

---

---

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 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**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**42-1628978**  
(I.R.S. Employer  
Identification Number)

**7402 W. 100<sup>th</sup> 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, 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

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 November 8, 2007 was 9,805,875.

---

---

VERI-TEK INTERNATIONAL, CORP.

FORM 10-Q INDEX

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

**ITEM 1: FINANCIAL STATEMENTS**

Consolidated Balance Sheets as of September 30, 2007 (unaudited) and December 31, 2006	3
Consolidated Statements of Income (unaudited) for the Three and Nine Month Periods Ended September 30, 2007 and 2006	5
Consolidated Statements of Cash Flows (unaudited) for the Nine Month Periods Ended September 30, 2007 and 2006	6
Notes to Consolidated Financial Statements (unaudited)	8

<b>ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</b>	23
--	----

<b>ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</b>	32
---	----

<b>ITEM 4: CONTROLS AND PROCEDURES</b>	32
--	----

PART II: OTHER INFORMATION

<b>ITEM 1: LEGAL PROCEEDINGS</b>	33
----------------------------------	----

<b>ITEM 1A: RISK FACTORS</b>	34
------------------------------	----

<b>ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</b>	36
--	----

<b>ITEM 3: DEFAULTS UPON SENIOR SECURITIES</b>	36
--	----

<b>ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</b>	36
--	----

<b>ITEM 5: OTHER INFORMATION</b>	36
----------------------------------	----

<b>ITEM 6: EXHIBITS</b>	37
-------------------------	----

**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)

	September 30, 2007	December 31, 2006
	(unaudited)	(restated)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash.....	\$ 1,302	\$ 615
Trade receivables (net).....	15,783	14,137
Receivables from related parties.....	—	1,744
Other receivables.....	271	—
Inventory (net).....	17,075	16,830
Deferred income tax assets.....	893	893
Prepaid expenses and other.....	736	465
Assets held for sale.....	310	1,430
<b>Total current assets.....</b>	<b>36,370</b>	<b>36,114</b>
Total fixed assets (net).....	5,678	6,117
Receivables from related parties.....	—	2,978
Intangible assets (net).....	21,765	21,283
Deferred income tax assets.....	3,747	3,747
Goodwill.....	14,065	13,305
Assets held for sale.....	—	300
<b>Total assets.....</b>	<b>\$ 81,625</b>	<b>\$ 83,844</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt.....	\$ 602	\$ 515
Current portion of capital lease obligations.....	299	356
Accounts payable.....	11,330	14,181
Accrued expenses.....	3,801	2,965
Other current liabilities.....	361	732
Liabilities held for sale.....	309	572
<b>Total current liabilities.....</b>	<b>16,702</b>	<b>19,321</b>
<b>Long-Term Liabilities</b>		
Lines of credit.....	15,125	14,121
Deferred income tax liabilities.....	4,640	4,640
Notes payable.....	5,694	17,303
Capital lease obligations.....	4,484	4,685
Deferred gain on sale of building.....	4,025	4,310
Other long term liabilities.....	85	—
<b>Total long term liabilities.....</b>	<b>34,053</b>	<b>45,059</b>
<b>Total liabilities.....</b>	<b>50,755</b>	<b>64,380</b>
<b>Commitments and contingencies.....</b>	<b>—</b>	<b>—</b>
<b>Minority interest.....</b>	<b>1,024</b>	<b>1,024</b>
<b>Shareholders' Equity</b>		
Common stock – no par value, Authorized 20,000,000 shares authorized; issued and outstanding 9,805,875 and 7,859,875 at September 30, 2007 and December 31, 2006, respectively.....	41,928	31,274
Warrants.....	1,788	2,272
Retained earnings.....	(14,820)	(15,050)

	September 30, 2007	December 31, 2006
	(unaudited)	(restated)
Accumulated other comprehensive income (loss) .....	982	(56)
Subtotal .....	29,878	18,440
Less: Unearned Stock Based Compensation.....	(32 )	—
<b>Total Shareholders' equity</b> .....	<b>29,846</b>	<b>18,440</b>
<b>Total liabilities &amp; equity</b> .....	<b>\$ 81,625</b>	<b>\$ 83,844</b>

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

**VERI-TEK INTERNATIONAL, CORP.**  
**CONSOLIDATED STATEMENT OF INCOME**

(In thousands, except for per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	Unaudited	Unaudited and Restated	Unaudited	Unaudited and Restated
Net sales.....	\$ 26,600	\$ 20,021	\$ 79,689	\$ 20,021
Cost of Sales .....	21,594	17,260	64,665	17,260
<b>Gross profit</b> .....	<b>5,006</b>	<b>2,761</b>	<b>15,024</b>	<b>2,761</b>
Operating expenses				
Research and development costs .....	204	102	579	102
Selling, general and administrative expenses, including corporate expenses of \$791 and \$675 for the three months and \$2,727 and \$899 for the nine months ended September 30, 2007 and 2006, respectively.....	2,935	1,533	9,553	1,757
<b>Total operating expenses</b> .....	<b>3,139</b>	<b>1,635</b>	<b>10,132</b>	<b>1,859</b>
<b>Operating income from continuing operations</b> .....	<b>1,867</b>	<b>1,126</b>	<b>4,892</b>	<b>902</b>
Other income (expense)				
Interest income .....	—	5	6	36
Interest expense .....	(891)	(1,033)	(2,796)	(1,033)
Foreign currency transaction losses.....	(172)	—	(662)	—
Other income .....	1	—	147	—
<b>Total other income (expense)</b> .....	<b>(1,062)</b>	<b>(1,028)</b>	<b>(3,305)</b>	<b>(997)</b>
Income (loss) from continuing operations before income taxes .....	805	98	1,587	(95)
Income tax (benefit).....	(67)	115	147	49
<b>Net income (loss) from continuing operations</b> .....	<b>872</b>	<b>(17)</b>	<b>1,440</b>	<b>(144)</b>
Discontinued operations				
Loss from operations of the discontinued Testing and Assembly Equipment segment, net of income taxes (benefit) of \$(0) and \$(327) for the three months and \$(0) and \$(666) for the nine months ended September 30, 2007 and 2006, respectively.....	(196)	(549)	(1,162)	(1,206)
Gain (loss) on sale or closure of discontinued operations net of income tax (benefits) .....	242	—	(48)	—
<b>Net income (loss)</b> .....	<b>\$ 918</b>	<b>\$ (566)</b>	<b>\$ 230</b>	<b>\$ (1,350)</b>
<b>Earnings Per Share</b>				
Basic				
Earnings (loss) from continuing operations.....	\$ 0.10	\$ —	\$ 0.18	\$ (0.03)
Loss from discontinued operations.....	\$ (0.02)	\$ (0.11)	\$ (0.14)	\$ (0.24)
Gain (loss) on sale or closure of discontinued operations net of income tax .....	\$ 0.03	\$ —	\$ (0.01)	\$ —
Net earning (loss) per share .....	\$ 0.11	\$ (0.11)	\$ 0.03	\$ (0.27)
Diluted				
Earnings (loss) from continuing operations.....	\$ 0.09	\$ —	\$ 0.17	\$ (0.03)
Loss from discontinued operations.....	\$ (0.02)	\$ (0.11)	\$ (0.13)	\$ (0.24)
Gain (loss) on sale or closure of discontinued operations net of income tax .....	\$ 0.03	\$ —	\$ (0.01)	\$ —
Net earnings (loss) per share.....	\$ 0.10	\$ (0.11)	\$ 0.03	\$ (0.27)
Weighted average common share outstanding				
Basic .....	8,636,940	5,104,769	8,136,249	4,952,431
Diluted .....	9,239,276	5,104,769	8,723,865	4,952,431

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

**VERI-TEK INTERNATIONAL CORP.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In thousands)

	Nine Months Ended September 30,	
	2007	2006
	Unaudited	Unaudited and Restated
<b>Cash flows from operating activities:</b>		
Net income (loss) .....	\$ 230	\$ (1,350)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization .....	1,607	42
Provisions for allowances for doubtful accounts .....	(44)	32
Gain on disposal of assets .....	(10)	—
Deferred income taxes .....	—	466
Inventory reserves .....	421	13
Stock based deferred compensation .....	13	—
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable .....	(1,096)	(1,913)
(Increase) decrease in accounts receivable – related party .....	36	149
(Increase) decrease in inventory .....	1,908	1,267
(Increase) decrease in prepaid expenses .....	(226)	(452)
(Increase) decrease in customer deposits .....	—	130
Increase (decrease) in accounts payable .....	(2,895)	(464)
Increase (decrease) in accrued expenses .....	820	243
Increase (decrease) in other current liabilities .....	(432)	—
Discontinued operations – cash provided by operating activities .....	26	3,624
<b>Net cash provided by operating activities</b> .....	<b>358</b>	<b>1,787</b>
<b>Cash flows from investing activities:</b>		
Purchase of capital equipment .....	(22)	(71)
Acquisition of business, net of cash acquired .....	—	(10)
Proceeds from the sale of assets of discontinued operations .....	1,131	—
Investment in patents and drawings .....	—	(117)
Proceeds from sale of equipment .....	16	—
Discontinued operations—cash used by investing activities .....	—	(360)
<b>Net cash provided (used) by investing activities</b> .....	<b>1,125</b>	<b>(558)</b>
<b>Cash flows from financing activities:</b>		
Borrowings (repayments) on revolving credit facility .....	833	(2,840)
Payments of capital lease obligations .....	(258)	(378)
Payments on notes .....	(11,522)	—
Net proceeds from issuance of stock .....	8,019	—
Proceeds from issuance of warrants .....	231	—
Proceeds from exercise of warrants .....	1,875	—
<b>Net cash used by financing activities</b> .....	<b>(822)</b>	<b>(3,218)</b>
Effect of exchange rate change on cash .....	26	—
Net increase (decrease) in cash and cash equivalents .....	661	(1,989)
Cash and cash equivalents at the beginning of the year .....	615	2,025
Cash and cash equivalents at end of period .....	<u>\$ 1,302</u>	<u>\$ 36</u>

The acquisition of Noble Product Line (“Noble”) assets was a non-cash transaction, in which the Company acquired the Noble assets in exchange for the forgiveness of \$4.2 million that GT Distribution owed the Company. As a non-cash transaction, the assets acquired and the forgiveness of the liability are both excluded from the cash flow statement. See Note 4.

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



**VERI-TEK INTERNATIONAL, CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**(in thousands, except per share data)**

**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 operates under the name Manitex Liftking, ULC and is part of the Company's Lifting Equipment segment.

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. The Noble product line, which is comprised of four rough terrain forklifts in several configurations, will be produced in 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. See Note 4.

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 until its disposition. 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 \$1.1 million. This transaction was completed on August 1, 2007. As of August 31, 2007, all operations of the Company's Testing and Assembly Equipment segment operations had ceased. The Testing and Assembly Equipment segment operated from a leased facility. The lease termination date for this facility was August 31, 2007. See Note 5.

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 September 30, 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 for the three and nine months ended September 30, 2006 and the Statement of Cash Flows for the nine months ended September 30, 2006 to reflect the Testing and Assembly Equipment segment as a discontinued operation. See Note 5.

### **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 was used to recognize income from the design and manufacturing of testing equipment in the discontinued Testing and Assembly Equipment segment.

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 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 allowance of \$2,128 at December 31, 2006 was established. This represented 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 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 and nine months ended September 30, 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 discontinued Testing and Assembly Equipment segment.

**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.

**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, 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 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, 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.

**Comprehensive Income (Loss)** — 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 (loss) from continuing operations was \$1,377 and (\$566), for the three months ended September 30, 2007, and 2006 and \$1,268 and \$(1,350) for the nine months ended September 30, 2007 and 2006, 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 in 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 as a currency gain or loss.

**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 September 30, 2007 and December 31, 2006, the Company had uninsured balances of \$1,202 and \$615, respectively.

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. At September 30, 2007, the Company had entered into a series of forward currency exchange contracts. The contracts obligate the Company to purchase approximately CND \$5.0 million in total. The contracts which are in various amounts mature between October 15, 2007 and December 31, 2009. Under the contract, the Company will purchase Canadian dollars at exchange rates between .9537 and .9805. The Canadian to US dollar exchange rates were 1.0037 and 1.0708 at September 30, 2007 and November 5, 2007, respectively. At September 30, 2007, the forward contracts held by the Company had market value of approximately \$218. 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.

For the nine months ended September 30, 2007 no single customer accounted for 10% or more of our accounts receivable. For the fiscal year ended December 31, 2006, two customers accounted for 22% of total Company accounts receivable.

Two suppliers constituted 15% and 11% of the Company's total purchases in the third quarter 2007 and one supplier accounted for 13% of total Company purchases for the nine months ended September 30, 2007. The Company had two suppliers who accounted for 23% and 12% of total Company purchases in the third quarter of 2006. Purchases made from the two aforementioned vendors totaled 21% and 11% for the nine months ended September 30, 2006. No customers accounted for more than 10% of Company sales for the third quarter 2007 or the nine months ended September 30, 2007. One customer accounted for 11% of revenues for the nine months ended September 30, 2006 and three customers accounted for 13%, 12%, and 11%, respectively for the third quarter 2007.

**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. As of September 30, 2007, the Company had net payable to GT Distribution or its subsidiaries of approximately \$37.

At June 30, 2007, the company had a significant variable interest in a related entity GT Distribution, LLC in the form of a receivable in the amount of \$4,219. 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. At December 31, 2006, the carrying amount of the assets of GT Distribution, LLC totaled \$12,413 and the carrying amount of its debt totaled \$11,228. During the year ended December 31, 2006 GT Distribution, LLC had revenue of approximately \$21,279. At June 30, 2007, the exposure to the Company was the carrying amount of the receivable recorded at \$4,219. On July 31, 2007, the Company completed the acquisition of certain assets of GT Distribution (the Noble forklift product line assets) from GT Distribution. The Company received the Noble product line assets in settlement of the \$4,219 receivable from GT Distribution. See Note 4 – "Noble Product Line Assets Acquisition" for further details regarding the transaction.

#### **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.

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 results for Noble Product Line for two months ended September 30, 2007 are not significant.

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.....	<u>\$ 4,219</u>

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 meet the criteria to be an acquisition of a business. 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 until its disposition.

In December 2006, the Company recorded an impairment charge of \$6,632 relating to the carrying value of the segment’s long lived assets and its inventory. In the three months ended March 31, 2007, the Company recorded a provision for the expected loss on the sale of discontinued operations of \$366. The reserve for loss on sale of discontinued operations was reduced by \$76 in the second quarter 2007 and \$33 in the third quarter 2007 as the severance accrual was decreased as the Company’s estimate for severance costs was lowered.

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. The remaining balance of \$310 shown as assets held for sale is comprised of trade receivables and other receivables which are expected to be collected in normal course.

The following table sets forth the detail of the net loss from discontinued operations for the three and nine months ended September 30, 2007 and 2006:

	For three months ended September 30,		For nine months ended September 30,	
	2007	2006	2007	2006
Revenues from discontinued operations .....	\$ 197	\$ 638	\$ 1,355	\$ 4,550
Loss from discontinued operations before income taxes .....	(196)	(875)	(1,068)	(1,872)
Benefit from income taxes .....	—	(326)	—	(666)
Net loss from discontinued operations.....	(196)	(549)	(1,162)	(1,206)
Gain (loss) on sale of discontinued operations .....	242	—	(48)	—

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:

Category of Closure Cost	Estimated Cost
Employee termination costs.....	\$ 57
Provision for termination of contracts .....	200
Net gain on sale of assets .....	(209)
Total loss on sale of discontinued operations .....	\$ 48

Restatement of prior year to reflect the Testing and Assembly equipment as a discontinued operation is shown below:

	Three Months Ended September 30, 2006			Nine Months Ended September 30, 2006		
	As Reported	Reclassified to Discontinued Operations	Restated	As Reported	Reclassified to Discontinued Operations	Restated
Net sales .....	\$ 20,658	\$ (637)	\$ 20,021	\$ 24,571	\$ (4,550)	\$ 20,021
Cost of sales .....	18,355	(1,095)	17,260	22,299	(5,039)	17,260
Gross profit .....	2,303	458	2,761	2,272	489	2,761
Operating expenses .....	2,053	(418)	1,635	3,242	(1,383)	1,859
Operating income (loss) from continuing operations.....	250	876	1,126	(970)	1,872	902
Other income and expense .....	(1,027)	(1)	(1,028)	(997)	—	(997)
Income (loss) from continuing operations before income taxes .....	(777)	875	98	(1,967)	1,872	(95)
Income tax (benefit) .....	(211)	326	115	(617)	666	49
Net loss from continuing operations .....	(566)	549	(17)	(1,350)	1,206	(144)
Loss from operations of discontinued Testing and Assembly Equipment segment .....	—	(549)	(549)	—	(1,206)	(1,206)
Net loss .....	\$ (566)	\$ —	\$ (566)	\$ (1,350)	\$ —	\$ (1,350)

## 6. Net Earnings (Loss) Per Common Share

Basic net income 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 and convertible subsidiary stock. Details of the calculations are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<b>Net Income per common share basic and diluted</b>				
Earnings (loss) from continuing operations.....	\$ 872	\$ (17)	\$ 1,440	\$ (144)
Loss from discontinued operations.....	(196)	(549)	(1,162)	(1,206)
Gain (loss) on sale and closure of discontinued operations net of income tax .....	242	—	(48)	—
Net income (loss) per common share.....	<u>\$ 918</u>	<u>\$ (566)</u>	<u>\$ 230</u>	<u>\$ (1,350)</u>
<b>Earnings per share</b>				
Basic				
Earnings (loss) from continuing operations.....	\$ 0.10	\$ —	\$ 0.18	\$ (0.03)
Loss from discontinued operations.....	(0.02)	(0.11)	(0.14)	(0.24)
Gain (loss) on sale and closure of discontinued operations net of income tax .....	0.03	—	(0.01)	—
Net earnings (loss) per common share.....	<u>\$ 0.11</u>	<u>\$ (0.11)</u>	<u>\$ 0.03</u>	<u>\$ (0.27)</u>
Diluted				
Earnings (loss) from continuing operations.....	\$ 0.09	\$ —	\$ 0.17	\$ (0.03)
Loss from discontinued operations.....	(0.02)	(0.11)	(0.13)	(0.24)
Gain (loss) on sale or closure of discontinued operations net of income tax .....	0.03	—	(0.01)	—
Net earnings (loss) per common share.....	<u>\$ 0.10</u>	<u>\$ (0.11)</u>	<u>\$ 0.03</u>	<u>\$ (0.27)</u>
<b>Weighted average common share outstanding</b>				
Basic .....	<u>8,636,940</u>	<u>5,104,769</u>	<u>8,136,249</u>	<u>4,952,431</u>
Diluted:				
Basic.....	8,636,940	5,104,769	8,136,249	4,952,431
Dilutive effect of warrants.....	336,336	—	321,616	—
Dilutive effects of exchangeable subsidiary stock.....	266,000	—	266,000	—
Diluted .....	<u>9,239,276</u>	<u>5,104,769</u>	<u>8,723,865</u>	<u>4,952,431</u>

## 7. Equity

### *Stock and Warrants Issuance of Common*

#### *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 expenses of approximately \$119. The Company’s net cash proceeds after fees and expenses were \$8,251 with \$8,019 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.

#### *Stock Issuance*

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.

On July 3, 2006, the Company issued 234,875 shares of common stock in connection with its purchase of Manitex through the acquisition of all the membership interests of QVM.

#### *2006 Private Placement*

On November 15, 2006, the Company closed a \$11,136 private placement of its common stock (the "Private Placement") pursuant to the terms of a security purchase agreement entered into among the Company and certain institutional investors on November 3, 2006 (the "Securities Purchase Agreement"). Pursuant to the Securities Purchase Agreement, Veri-Tek issued 2,750,000 shares of its common stock and warrants as described below. In connection with the Private Placement, the Company incurred investment banking fees of \$778 and legal fees of approximately \$61. The Company's net cash proceeds after fees and expenses were \$10,298 with \$8,026 and \$2,272 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 June 7, 2007.

#### *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.

The Security Purchase Agreement provided for the issuance of series A and Series B warrants. The Series A Warrants and the Series B Warrants (together the "Warrants") were issued upon the closing of the Private Placement (November 15, 2006) and will be exercisable after the sixth month anniversary of the issuance date of the Warrants until November 15, 2011. The Series A warrant holders can purchase 550,000 shares of the Company's common stock. The Series A Warrants have an exercise price of \$4.05 per share. The Series B warrant holders can purchase 550,000 shares of the Company's common stock. The Series B Warrants have an exercise price of \$4.25 per share. During the nine months ended September 30, 2007, the warrant holders exercised 100,000 Series A warrants and 346,000 Series B warrants. During the three months ended September 30, 2007, the warrant holders exercised 1,000 Series A warrants and 247,000 Series B warrants.

On November 15, 2006, the Company issued warrants to purchase an aggregate of 192,500 shares of the Company's common stock to a finder and to Roth Capital Partners, LLC for acting as placement agent in connection with the Private Placement. These warrants will be exercisable until November 15, 2011, and have an exercise price of \$4.62 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 September 30, 2007 and December 31, 2006, the Company had issued and outstanding warrants as follows:

Number of Warrants Shares		Exercise Price	Expiration Date	In Connection With
September 30, 2007	December 31, 2006			
450,000.....	550,000	\$ 4.05	November 15, 2011	Private placement
204,000.....	550,000	\$ 4.25	November 15, 2011	Private placement
192,500.....	192,500	\$ 4.62	November 15, 2011	Placement Agent Fee
15,000.....	—	\$ 7.08	June 15, 2011	Investor Relation Service
105,000.....	—	\$ 7.18	September 11, 2012	Placement Agent Fee

As of September 30, 2007 446,000 warrants issued have been exercised.

#### *2004 Equity Incentive Plan*

In 2004, the Company adopted the 2004 Equity Incentive Plan. 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, 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 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.

Through September 30, 2007 no grants have been made under the 2004 Equity Incentive Plan.

#### **8. Minority Interest**

On November 30, 2006, the Company issued 266,000 shares of stock in Manitek 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 September 30, 2007, 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 February of 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," which is intended to simplify the accounting and improve the financial reporting of certain hybrid financial instruments (i.e. derivatives embedded in other financial instruments). The statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125." SFAS No. 155 is effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year beginning after September 15, 2006. The Company adopted the SFAS No. 155 on January 1, 2007. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140" which is effective for the fiscal years beginning after September 15, 2006. The FASB issues this statement to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. The Company adopted the SFAS No. 156 on January 1, 2007. 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. 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. The Company is currently evaluating the potential impact of this statement.

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.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that misstatements be quantified based on their impact on each of the Company’s financial statements and related disclosures. On December 31, 2006, the Company adopted SAB 108. The adoption of SAB 108 did not impact the Company’s financial statements.

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. SFAS No. 159 will be effective for fiscal years that begin after November 15, 2007. We are currently assessing the impact SFAS No. 159 will have on our consolidated financial statements.

See Note 16 regarding the company’s adoption FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)” which is effective for fiscal years beginning after December 15, 2006.

## 10. Inventory

The components of inventory are as follows:

	September 30, 2007	December 31, 2006
Raw Materials and Purchased Parts, net of \$421 of reserves at September 30, 2007 .....	\$ 14,597	\$ 11,726
Work in Process.....	2,014	4,589
Finished Goods and Replacement Parts.....	464	515
Inventories, net .....	<u>\$ 17,075</u>	<u>\$ 16,830</u>

## 11. Goodwill and Intangible Assets

	September 30, 2007	December 31, 2006	Useful lives
Patented and unpatented technology.....	\$ 10,682	\$ 10,084	10 years
Amortization .....	(1,234)	(480)	
Customer relationships .....	8,308	7,348	20 years
Amortization .....	(450)	(172)	
Trade names and trademarks .....	4,675	4,337	25 years
Amortization .....	(216)	(85)	
Customer Backlog.....	473	506	< 1 year
Amortization .....	(473)	(255)	
Intangible assets.....	<u>21,765</u>	<u>21,283</u>	

	September 30, 2007	December 31, 2006	Useful lives
Goodwill .....	14,065	13,305	
Goodwill and other intangibles .....	\$ 35,830	\$ 34,588	

The change in carrying amount of goodwill for 2007 is as follows (in thousands):

	September 30, 2007
Balance at beginning of period .....	\$ 13,305
Noble product line acquisition (See Note 4) .....	675
Additional goodwill arising from the implementation and interpretation of FIN 48 (See Note 16) ..	85
Balance at end of period .....	\$ 14,065

Amortization expense for intangible assets was \$406 and \$19 for the three months ended September 30, 2007 and 2006 and was \$1,368 and \$19 for the nine months ended September 30, 2007 and 2006, respectively.

During the quarter ended March 31, 2007, the estimated purchase price allocation for Manitex Liftking 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:

	September 30, 2007	September 30, 2006
Beginning balance .....	\$ 821	\$ —
Business acquired .....	—	547
Accrual for warranties issued during the year .....	1,011	439
Warranty Services provided .....	(1,012)	(416)
Currency conversion adjustment .....	44	52
Ending Balance .....	\$ 864	\$ 622

## 13. Line of Credit and Debt

### *Revolving Credit Facility*

At September 30, 2007, the Company had drawn \$13,983 under a revolving credit agreement with Comerica bank. The Company was eligible to borrow up to \$16,500 with interest at prime plus 0.75% (prime was 7.75% at September 30, 2007). The maximum amount of outstanding was limited to the sum of 85% of eligible receivable, 75% eligible Canadian accounts and the lesser of 65% of eligible inventory or \$7,500 plus \$2,500. On January 1, 2008 the \$2,500 is reduced to \$2,000 and is further reduced by \$500 on the first day of each subsequent quarter. The credit facility's original maturity dated 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.

On October 18, 2007, the Company and the bank entered into an agreement that reduced the interest rate by 0.5%, increased the maximum credit line to \$18,500 and increased the inventory borrowing base cap from \$7,500 to \$8,000.

### *Revolving Canadian Credit Facility*

At September 30, 2007, the Company had drawn \$1,142 (US) under a revolving credit agreement with a bank. The Company is eligible to borrow up to \$4,500 (US) with interest at Canadian prime rate (prime was 6.25% at September 30, 2007) plus 2%. 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). The indebtedness is collateralized by substantially all of Manitex Liftking ULC's assets.

On October 18, 2007, the Company and the bank entered into an agreement that reduced the interest rate by 0.5%.

### *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 \$2,600 (CDN) or \$2,610 (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.

### *Note Payable—Bank*

At September 30, 2007, the Company has a \$2,615 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 an 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 \$69. As of September 30, 2007, the Company had total capital lease obligations of \$4,783.

## **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. There has been no material changes in amounts accrued for legal settlements. However, the Company does not believe that these contingencies, in the aggregate, will have a material adverse effect on the Company.

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 sale and leaseback transaction resulted in a gain of approximately \$4,600. Per paragraph 33 of FASB Statement No. 13 "Accounting for Leases", sales-leaseback transactions are treated as a single financing transaction in which any profit or loss on the sale is deferred and amortized. As such, the gain has been deferred and is being amortized on a straight line basis over the life of the lease. The lease has been classified as a capital lease under the provisions of FASB Statement No. 13. Furthermore, the land and building are treated as a single unit in this transaction because the fair value of the land is less than 25% the total fair value of the leased property at the inception of the lease. The amortization of the deferred gain offsets depreciation expense.

The Company, through its Manitex and Manitex Lifting 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.

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 September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Rent paid -Georgetown Facility 1 .....	\$ 205	\$ 201	\$ 611	\$ 201
Rent paid -Woodbridge Facility 2 .....	\$ 118	—	\$ 310	—
Rent paid -Bridgeview Facility 3 .....	\$ 9	—	\$ 9	—
Sales to:				
Crane & Machinery, Inc .....	\$ 25	\$ 45	\$ 196	\$ 45
BGI USA, Inc .....	32	—	41	—
Schaeff Lift Truck, Inc. ....	179	1	476	1
SL Industries, LTD. ....	2	—	2	—
Liftmaster.....	140	—	246	—
Total Sales .....	<u>\$ 378</u>	<u>\$ 46</u>	<u>\$ 961</u>	<u>\$ 46</u>
Purchases from:				
BGI USA, Inc .....	\$ 461	\$ 207	\$ 776	\$ 207
Crane & Machinery, Inc .....	—	—	19	—
Schaeff Lift Truck, Inc. ....	55	—	624	—
SL Industries, LTD. ....	204	200	1,176	200
Liftmaster.....	22	—	64	—
Total Purchases .....	<u>\$ 742</u>	<u>\$ 407</u>	<u>\$ 2,659</u>	<u>\$ 407</u>
Miscellaneous Transactions:				
Professional services provided by Schaeff Lift Truck (Outsourced staffing) .....	\$ (23)	—	\$ (23)	—
Operating loan provided to Schaeff Lift Truck.....	\$ 46	—	\$ 46	—
	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ —</u>

1 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%.

- 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 \$32. 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.
- 3 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 decreased from \$4,722 to \$4,219 during the six months ended June 30, 2007. During the fourth quarter of 2006, the first quarter of 2007, and the second quarter of 2007, GT Distribution executed inventory sales and purchase transactions with the Company. During the first Quarter 2007, it was agreed that the net payable or receivable for certain inventory transactions with the Company would be offset against the receivable the Company has from GT Distribution. The Statement of Cash Flows does not reflect the reduction of related party receivable as it is a non-cash item, with offsetting non-cash items of \$394 and \$109 that effect inventory and accounts payable, respectively. The non-cash amount related to inventory represents the amount that was sold to the Company during the first and second quarters of 2007 and is still in inventory. The balance of \$109 represents inventory that was sold to the Company during the fourth quarter of 2006 and was in accounts payable at the time of offset.

As of September 30, 2007, the Company had \$378 outstanding Accounts Receivable from GT and \$415 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 \$2,610 (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.

## **16. Income Taxes**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statement in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in an income tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted FIN 48 effective January 1, 2007 and had no material unrecognized tax benefits as of the adoption date and as of September 30, 2007. The Company has decided to classify interest and penalty as a component of tax expense.

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. The Company's federal tax returns for 2003 through 2006 tax years remain subject to examination. The Company files in numerous state jurisdictions with varying statues of limitations. In addition, open tax years related to foreign jurisdictions remain subject to examination but are not considered material.

For the six months ended June 30, 2007, the Company provided for income taxes using an effective tax rate of 27.4%. At September 30, 2007, the Company determined that its effective tax rate should decrease to 9.3%. The change in the effective tax rate is the result of a change in mix of projected earnings between Canada and the United States. This causes a decrease in the effective rate as the Company has a net operating loss carry forward available to offset taxable earnings in the United States, for which a valuation allowance was previously established. The change in earnings mix is attributable to higher volume and gross profit margin increasing US earnings together with a decrease in Canadian income related to the projected continuing impact of the strengthening Canadian dollar which is adversely affecting operating margins and has resulted in foreign currency losses.

## **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 2006 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) the cyclical nature of the markets we operate in;
- (3) increases in interest rates;
- (4) government spending;
- (5) the performance of our competitors;
- (6) shortages in supplies and raw materials;
- (7) our ability to meet financial covenants required by our debt agreements;
- (8) product liability claims, intellectual property claims, and other liabilities;
- (9) the volatility of our stock price;
- (10) future sales of our common stock;
- (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**

Historically, the Company 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. In fiscal 2006, the Company completed two acquisitions that introduced Lifting Equipment into the Company operations as a second segment of activity. 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 March 29, 2007, the Company's Board of Directors approved a plan to sell the Company's Testing and Assembly Equipment segment in order to focus management's attention and financial resources on the Company's Lifting Equipment segment. As a result, beginning in 2007, the Company's Testing and Assembly Equipment segment was accounted for as a discontinued operation.

On July 31, 2007, 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. The Noble product line, which is comprised of four rough terrain forklifts in several configurations, will be produced in 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.

On August 1, 2007, the Company consummated the transactions contemplated by an Asset Purchase Agreement between the Company and EuroMaint Industry, Inc., a Delaware corporation ("EuroMaint"), dated July 5, 2007. Under the terms of the Asset Purchase Agreement, the Company sold certain of its testing and assembly equipment assets for a purchase price of \$1.1 million plus the assumption of certain of the Company's liabilities relating thereto.

As of September 30, 2007, the Company's testing and assembly operations have been closed and all operating activities of the segment have been discontinued. All inventory and fixed assets of the segment have been liquidated. However, the segment is continuing to collect open accounts receivable.

For the nine month period ended September 30, 2007, the Company's continuing operations were comprised of the Lifting Equipment segment established through the acquisitions of Manitex, Manitex Liftking, and the Noble Product Line as described above. In the Lifting Equipment segment, the Company derives most of its revenue from purchase orders from dealers and distributors. The demand for the Company's products depends on the general economic conditions of the market in which the Company competes. The Company's sales depend in part on its customers' replacement or repair cycle. Adverse economic conditions, including decrease in commodity prices, may cause customers to forego or postpone purchases. Many of the Company's customers depend substantially on government spending, including highway construction and maintenance and other infrastructure projects. Additionally, our Manitex Liftking subsidiary revenues are impacted by the timing of orders received for military forklifts. At the present time demand for the Company's products is strong. Margins tend to increase when production is skewed towards larger capacity cranes, special mission oriented vehicles, specialized carriers and heavy material transports and when production levels are higher.

## **Results of Operations**

The following discussion considers:

- Net income for the nine and three month periods ended September 30, 2007 and 2006.
- Results of the continuing operations of our Lifting Equipment segment for the nine and three month periods ended September 30, 2007 and 2006.
- Results of the discontinued operations of the Testing and Assembly Equipment segment for the nine and three month periods ended September 30, 2007 and 2006.

## **Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006**

The results for acquisitions have been included in the accompanying consolidated statement of operations from the date of their respective acquisition, i.e., July 3, 2006 for Manitex, November 30, 2006 for Manitex Liftking and July 31, 2007 for the Noble Product Line acquisition. As such, the results for 2007 include nine months of results for Manitex and Manitex Liftking and two months for the Noble Product Line. The results for Noble Product Line for two months ended September 30, 2007 are not significant. The results for 2006 only include three months of results for Manitex.

## **Net Income (loss) for the nine month periods ended September 30, 2007 and 2006**

The net income of \$0.2 million reported for the nine month period ended September 30, 2007 consists of net income from continuing operations of \$1.4 million offset by a loss from discontinued operations of \$1.2 million and an expected loss on sale of discontinued operations of \$0.05 million. The Company reported a net loss of \$(1.4) million for the nine months ended September 30, 2006, consisting of a net loss from continuing operations of \$(0.1) million and a loss from discontinued operations of \$(1.2) million.

**Results of the continuing operations of our Lifting Equipment segment for the nine month periods ended September 30, 2007 and 2006**

For the nine months ended September 30, 2007, net income from continuing operations was \$1.4 million, which consists of revenue of \$79.7 million, cost of sales of \$64.7 million, research and development costs of \$0.6 million, SG&A costs excluding corporate expenses of \$6.9 million, Corporate SG&A expenses of \$2.7 million, net interest expense of \$2.8 million and other expense and foreign currency transactions expense of \$0.5 million and income taxes of \$0.1 million.

For the nine months ended September 30, 2006, net loss from continuing operations was \$(0.1) million, which consists of revenue of \$20.0 million, cost of sales of \$17.3 million, research and development costs of \$0.1 million, SG&A costs excluding corporate expenses of \$0.9 million, Corporate SG&A expenses of \$0.9 million, and net interest expense of \$1.0 million.

**Net Sales and Gross Profit** – For the nine months ended September 30, 2007, net sales and gross profit were \$79.7 million and \$15.0 million, respectively. Gross profit as a percent of sales was 18.9% for the nine months ended September 30, 2007. For the nine months ended September 30, 2006 net sales and gross profit were \$20.0 million and \$2.8 million, respectively. Gross profit as a percent of sales was 13.8% for the nine months ended September 30, 2006.

Net sales increased \$59.7 million to \$79.7 million (including \$20.5 million for Manitex Liftking.) for the nine months ended September 30, 2007 from \$20.0 million for the comparable nine month period in 2006. The sales increase is the result of including sales for Manitex Liftking in 2007 and of having three quarters of Manitex's results in the current year and only one quarter in the prior year.

The gross profit as a percent of net sales increased to 18.9% for the nine months ended September 30, 2007 from 13.8% for the comparable 2006 period, an improvement of 5.1%. The Company's gross profit was favorably impacted in 2007 by product mix, a 2007 price increase and the benefit of sourcing materials from lower costs countries. The favorable mix is result of increase in the sales of cranes with higher lifting capacity. This to a large extent is attributable to the 45 ton crane which was introduced in the second quarter of 2006 and the 50 ton crane which was introduced in the second quarter 2007.

**Selling, general and administrative expense** – Selling, general and administrative expense for the nine months ended September 30, 2007 was \$9.6 million compared to \$1.8 million for the comparable period in 2006. Selling, general and administrative expense for the nine months ended September 30, 2007 are comprised of corporate expense of \$2.7 million and \$6.8 million related to operating companies. Selling, general and administrative expense for the nine months ended September 30, 2006 are comprised of corporate expense of \$0.9 million and \$0.9 million related to operating companies.

Selling, general and administrative, excluding corporate expenses, increased \$5.9 million to \$6.8 million (including \$1.8 million for Manitex Liftking.) for the nine months ended September 30, 2007 from \$0.9 million for the comparable nine month period in 2006. The increase is the result of including Manitex Liftking in 2007 and of having three quarters of Manitex's expense in the current year and only one quarter in the prior year. Included in selling general and administrative expenses is amortization of intangible assets of \$1,368 and \$19 for the nine months ended September 30, 2007 and 2006, respectively. At September 30, 2006, a preliminary estimate of the Manitex purchase price allocation was used that assigned most of the value attributed to intangibles to goodwill which was not amortized. In the fourth quarter 2006, an estimate of purchase price allocation was refined with a substantial portion of the value of intangible being allocated to patented and unpatented technology, customer relationships, trade names and trademarks, and customer backlog, all assets, with definitive lives and, therefore, amortized.

Corporate expenses increased \$1.8 million to \$2.7 million for the nine months ended September 30, 2007 from the \$0.9 million for the comparable 2006 nine month period. The increase in corporate expenses reflects the recruitment of key experienced management to build an organizational structure to continue to drive the company's strategy and growth objectives including activity to integrate the management, systems, controls, and operations of the three acquisitions. Also, included in 2007 are legal, accounting and consulting expenses incurred in connection with the SEC review of the Company's registration statement on Form S-3, which was declared effective on September 7, 2007 and for its Sarbanes Oxley compliance project. The Company continues to actively manage its costs relating to the Sarbanes-Oxley project in particular and balances between internal and external resources applied.

**Operating income** – Operating income from continuing operations of \$4.9 million for the nine months ended September 30, 2007 was equivalent to 6.1% of net sales compared to an operating income of \$0.9 million for the nine months ended September 30, 2006 or 4.5%. The increase in the operating income as a percent of net sales is the result of higher gross profit percent which is partially offset by an increase in selling, general and administrative expense.

**Interest expense** – Interest expense was \$2.8 million and \$1.0 million for the nine months ended September 30, 2007 and 2006, respectively. The increase in interest expense is entirely the result of having three quarters of Manitex's results in the

current year and only one quarter in the prior year. Prior to the Manitex acquisition on July 3, 2006, the Company had no outstanding indebtedness for borrowed money. The Company interest expense is principally related to the amount of outstanding debt. Interest expense has decreased and will continue to decrease as the Company reduces its outstanding debt. Total outstanding debt has decreased to \$26.2 million at September 30, 2007 from \$37.0 million and \$39.5 million at December 31, 2006 and September 30, 2006, respectively. The reduction of debt only had a limited impact on year to date interest expense as approximately \$10 million of the reduction occurred in the third quarter, with approximately \$8.0 million occurring on September 10, 2007.

**Foreign currency transaction loss** – The foreign currency transaction loss for the nine months ended September 30, 2007 was \$0.7 million, (2006 \$nil). The foreign currency loss was driven by a historically unusual strengthening of the Canadian dollar during the six months ended September 30, 2007, when the US to Canadian dollar exchange rate changed from .8674 to 1.0037. The Company has an acquisition note payable for \$2.6 million to the former owner of Lifting Industries, which is denominated in Canadian dollars. The Company recorded a foreign exchange loss of \$0.4 million for the nine months ended September 30, 2007 related to this note. Additionally during the nine months ended September 30, 2007 Manitex Lifting, the Company's Canadian subsidiary, had significant sales which were denominated in US dollars and which on settlement generated or will generate a transaction loss of \$0.5 million. A gain of \$0.2 million on the forward exchange currency contracts held by the Company offsets the aforementioned transaction losses.

The exchange losses were principally incurred before the Company entered into the forward currency exchange contracts in early September 2007. The decision to enter into forward exchange contracts was the result of an investigation into methods that could be taken to reduce foreign currency risk and was in response to the currency losses incurred in the second quarter 2007. Historically the USD / CDN\$ exchange rate has not seen such volatility in a short time period and the Company has not taken any action to mitigate its foreign exchange exposures

**Income tax (benefit)** – Income tax for the nine months ended September 30, 2007 was \$0.1 million or 9.3%. The income tax expense for nine months ended September 30, 2006 was \$0.05 million. The 2007 effective tax rate is lowered for the current utilization of prior year losses for which no benefit was previously received.

**Net income from continuing operations** – Net income from continuing operations for the nine months ended September 30, 2007 was \$1.4 million. This compares with a net loss from continuing operations for the nine months ended September 30, 2006 of \$(0.1) million.

#### **Discontinued operations of the Testing and Assembly Equipment segment for the nine month periods ended September 30, 2007 and 2006**

The net loss from discontinued operations of \$1.2 million comprised costs of sales of \$1.6 million, operating expenses of \$0.9 million offset by revenue of \$1.4 million. For the nine months ended September 30, 2006, the loss reported was \$1.2 million

For the nine months ended September 30, 2007, the reserve established for employee termination costs of \$0.1 million and a provision for termination of contracts of \$0.2 million was offset by a gain on the sale of assets of \$0.2 million.

#### **Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006**

##### **Net income for the three month periods ended September 30, 2007 and 2006**

The net income of \$0.9 million reported for the three month period ended September 30, 2007 consists of net income from continuing operations of \$0.9 million offset by loss from discontinued operations of \$0.2 million and income of \$0.2 million on the sale and closure of our Testing and Assembly Equipment segment. The Company reported a net loss of \$(0.6) million for the three months ended September 30, 2006, the net loss is entirely related to discontinued operations which had net loss of \$0.6 million for the three months ended September 30, 2006.

##### **Results of the continuing operations of our Lifting Equipment segment for the three month periods ended September 30, 2007 and 2006**

For the three months ended September 30, 2007, net income from continuing operations was \$0.9 million, which consists of revenue of \$26.6 million, cost of sales of \$21.6 million, research and development costs of \$0.2 million, SG&A costs excluding corporate expenses of \$2.1 million, Corporate SG&A expenses of \$0.8 million, net interest expense of \$0.9 million and other expense and foreign currency transaction expense of \$0.2 million and income tax benefit of \$(0.1) million

For the three months ended September 30, 2006, net income from continuing operations was \$0.0 million, which consists of revenue of \$20.0 million, cost of sales of \$17.3 million, research and development costs of \$0.1 million, SG&A costs

excluding corporate expenses of \$0.9 million, Corporate SG&A expenses of \$0.7 million, net interest expense of \$1.0 million and income taxes of \$0.1 million

**Net Sales and Gross Profit** – For the three months ended September 30, 2007, net sales and gross profit were \$26.6 million and \$5.0 million, respectively. Gross profit as a percent of sales was 18.8% for the three months ended September 30, 2007. For the three months ended September 30, 2006, net sales and gross profit were \$20.0 million and \$2.8 million, respectively. Gross profit as a percent of sales was 13.8% for the three months ended September 30, 2006.

Net sales increased \$6.6 million to \$26.6 million (including \$5.6 million for Manitex Liftking.) for the three months ended September 30, 2007 from \$20.0 million for the comparable three month period in 2006. The sales increase is the result of an increase in Manitex's sales of \$0.9 million and including sales for Manitex Liftking in 2007. The increase in sales followed operational and managerial changes that were made in March 2007 at the Manitex operation. As a result of the changes, Manitex was able to increase its capacity.

The gross profit as a percent of net sales increased to 18.8% for the three months ended September 30, 2007 from 13.8% for the comparable 2006 period, an improvement of 5.0%. The Company's gross profit was favorably impacted in 2007 by product mix, a 2007 price increase and the benefit of sourcing materials from lower costs countries. The favorable mix is result of an increase in the sales of cranes with higher lifting capacity. This is in part attributed to the 50 ton crane which was introduced in the second quarter 2007.

**Selling, general and administrative expense** – Selling, general and administrative expense for the three months ended September 30, 2007 was \$2.9 million compared to \$1.5 million for the comparable period in 2006. Selling, general and administrative expense for the three months ended September 30, 2007 are comprised of corporate expense of \$0.8 million and \$2.1 million related to operating companies. Selling, general and administrative expense for the three months ended September 30, 2006 are comprised of corporate expense of \$0.7 million and \$0.9 million related to operating companies.

Selling, general and administrative, excluding corporate expenses, increased \$1.2 million to \$2.1 million (including \$0.6 million for Manitex Liftking.) for the three months ended September 30, 2007 from \$0.9 million for the comparable three month period in 2006. The increase is the result of including Manitex Liftking in 2007 and an increase in amortization expense. Included in selling general and administrative expenses is amortization of intangible assets of \$0.4 million and \$0.02 million for the three months ended September 30, 2007 and 2006, respectively. At September 30, 2006, a preliminary estimate of the Manitex purchase price allocation was used that assigned most of the value attributed to intangibles to goodwill which was not amortized. In the fourth quarter 2006, an estimate of purchase price allocation was refined with a substantial portion of the value of intangible being allocated to patented and unpatented technology, customer relationships, trade names and trademarks, and customer backlog, all assets, with definitive lives and, therefore, amortized.

Corporate expenses increased \$0.1 million to \$0.8 million for three months ended September 30, 2007 from the \$0.7 million for the comparable 2006 three month period. Included in 2007 are expenses of \$0.1 million related to the Company's Sarbanes Oxley compliance project. The Company continues to actively manage its costs relating to the Sarbanes-Oxley project in particular and balances between internal and external resources applied. There were no costs related to Sarbanes-Oxley compliance in 2006.

**Operating income** – Operating income from continuing operations of \$1.9 million for the three months ended September 30, 2007 was equivalent to 7.0% of net sales compared to an operating income of \$1.1 million for the three months ended September 30, 2006 or 5.6%. The increase in the operating income as a percent of net sales is the result of higher gross profit percent which is partially offset by an increase in selling, general and administrative expense.

**Interest expense** – Interest expense was \$0.9 million and \$1.0 million for the three months ended September 30, 2007 and 2006, respectively. The Company's interest expense is principally related to the amount of outstanding debt. Interest expense has decreased and will continue to decrease as the Company reduces its outstanding debt. Total outstanding debt has decreased to \$26.2 million at September 30, 2007 from \$37.0 million and \$39.5 million at December 31, 2006 and September 30, 2006, respectively. The reduction of debt only had a limited impact on interest expense as approximately \$10 million of the reduction occurred in the third quarter, with approximately \$8.0 million occurring on September 10, 2007.

**Foreign currency transaction loss** – The foreign currency transaction loss for the three months ended September 30, 2007 was \$0.2 million, (2006 \$nil). The foreign currency loss was driven by the continuing unusual strengthening of the Canadian dollar during the three months ended September 30, 2007, when the US to Canadian dollar exchange rate changed from .9404 to 1.0037. The Company has an acquisition note payable for \$2.6 million to the former owner of Liftking Industries, which is denominated in Canadian dollars. The Company recorded a foreign exchange loss of \$0.2 million for the three months ended September 30, 2007 related to this note. Additionally during the three months ended September 30, 2007 Manitex Liftking, our Canadian subsidiary, had significant sales which were denominated in US dollars and which on settlement generated or

will generate a transaction loss of \$0.2 million. A gain of \$0.2 million on the forward currency contracts held by the Company offsets the aforementioned transaction losses.

The exchange losses were principally incurred before the Company entered into the forward currency exchange contracts in early September 2007. The decision to enter into forward exchange contracts was the result of an investigation into methods that could be taken to reduce foreign currency risk and was in response to the currency losses incurred in the second quarter 2007. Historically the USD / CDN\$ exchange rate has not seen such volatility in a short time period and the Company had not previously taken any action to mitigate its foreign exchange exposures

**Income tax (benefit)** – An income tax benefit of \$(0.1) million was recorded for the three months ended September 30, 2007 and occurred in the quarter as the impact of lowering the effective tax rate from 27.4% to 9.3% at September 30, 2007 more than offset the provision for income taxes on current quarter's earnings. The change in the effective tax rate is the result of a change in mix of projected earnings between Canada and the United States. This causes a decrease in the effective rate as the Company has a net operating loss carry forward available to offset taxable earnings in the United States, for which a valuation allowance was previously established. The change in earnings mix is attributable to higher volume and gross profit margin increasing US earnings together with a decrease in Canadian income related to the projected continuing impact of the strengthening Canadian dollar which is adversely affecting operating margins and has resulted in foreign currency losses.

For the three months ended September 30, 2006, income tax expense was \$0.1 million.

**Net income from continuing operations** – Net income from continuing operations for the three months ended September 30, 2007 was \$0.9 million. Continuing operations broke even for the three months ended September 30, 2006.

**Discontinued operations of the Testing and Assembly Equipment segment for the three month periods ended September 30, 2007 and 2006**

The net loss from discontinued operations of \$0.2 million comprised costs of sales of \$0.2 million, operating expenses of \$0.2 million offset by revenue of \$0.2 million. For the three months ended September 30, 2006 the loss reported was \$0.6 million.

During the period, the company recorded a gain of \$0.2 million related to closure or discontinuation of operations, which is principally related to gain on the sale of assets.

**Liquidity and Capital Resources**

On September 10, 2007, the Company closed a \$9.0 million private placement of its common stock (the "2007 Private Placement") pursuant to the terms of a securities 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, the Company issued 1,500,000 shares of its common stock. The Company also issued warrants to purchase 105,000 shares of the Company's common stock 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 \$0.6 million and legal fees and expenses of approximately \$0.1 million. The Company's net cash proceeds after fees and expenses were \$8.3 million with \$8.0 million and \$0.2 million being allocated to common stock and warrants, respectively.

In July of 2007, the Company issued (a) an aggregate of 1,000 shares of its common stock to The Mitchell W. Howard Trust upon the exercise of a Series A Warrant, having an exercise price of \$4.05 per share, issued to The Mitchell W. Howard Trust on November 15, 2006; (b) an aggregate of 1,000 shares of its common stock to The Mitchell W. Howard Trust upon the exercise of a Series B Warrant, having an exercise price of \$4.25 per share, issued to The Mitchell W. Howard Trust on November 15, 2006; and (c) an aggregate of 246,000 shares of its common stock to three JLF entities upon the exercise of Series B Warrants, having an exercise price of \$4.25 per share, issued to these JLF entities on November 15, 2006. Net proceeds from these warrant exercises were approximately \$1.1 million.

Cash and cash equivalents were \$1.3 million at September 30, 2007 compared to \$0.6 million at December 31, 2006. As of September 30, 2007, the Company had approximately \$2.5 million available to borrow under its credit facility with Comerica Bank. The interest rate on this facility was equal to prime plus .75 % at September 30, 2007 but decreased to prime plus .25% on October 18, 2007 (prime was 7.75% at September 30, 2007). On October 18, 2007, the Bank also increased the Company's credit line to \$18.5 million from \$16.5 million which in turn increased the Company's borrowing availability under its credit line. 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. In August of 2007, the Company reached an agreement with its bank to extend the maturity of this credit facility to April 1, 2009.

Additionally, the Company's Manitex Liftking subsidiary has a credit facility which allows for borrowings of up to \$4.5 (US) million as of September 30, 2007. At September 30, 2007, the Company had approximately CDN \$2.7 million available to borrow under this Canadian facility. This facility bears interest at Canadian prime rate plus 2% at September 30, 2007 but decreased to at Canadian prime rate plus 1.5% on October 18, 2007 (Canadian prime was 6.25% at September 30, 2007). 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. Effective August 9, 2007 the Company entered into Amendment No. 1 to this facility, which extended the maturity date until April 1, 2009.

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, 2006. 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, 2007. 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 September 30, 2007 of CDN \$2.6 million or approximately US \$2.6 million.

At September 30, 2007, the Company had a \$2.6 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, pursuant to Amendment No. 3 to the note, which was effective August 9, 2007. 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.

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.

## **2007**

Operating activities generated cash of \$0.4 million for the nine months ended September 30, 2007. Net income of \$0.2 million and non-cash items that totaled \$2.0 million both sources of cash were partially offset by changes in assets and liabilities, which consumed \$1.9 million. The principal non-cash items are depreciation and amortization of \$1.6 million and an increase in inventory reserves of \$0.4 million. An increase in accounts receivable of \$1.1 million, a decrease in accounts payable of \$2.9 million, an increase in prepaid expense of \$0.2 million and a decrease in other current liabilities of \$0.4 million, in total consumed \$4.6 million of cash. A decrease in inventory of \$1.9 million (excluding inventory acquired in the Noble Product Line acquisition) and an increase in accrued expense of \$0.8 million generated cash of \$2.5 million. The increase in accounts receivable is the result of higher sales in the third quarter of 2007 versus the fourth quarter of 2006.

The decrease in inventory is principally related to a decrease in inventory at Manitex Liftking. Manitex Liftking had acquired inventory at year end to support the manufacture a number of large transporters, which were shipped during the second quarter. Although a decrease in inventory contributed to the decrease in accounts payable, the more significant cause for the decrease relates to the timing of payments. An improved cash position, allowed the Company to pay its vendors more promptly.

Investing activities generated \$1.1 million for the nine months ended September 30, 2007, which principally represents the proceeds from sale of the assets of the discontinued Testing and Assembly Equipment segment. The acquisition of Noble Product Line “(Noble)” assets was a non-cash transaction, in which the Company acquired the Noble assets in exchange for the forgiveness of \$4.2 million that GT Distribution owed the Company. As a non-cash transaction, the assets acquired and the forgiveness of the liability are both excluded from the cash flow statement. See Note 4

Financing activities consumed \$0.8 million in cash for the nine months ended September 30, 2007. An increase of \$0.8 million in borrowings under the Company’s credit facilities, \$1.9 million from the exercise of warrants and \$8.3 million from the issuance of stock and warrants generated \$11.0 million of cash. Total debt was reduced by \$11.8 million as the note payable to the bank was reduced by \$11.5 million along with a decrease in capital lease obligations of \$0.3 million. The \$10.1 million from exercise of warrants and the issuance of stock and warrants and the \$1.1 million of proceeds received on the sale of assets of discontinued operations were the principal sources of funds used to pay down the bank note.

## **2006**

In the nine months ended September 30, 2006, the Company consumed \$2.0 million of cash. Operating activities generated cash of \$1.8 million for the nine months ended September 30, 2006 which is primarily comprised of \$1.4 million net loss, offset by non-cash items of \$0.6 million and by changes in assets and liabilities that generated \$2.6 million. An increase in deferred taxes is the principal non-cash item. A decrease in inventory of \$1.3 million, a decrease in customer deposits of \$0.1 million, an increase in accrued expenses of \$0.2 million and a decrease in assets of the discontinued operation of \$3.6 million in total generated \$5.3 million of cash. An increase in accounts receivable of \$1.8 million, an increase in prepaid expenses of \$0.5 million and a decrease in accounts payable of \$0.5 million in total consumed \$2.7 million of cash.

A sales increase in the third quarter at Manitex was the cause for the increase in accounts receivable and the decrease in inventory. The \$3.6 million decrease in assets of the discontinued operations is principally attributed to a \$1.7 million decrease in accounts receivable and \$2.0 million decrease in cost and estimated earnings in excess of billings. The decline in receivables and cost and estimated earnings in excess of billing is the result of decreased sales volume at the Testing and Assembly Equipment segment. The decrease in sale volume resulted in the Company decision to sell this segment in March of 2007.

Investing activities consumed \$0.6 million for the nine months ended September 30, 2006. The Company invested \$0.1 million in capital equipment and \$0.1 million in patents and drawings. The \$0.4 million remaining represents principally the purchase of capital assets in its now discontinued Testing and Assembly Equipment segment.

Cash flows from financing activities consumed \$3.2 million of cash, as debt assumed in the Manitex acquisition was reduced by \$3.2 million.

## **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**

**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 in 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 as a currency gain or loss.

Also, 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, 2006, for a discussion of the Company's other critical accounting policies.

### **Impact of Recently Issued Accounting Standards**

In February of 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," which is intended to simplify the accounting and improve the financial reporting of certain hybrid financial instruments (i.e. derivatives embedded in other financial instruments). The statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125." SFAS No. 155 is effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year beginning after September 15, 2006. The Company adopted the SFAS No. 155 on January 1, 2007. The adoption of the Statement did not have a material impact on its financial position, results of operations or cash flows.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140" which is effective for the fiscal years beginning after September 15, 2006. The FASB issues this statement to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. The Company adopted the SFAS No. 156 on January 1, 2007. 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. 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. The Company is currently evaluating the potential impact of this statement.

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.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that misstatements be quantified based on their impact on each of the Company's financial statements and related disclosures. On December 31, 2006, the Company adopted SAB 108. The adoption of SAB 108 did not impact the Company's financial statements.

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

ected in earnings at each subsequent reporting date. SFAS No. 159 will be effective for fiscal years that begin after November 15, 2007. We are currently assessing the impact SFAS No. 159 will have on our consolidated financial statements.

See Note 16 regarding the company's adoption FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)" which is effective for fiscal years beginning after December 15, 2006

### **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 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 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 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 \$200.

*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 September 30, 2007, the Company had entered into a series of forward currency exchange contracts. The contracts obligate the Company to purchase approximately CND \$5.0 million in total. The contracts which are in various amounts mature between October 15, 2007 and December 31, 2009. Under the contract, the Company will purchase Canadian dollars at exchange rates between .9537 and .9805. The Canadian to US dollar exchange rates were 1.0037 and 1.0708 at September 30, 2007 and November 5, 2007, respectively. At September 30, 2007, the forward contracts held by the Company had a market value of approximately \$218. 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.

### **Item 4—Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission ("SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), as appropriate to allow timely decisions regarding required disclosure. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will uncover or detect failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Under the supervision of, and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were ineffective in ensuring that information requiring disclosure is

recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms due to the restatements and the identification of the material weakness in the financial statement close and reporting process, as described below.

Notwithstanding the material weakness described below, management believes the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented. In preparing the Company's consolidated financial statements for the quarter ended September 30, 2007, the Company performed additional analyses and other post-closing procedures in an effort to ensure that the Company's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles

Our Chief Executive Officer and Chief Financial Officer determined that, as of December 31, 2006, a material weakness existed in our internal control over financial reporting that consisted of inadequate resources in our accounting and financial reporting group. As a result of our growth in the second half of 2006 through the acquisition of two private companies that have not been required to report to public company or SEC requirements, and the increased complexity of our business and of accounting principles, we have determined that we do not have sufficient accounting resources to support our financial reporting requirements. This was further evidenced by our inability to timely file our annual report on Form 10-K for the fiscal year ended December 31, 2006. Management is currently assessing our need for additional accounting resources in terms of the number and experience of additional staff and training of existing staff.

As a result of a review of the Company's financial statements by the Security Exchange Commission ("SEC") in connection with a registration statement on Form S-3, filed by the Company on December 21, 2006, the Company determined that it should restate its audited consolidated financial statements for the year ended December 31, 2005, its unaudited interim consolidated financial statements for the quarter ended September 30, 2006, and its unaudited pro forma consolidated statement of income giving effect to the purchase of QVM, L.L.C., included in the Company's Form 8-K/A filed on September 19, 2006, as more fully described in Note 2 to our audited consolidated financial statements contained in the Company's 2006 10-K Annual Report. The correction of these matters had no impact on our net income, net worth or cash and cash equivalents as reflected in our statement of cash flows, as previously reported for 2005 and the third quarter ended September 30, 2006.

In addition, in the course of conducting the audit of our financial statements for the year ended December 31, 2006, the Company's auditors, UHY LLP, noted several significant internal control deficiencies over financial reporting, which when considered in the aggregate, they believe constitute a material weakness over financial reporting at December 31, 2006. UHY LLP determined that we were unable to properly account for a complex financing transaction, which included warrants. Our auditors also advised us that we do not have a sufficient organization to facilitate an efficient financial statement close and reporting process and permit the preparation of our financial statements in accordance with U.S. generally accepted accounting principles. For example, there were several post-closing adjustments to our financial statements during the course of the 2006 audit.

We have been and continue to be engaged in efforts to remediate the material weakness in our disclosure controls and procedures described above. In connection with our remediation efforts, we hired a new Vice President and Chief Financial Officer with public company reporting and Sarbanes-Oxley implementation experience in October 2006. We hired a President and Chief Operating Officer in March 2007. We also engaged a tax consultant to assist with the Company's tax accounting and reporting and a consulting firm to assist with Sarbanes-Oxley implementation, which will include a Sarbanes Oxley implementation plan and recommendations regarding the Company's financial reporting processes and procedures. In addition, we expect to hire additional senior accounting personnel and increase training and supervision of policies and procedures, particularly with respect to matters noted above. We expect that these efforts will, over time, positively address the weakness noted by us and our independent auditors.

Except as described above, no changes in the Company's internal controls over financial reporting have come to management's attention that occurred during the quarter ended September 30, 2007, that have materially affected or are reasonably likely to affect the Company's 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 1A—Risk Factors**

The Company's critical risk factors can be found in the Company's most recent Annual Report on Form 10-K filed with the SEC. No material changes in risk factors have occurred, except as set forth below.

#### ***We are subject to currency fluctuations.***

Our revenues are generated in U.S. dollars and Canadian dollars while costs incurred to generate revenues are only partly incurred in the same currencies. In addition, we have a note payable for approximately \$2.6 million Canadian dollars. Changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings.

We engage in hedging activities to mitigate the impact of the translation of foreign currencies on our financial results. Our hedging activities are designed to reduce and delay, but not to eliminate, the effects of foreign currency fluctuations. Factors that could affect the effectiveness of our hedging activities include accuracy of sales forecasts, volatility of currency markets, and the availability of hedging instruments. Since the hedging activities are designed to reduce volatility, they not only reduce the negative impact of a weaker U.S. dollar, but they also reduce the positive impact of a stronger U.S. dollar. Our future financial results could be significantly affected by the value of the U.S. dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities. There can be no assurance that our hedging activities will have the desired beneficial impact on our financial condition or results of operations. Moreover, no hedging activity can completely insulate us from the risks associated with changes in currency exchange rates.

***We have had material weaknesses in internal control over financial reporting in the past and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.***

During the past two years, management and our independent registered public accounting firm have identified material weaknesses in our internal control over financial reporting as defined in the standards established by the American Institute of Certified Public Accountants that affected our financial statements for each of the two fiscal years ended December 31, 2005 and 2006.

The material weaknesses in our internal control over financial reporting during the past two years related to the lack of effective controls relating to financial reporting and close procedures, the lack of controls and procedures to ensure the proper accounting for a complex financing transaction that included warrants, failure to consistently apply controls over non-routine and non-systematic transactions, and the lack of effective and adequate controls to ensure the consistent implementation of accounting policies and procedures across all subsidiaries to prevent inconsistent accounting for similar transactions. We restated our audited consolidated financial statements for the year ended December 31, 2005 to exclude the impact of the potential conversion of convertible subordinated debt, which was anti-dilutive, from weighted average diluted common shares outstanding and recalculated diluted loss per share to reflect the change in weighted average diluted common shares outstanding. As a result, weighted average diluted common shares outstanding was decreased to 4,339,649 and 804,100 from 4,365,932 and 1,003,963 for the years 2005 and 2004, respectively. The change in outstanding weighted average diluted common shares outstanding, however, did not change the (\$.052) diluted loss per share that was originally reported for 2005. The change in the weighted average diluted common shares for 2004 increased the diluted loss per share to (\$4.30) from (\$3.44) which was originally reported for 2004. We also restated our unaudited pro forma consolidated statement of income for the year ended December 31, 2005 and the six-month period ended June 30, 2006 giving effect to the purchase of QVM, LLC, which were included in our Form 8-K/A filed on September 19, 2006 as follows: (1) pro forma consolidated statements of income for the year ended December 31, 2005 and the six-month period ended June 30, 2006 are revised to include income taxes in the pro forma consolidated statement of income; (2) the description in the introductory paragraph to our pro forma financial statements has been revised to clarify that these financial statements give effect to the purchase of membership interests of QVM, LLC and to describe the terms of such transaction; (3) our pro forma financial statements have been revised to only include the portion of QVM, LLC's income statement through the line item "income from continuing operations;" (4) note (g) to our pro forma financial statements giving effect to the application of the cash balance of the acquirer to pay down debt of the acquiree has been deleted; (5) our pro forma financial statements have been adjusted to give effect to the interest expense relating to the \$1.1 million promissory note issued to the members of QVM, LLC;

(6) the earnings per share information included in our pro forma financial statements was revised to reflect the anti-dilutive shares related to our convertible debt, which resulted in basic earnings per share being equal to diluted earnings per share; and (7) certain auditor's reports relating to interim financial information have been deleted and remaining reports and auditor's consents have been revised. Below is a reconciliation of the change in pro forma net income (loss) for the six months ended June 30, 2006 and the twelve months ended December 31, 2005:

	Pro forma Six Months Ended June 30, 2006	Pro forma Year Ended December 31, 2005
Pro forma Net Income (Loss) from Continuing Operation		
Before restatement .....	\$ (1,336,499)	\$ 2,359,613
(1) Income tax on Pro forma Adjustment .....	6,341	91,631
(3) Exclude discontinued operations .....	—	(3,954,696)
(4) Deleted paydown of debt .....	21,494	(180,079)
(5) Interest on Acquisition debt .....	(40,142)	(65,370)
After Restatement .....	<u>\$ (1,348,806)</u>	<u>\$ (1,748,901)</u>
Earnings (Loss) per Share		
Basic		
Before Restatement .....	\$ (0.26)	\$ 0.52
After Restatement .....	\$ (0.26)	\$ (0.38)
Diluted		
Before Restatement .....	\$ (0.26)	\$ 0.51
After Restatement .....	\$ (0.26)	\$ (0.38)
Weighted Average Common Shares		
Basic (Before and After Restatement) .....	5,109,875	4,574,524
Diluted		
Before Restatement .....	5,109,875	4,600,807
After Restatement .....	5,109,875	4,574,524

We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual audit or attestation reports regarding the effectiveness of our internal control over financial reporting when required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

***If our internal controls over financial reporting are inadequate or our independent auditors are unable to certify as to their adequacy, our business and reputation would be harmed, which could lower our stock price.***

We are evaluating our internal controls over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC thereunder. Section 404 requires a reporting company such as ours to, among other things, annually review and disclose its internal controls over financial reporting, and evaluate and disclose changes in its internal controls over financial reporting quarterly. We will be required to comply with Section 404 as of December 31, 2007. We will continue to perform the system and process evaluation and testing required (and any necessary remediation) in an effort to timely comply with management certification and auditor attestation requirements of Section 404. In the course of our ongoing evaluation, we may identify areas of our internal controls requiring improvement, and plan to design enhanced processes and controls to address these and any other issues that might be identified through this review. As a result, we expect to incur additional expenses and diversion of management's time. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations and may not be able to ensure that the process is effective or that the internal controls are or will be effective in a timely manner. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent auditors may not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission. As a result,

there could be an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could lower our stock price and reduce the value of your investment.

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

In July of 2007, the Company issued (a) an aggregate of 1,000 shares of its common stock to The Mitchell W. Howard Trust upon the exercise of a Series A Warrant, having an exercise price of \$4.05 per share, issued to The Mitchell W. Howard Trust on November 15, 2006; (b) an aggregate of 1,000 shares of its common stock to The Mitchell W. Howard Trust upon the exercise of a Series B Warrant, having an exercise price of \$4.25 per share, issued to The Mitchell W. Howard Trust on November 15, 2006; and (c) an aggregate of 246,000 shares of its common stock to three JLF entities upon the exercise of Series B Warrants, having an exercise price of \$4.25 per share, issued to these JLF entities on November 15, 2006. Net proceeds from these warrant exercises were approximately \$1.1 million. The shares were issued to these warrant holders in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933, as amended. No underwriters were engaged in connection with such issuances.

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**

Item 1.01. Entry into a Material Definitive Agreement

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On September 7, 2007, the Company entered into a Foreign Currency Exchange Master Agreement (the "Agreement") with Comerica Bank ("Comerica") pursuant to which Comerica has agreed to provide the Company with Comerica's Foreign Currency Exchange Transaction Service. The Company has entered into a series of forward currency exchange contracts pursuant to the Agreement, which as of September 30, 2007, obligated the Company to purchase approximately CND \$5.0 million in the aggregate at exchange rates between .9537 and .9805. These exchange contracts mature between October 15, 2007 and December 31, 2009.

**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**

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>Filed Herewith</u>
		<u>Form</u>	<u>File No.</u>	<u>Exhibit No.</u>	
10.1	Comerica Bank Foreign Currency Exchange Master Agreement, dated September 7, 2007, between Veri-Tek International, Corp. and Comerica Bank.				<u>X</u>
10.2	Veri-Tek International Corp. Amended and Restated 2004 Equity Incentive Plan				X
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

## 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.

November 14, 2007

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

November 14, 2007

By: /s/ David H. Gransee  
David H. Gransee  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)



**COMERICA BANK  
FOREIGN CURRENCY EXCHANGE MASTER AGREEMENT**

The undersigned Customer and Comerica Bank, a Michigan banking corporation ("**Bank**"), agree that Bank will provide Customer with Comerica's Foreign Currency Exchange Transaction Service ("**FX Service**") under the terms and conditions of this Master Agreement:

**1. Definitions.** The following terms will have the following meanings in this Agreement:

**"Business Day"** means for purposes of (i) solely in relation to delivery of a Currency, a day which is a Local Banking Day in relation to that Currency; and (ii) any other provision of the Agreement (as that term is defined in Section 2.2 below), a day which is a Local Banking Day for the applicable locations of both parties; provided, however, that neither Saturday nor Sunday will be considered a Business Day for any purpose.

**"Confirmation"** means a writing (including facsimile or other electronic means from which it is possible to produce a hard copy, but subject to Section 2.5 below) evidencing an FX Transaction, and specifying:

- (i) the parties thereto,
- (ii) the amounts of the Currencies being bought or sold and by which party,
- (iii) the Value Date, and
- (iv) any other term generally included in such a writing in accordance with the practice of the relevant foreign exchange market.

**"Currency"** means money denominated in the lawful currency of any country.

**"Currency Obligation"** means any obligation of a party to deliver a Currency pursuant to an FX Transaction.

**"Customer"** means the undersigned customer on behalf of itself as well as on behalf of its affiliates and subsidiaries set forth on Exhibit A attached hereto.

**"FX Transaction"** means any transaction between the parties for the purchase by one party of an agreed amount in one Currency against the sale by it to the other of an agreed amount in another Currency, both such amounts either being deliverable on the same Value Date or, if the parties have so agreed, being cash-settled in a single Currency, which is or shall become subject to the Agreement and in respect of which transaction the parties have agreed (whether orally, electronically or in writing): the Currencies involved, the amounts of such Currencies to be purchased and sold, which party will purchase which Currency, and the Value Date. Additionally, the Bank may designate any of the following as an FX Transaction: Spot, Forward, Currency Options and Non-Deliverable Forward (NDF).

**"Local Banking Day"** means (i) for any Currency, a day on which commercial banks effect deliveries of that Currency in accordance with the market practice of the relevant foreign exchange market, and (ii) for any party, a day in the location of the principal residence or office of such party on which commercial banks in that location are not authorized or required by law to close.

**"Value Date"** means, with respect to any FX Transaction, the Business Day (or where market practice in the relevant foreign exchange market in relation to the two Currencies involved provides for delivery of one Currency on one date which is a Local Banking Day in relation to that Currency but not to the other Currency and for delivery of the other Currency on the next Local Banking Day in relation to that other Currency ("**Split Settlement**") the two Local Banking Days in accordance with that market practice) agreed by the parties for delivery of the Currencies to be purchased and sold pursuant to such FX Transaction, and, with respect to any Currency Obligation, the Business Day (or, in the case of Split Settlement, Local Banking Day) upon which the obligation to deliver Currency pursuant to such Currency Obligation is to be performed.

**2. Foreign Exchange Transactions.**

**2.1 Scope of the Agreement.** The parties may enter into FX Transactions, for such quantities of such Currencies, as may be agreed subject to the terms of the Agreement; provided that neither party shall be required to enter into any FX Transaction with the other party. Unless otherwise agreed in writing by the parties, each FX Transaction entered into between the parties on or after the date of this Master Agreement shall be governed by the Agreement.

2.2 **Single Agreement.** This Master Agreement, the terms agreed between the parties with respect to each FX Transaction (and, to the extent recorded in a Confirmation, each such Confirmation), and all executed addenda and amendments to any of such items shall together form the agreement between the parties (the “**Agreement**”) and shall together constitute a single agreement between the parties. The parties acknowledge that all FX Transactions are entered into in reliance upon such fact, it being understood that the parties would not otherwise enter into any FX Transaction.

2.3 **Confirmations.** Subject to Section 11.4, all conversations related to FX Transactions shall be recorded by Bank. FX Transactions shall be promptly confirmed verbally by the parties, with follow-up Confirmations exchanged by mail, facsimile or other electronic means from which it is possible to produce a hard copy, subject to Section 2.5 below (such follow-up Confirmation shall constitute a “written Confirmation”). The terms of such written Confirmation shall be deemed correct and accepted absent manifest error. Any party objecting to the terms of the written Confirmation shall, as soon as practicable (and no later than two (2) Business Days after its receipt of such written Confirmation), send a corrected written Confirmation. Bank and Customer shall work together to resolve promptly such discrepancy. The failure by a party to issue a Confirmation shall not prejudice or invalidate the terms of any FX Transaction.

2.4 **Inconsistencies.** In the event of any inconsistency between the terms of a Confirmation and the other provisions of the Agreement, the other provisions of the Agreement shall prevail, and the Confirmation shall not modify the other terms of the Agreement.

2.5 **E-mail Notification.** From time to time Bank may provide Customer with a system-generated e-mail notification advising that an FX Transaction has occurred (an “E-mail Notification”). Customer acknowledges that E-mail Notifications are provided as a convenience only and are not Confirmations. Customer agrees that any concerns regarding the contents of an E-mail Notification will be addressed with Bank via phone and not via e-mail, and that it will not reply directly to any E-mail Notifications. Customer will not use e-mail to send Bank communications which contain unencrypted confidential information such as passwords, account numbers or social security numbers. In addition, Customer acknowledges that it will not send, via e-mail, any inquiry or request that may be of a time-sensitive nature. If Customer receives an E-mail Notification by mistake, it will destroy or delete the message and advise Bank of the error.

### **3. Customer Orders.**

3.1 Customer may request that Bank purchase or sell a Currency on behalf of and for the benefit of Customer. Customer understands that the types of Currency Bank may make available for sale or purchase under this Master Agreement are subject to change from time to time at Bank’s discretion.

3.2 Customer agrees to make its FX Service request by such means as Bank may make available for use by Customer from time to time, including but not limited to telephone, facsimile, Internet, or private systems. Prior to Bank’s execution of a Customer order, if Customer discovers what it believes to be an error or discrepancy in the initiation of its FX request, Customer must notify Bank immediately at the address and using the communications methods indicated by Bank to Customer from time to time. After receipt of notice, Bank will take reasonable steps to correct the error in such initiation, if reasonably practicable without cost to Bank, if Customer caused the error. Customer further agrees to provide Bank with such documentation as Bank deems necessary prior to using the FX Service. In particular:

(a) **If Customer uses the telephone FX Service**, Bank is authorized by Customer to accept and act on requests and instructions received from any person identifying himself/herself as a person designated in writing by Customer as an Authorized User and a Confirmer, if applicable.

(b) **If Customer uses the Internet FX Service (“Comerica eFX<sup>®</sup>”)**, Customer will enter into and comply with Bank’s Treasury Management Services Agreement – Automated Information Reporting and Transaction Initiation Service – Treasury Management Connect Web<sup>SM</sup> (the “TMC Web Agreement”) and any related user guides (the “User Guides”), and Bank is authorized by Customer to accept and act on requests and instructions received through the Comerica eFX system in accordance with the TMC Web Agreement and User Guides and the other terms of this Master Agreement related thereto.

(c) **If Customer uses a private system service (such as Bloomberg)**, Bank is authorized by Customer to accept and act on requests and instructions that comply with the security procedures for the private system.

Customer understands and agrees that, although the Comerica eFX system enables Customer to establish specific transactional limits for various Authorized Users utilizing Comerica eFX, such limits do not apply to FX Service requests initiated by any means other than Comerica eFX. Bank does not accept any responsibility to monitor or verify Comerica eFX transactional limits established by Customer, nor to apply such limits to FX Service requests initiated by any other means, including FX Service requests initiated by another means after a similar Comerica eFX request has been denied by the Comerica eFX system due to the application of such limits. Bank shall have no liability to Customer as a result of accepting

and acting on any request or instruction received from any Authorized User by any means other than Comerica eFX that exceeds such Authorized User's established Comerica eFX limits.

3.3 Customer understands that Bank is not obligated to complete any FX Transaction request for Customer unless the Customer has in its designated demand deposit account at Bank sufficient good and collected funds to cover the amount of the transaction request including fees, or has a line of credit with Bank on which Bank may draw to cover the amount of the transaction request including fees, or Bank and Customer have otherwise entered into a written agreement for the settlement and payment of the transaction request and fees. Additionally, Bank may require Customer to execute appropriate documentation evidencing Bank's security under this Section 3.3.

3.4 On a best efforts basis, Bank agrees to accept FX Transaction requests from Customer to buy or sell foreign currencies at specific foreign exchange rates. Customer understands and agrees that, due to foreign exchange rate movements, Bank's execution of Customer's request at the designated exchange rate may not be possible. In the event that such designated rate is not available, Customer agrees Bank is authorized to execute, and Customer will accept, orders to buy or sell foreign currencies at the exchange rate next available to Bank.

#### **4. Settlement and Netting.**

4.1 Settlement. Subject to Sections 4.2 and 4.3, each party shall deliver to the other party the amount of the Currency to be delivered by it under each Currency Obligation on the Value Date for such Currency Obligation.

4.2 Settlement Netting. Unless otherwise mutually agreed, if, on any date, more than one delivery of a particular Currency under Currency Obligations is to be made, then each party shall aggregate the amounts of such Currency deliverable by it and only the difference between these aggregate amounts shall be delivered by the party owing the larger aggregate amount to the other party, and, if the aggregate amounts are equal, no delivery of the Currency shall be made.

4.3 Novation Netting By Currency. If the parties enter into an FX Transaction giving rise to a Currency Obligation for the same Value Date and in the same Currency as a then-existing Currency Obligation between the parties, then immediately upon entering into such FX Transaction, each such Currency Obligation shall automatically and without further action be individually canceled and simultaneously replaced by a new Currency Obligation for such Value Date determined as follows: the amounts of such Currency that would otherwise have been deliverable by each party on such Value Date shall be aggregated and the party with the larger aggregate amount shall have a new Currency Obligation to deliver to the other party the amount of such Currency by which its aggregate amount exceeds the other party's aggregate amount, provided that if the aggregate amounts are equal, no new Currency Obligation shall arise. This Section 4.3 shall not affect any other Currency Obligation of a party to deliver any different Currency on the same Value Date.

4.4 Acceleration. In the event Customer is in default under any FX Transaction or if Bank determines there is a material adverse change in the overall financial condition of Customer, Bank may at its option request additional security from Customer or accelerate all FX Transactions in the same Currency with Customer without respect to the originally contracted Value Dates so that all such FX Transactions have the same Value Date, and Bank then may net all such FX Transactions as provided in Section 4.2 or 4.3.

4.5 Applicability. The netting provisions in this Article 4 shall apply notwithstanding the failure of Bank to send a Confirmation or that Bank sent a Confirmation that incorrectly states any term of any FX Transaction.

4.6 Failure to Record. The provisions of Section 4.3 shall apply notwithstanding that either party may fail to record the new Currency Obligation in its books.

#### **5. Bank's Limitation of Liability; Indemnity; Time for Bringing Claims.**

5.1 Bank will not be liable to Customer for any failure or delay in the performance of any of its obligations under any Agreement if such failure or delay results from causes beyond Bank's reasonable control, including but not limited to communications failures, terrorist actions, market interruptions, war, riots, strikes, acts of god, or government action or inaction.

5.2 Notwithstanding any other provision of this Agreement, Bank's liability resulting from any error caused by Bank, its agents or service providers in performing or providing in any manner the FX Service will be limited to the actual and direct damages suffered and provable by Customer in an amount not to exceed the amount of interest, at the prevailing rate for the subject currency as available to Bank, which would have been earned had the error not occurred. IN NO EVENT WILL BANK BE LIABLE FOR ANY CONSEQUENTIAL, SPECIAL, PUNITIVE OR INDIRECT DAMAGES OR LOSSES EVEN IF IT IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES IN ADVANCE.

5.3 **Indemnity.** Except to the extent that any liability, loss or damage is caused by the gross negligence or willful misconduct of Bank, Customer will indemnify Bank fully against any liability, loss or damage incurred by Bank however arising and by whomever caused, whether arising directly or indirectly from Customer's use or operation of the FX Service, including, without limitation, third party claims arising from any FX Transaction completed at the instruction or purported instruction of Customer.

5.4 Customer acknowledges that Bank may be required to provide claim notices to third parties within 60 days of the applicable Value Date. Therefore, no claim arising out of or relating to this Agreement may be brought by Customer unless Customer has provided to Bank written notice of the claim within 60 days of the applicable Value Date.

## **6. Customer's Responsibilities.**

6.1 Customer shall provide Bank with such authorizations and documents as Bank deems necessary for purposes of providing the FX Service. Customer assumes all liability for providing such documents and authorizations in a timely manner.

6.2 Customer assumes all responsibility for maintaining security and confidentiality measures in relation to its use of the FX Service. Customer agrees that any FX Transactions made using security codes, passwords, digital certificates and the like that are assigned to Customer, are authorized FX Transactions for which Customer assumes all liability.

6.3 Customer shall pay when due all payment obligations owing under each Agreement. Customer agrees to pay any overdue amount on demand with interest at an annual rate equal to the cost to Bank (without proof or evidence of any kind of the actual cost to Bank) if Bank were to fund the overdue amount. Interest shall be calculated on the basis of daily compounding and the actual number of days elapsed.

6.4 The obligation of Customer to make payments in any Currency will not be discharged or satisfied by any recovery under any judgment expressed in or converted into U.S. dollars except to the extent to which such recovery results in the effective receipt by Bank of the full amount of such Currency that was so payable. The obligation of Customer shall be enforceable as an alternative or additional cause of action for the purpose of a recovery in U.S. dollars of the amount by which such effective receipt falls short of the full amount of such Currency that was payable under an Agreement.

## **7. Security Procedures.**

7.1 Bank is authorized and directed by Customer to provide to the persons named and designated by Customer (each an "**Authorized User**") in the completed FX Service Master Agreement – Designation of Authorized Users form, any security devices, including cards, codes, digital certificates, user id, passwords, and software that is necessary for the use of the FX Service.

7.2 If Customer elects to use Comerica eFX, Bank will add each Authorized User to the Comerica eFX system and designate each Authorized User as either an "Administrator" or a "Corporate User" as requested by Customer. Bank will complete the Comerica eFX setup for each designated Administrator, granting the transactional limits, authorities, permissions, etc. as determined by Bank and consistent with Bank policy (or as may be otherwise agreed between Bank and Customer). Customer's Administrator(s) is responsible for accessing Comerica eFX to complete the setup of each Corporate User, including giving the Corporate Users various transactional limits, authorities, permissions, etc. Customer understands that Bank does not monitor or verify the setup of Corporate Users by Customer and agrees that such setup is the sole responsibility of Customer. Bank shall have no liability to Customer of any kind resulting from Customer's failure to properly complete the setup of each Corporate User on the Comerica eFX system.

7.3 Any change to the list of Authorized Users must be made in writing by a Customer-authorized signer and shall be effective on the later of the date indicated in the written change notice or at the opening of Bank's business on the third Business Day following Bank's receipt of such notice.

## **8. Representations, Warranties and Covenants.**

8.1 **Representations and Warranties.** Each party represents and warrants to the other party as of the date of this Master Agreement and as of the date of each FX Transaction that: (i) it has authority to enter into the Agreement (including such FX Transaction); (ii) the persons entering into the Agreement (including such FX Transaction) on its behalf have been duly authorized to do so; and (iii) the Agreement (including such FX Transaction) is binding upon it or in the case of Customer, is binding upon itself as well as its affiliates and subsidiaries set forth on Exhibit A, as the case may be, and enforceable against the parties in accordance with its terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and applicable principles of equity) and does not and will not violate the terms of any agreements to which such party is bound. Customer further represents and warrants that it acts as principal in entering into each FX Transaction.

8.2 Covenants. Each party covenants to the other party that it will at all times obtain and comply with the terms of and do all that is necessary to maintain in full force and effect all authorizations, approvals, licenses and consents required to enable it lawfully to perform its obligations under the Agreement.

### 9. Customer to Rely on its Own Expertise.

Customer represents and warrants to Bank as of the date of this Master Agreement and as of the date of each FX Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for such FX Transaction): (i)(A) it is acting for its own account, and it has made its own independent decisions to enter into the Agreement (including such FX Transaction) and as to whether the Agreement (including such FX Transaction) is appropriate or proper for it based upon its own judgment and upon advice from such advisors as it has deemed necessary, including the present and future results, consequences, risks, and benefits thereof, whether financial, accounting, tax, legal or otherwise; (B) it is not relying on any communication (written or oral) of Bank as investment advice or as a recommendation to enter into the Agreement (including such FX Transaction), it being understood that information and explanations related to the terms and conditions of the Agreement (including such FX Transaction) shall not be considered investment advice or a recommendation to enter into such FX Transaction; and (C) it has not received from Bank any assurance or guarantee as to the expected results of such FX Transaction; (ii) it is capable of evaluating and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of the Agreement (including such FX Transaction); and (iii) Bank is not acting as a fiduciary or an advisor for it in respect of the Agreement (including such FX Transaction).

### 10. Governing Law; Venue; Jury Trial Waiver.

This Master Agreement, each Agreement, and each FX Transaction will be governed by the laws of the State of Michigan without regard to conflict of law principles. Any litigation arising out of this Master Agreement, any Agreement, or otherwise in connection with the FX Service will be brought in a court of competent jurisdiction located in the State of Michigan, both parties waiving any claim that such court does not have personal jurisdiction over it or is an inconvenient forum. **THE PARTIES AGREE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL RIGHT, BUT ONE THAT MAY BE WAIVED. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, EACH KNOWINGLY AND VOLUNTARILY AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THIS MASTER AGREEMENT, ANY AGREEMENT, OR THE FX SERVICE.**

### 11. General Provisions.

11.1 Service Revisions. Bank reserves the right to revise the FX Service and any User Guides or reference materials from time to time and to change its hours of operation for the FX Service without prior notice and without consent of Customer.

11.2 Notices. Notices required or voluntary under this Master Agreement or an Agreement must be mailed or faxed to Bank at:

Comerica Bank (Mailcode 7270)  
Attn: Global Capital Markets Manager  
P.O. Box 75000  
Detroit, MI 48275 USA

and to Customer at the address or facsimile number set forth in the application below. Unless otherwise stated in an Agreement, notice shall be deemed received upon actual receipt.

11.3 Assignment. Neither party may assign or transfer or purport to assign or transfer its rights or obligations under this Master Agreement or any Agreement to a third party without the prior written consent of the other party; provided, however, that Bank may assign this Master Agreement and any Agreement to an affiliate or to any entity that succeeds (by merger, acquisition, or otherwise) to all or any substantial part of Bank's assets. Any purported assignment, transfer or charge in violation of this Section 11.3 shall be void.

11.4 Telephonic Recording. Customer agrees that Bank may electronically record all telephonic conversations between them and that any such recordings may be submitted in evidence to any court or in any proceedings for the purpose of establishing any matters pertinent to this Agreement.

11.5 Termination. Each of the parties may terminate this Master Agreement at any time by seven (7) days' prior written notice to the other party delivered as prescribed in Section 11.2, and termination shall be effective at the end of such seventh day; provided, however, that any such termination shall not affect any outstanding Currency Obligations, and the provisions

of the Agreement shall continue to apply until all the obligations of each party to the other under the Agreement have been fully performed.

11.6 Severability. In the event any one or more of the provisions contained in this Master Agreement or any Agreement should be held invalid, illegal or unenforceable in any respect under the law of any jurisdiction, the validity, legality and enforceability of the remaining provisions contained in this Master Agreement or any Agreement under the law of such jurisdiction, and the validity, legality and enforceability of such and any other provisions under the law of any other jurisdiction shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

11.7 No Waiver. No waiver granted by a party and no omission or delay on the part of a party in exercising any right, power or privilege under this Master Agreement or any Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

11.8 Inconsistencies. In the event of any inconsistencies between this Master Agreement and the TMC Web Agreement and/or any User Guides, the provisions of this Master Agreement shall prevail.

**Attachment:** Designation of Authorized Users form

---

**CUSTOMER, ON BEHALF OF ITSELF AS WELL AS ON BEHALF OF ITS AFFILIATES AND  
SUBSIDIARIES SET FORTH ON EXHIBIT A**

**Accepted:** Veri-Tek International, Corp.  
[Typed Name of Customer]

**By:** /s/ David H. Gransee  
[Signature of Authorized Signer]

**Date:** Sept. 7, 2007

**Name:** David H. Gransee

**Title:** VP & CFO

**Address:** 7402 W. 100<sup>th</sup> Pl.

**City:** Bridgeview

**State:** IL **Postal Code:** 60455

**Country:** United States

**Phone:** 708 237-2078

---

**COMERICA BANK**

**By:** /s/ James Q. Goudie III

**Date:** 9/7/07

**Name:** James Q. Goudie

**Title:** VP & AGM

Comerica Bank (Mailcode 7270)  
P.O. Box 75000  
Detroit, MI 48275 USA  
248-371-6808

**EXHIBIT A**

CUSTOMER'S SUBSIDIARIES AND AFFILIATES

**VERI-TEK INTERNATIONAL CORP.  
AMENDED AND RESTATED  
2004 EQUITY INCENTIVE PLAN**

(Effective as of September 13, 2007)

**Section 1. Purpose**

The purpose of the Veri-Tek International Corp. 2004 Equity Incentive Plan (the “Plan”) is to promote the best interests of Veri-Tek International Corp. (together with any successor thereto, the “Company”) and its shareholders by providing Employees and non-employee directors of the Company and its Affiliates (as defined below) with an opportunity to acquire a proprietary interest in the Company. It is intended that the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those Employees who are primarily responsible for shaping and carrying out the long-range plans of the Company and securing the Company’s continued growth and financial success. In addition, by encouraging stock ownership by directors who are not employees of the Company or its Affiliates, the Company seeks to attract and retain on its Board of Directors persons of exceptional competence and to provide a further incentive to serve as a director of the Company.

**Section 2. Definitions**

As used in the Plan, the following terms shall have the respective meanings set forth below:

(a) “409A Subsidiary” shall mean any entity that is controlled by the Company within the meaning of Treasury Regulation Section 1.414(c)-2(b)(2)(i), except that the phrase “at least 50 percent” shall be used in place of “at least 80 percent”, *provided* that the phrase “at least 20 percent” may be used in place of “at least 80 percent” with respect to grants of Options or Stock Appreciation Rights made to eligible individuals based on legitimate business criteria of the Company within the meaning of Code Section 409A.

(b) “Affiliate” shall mean any entity that, directly or through one or more intermediaries, is controlled by, controls, or is under common control with, the Company.

(c) “Award” shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Share or Performance Unit granted under the Plan.

(d) “Award Agreement” shall mean any written agreement, contract, or other instrument or document evidencing any Award granted under the Plan.

(e) “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time and the regulations promulgated thereunder. Any reference to a specific provision of the Code shall also be deemed a reference to any successor provision thereto.

(f) “Commission” shall mean the United States Securities and Exchange Commission or any successor agency.

(g) “Committee” shall mean a committee of the Board of Directors of the Company designated by such Board to administer the Plan and comprised solely of not less than two directors, each of whom will be a “non-employee director” within the meaning of Rule 16b-3 and each of whom will be an “outside director” within the meaning of Section 162(m)(4)(C) of the Code; *provided* that the mere fact that the Committee shall fail to qualify under the foregoing requirements shall not invalidate any Award made by the Committee that is otherwise validly made under the Plan, unless the Committee is aware at the time of the Award’s grant of the Committee’s failure to so qualify.

(h) “Dividend Equivalent” shall mean a right, granted to a Participating Employee or a Non-Employee Director under the Plan, to receive cash equal to the cash dividends paid with respect to a specified number of Shares. Dividend Equivalents shall not be deemed to be Awards under the Plan.

(i) “Employee” shall mean any employee of the Company or any of its subsidiaries, including a 409A Subsidiary.

(j) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

(k) “Excluded Items” shall mean any items which the Committee determines shall be excluded in fixing Performance Goals, including, without limitation, any gains or losses from discontinued operations, any extraordinary gains or losses and the effects of accounting changes.

(l) The term “Fair Market Value” shall mean, with respect to a share of Stock, (i) if the Stock is readily tradable on one or more established stock exchanges or national market systems, including, without limitation, the American Stock Exchange, The NASDAQ Global Select Market, The NASDAQ Global Market or The NASDAQ Capital Market of The NASDAQ Stock Market, or the New York Stock Exchange, its Fair Market Value shall be the closing sales price for such Stock (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Stock is listed on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or (ii) if the Stock is regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such stock as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a share of Stock shall be the mean between the high bid and low asked prices for the Stock on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or (iii) in the absence of an established market for the Stock of the type described in (i) and (ii), above, the Fair Market Value shall be determined by the Administrator in good faith by reasonable application of a reasonable valuation method and in accordance with Section 409A of the Code and the regulations promulgated thereunder as in effect from time to time.

(m) “Incentive Stock Option” shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code.

(n) “Non-Employee Director” shall mean a director of the Company or any Affiliate who is not an employee of the Company or any Affiliate.

(o) “Non-Qualified Stock Option” shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.

(p) “Option” shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(q) “Participating Employee” shall mean a Employee designated by the Committee to be granted an Award under the Plan.

(r) “Performance Goals” shall mean each of, or a combination of one or more of, the following (in all cases after excluding the impact of applicable Excluded Items):

- (i) Return on equity;
- (ii) Return on investment;
- (iii) Return on net assets;
- (iv) Return on revenues;
- (v) Operating income;
- (vi) Performance value added (as defined by the Committee at the time of selection);
- (vii) Pre-tax profits;
- (viii) Net income;
- (ix) Net income per Share;
- (x) Working capital as a percent of net revenues;
- (xi) Net cash provided by operating activities;
- (xii) Market price per Share;
- (xiii) Total shareholder return;
- (xiv) Key operational measures, which shall be deemed to include new customer origination, customer penetration, customer satisfaction, employee safety, market share, plant utilization, cost containment, and cost structure reduction.
- (xv) Cash flow or cash flow per share;
- (xvi) Reserve value or reserve value per share;
- (xvii) Net asset value or net asset value per share;
- (xviii) Production volumes; and

(xix) Product and technology developments and improvements.

measured in each case for the Performance Period (aa) for the Company on a consolidated basis, (bb) for any one or more Affiliates or divisions of the Company, where appropriate, and/or (cc) for any other business unit or units of the Company or any Affiliate, where appropriate, as defined by the Committee at the time of selection; *provided* that it shall only be appropriate to measure net earnings per Share and market price per Share on a consolidated basis.

(s) “Performance Period” shall mean, in relation to Performance Shares or Performance Units, any period for which a Performance Goal or Goals have been established; *provided, however*, that such period shall not be less than one year.

(t) “Performance Share” shall mean any right granted under Section 6(e) of the Plan that will be paid out in cash, as a Share (which, in specified circumstances, may be a Share of Restricted Stock) or as a Restricted Stock Unit, which right is contingent on the achievement of one or more Performance Goals during a specified Performance Period.

(u) “Performance Unit” shall mean any right granted under Section 6(e) of the Plan to receive a designated dollar value amount in cash, Shares (which, in specified circumstances, may be a designated dollar value amount of Shares of Restricted Stock) or Restricted Stock Units, which right is contingent on the achievement of one or more Performance Goals during a specified Performance Period.

(v) “Person” shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or government or political subdivision thereof.

(w) “Released Securities” shall mean Shares of Restricted Stock with respect to which all applicable restrictions have expired, lapsed, or been waived.

(x) “Restricted Securities” shall mean Awards of Restricted Stock or other Awards under which issued and outstanding Shares are held subject to certain restrictions.

(y) “Restricted Stock” shall mean any Share granted under Section 6(c) of the Plan or, in specified circumstances, a Share paid in connection with another Award, with such Share subject to risk of forfeiture and restrictions on transfer or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Employee or Non-Employee Director or the achievement of performance or other objectives, as determined by the Committee.

(z) “Restricted Stock Unit” shall mean any right to receive Shares in the future granted under Section 6(d) of the Plan or paid in connection with another Award, with such right subject to risk of forfeiture and restrictions on transfer or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Employee or Non-Employee Director or the achievement of performance or other objectives, as determined by the Committee.

(aa) “Rule 16b-3” shall mean Rule 16b-3 as promulgated by the Commission under the Exchange Act, or any successor rule or regulation thereto.

(bb) “Shares” shall mean shares of common stock of the Company, \$.001 par value, and such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(b) of the Plan.

(cc) “Stock Appreciation Right” shall mean any right granted under Section 6(b) of the Plan.

### **Section 3. Administration**

The Plan shall be administered by the Committee; *provided, however*, that if at any time the Committee shall not be in existence, the functions of the Committee as specified in the Plan shall be exercised by a committee consisting of those members of the Board of Directors of the Company who qualify as “non-employee directors” under Rule 16b-3 and as “outside directors” under Section 162(m)(4)(C) of the Code. To the extent permitted by applicable law, the Board of Directors of the Company or the Committee may delegate to one or more executive officers of the Company any or all of the authority and responsibility of the Committee with respect to the Plan, other than with respect to Persons who are subject to Section 16 of the Exchange Act. To the extent the Board of Directors of the Company or the Committee has so delegated to one or more executive officers the authority and responsibility of the Committee, all references to the Committee herein shall include such officer or officers.

Subject to the terms of the Plan and without limitation by reason of enumeration, the Committee shall have full discretionary power and authority to: (i) designate Participating Employees and select Non-Employee Directors to be participants under the Plan; (ii) determine the type or types of Awards to be granted to each Participating Employee and Non-Employee Director under the Plan; (iii) determine the number of Shares to be covered by (or with respect to which payments, rights, or other matters are to be calculated in connection with) Awards granted to Participating Employees or Non-Employee Directors; (iv) determine the terms and conditions of any Award granted to a Participating Employee or Non-Employee Director; (v) determine whether, to what extent, and under what circumstances Awards granted to Participating Employees or Non-Employee Directors may be settled or exercised in cash, Shares, other securities, other Awards, or other property, and the method or methods by which Awards may be settled, exercised, cancelled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other Awards, and other amounts payable with respect to an Award granted to Participating Employees or Non-Employee Directors under the Plan shall be deferred either automatically or at the election of the holder thereof or of the Committee; *provided* that cash or Shares issuable under Options and Stock Appreciation Rights shall not be subject to deferral after exercise and all other deferrals shall be made in a manner consistent with Code Section 409A; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan (including, without limitation, any Award Agreement); (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions made under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participating Employee, any Non-Employee Director, any holder or beneficiary of any Award, any shareholder, and any employee of the Company or of any Affiliate.

#### **Section 4. Shares Available for Award**

(a) **Shares Available.** Subject to adjustment as provided in Section 4(b):

(i) **Number of Shares Available.** The number of Shares with respect to which Awards may be granted under the Plan shall be 350,000 Shares. No Shares shall be granted to Participating Employees, other than non-employee directors, prior to January 1, 2006. If, after the effective date of the Plan, any Shares covered by an Award granted under the Plan, or to which any Award relates, are forfeited or if an Award otherwise terminates, expires or is cancelled prior to the delivery of all of the Shares or of other consideration issuable or payable pursuant to such Award, then the number of Shares counted against the number of Shares available under the Plan in connection with the grant of such Award, to the extent of any such forfeiture, termination, expiration or cancellation, shall again be available for granting of additional Awards under the Plan, including pursuant to Incentive Stock Options.

(ii) **Limitations on Awards to Individual Participants.** No Participating Employee shall be granted, during any calendar year, 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, more than 10,000 Restricted Stock Units, more than 10,000 Performance Shares nor more than 10,000 Performance Units (when a Performance Unit is measured in relation to the Fair Market Value of a Share) under the Plan. In all cases, determinations under this Section 4(a)(ii) shall be made in a manner that is consistent with the exemption for performance-based compensation provided by Section 162(m) of the Code and any regulations promulgated thereunder.

(iii) **Accounting for Awards.** The number of Shares covered by an Award under the Plan, or to which such Award relates, shall be counted on the date of grant of such Award against the number of Shares available for granting Awards under the Plan.

(iv) **Sources of Shares Deliverable Under Awards.** Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

(b) **Adjustments.** If (i) the Company shall at any time be involved in a merger or other transaction in which Shares are changed or exchanged; (ii) the Company shall subdivide or combine Shares or the Company shall declare a dividend payable in Shares, other securities or other property; (iii) the Company shall effect a cash dividend the amount of which, on a per Share basis, exceeds ten percent (10%) of the Fair Market Value of a Share at the time the dividend is declared, or the Company shall effect any other dividend or other distribution on the Shares in the form of cash, or a repurchase of Shares, that the Board of Directors of the Company determines by resolution is special or extraordinary in nature or that is in connection with a transaction that is a recapitalization or reorganization involving Shares; or (iv) any other event shall occur, which, in the case of this subsection (iv), in the judgment of the Committee necessitates an adjustment to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares subject to

the Plan and which thereafter may be made the subject of Awards under the Plan, (ii) the number and type of Shares subject to the individual participant limits of Section 4(a)(ii), (iii) the number and type of Shares subject to outstanding Awards, and (iv) the grant, purchase, or exercise price with respect to any Award to reflect such transaction or event; or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award in exchange for cancellation of such Award or in lieu of any or all of the foregoing adjustments; *provided, however*, in each case, that with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b) of the Code; and provided further that, with respect to Awards of Options or Stock Appreciation Rights that are exempt from Section 409A of the Code, such adjustment complies with the provisions of Treasury Regulation Section 1.409A-1(b)(5)(v)(B); and *provided further* that the number of Shares subject to any Award payable or denominated in Shares shall always be a whole number.

## Section 5. Eligibility

The Committee may designate any Employee as a Participating Employee. All Non-Employee Directors shall be eligible to receive, at the discretion of the Committee, Awards of Non-Qualified Stock Options pursuant to Section 6(a), Restricted Stock pursuant to Section 6(c) and Restricted Stock Units pursuant to Section 6(d).

## Section 6. Awards

(a) **Option Awards.** The Committee may grant Options to Employees and Non-Employee Directors with the terms and conditions as set forth below and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine.

(i) **Type of Option.** The Committee shall determine whether an Option granted to a Participating Employee is to be an Incentive Stock Option or Non-Qualified Stock Option; *provided, however*, that Incentive Stock Options may be granted only to Employees of the Company, a parent corporation (within the meaning of Code Section 424(e)) or a subsidiary corporation (within the meaning of Code Section 424(f)). All Options granted to Non-Employee Directors shall be Non-Qualified Stock Options. Non-Qualified Options granted to individuals who are not employees or Non-Employee Directors of the Company or any 409A Subsidiary shall be subject to Code Section 409A.

(ii) **Exercise Price.** The exercise price per Share of an Option granted pursuant to this Section 6(a) shall be determined by the Committee; *provided, however*, that such exercise price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(iii) **Option Term.** The term of each Option shall be fixed by the Committee; *provided, however*, that in no event shall the term of any Option exceed a period of ten years from the date of its grant.

(iv) **Exercisability and Method of Exercise.** An Option shall become exercisable in such manner and within such period or periods and in such installments or otherwise as shall be determined by the Committee; *provided, however*, that no Option may vest and become exercisable within a period that is less than one year from the date of grant of such Option (subject to acceleration of vesting, to the extent permitted by the Committee, in the event of the Participating Employee's or Non-Employee Director's death, disability, retirement or involuntary termination or in the event of a change in control of the Company (as defined by the Committee)). The Committee also shall determine the method or methods by which, and the form or forms, including, without limitation, cash, Shares, other securities, other Awards, or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price, in which payment of the exercise price with respect to any Option may be made or deemed to have been made.

(v) **Incentive Stock Options.** The terms of any Incentive Stock Option granted to a Employee under the Plan shall comply in all respects with the provisions of Section 422 of the Code and any regulations promulgated thereunder. Notwithstanding any provision in the Plan to the contrary, no Incentive Stock Option may be granted hereunder after the tenth anniversary of the adoption of the Plan by the Board of Directors.

(b) **Stock Appreciation Rights.** The Committee may grant Stock Appreciation Rights to Employees. Non-Employee Directors are not eligible to be granted Stock Appreciation Rights under the Plan. Stock Appreciation Rights granted to an Employee who is not an employee of the Company or 409A Subsidiary shall be subject to Section 409A of the Code. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of one Share on the date of exercise over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan, the grant price, term, methods of exercise, methods of settlement (including whether the Participating Employee will be paid in cash, Shares, other securities, other Awards, or other property, or any combination

thereof), and any other terms and conditions of any Stock Appreciation Right shall be determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

**(c) Restricted Stock Awards.**

(i) **Issuance.** The Committee may grant Awards of Restricted Stock to Employees and Non-Employee Directors.

(ii) **Restrictions.** Shares of Restricted Stock granted to Participating Employees and Non-Employee Directors shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate.

(iii) **Registration.** Any Restricted Stock granted under the Plan to a Participating Employee or Non-Employee Director may be evidenced in such manner as the Committee may deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Shares of Restricted Stock granted under the Plan to a Participating Employee or Non-Employee Director, such certificate shall be registered in the name of the Participating Employee or Non-Employee Director and shall bear an appropriate legend (as determined by the Committee) referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

(iv) **Payment of Restricted Stock.** At the end of the applicable restriction period relating to Restricted Stock granted to a Participating Employee or Non-Employee Director, one or more stock certificates for the appropriate number of Shares, free of restrictions imposed under the Plan, shall be delivered to the Participating Employee or Non-Employee Director, or, if the Participating Employee or Non-Employee Director received stock certificates representing the Restricted Stock at the time of grant, the legends placed on such certificates shall be removed.

(v) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of employment of a Participating Employee or service as a director of a Non-Employee Director (as determined under criteria established by the Committee) for any reason during the applicable restriction period, all Shares of Restricted Stock still subject to restriction shall be forfeited by the Participating Employee or Non-Employee Director; *provided, however*, that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock held by a Participating Employee or Non-Employee Director.

(vi) **Minimum Period of Service.** If the right to become vested in a Restricted Stock Award granted under this Section 6(c) is conditioned on the completion of a specified period of service with the Company or its Affiliates, without achievement of Performance Goals or other performance objectives being required as a condition of vesting, and without it being granted in lieu of other compensation, then the required period of service for vesting shall be not less than three years (subject to acceleration of vesting, to the extent permitted by the Committee, in the event of the Participating Employee's or Non-Employee Director's death, disability, retirement or involuntary termination or in the event of a change in control of the Company (as defined by the Committee)).

**(d) Restricted Stock Units.**

(i) **Issuance.** The Committee may grant Awards of Restricted Stock Units to Employees or Non-Employee Directors.

(ii) **Restrictions.** Restricted Stock Units granted to Participating Employees or Non-Employee Directors shall be subject to such restrictions as the Committee may impose, which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate.

(iii) **Payment of Shares.** At the end of the applicable restriction period relating to Restricted Stock Units granted to a Participating Employee or Non-Employee Director, one or more stock certificates for the number of Shares equal to the corresponding number of Restricted Stock Units, free of restrictions imposed under the Plan, shall be delivered to the Participating Employee or Non-Employee Director.

(iv) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of employment of a Participating Employee or service as a director of a Non-Employee Director (as determined under criteria established by the Committee) for any reason during the applicable restriction period, all unvested Restricted Stock Units shall be forfeited by the Participating Employee or Non-Employee Director; *provided, however*, that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or

in part any or all remaining restrictions with respect to Restricted Stock Units held by a Participating Employee or Non-Employee Director.

(v) **Minimum Period of Service.** If the right to become vested in a Restricted Stock Unit Award granted under this Section 6(d) is conditioned on the completion of a specified period of service with the Company or its Affiliates, without achievement of Performance Goals or other performance objectives being required as a condition of vesting, and without it being granted in lieu of other compensation, then the required period of service for vesting shall be not less than three years (subject to acceleration of vesting, to the extent permitted by the Committee, in the event of the Participating Employee's or Non-Employee Director's death, disability, retirement or involuntary termination or in the event of a change in control of the Company (as defined by the Committee)).

(e) **Performance Shares and Performance Units.**

(i) **Issuance.** The Committee may grant Awards of Performance Shares and/or Performance Units to Employees. Non-Employee Directors are not eligible to be granted Performance Shares or Performance Units under the Plan.

(ii) **Performance Goals and Other Terms.** The Committee shall determine the Performance Period, the Performance Goal or Goals (and the performance level or levels related thereto) to be achieved during any Performance Period, the proportion of payments, if any, to be made for performance between the minimum and full performance levels for any Performance Goal and, if applicable, the relative percentage weighting given to each of the selected Performance Goals. The Committee shall also determine the restrictions applicable to Shares of Restricted Stock or Restricted Stock Units received upon payment of Performance Shares or Performance Units if Performance Shares or Performance Units are paid in such manner, and any other terms, conditions and rights relating to a grant of Performance Shares or Performance Units. The Committee shall have sole discretion to choose among the selected Performance Goals set forth in Section 2(q). Subject to shareholder approval to the extent required to qualify the Award for the performance-based exemption provided by Section 162(m) of the Code, the Committee shall have sole discretion to choose Performance Goals in addition to those set forth in Section 2(q), or alter such Performance Goals. Notwithstanding the foregoing, in the event the Committee determines it is advisable to grant Performance Shares or Performance Units which do not qualify for the performance-based exemption under Section 162(m) of the Code, the Committee may make such grants without satisfying the requirements thereof.

(iii) **No Voting Rights.** Participating Employees shall have no voting rights with respect to Performance Shares or Shares underlying Performance Units held by them during the applicable Performance Period.

(iv) **Payment.** As soon as is reasonably practicable following the end of the applicable Performance Period, and subject to the Committee certifying in writing as to the satisfaction of the requisite Performance Goal or Goals if such certification is required in order to qualify the Award for the performance-based exemption provided by Section 162(m) of the Code, payment of earned Performance Shares and/or Performance Units shall be made. The Committee, in its sole discretion, may pay earned Performance Shares and Performance Units in the form of cash, Shares (which may be Shares of Restricted Stock), Restricted Stock Units or a combination of cash, Shares (which may be Shares of Restricted Stock) and/or Restricted Stock Units, which have an aggregate Fair Market Value equal to the value of the earned Performance Shares and Shares underlying earned Performance Units at the close of the applicable Performance Period. Any Shares of Restricted Stock payable in connection with Performance Shares or Performance Units shall, pending the expiration, lapse, or waiver of the applicable restrictions, be evidenced in the manner as set forth in Section 6(c)(iii) hereof.

(f) **General.**

(i) **No Consideration for Awards.** Awards shall be granted to Participating Employees and Non-Employee Directors for no cash consideration unless otherwise determined by the Committee.

(ii) **Award Agreements.** Each Award granted under the Plan shall be evidenced by an Award Agreement in such form (consistent with the terms of the Plan) as shall have been approved by the Committee.

(iii) **Awards May Be Granted Separately or Together.** Awards to Participating Employees under the Plan may be granted either alone or in addition to, in tandem with, or in substitution for any other Award or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards, or in addition to or in tandem with awards granted under any other plan of the Company or any Affiliate, may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iv) **Forms of Payment Under Awards.** Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise, or payment of an Award to a Participating Employee or Non-Employee Director may be made in such form or forms as the Committee shall determine, and may be made in a single payment or transfer, in installments, or on a deferred basis in accordance with Code Section 409A, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of interest on installment or deferred payments.

(v) **Limits on Transfer of Awards.** Except as otherwise provided by the Committee, no Award (other than Released Securities), and no right under any such Award, shall be assignable, alienable, saleable, or transferable by a Participating Employee or Non-Employee Director otherwise than by will or by the laws of descent and distribution (or, in the case of an Award of Restricted Securities, to the Company); *provided, however*, that a Participating Employee or Non-Employee Director at the discretion of the Committee may be entitled, in the manner established by the Committee, to designate a beneficiary or beneficiaries to exercise his or her rights, and to receive any property distributable, with respect to any Award upon the death of the Participating Employee or Non-Employee Director, as the case may be. Each Award, and each right under any Award, shall be exercisable, during the lifetime of the Participating Employee or Non-Employee Director, only by such individual or, if permissible under applicable law, by such individual's guardian or legal representative. Except as otherwise provided by the Committee, no Award (other than Released Securities), and no right under any such Award, may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment, or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(vi) **Term of Awards.** Except as otherwise provided in the Plan, the term of each Award shall be for such period as may be determined by the Committee.

(vii) **Share Certificates; Representation.** In addition to the restrictions imposed pursuant to Section 6(c) and Section 6(e) hereof, all certificates for Shares delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Commission, any stock exchange or other market upon which such Shares are then listed or traded, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. The Committee may require each Participating Employee, Non-Employee Director or other Person who acquires Shares under the Plan by means of an Award originally made to a Participating Employee or Non-Employee Director to represent to the Company in writing that such Participating Employee, Non-Employee Director or other Person is acquiring the Shares without a view to the distribution thereof.

(g) **Dividend Equivalents.** In addition to Awards granted under the Plan, the Committee may grant Dividend Equivalents to Participating Employees and Non-Employee Directors, entitling the Participating Employees and Non-Employee Directors to receive cash equal to cash dividends paid with respect to a specified number of Shares. Dividend Equivalents may only be granted in connection with an Award granted to the Participating Employee or Non-Employee Director under the Plan. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in such investment vehicles as determined by the Committee, subject to such restrictions and risks of forfeiture as the Committee may impose. Notwithstanding the foregoing, Dividend Equivalents granted in connection with an Option or Stock Appreciation Right that is intended to be exempt from Code Section 409A shall be set forth in a separate Award Agreement and shall be payable at such time or times as are permitted by Code Section 409A.

(h) **No Repricing of Options or Stock Appreciation Rights.** Except adjustments made pursuant to Section 4(b) or adjustments made with prior approval of the Company's shareholders, the Committee shall not have the authority to effect (i) the repricing of any outstanding Options or Stock Appreciation Rights under the Plan or (ii) the modification of an Option or Stock Appreciation Right or entering into a transaction or series of transactions which modification or transaction(s) would be deemed to constitute a repricing of an Option or Stock Appreciation Right pursuant to Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, March 2000, as amended or supplemented from time to time. The provisions of this Section 6(h) cannot be amended unless the amendment is approved by the Company's shareholders. Notwithstanding the foregoing, even with shareholder approval, for purposes of Code Section 409A, the exercise price of an Option or the grant price of a Stock Appreciation Right may not be reduced other than (i) pursuant to Section 4(b) of the Plan, and in accordance with Section 1.409A-1(b)(5)(v)(B) of the Treasury Regulations, or (ii) in connection with a transaction which is considered the grant of a new award for purposes of Section 409A of the Code, *provided* that the new exercise price or grant price is not less than Fair Market Value of a Share on the new grant date.

## **Section 7. Amendment and Termination of the Plan; Correction of Defects and Omissions; Issuance or Assumption; Amendment, Modification or Cancellation of Awards**

(a) **Amendments to and Termination of the Plan.** Except as otherwise provided herein, the Board of Directors of the Company or the Committee may at any time amend, alter, suspend, discontinue, or terminate the Plan; *provided, however,* that shareholder approval of any amendment of the Plan shall also be obtained (i) if such amendment (A) increases the number of Shares with respect to which Awards may be granted under the Plan (other than increases related to adjustments made as provided in Section 4(b) hereof), (B) expands the class of persons eligible to participate under the Plan or (C) otherwise increases in any material respect the benefits payable under the Plan; or (ii) if otherwise required by (A) the Code or any rules promulgated thereunder (in order to allow for Incentive Stock Options to be granted under the Plan), or (B) the listing requirements of the New York Stock Exchange or any principal securities exchange or market on which the Shares are then traded (in order to maintain the listing of the Shares thereon). Termination of the Plan shall not affect the rights of Participating Employees or Non-Employee Directors with respect to Awards previously granted to them, and all unexpired Awards shall continue in force and effect after termination of the Plan except as they may lapse or be terminated by their own terms and conditions.

(b) **Correction of Defects, Omissions and Inconsistencies.** The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the Plan, any Award or any Award Agreement in the manner and to the extent it shall deem desirable to carry the Plan into effect.

(c) **Issuance or Assumption.** Notwithstanding any other provision of this Plan, and without affecting the number of Shares otherwise reserved or available under this Plan, in connection with any merger, consolidation, acquisition of property or stock, or reorganization, the Committee may authorize the assumption of awards under this Plan, or the issuance of awards in replacement of awards granted by the entity being merged, consolidated or acquired, upon such terms and conditions as it may deem appropriate.

(d) **Amendment, Modification or Cancellation of Awards.** Except as provided in Section 6(h) and subject to the requirements of the Plan, the Board of Directors of the Company or the Committee may modify, amend or cancel any Award; or waive any restrictions or conditions applicable to any Award or the exercise of the Award, provided that any modification or amendment that materially diminishes the rights of the Participating Employee or Non-Employee Director, or the cancellation of the Award, shall be effective only if agreed to by the Participating Employee or Non-Employee Director or any other person(s) as may then have an interest in the Award, but the Board of Directors of the Company or the Committee need not obtain Participating Employee or Non-Employee Director (or other interested party) consent for the adjustment or cancellation of an Award pursuant to the provisions of Section 4(b) or the modification of an Award to the extent deemed necessary to comply with any applicable law, the listing requirements of any principal securities exchange or market on which the Shares are then traded, or to preserve favorable accounting or tax treatment of any Award for the Company. Notwithstanding the foregoing, unless determined otherwise by the Board of Directors of the Company or the Committee, any such amendment shall be made in a manner that will enable an Award intended to be exempt from Code Section 409A to continue to be so exempt, or to enable an Award intended to comply with Code Section 409A to continue to so comply.

## **Section 8. General Provisions**

(a) **No Rights to Awards.** No Employee, Participating Employee, Non-Employee Director or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees, Participating Employees, Non-Employee Directors or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to each Participating Employee or Non-Employee Director.

### **(b) Regulations and Other Approvals.**

(i) The obligation of the Company to sell or deliver Shares with respect to any Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws and the applicable laws, rules and regulations of non-U.S. jurisdictions, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(ii) Each Award is subject to the requirement that, if at any time the Committee determines, in its absolute discretion, that the listing, registration or qualification of Shares issuable pursuant to the Plan is required by any securities exchange or under any state or federal law or any applicable law, rule or regulation of a non-U.S. jurisdiction, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Shares, no such Award shall be granted or payment made or Shares issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.

(iii) In the event that the disposition of a Share acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended from time to time (the “Securities Act”) and is not otherwise exempt from such registration, such Share shall be restricted against transfer to the extent required by the Securities Act or regulations thereunder, and the Company may require any individual receiving a Share pursuant to the Plan, as a condition precedent to receipt of such Share, to represent to the Company in writing that the Share acquired by such individual is acquired for investment only and not with a view to distribution.

(iv) The Company may require an individual receiving a Share pursuant to the Plan, as a condition precedent to receipt of such Share, to enter into a stockholder agreement or “lock-up” agreement in such form as the Company shall determine is necessary or desirable to further the Company’s interests.

(c) **Withholding.** No later than the date as of which tax withholding is first required with respect to any Award under the Plan, the Participating Employee shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations arising with respect to Awards to Participating Employees under the Plan may be settled with Shares (other than Restricted Securities), including Shares that are part of, or are received upon exercise of, the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and any Affiliate shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participating Employee. The Committee may establish such procedures as it deems appropriate for the settling of withholding obligations with Shares, including, without limitation, the establishment of such procedures as may be necessary to satisfy the requirements of Rule 16b-3.

(d) **No Limit on Other Compensation Arrangements.** Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(e) **Rights and Status of Recipients of Awards.** The grant of an Award shall not be construed as giving a Participating Employee the right to be retained in the employ of the Company or any Affiliate. Further, the Company or any Affiliate may at any time dismiss a Participating Employee from employment, free from any liability, or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement. The grant of an Award to a Non-Employee Director pursuant to Section 6(a) of the Plan shall confer no right on such Non-Employee Director to continue as a director of the Company or any Affiliate. Except for rights accorded under the Plan and under any applicable Award Agreement, Participating Employees and Non-Employee Directors shall have no rights as holders of Shares as a result of the granting of Awards hereunder.

(f) **No Compensation for Benefit Plans.** No Award payable under this Plan shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company or any Affiliate for the benefit of its employees or directors unless the Company or appropriate Affiliate shall determine otherwise.

(g) **Approval of Material Terms of Performance Goals.** Notwithstanding anything herein to the contrary, if so determined by the Board of Directors, the Plan provisions specifying the material terms of the Plan’s performance goals (within the meaning of Code Section 162(m)) shall be submitted to the shareholders of the Company for re-approval no later than the first shareholder meeting that occurs in the fifth year following the year in which shareholders previously approved such Plan provisions.

(h) **Unfunded Status of the Plan.** Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Participating Employee, Non-Employee Director or other Person. To the extent any Person holds any right by virtue of a grant under the Plan, such right (unless otherwise determined by the Committee) shall be no greater than the right of a general unsecured creditor of the Company.

(i) **Governing Law.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the internal laws of the State of Illinois, without reference to conflict of law principles thereof, and applicable federal law.

(j) **Severability.** If any provision of the Plan or any Award Agreement or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any Person or Award, or would disqualify the Plan, any Award Agreement or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the

determination of the Committee, materially altering the intent of the Plan, any Award Agreement or the Award, such provision shall be stricken as to such jurisdiction, Person, or Award, and the remainder of the Plan, any such Award Agreement and any such Award shall remain in full force and effect.

(k) **No Fractional Shares.** No fractional Shares or other securities shall be issued or delivered pursuant to the Plan, any Award Agreement or any Award, and the Committee shall determine (except as otherwise provided in the Plan) whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or other securities, or whether such fractional Shares or other securities or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(l) **Headings.** Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(m) **No Guarantee of Tax Treatment.** Notwithstanding any provision of the Plan, the Company does not guarantee to any Participating Employee or Non-Employee Director or any other Person with an interest in an Award that (i) any Award intended to be exempt from Code Section 409A shall be so exempt, (ii) any Award intended to comply with Code Section 409A or Code Section 422 shall so comply, (iii) any Award shall otherwise receive a specific tax treatment under any other applicable tax law, nor in any such case will the Company or any Affiliate indemnify, defend or hold harmless any individual with respect to the tax consequences of any Award.

#### **Section 9. Effective Date of the Plan**

The Plan shall be effective on the day immediately following its approval by the shareholders of the Company provided that such approval is obtained within twelve months following the date of adoption of the Plan by the Board of Directors of the Company.





**CERTIFICATION PURSUANT TO 18 U.S.C. 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

Solely for the purpose of complying with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Veri-Tek International, Corp. (the “Company”), hereby certify that, to the best of our knowledge, the Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2007 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:           /S/ DAVID J. LANGEVIN            
Name: **David J. Langevin**  
Title: **Chairman and Chief Executive Officer**  
**(Principal Executive Officer**  
**of Veri-Tek International, Corp.)**

Dated: November 14, 2007

By:           /S/ DAVID H. GRANSEE            
Name: **David H. Gransee**  
Title: **Vice President and Chief Financial Officer**  
**(Principal Financial and Accounting Officer**  
**of Veri-Tek International, Corp.)**

Dated: November 14, 2007