowances for doubtful accounts	7	41
Changes in inventory reserves	439	(449)
Revaluation of contingent acquisition liability	345	(346)
Deferred income taxes	509	(10)
Amortization of deferred debt issuance costs	183	402
Amortization of debt discount	322	388
Change in value of interest rate swaps	(2)	(421)
Loss (income) from equity investments	204	(284)
Change in value of securities held	2,308	—
Share-based compensation	530	517
Adjustment to deferred gain on sales and lease back	(35)	—
Loss on disposal of assets	4	160
Reserves for uncertain tax provisions	43	54
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	2,995	(10,401)
(Increase) decrease in inventory	(14,325)	9,323
(Increase) decrease in prepaid expenses	(9)	356
Decrease in other assets	148	66
Increase (decrease) in accounts payable	4,451	(845)
Decrease in accrued expense	(463)	(642)
(Decrease) increase in other current liabilities	(1,382)	247
Decrease in other long-term liabilities	(600)	(382)
Discontinued operations - cash provided by operating activities	—	3,665
Net cash used for operating activities	(2,782)	(502)
Cash flows from investing activities:		
Proceeds from the sale of partial interest in equity investment	7,000	—
Proceeds from the sale of discontinued operations (Note 18)	—	12,892
Proceeds from the sale of fixed assets	9	15
Purchase of property and equipment	(556)	(761)

Edgar Filing: Manitex International, Inc. - Form 10-Q

Investment in intangibles other than goodwill	(31)	(64)
Discontinued operations - cash used for investing activities	—	(84)
Net cash provided by investing activities	6,422	11,998
Cash flows from financing activities:		
Borrowings on revolving term credit facility	103,100	—
Payments on revolving term credit facility	(115,993)	(7,382)
Proceeds from investment in the Company	31,983	—
Net (repayment) borrowings on working capital facilities (See Note 11)	(5,058)	4,198
New borrowings—other	477	754
Debt issuance costs incurred	(50)	(50)
Note payments	(1,823)	(8,451)
Shares repurchased for income tax withholding on share-based compensation	(107)	(128)
Proceeds from sale and lease back	—	896
Proceeds from stock offering	—	2,426
Payments on capital lease obligations	(278)	(793)
Discontinued operations - cash (used for) financing activities	—	(5,058)
Net cash provided by (used for) financing activities	12,251	(13,588)
Net increase (decrease) in cash and cash equivalents	15,891	(2,092)
Effect of exchange rate changes on cash	(686)	98
Cash and cash equivalents at the beginning of the year	5,366	5,314
Cash and cash equivalents at end of period	\$20,571	\$3,320

See Note 1 for supplemental cash flow disclosures

The accompanying notes are an integral part of these financial statements

MANITEX INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(In thousands, except share and per share data)

1. Nature of Operations and Basis of Presentation

The Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017 and the related Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2018 and 2017 and Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2018 and 2017 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations and cash flows of the Company for the interim periods. Interim results may not be indicative of results to be realized for the entire year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The Condensed Consolidated Balance Sheet as of December 31, 2017 was derived from our audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP"). Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation. All references in this report to financial results related to 2017 reflect the previously restated results for the first and second quarters of 2017.

The Company is a leading provider of engineered lifting solutions and operates as a single business segment. Operating activities are conducted through the following wholly-owned subsidiaries: Manitex, Inc. ("Manitex"), Badger Equipment Company ("Badger"), PM Group S.p.A. and Subsidiaries ("PM Group"), Manitex Valla S.r.l. ("Valla"), Sabre Manufacturing, LLC ("Sabre"), Crane and Machinery, Inc. ("C&M"), and Crane and Machinery Leasing, Inc. ("C&M Leasing").

The condensed consolidated financial statements include the accounts of Manitex International, Inc. and subsidiaries in which it has a greater than 50% voting interest (collectively, the "Company"). All significant intercompany accounts, profits and transactions have been eliminated in consolidation.

Consolidated Variable Interest Entity

Even though it never had an ownership interest in SVW Crane & Equipment Company (together with its wholly owned subsidiary, Rental Consulting Service Company, "SVW"), the Company previously had the power to direct the activities that most significantly impacted SVW's economic performance. Additionally, the Company was the primary

beneficiary of its relationship with SVW. SVW obtained third party financing, which was effectively guaranteed by the Company, on specific cranes the Company manufactured and remitted the loan proceeds to the Company. Other than its business transactions described herein, SVW had no other substantial business operations. The Company determined that SVW was a Variable Interest Entity (“VIE”) that under current accounting guidance needed to be consolidated in the Company’s financial results. By December 31, 2017, SVW had ceased operations and is therefore not a consolidated VIE after December 31, 2017.

Supplemental Cash Flow Information

Transactions for the periods ended September 30, 2018 and 2017 are as follows:

	Nine Months Ended	
	September 30, 2018	2017
Interest received in cash	\$95	\$—
Interest paid in cash	4,678	4,375
Income tax (refunds) payments in cash	(99)	107
Proportional share of increase in equity investments' paid in capital	14	—
Share based compensation paid in connection with Tadano transaction	200	—
Equipment held for sale financed on a capital lease	—	896
Stock to purchase Winona facility	—	154

Discontinued Operations

ASV Segment

ASV is located in Grand Rapids, Minnesota and manufactures a line of high-quality compact track and skid steer loaders. The products are used in site clearing, general construction, forestry, golf course maintenance and landscaping industries, with general construction being the largest.

Prior to the quarter ended June 30, 2017, the Company owned a 51% interest in ASV Holdings, Inc., which was formerly known as A.S.V., LLC (“ASV”). On May 11, 2017, in anticipation of an initial public offering, ASV converted from an LLC to a C-Corporation and the Company’s 51% interest was converted to 4,080,000 common shares of ASV. On May 17, 2017, in connection with its initial public offering, ASV sold 1,800,000 of its own shares and the Company sold 2,000,000 shares of ASV common stock and reduced its investment in ASV to a 21.2% interest. ASV was deconsolidated and was recorded as an equity investment starting with the quarter ended June 30, 2017. Periods ending before June 30, 2017 reflect ASV as a discontinued operation. In February 2018, the Company sold an additional 1,000,000 shares of ASV that it held which reduced the Company’s investment in ASV to approximately 11.0%. The Company ceased accounting for its investment in ASV under the equity method and now accounts for its investment as a marketable equity security. See Notes 8 and 18 for additional discussion related to the accounting treatment of the investment in ASV after the sale of the additional shares.

2. Significant Accounting Policies and New Accounting Pronouncements

Principles of Consolidation

The Company consolidates all entities that we control by ownership of a majority voting interest. Additionally, there are situations in which consolidation is required even though the usual condition of consolidation (ownership of a majority voting interest) does not apply. Generally, this occurs when an entity holds an interest in another business enterprise that was achieved through arrangements that do not involve voting interests, which results in a disproportionate relationship between such entity's voting interests in, and its exposure to the economic risks and potential rewards of, the other business enterprise. This disproportionate relationship results in what is known as a variable interest, and the entity in which we have this interest is referred to as a Variable Interest Entity (“VIE”). An enterprise must consolidate a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Although the Company never had an ownership interest in SVW, the Company previously had the power to direct the activities of SVW that most significantly impacted its economic performance and absorbed the losses. As such, the Company determined that SVW was a VIE that required consolidation. SVW obtained financing and remitted the proceeds to the Company using inventory (cranes) owned by the Company as collateral. The finance companies that hold the loans have a perfected security interest in the inventory and therefore have recourse against this specific inventory. Furthermore, the debt taken on by SVW was effectively guaranteed by the Company pursuant to certain related agreements. By December 31, 2017, SVW ceased operations and is not a consolidated VIE after December 31, 2017.

The Company eliminates from the Company’s financial results all significant intercompany transactions, including the intercompany transactions with consolidated VIEs.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the amounts the Company's customers are invoiced and do not bear interest. Accounts receivable is reduced by an allowance for amounts that may become uncollectible in the future. The Company's estimate for the allowance for doubtful accounts related to trade receivables includes evaluation of specific accounts where the Company has information that the customer may have an inability to meet its financial obligations. The Company had allowances for doubtful accounts of \$34 and \$82 at September 30, 2018 and December 31, 2017, respectively.

Guarantees

The Company has issued partial residual guarantees to financial institutions related to a customer financing of equipment purchased by the customer. The Company must assess the probability of losses if the fair market value is less than the guaranteed residual value.

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 any losses incurred under the guarantees may be affected by economic conditions in used equipment markets at the time of loss.

The Company records a liability for the estimated fair value of guarantees issued pursuant to ASC 460. The Company recognizes a loss under a guarantee when its obligation to make payment under the guarantee is probable and the amount of the loss can be estimated. A loss would be recognized if the Company's payment obligation under the guarantee exceeds the value it can expect to recover to offset such payment, primarily through the sale of the equipment underlying the guarantee.

Inventory, net

Inventory consists of stock materials and equipment stated at the lower of cost (first in, first out) or net realizable value. All equipment classified as inventory is available for sale. The Company records excess and obsolete inventory reserves. The estimated reserve is based upon specific identification of excess or obsolete inventories. Selling, general and administrative expenses are expensed as incurred and are not capitalized as a component of inventory.

Accrued Warranties

Warranty costs are accrued at the time revenue is recognized. 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 Equipment Distribution division does not accrue for warranty costs at the time of sales, as they are reimbursed by the manufacturers for any warranty that they provide to their customers.

A liability for estimated warranty claims is accrued at the time of sale. 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.

Interest Rate Swap Contracts

The Company enters into derivative instruments to manage its exposure to interest rate risk related to certain foreign term loans. Derivatives are initially recognized at fair value at the date the contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in current earnings immediately unless the derivative is designated and effective as a hedging instrument, in which case the effective portion of the gain or loss is recognized and is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged instrument affects earnings (date of sale). The Company's interest rate swap contracts are held by the PM Group and are intended to manage the exposure to interest rate risk related to certain term loans that PM Group has with certain financial institutions in Italy. These contracts have been determined not to be hedge instruments under ASC 815-10.

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 the advice of legal counsel.

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 records cumulative adjustments as necessary. The effective tax rate is based upon the Company's anticipated earnings both in the U.S. and in foreign jurisdictions.

Comprehensive Income

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 comprehensive income adjustment required for the Company consists of a foreign currency translation adjustment, which is the result of consolidating its foreign subsidiaries.

Accounting for Equity Investments

Beginning with the quarter ended June 30, 2017, the Company accounted for its 21.2% investment in ASV under the equity method of accounting. Under the equity method, the Company's share of the net income (loss) of ASV was recognized as income (loss) in the Company's statement of operations and added to the investment account, and dividends received from ASV were treated as a reduction of the investment account. The Company reports ASV's earnings on a one quarter lag as ASV may not report earnings in time to be included in the Company's financial statements for any given reporting period.

On May 17, 2017 (the date ASV became an equity investment), the Company's investment in ASV exceeded the proportional share of ASV's net assets. Under current applicable guidance, assets and liabilities of the investee (ASV) were valued at fair market value on the date of the investment. The Company's investment, however, was not adjusted for the difference between the Company's proportional share of the net assets and the fair value of the assets that existed on the date that the investment was made. The differences were accounted for on a memo basis. The differences can be either of temporary nature or permanent differences. Adjustment to inventory and identifiable intangible assets with finite lives are temporary differences. Fair market adjustments to land and goodwill are examples of permanent differences. Differences related to temporary items are amortized over their lives. Earnings recognized are the proportional share of investee's income for the period adjusted for reversal of any timing differences or additional amortization related to the memo fair market adjustments of identifiable intangible assets that have finite lives.

Between February 26 and 28, 2018, the Company sold 1,000,000 shares of ASV stock reducing the Company's investment in ASV to approximately 11.0%. See Notes 8 and 18. During the quarter ended March 31, 2018, the Company:

- Recognized its proportional share of ASV loss for the three months ended December 31, 2017,
- Recorded a loss on the sale of shares,
- Ceased accounting for ASV as an equity investment, and
- Valued its remaining investment in ASV at its current market value.

Accounting for Marketable Equity Securities

Marketable equity securities are valued at fair market value based on the closing price of the stock on the date of the balance sheet. Gains and loss related fair value adjustments related to marketable equity securities are recorded into income each reporting period.

Shipping and Handling

The Company records the amount of shipping and handling costs billed to customers as revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment costs and are included in cost of sales.

Adoption of Highly Inflationary Accounting in Argentina

GAAP guidance requires the use of highly inflationary accounting for countries whose cumulative three-year inflation exceeds 100 percent. In the second quarter of 2018, published inflation indices indicated that the three-year cumulative inflation in Argentina exceeded 100 percent, and as of July 1, 2018, we elected to adopt highly inflationary accounting for our subsidiary in Argentina (“PM Argentina”). Under highly inflationary accounting, PM Argentina’s functional currency became the Euro (its parent company’s reporting currency), and its income statement and balance sheet have been measured in Euros using both current and historical rates of exchange. The effect of changes in exchange rates on peso-denominated monetary assets and liabilities has been reflected in earnings in other (income) and expense, net and was not material. As of September 30, 2018, PM Argentina had a small net peso monetary position. Net sales of PM Argentina were less than 5 and 10 percent of our consolidated net sales for the nine months ended September 30, 2018 and 2017.

Recently Issued Pronouncements – Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” (“ASU 2016-02”), which requires lessees to recognize assets and liabilities for leases with lease terms of more than 12 months and disclose key information about leasing arrangements. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The update is effective for reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is in the process of evaluating the impact of this update on its consolidated financial statements. The Company disclosed in its 2017 10-K that the Company had future operating lease commitments of approximately \$5,000. This is an indication of the potential magnitude that adoption of this standard will have on the Company’s financial statements.

Subsequently, the FASB issued the following standards related to ASU 2016-02: ASU 2018-01, "Land Easement Practical Expedient for Transition to Topic 842," ("ASU 2018-01"), ASU 2018-10, "Codification Improvements to Topic 842, Leases" ("ASU 2018-10") and ASU 2018-11, "Leases (Topic 842): Targeted Improvements" ("ASU 2018-11"). ASU 2018-01 permits an entity to elect an optional transition practical expedient under Topic 842 related to existing or expired land easements that were not previously accounted for as leases under Topic 840. ASU 2018-10 clarifies certain guidance within ASU 2016-02 and ASU 2018-11 is intended to reduce costs and ease implementation of ASU 2016-02. The Company will evaluate the impact and adopt ASU 2018-01, ASU 2018-10 and ASU 2018-11 in conjunction with its adoption of ASU 2016-02.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment. The effective date will be the first quarter of fiscal year 2020, with early adoption permitted in 2017. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," ("ASU 2018-2"). ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from H.R. 1 "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" (commonly known as "Tax Cuts and Jobs Act"). The effective date will be the first quarter of fiscal year 2019. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

Recently Adopted Accounting Guidance

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things, require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost. The effective date was the first quarter of fiscal year 2018. The Company adopted this guidance during the quarter ended March 31, 2018. The adoption of this guidance did not have a significant impact on the operating results.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09"). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, "Deferral of the Effective Date", which amends ASU 2014-09. As a result, the effective date was the first quarter of 2018, with early adoption permitted. The Company adopted this guidance during the quarter ended March 31, 2018 on a modified retrospective basis. Adoption of the new standard has had no material impact on our consolidated balance sheet, cash flows statements or net income.

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ("ASU 2016-08"). ASU 2016-08 further clarifies principal and agent relationships within ASU 2014-09. Similar to ASU 2014-09, the effective date was the first quarter of fiscal year 2018 with early adoption permitted in the first quarter of fiscal year 2017. The Company adopted this guidance during the quarter ended March 31, 2018 on a modified retrospective basis. Adoption of the new standard has had no material impact on our consolidated balance sheet, cash flows statements or net income.

In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing” (“ASU 2016-10”). The amendments in ASU 2016-10 are expected to reduce the cost and complexity of applying the guidance on identifying promised goods or services in contracts with customers and to improve the operability and understandability of licensing implementation guidance related to the entity's intellectual property. Similar to ASU 2014-09, the effective date was the first quarter of fiscal year 2018 with early adoption permitted in the first quarter of fiscal year 2017. The Company adopted this guidance during the quarter ended March 31, 2018 on a modified retrospective basis. The adoption of this guidance did not have a significant impact on the operating results when adopted. The Company’s revenue recognition policy adopted as a result of the New Revenue Standards is presented in Note 3 below.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments,” (“ASU 2016-15”). ASU 2016-15 reduces the existing diversity in practice in financial reporting by clarifying existing principles in ASC 230, “Statement of Cash Flows,” and provides specific guidance on certain cash flow classification issues. The effective date for ASU 2016-15 was the first quarter of fiscal year 2018 with early adoption permitted. The Company made an election to use the “Cumulative Earning Approach” to classify distributions received from equity investments. Other than the aforementioned election (which may have a future impact), the adoption of this guidance during the quarter ended March 31, 2018, did not have an impact on the Company’s Statement of Cash Flows.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740) - Intra-Entity Transfer of Assets Other than Inventory,” (“ASU 2016-16”). ASU 2016-16 requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. This is a change from prior GAAP which prohibited recognition of current and deferred income taxes until the asset was sold to a third party. The effective date for ASU 2016-16 was the first quarter of fiscal year 2018 with early adoption permitted. The Company adopted this guidance during the quarter ended March 31, 2018. The adoption of this guidance did not have a significant impact on the operating results.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” (“ASU 2017-01”). ASU 2017-01 provides guidance in ascertaining whether a collection of assets and activities is considered a business. The effective date is the first quarter of fiscal year 2018, with prospective application. The Company has adopted this guidance during the quarter ended March 31, 2018. The adoption of this guidance did not have an impact on the operating results when adopted.

Except as noted above, the guidance issued by the FASB during the current year is not expected to have a material effect on the Company’s consolidated financial statements.

3. Revenue Recognition

Revenue is recognized when obligations under the terms of the contract with our customer are satisfied; generally, this occurs with the transfer of control of our equipment, parts or installation services (typically completed within one day), which occurs at a point in time. Equipment can be redirected during the manufacturing phase such that over time revenue recognition is not appropriate. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Our contracts are non-cancellable and returns are only allowed in limited instances through Crane & Machinery, Inc. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. The expected costs associated with our base warranties continue to be recognized as expense when the products are sold and do not constitute a separate performance obligation.

For instances where equipment and installation services are sold together, the Company accounts for the equipment and installation services separately. The consideration (including any discounts) is allocated between the equipment and installation services based on their stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the equipment.

In some instances, the Company fulfills its obligations and bills the customer for the work performed but does not ship the goods until a later date. These arrangements are considered bill-and-hold transactions. In order to recognize revenue on the bill-and-hold transactions, the Company ensures the customer has requested the arrangement, the product is identified separately as belonging to the customer, the product is ready for shipment to the customer in its current form, and the Company does not have the ability to direct the product to a different customer. A portion of the transaction price is not allocated to the custodial services due to the immaterial value assigned to that performance obligation.

Payment terms offered to customers are defined in contracts and purchase orders and do not include a significant financing component. At times, the Company may offer discounts which are considered variable consideration however, the Company applies the constraint guidance when determining the transaction price to be allocated to the performance obligations.

The Company generates revenue through its principal subsidiaries:

Manitex, Inc. (“Manitex”) markets a comprehensive line of boom trucks, truck cranes and sign cranes. Manitex’s boom trucks and crane products are primarily used for industrial projects, energy exploration and infrastructure development, including, roads, bridges and commercial construction.

Badger Equipment Company (“Badger”) is a manufacturer of specialized rough terrain cranes and material handling products. Badger primarily serves the needs of the construction, municipality and railroad industries.

PM Group S.p.A. (“PM”) is a leading Italian manufacturer of truck mounted hydraulic knuckle boom cranes with a 50-year history of technology and innovation, and a product range sp