

American Electric Technologies Inc
Form 10-Q
August 14, 2013
[Table of Contents](#)

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED June 30, 2013

.. **TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File No. 000-24575

AMERICAN ELECTRIC TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: American Electric Technologies Inc - Form 10-Q

Florida
(State or other jurisdiction of
incorporation)

59-3410234
(I.R.S. Employer

Identification No.)

6410 Long Drive, Houston, TX 77087

(Address of principal executive offices)

(713) 644-8182

(Registrant's telephone number)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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

As of August 5, 2013, the registrant had 8,004,173 shares of its Common Stock outstanding.

Table of Contents

AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

FORM 10-Q Index

For the Quarterly Period Ended June 30, 2013

	Page
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2013 and 2012</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	24
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 3. <u>Defaults Upon Senior Securities</u>	24
Item 4. <u>Mine Safety Disclosures</u>	24
Item 5. <u>Other Information</u>	24
Item 6. <u>Exhibits</u>	24
<u>Signatures</u>	25

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****American Electric Technologies, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)**

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,422	\$ 4,477
Accounts receivable-trade, net of allowance of \$354 and \$225 at June 30, 2013 and December 31, 2012	8,675	9,731
Inventories, net	6,796	5,616
Costs and estimated earnings in excess of billings on uncompleted contracts	4,155	2,205
Prepaid expenses and other current assets	1,535	318
Total current assets	26,583	22,347
Property, plant and equipment, net	5,144	4,922
Investments in foreign joint ventures	12,741	11,408
Other assets	232	297
Total assets	\$ 44,700	\$ 38,974
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,480	\$ 4,438
Accrued payroll and benefits	1,250	1,519
Other accrued expenses	337	513
Billings in excess of costs and estimated earnings on uncompleted contracts	4,221	3,576
Short-term notes payable		54
Other current liabilities	14	9
Total current liabilities	12,302	10,109
Notes payable	500	500
Deferred income taxes	3,646	3,058
Deferred compensation	174	122
Total liabilities	16,622	13,789
Convertible preferred stock:		
Redeemable convertible preferred stock, Series A, net of discount of \$785 at June 30, 2013 and \$806 at December 31, 2012; \$0.001 par value, 1,000,000 shares authorized, issued and outstanding at June 30, 2013 and December 31, 2012	4,215	4,194
Stockholders' equity:		
Common stock; \$0.001 par value, 50,000,000 shares authorized, 8,002,916 and 7,919,032 shares issued and outstanding at June 30, 2013 and December 31, 2012	8	8
Treasury stock, at cost (49,863 shares at June 30, 2013 and 20,222 shares at December 31, 2012)	(238)	(92)
Additional paid-in capital	9,951	9,597

Edgar Filing: American Electric Technologies Inc - Form 10-Q

Accumulated other comprehensive income	849	900
Retained earnings; including accumulated statutory reserves in equity method investments of \$1,857 and \$1,620 at June 30, 2013 and December 31, 2012	13,293	10,578
Total stockholders' equity	\$ 23,863	\$ 20,991
Total liabilities and stockholders' equity	\$ 44,700	\$ 38,974

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

Unaudited

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 15,169	\$ 12,872	\$ 29,599	\$ 27,304
Cost of sales	12,773	10,700	24,223	23,359
Gross profit	2,396	2,172	5,376	3,945
Operating expenses:				
Research and development	75	10	244	35
Selling and marketing	706	639	1,371	1,360
General and administrative	1,219	1,355	2,763	2,580
Total operating expenses	2,000	2,004	4,378	3,975
Income (loss) from domestic operations	396	168	998	(30)
Net equity income from foreign joint ventures operations:				
Equity income from foreign joint ventures operations	1,248	1,054	2,706	1,825
Foreign joint ventures operations related expenses	(87)	(123)	(138)	(223)
Net equity income from foreign joint ventures operations	1,161	931	2,568	1,602
Income from domestic operations and net equity income from foreign joint ventures operations	1,557	1,099	3,566	1,572
Interest expense and other, net	(29)	(38)	(45)	(88)
Income before income taxes	1,528	1,061	3,521	1,484
Provision for income taxes	380	245	635	334
Net income before dividends on redeemable convertible preferred stock	1,148	816	2,886	1,150
Dividends on redeemable convertible preferred stock	(85)	(55)	(170)	(55)
Net income attributable to common stockholders	\$ 1,063	\$ 761	\$ 2,716	\$ 1,095
Earnings per common share:				
Basic	\$ 0.13	\$ 0.10	\$ 0.34	\$ 0.14
Diluted	\$ 0.12	0.09	\$ 0.31	0.13
Weighted-average number of common shares outstanding:				
Basic	8,002,872	7,913,266	7,976,222	7,885,458
Diluted	9,435,695	8,247,031	9,409,537	8,242,975

Edgar Filing: American Electric Technologies Inc - Form 10-Q

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Unaudited

(in thousands)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net Income	\$ 2,886	\$ 1,150
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax provision	635	334
Equity income from foreign joint ventures operations	(2,706)	(1,825)
Depreciation and amortization	387	467
Stock based compensation	340	215
Provision for bad debt	66	60
Allowance for obsolete inventory	64	17
Loss (gain) on sale of property, plant and equipment	6	(17)
Deferred compensation costs	52	3
Change in operating assets and liabilities:		
Accounts receivable	1,054	1,254
Income taxes payable	5	
Inventories	(1,244)	177
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,950)	(423)
Accounts payable and accrued liabilities	1,597	(2,818)
Billings in excess of costs and estimated earnings on uncompleted contracts	645	(695)
Prepaid expenses and other current assets	(112)	10
Net cash provided by (used in) operating activities	1,725	(2,091)
Cash flows from investing activities:		
Purchases of property, plant and equipment and other assets	(550)	(300)
Proceeds from disposal of property, plant and equipment		17
Repayments of advances and dividends from foreign joint ventures operations	106	907
Purchase of intangible assets		(104)
Net cash (used in) provided by investing activities	(444)	520
Cash flows from financing activities:		
Proceeds from issuance of common stock	14	17
Proceeds from sale of preferred stock and warrants		4,961
Treasury stock purchase, in accordance with the employee stock incentive plan	(146)	(92)
Preferred stock cash dividend	(150)	(41)
Capital lease obligation payment	(54)	(57)
Principal payments on short-term notes payable		(21)
Principal payments on revolving credit facility		(3,000)
Net cash (used in) provided by financing activities	(336)	1,767
Net increase in cash and cash equivalents	945	196
Cash and cash equivalents, beginning of period	4,477	3,749

Edgar Filing: American Electric Technologies Inc - Form 10-Q

Cash and cash equivalents, end of quarter	\$ 5,422	\$ 3,945
Supplemental disclosures of cash flow information:		
Interest paid	\$ 15	\$ 76
Income taxes paid	\$ 28	\$
Non-cash investing and financing activities:		
Common stock issuance to acquire intangible assets	\$	\$ 219
Dividend accrued from foreign joint venture	\$ 1,189	\$

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(in thousands, except share and per share amount)

1. Basis of Presentation

The accompanying condensed unaudited consolidated financial statements of American Electric Technologies, Inc. and its wholly-owned subsidiaries (AETI , the Company , our , we , us) as of June 30, 2013 and for the three months and six months then ended have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and include all adjustments which, in the opinion of management, are necessary for a fair presentation of financial position as of June 30, 2013 and results of operations for the three months and six months ending June 30, 2013 and 2012. All adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The statements should be read in conjunction with the Company's consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed on March 28, 2013.

2. Earnings Per Common Share

Basic earnings per common share is based on the weighted average number of common shares outstanding for the three months and six months ended June 30, 2013 and 2012. Diluted earnings per share is based on the weighted average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed conversion of convertible instruments, exercise of all potentially dilutive stock options and other stock units subject to anti-dilution limitations.

The following table sets forth the computation of basic and diluted earnings (loss) per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income attributable to common stockholders	\$ 1,063	\$ 761	\$ 2,716	\$ 1,095
Weighted-average basic shares	8,002,872	7,913,266	7,976,222	7,885,458
Basic Earnings per common share	\$ 0.13	\$ 0.10	\$ 0.34	\$ 0.14
Add back preferred dividends	\$ 85	\$ **	\$ 170	\$ **
Net Income after assumed conversions	1,148	761	2,886	1,095
Dilutive effect of :				
Convertible preferred stock	1,000,000	**	1,000,000	**
Stock options and restricted stock units	432,823	333,765	433,315	357,517
Warrants	**	**	**	**
Total weighted-average diluted shares	9,435,695	8,247,031	9,409,537	8,242,975
Diluted earnings per common share	\$ 0.12	\$ 0.09	\$ 0.31	\$ 0.13

** These items were excluded because they were determined to be non-dilutive during these periods.

3. Recent Accounting Pronouncements

Edgar Filing: American Electric Technologies Inc - Form 10-Q

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11 was issued to provide enhanced disclosures that will enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The amendments under ASU No. 2011-11 require enhanced disclosures by requiring entities to disclose both gross information and net information about both instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. ASU No. 2011-11 is effective retrospectively for annual periods beginning on or after January 1, 2013, and interim periods within those periods. The adoption of ASU No. 2011-11 did not have an impact on the Company's condensed consolidated financial position or results of operations.

Table of Contents

In July 2012, the FASB issued ASU No. 2012-02, *Intangible - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. ASU No. 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, *Intangibles - Goodwill and Other - General Intangibles Other than Goodwill*. The more likely than not threshold is defined as having a likelihood of more than 50 percent. Under ASU No. 2012-02, an entity is not required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines it is more likely than not that its fair value is less than its carrying value. ASU No. 2012-02 is effective for annual periods beginning after September 15, 2012. The adoption of ASU No. 2012-02 did not have an impact on the Company's condensed consolidated financial position or results of operations.

4. Segment Information

The Company follows the guidance prescribed by ASC Topic 280, *Segment Reporting*, which governs the way the Company reports information about its operating segments.

Management has organized the Company around its products and services and has three reportable segments: Technical Products and Services (TP&S), Electrical and Instrumentation Construction (E&I) and American Access Technologies (AAT). TP&S develops, manufactures, provides and markets switchgear and variable speed drives. The service component of this segment includes retrofitting equipment upgrades, startups, testing and troubleshooting electrical substations, switchgear, drives and control systems. The E&I segment installs electrical equipment for the energy, water, industrial, marine and commercial markets. The AAT segment manufactures and markets zone cabling and formed metal products of varying designs.

Table of Contents

The following are selected financial details regarding the Company's reportable segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue:				
Technical Products and Services	\$ 11,157	\$ 8,647	\$ 21,637	\$ 18,470
Electrical and Instrumentation Construction	2,342	2,615	4,870	5,607
American Access Technologies	1,670	1,610	3,092	3,227
	\$ 15,169	\$ 12,872	\$ 29,599	\$ 27,304

Gross profit:

Technical Products and Services	\$ 1,832	17%	\$ 1,587	18%	\$ 3,689	17%	\$ 2,957	16%
Electrical and Instrumentation Construction	257	11%	330	13%	1,165	24%	532	9%
American Access Technologies	307	19%	255	16%	522	17%	456	14%
	\$ 2,396	16%	\$ 2,172	17%	\$ 5,376	18%	\$ 3,945	14%

Percentages are based on respective revenues.

Income (loss) from domestic operations and net equity income from foreign joint ventures operations:

Technical Products and Services	\$ 1,630	15%	\$ 1,448	17%	\$ 3,184	15%	\$ 2,553	14%
Electrical and Instrumentation Construction	257	11%	330	13%	1,165	24%	532	9%
American Access Technologies	(60)	-4%	(115)	-7%	(135)	-4%	(303)	-9%
Corporate and other unallocated expenses	(1,431)	-9%	(1,495)	-12%	(3,216)	-11%	(2,812)	-10%
Income (loss) from domestic operations	396	3%	168	1%	998	3%	(30)	0%
Equity income from BOMAY	647		1,062		1,648		1,761	
Equity income from MIEFE	138		11		158		20	
Equity income (loss) from AAG	463		(19)		900		44	
Foreign operations expenses	(87)		(123)		(138)		(223)	
Net equity income from foreign joint ventures operations	1,161		931		2,568		1,602	

Income from domestic operations and net equity income from foreign joint ventures operations	\$ 1,557	\$ 1,099	\$ 3,566	\$ 1,572
--	----------	----------	----------	----------

The Company's management does not separately review and analyze its assets on a segment basis for TP&S, E&I, and AAT and all assets for the segments are recorded within the corporate segment's records. Corporate and other unallocated expenses include compensation costs and other expenses that cannot be meaningfully associated with the individual segments. All other costs, expenses and other income have been allocated to their respective segments.

Table of Contents

5. Investments in Foreign Joint Ventures

We have interests in three joint ventures outside of the United States which are accounted for on the equity method:

BOMAY Electric Industries Company, Ltd. (BOMAY), in which the Company holds a 40% interest, Baoji Oilfield Machinery Co., Ltd. (a subsidiary of China National Petroleum Corporation) holds a 51% interest and AA Energies, Inc., holds a 9% interest.

M&I Electric Far East, Ltd. (MIEFE), in which the Company holds a 41% interest, MIEFE's general manager holds a 8% interest and Oakwell Engineering, Ltd., of Singapore, holds a 51% interest.

AETI Alliance Group do Brazil Sistemas E Servicos Em Energia LTDA. (AAG), in which the Company holds a 49% interest and Beppe Hand Eddy Askerbo, of Brazil, holds a 51% interest.
Sales to joint ventures are made on an arms-length basis.

Table of Contents

Summary unaudited financial information of our foreign joint ventures (100%) in U.S. dollars was as follows at June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012:

	BOMAY		MIEFE		AAG	
	2013	2012	2013	2012	2013	2012
Assets:						
Total current assets	\$ 102,245	\$ 91,926	\$ 4,498	\$ 3,894	\$ 4,353	\$ 2,241
Total non-current assets	5,057	5,116	134	116	860	775
Total assets	\$ 107,302	\$ 97,042	\$ 4,632	\$ 4,010	\$ 5,213	\$ 3,016
Liabilities and equity:						
Total liabilities	\$ 82,077	\$ 73,293	\$ 1,757	\$ 1,422	\$ 2,217	\$ 1,511
Total equity	25,225	23,749	2,875	2,588	2,996	1,505
Total liabilities and equity	\$ 107,302	\$ 97,042	\$ 4,632	\$ 4,010	\$ 5,213	\$ 3,016

	Three Months Ended, June 30, 2013 and 2012					
	BOMAY		MIEFE		AAG	
	2013	2012	2013	2012	2013	2012
Revenue	\$ 31,483	\$ 33,991	\$ 2,824	\$ 2,185	\$ 4,514	\$ 1,152
Earnings	\$ 1,619	\$ 2,655	\$ 337	\$ 30	\$ 945	\$ (39)

Table of Contents

	Six Months Ended June 30, 2013 and 2012					
	BOMAY		MIEFE		AAG	
	2013	2012	2013	2012	2013	2012
Revenue	\$ 64,992	\$ 57,009	\$ 5,491	\$ 5,080	\$ 7,999	\$ 2,665
Earnings	\$ 4,120	\$ 4,401	\$ 386	\$ 50	\$ 1,837	\$ 90

The following is a summary of activity in AETI's investment in foreign joint ventures for the six months ended June 30, 2013:

	BOMAY**	MIEFE	AAG	TOTAL
	(in thousands)			
Investments in foreign joint ventures:				
Balance at December 31, 2012	\$ 9,531	\$ 1,063	\$ 814	\$ 11,408
Equity in earnings (loss) in 2013	1,648	158	900	2,706
Repayment of advances			(83)	(83)
Dividend distributions in 2013	(1,189)*		(23)	(1,212)
Foreign currency translation adjustment	102	(41)	(139)	(78)
Investments, end of period	\$ 10,092	\$ 1,180	\$ 1,469	\$ 12,741

Components of investments in foreign joint ventures:

Investment in foreign joint ventures	\$ 2,033	\$ 14	\$ 150	\$ 2,198
Undistributed earnings	6,859	913	1,538	9,310
Foreign currency translation	1,200	253	(219)	1,233
Investments, end of period	\$ 10,092	\$ 1,180	\$ 1,469	\$ 12,741

* This dividend receivable was accrued by the Company at June 30, 2013 and is included in prepaid expenses and other current assets. It was received in July 2013.

** Accumulated statutory reserves in equity method investments of \$1,857 at June 30, 2013 and \$1,620 at December 31, 2012 are included in AETI's consolidated retained earnings. In accordance with the People's Republic of China's (PRC), regulations on enterprises with foreign ownership an enterprise established in the PRC with foreign ownership is required to provide for certain statutory reserves, namely: (i) General reserve Fund, (ii) Enterprise Expansion Fund and (iii) Staff Welfare and Bonus Fund, which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A non-wholly owned foreign invested enterprise is permitted to provide for the above allocation at the discretion of its board of directors. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

Under the equity method, the Company's share of the foreign joint ventures' operations' earnings or loss is recognized in the condensed consolidated statement of operations as equity income (loss) from foreign joint ventures' operations. Joint venture income increases the carrying value of the joint venture investment and joint venture losses, as well as dividends received from the joint ventures, reduce the carrying value of the investment. Each reporting period, the Company evaluates the carrying value of these equity method investments as to whether an impairment adjustment may be necessary. In making this evaluation, a variety of quantitative and qualitative factors are considered including national and local economic, political and market conditions, industry trends and prospects, liquidity and capital resources and other pertinent factors. Based on this evaluation for this reporting period, the Company does not believe an impairment adjustment is necessary.

6. Notes Payable

Revolving Credit Agreement

The Company entered into a \$10.0 million credit agreement with JP Morgan Chase Bank, N.A. (Chase) in October 2007. At June 30, 2013 and December 31, 2012 there was \$0.5 million of borrowings outstanding. There was additional borrowing capacity of \$4.9 million at June 30, 2013.

Table of Contents

On August 10, 2012 the \$10.0 million credit agreement was amended which extended the maturity date to July 1, 2014, modified the financial covenants to a net profitability test of \$1 (one dollar) on a trailing six months basis, and a 1.0 to 1.0 leverage test for total liabilities to total net worth. The current ratio test remains unchanged at a minimum of 2.0 to 1.0. The agreement is collateralized by the Company's real estate in Houston and Beaumont, Texas, trade accounts receivable, equipment, inventories, and work-in-progress, and the Company's U.S. subsidiaries are guarantors of the borrowings.

Under the agreement, the credit facility's interest rate is LIBOR (0.19% at June 30, 2013) plus 3.25% per annum and the Company is charged a commitment fee of 0.3% per annum of the unused portion of the credit limit each quarter. Additionally, the terms of the agreement contains covenants which provide for customary restrictions and limitations and restriction from paying dividends without prior written consent of the bank.

7. Inventories

Inventories consisted of the following at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Raw materials	\$ 1,684	\$ 1,596
Work-in-progress	3,875	3,173
Finished goods	1,506	1,052
	7,065	5,821
Less: Allowance for obsolescence	(269)	(205)
Total inventories	\$ 6,796	\$ 5,616

8. Income Taxes

It was determined in the fourth quarter of 2011 that due to the Internal Revenue Code's Section 382 limitations on our ability to utilize the net operating losses carry forwards of approximately \$9.8 million generated by American Access Technologies, Inc., prior to the Company's merger in 2007 and subsequent net operating losses and foreign tax credit carry forwards, a full valuation allowance was warranted in the fourth quarter of 2011 to offset the deferred tax assets generated by these items. As such, the tax provision on U.S. income generated in 2013 and 2012 is offset by a reduction of the valuation allowance provided in 2011. The tax provision for 2013 and 2012 reflects a 34% U.S. tax rate related to the equity in foreign joint ventures' operations, net of dividends received for an effective rate of 18% and 23% because of the mix of domestic income or loss and foreign equity income.

In determining the realizability of its deferred tax assets, the Company has considered the scheduled reversal of deferred tax liabilities, projected future earnings, and tax planning strategies and concluded the need for a valuation allowance. As of December 31, 2012 a valuation allowance has been recorded against deferred tax assets including tax loss carry forwards and foreign tax credits of approximately \$9.9 million and \$1.0 million, respectively.

9. Fair Value of Financial Instruments and Fair Value Measurements

ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, requires us to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs.

Edgar Filing: American Electric Technologies Inc - Form 10-Q

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants would price the assets or liabilities.

The carrying amounts of cash and cash equivalents, trade accounts receivable and accounts payable approximate fair value as of June 30, 2013 and December 31, 2012 because of the relatively short maturity of these instruments.

The redeemable convertible preferred stock and warrants were sold in an arms-length transaction on May 2, 2012. Accordingly, we believe the recorded values approximate fair values for these instruments at June 30, 2013.

As discussed in Note 5. Investment in Foreign Joint Ventures, the carrying values of these investments are reviewed quarterly to ascertain that they are not impaired.

Table of Contents

10. Redeemable Convertible Preferred Stock

On May 2, 2012, the Company completed the issuance of the Series A Convertible Preferred Stock and warrants. The Series A Convertible Preferred Stock ranks senior to all other equity instruments of the Company, including the Company's common stock. The Series A Convertible Preferred Stock accrues cumulative dividends at a rate of 6% per annum, whether or not dividends have been declared by the Board of Directors and whether or not there are profits, surplus or other funds available for the payment of such dividends.

For the three months ended June 30, 2013 and 2012 the amortization of the discount amounted to \$10 and \$14. For the six months ended June 30, 2013 and 2012 the amortization of the discount amounted to \$21 and \$14.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and the consolidated financial statements included in the 2012 Annual Report on Form 10-K filed on March 28, 2013. Historical results and percentage relationships set forth in the condensed consolidated statements of operations and cash flows, including trends that might appear, are not necessarily indicative of future operations or cash flows.

FORWARD-LOOKING STATEMENTS

Except for historical and factual information, this document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements that address activities, events or developments that we expect, believe or anticipate will or may occur in the future, such as predictions of future financial performance. All forward-looking statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances.

These statements, including statements regarding our capital needs, business strategy, expectations and intentions, are subject to numerous risks and uncertainties, many of which are beyond our control, including our ability to maintain key products sales or effectively react to other risks including those discussed in Part I, Item 1A, Risk Factors, of our 2012 Annual Report on Form 10-K filed on March 28, 2013. We urge you to consider that statements that use the terms believe, do not believe, anticipate, expect, plan, estimate, intend and similar expressions are to identify forward-looking statements. No forward-looking statement can be guaranteed, and actual results may differ materially from those projected. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

BUSINESS

American Electric Technologies, Inc. (the Company, AETI, our, us or we) was incorporated on October 21, 1996 as a Florida corporation under the name American Access Technologies, Inc. On May 15, 2007, we completed a business combination (the M&I Merger) with M&I Electric Industries, Inc. (M&I), a Texas corporation, and changed our name to American Electric Technologies, Inc. Our principal executive offices are located at 6410 Long Drive, Houston, Texas 77087 and our telephone number is 713-644-8182. Prior to the M&I Merger, our business consisted of the operations of the American Access segment described below.

Our corporate structure currently consists of American Electric Technologies, Inc., which owns 100% of both M&I Electric Industries, Inc. and American Access Technologies, Inc. (AAT). The Company reports financial data for three operating segments: the Technical Products and Services (TP&S) segment and the Electrical and Instrumentation Construction (E&I) segment; which together encompass the operations of M&I, including its wholly-owned subsidiary, South Coast Electric Systems, LLC and its interest in international joint ventures operations in China, Singapore and Brazil; and the American Access segment, which encompasses the operations of our wholly-owned subsidiary, American Access Technologies, Inc., including its Omega Metals division.

Foreign Joint Ventures

We have interests in three joint ventures outside of the U. S. which are accounted for on the equity method:

BOMAY Electric Industries Company, Ltd. (BOMAY), in which the Company holds a 40% interest, Baoji Oilfield Machinery Co., Ltd. (a subsidiary of China National Petroleum Corporation) holds a 51% interest, and AA Energies, Inc., holds a 9% interest;

Edgar Filing: American Electric Technologies Inc - Form 10-Q

M&I Electric Far East, Ltd. (MIEFE), in which the Company holds a 41% interest; MIEFE s general manager holds an 8% interest and, Oakwell Engineering, Ltd., of Singapore, holds a 51% interest, and;

AETI Alliance Group do Brazil Sistemas E Servicos Em Energia LTDA. (AAG), in which the Company holds a 49% interest and, Beppe Hans Eddy Askerbo, of Brazil, holds a 51% interest.

Table of Contents

Domestic Operations

We are a leading provider of power delivery solutions to the global energy industry.

The principal markets and representative customer types that we serve include:

Oil & gas

Upstream which include land and offshore drilling, and offshore production, all primarily related to exploration and production (E&P)

Midstream which includes oil & gas pipelines along with fractionation plants

Downstream which includes refining and petrochemical, as well as Liquefied Natural Gas (LNG) plants

Power generation and distribution

Distributed power generation such as remote power stations, and co-generation

Renewable power generation including solar power, geothermal, and biomass

Power distribution including substations

Marine and industrial

Marine Vessel including Platform Supply Vessels (PSV), Offshore supply vessels (OSV), tankers and other various work boats

Industrial including non-oil & gas industrial markets such as steel, heavy commercial, and other non-oil & gas segments

A key component of our Company's strategy is our international focus. We have two primary models for conducting our international business. First, we sell directly and through foreign sales agents that we have appointed. Many of those international partners also provide local service and support for our products in those overseas markets. Second, where local market conditions dictate, we have expanded internationally by forming joint venture operations with local companies in key markets such as China, Brazil and Singapore, where there are local content requirements or we need to do local manufacturing.

Our business strategy is to grow through organic growth in our key energy markets, to expand our solution set to our current market segments, to continue our international expansion, and to accelerate those efforts with acquisitions, while at the same time increasing earnings and cash flow per share to enhance overall stockholder value.

Edgar Filing: American Electric Technologies Inc - Form 10-Q

We have recently designed and brought to market products for utility level solar energy projects, including solar inversion systems and utility interconnect systems. We also provide installation and commissioning services for these systems.

We are uniquely positioned to be the turn-key supplier for power delivery projects for our customers, where we are able to offer custom-designed power distribution and power conversion systems, power services, and electrical and instrumentation construction, all from one company.

Industry Conditions

Our power distribution products which support the oil and gas industry are capital-intensive and cyclical in nature. The U.S. shale drilling activity and related production continues to favorably impact the demand for our technical products and services. Our products through our joint ventures in China, Singapore and Brazil continue to experience favorable market conditions related to the energy demands in these countries.

TP&S

Our M&I Electric business has provided sophisticated custom-designed power distribution, power conversion and control and automation systems for the energy industry since 1946. Our products are used to safely distribute and control the flow of electricity from the source of the power being generated (e.g. a diesel generator or the utility grid) to whatever mechanical device needs to use the power (machinery, equipment, etc.) at low, medium and high voltages.

Our power distribution products include low and medium voltage switchgear that provide power distribution and protection for electrical systems from electrical faults for both ANSI (American National Standards Institute) and IEC (International Electrotechnical Commission) markets. Other power distribution products offered by us include motor control centers, powerhouses, bus ducts, program logic control (PLC) based automation systems, human machine interface (HMI) and specialty panels.

Table of Contents

Our Analog, Digital SCR (silicon controlled rectifier) and Alternating Current Variable Frequency Drive (AC VFD) systems are electronic power conversion systems that are used to adjust the speed and torque of an electric motor to match various user applications.

Our power distribution and control products are generally custom-designed to our customers' specific requirements, and we do not maintain an inventory of such products.

We have the technical expertise to provide these products in compliance with a number of applicable industry standards such as NEMA (National Electrical Manufacturers Association) and ANSI or IEC equipment to meet ABS (American Bureau of Shipping), USCG (United States Coast Guard), Lloyd's Register, a provider of marine certification services, and Det Norske Veritas (a leading certification body/registrar for management systems certification services) standards. These products are generally provided to customers on a worldwide basis.

Our customers for these products are typically large and sophisticated generators and users of electrical power.

Our technical services group provides low, medium and high voltage services to commission and maintain our customers' electrical infrastructures. We provide low, medium and high voltage start-up/commissioning, preventative maintenance, emergency call out services, and breaker and switchgear refurbishment shop services to the Gulf Coast industrial market. We have expanded our services business to provide start-up and maintenance services for renewable projects, including wind and solar. We also provide power services to support our power distribution and power conversion products globally.

On March 8, 2012, the Company acquired the technology of Amnor Technologies, Inc. This technology provides automation and control system technologies for land and offshore drilling monitoring and control (auto-driller); marine automation including ballast control, tank monitoring, and machinery plant control and monitoring systems; Internet Protocol (IP)-based Controlled Circuit TV systems; and vessel management software systems, all proven in multiple installations.

E&I

The Electrical and Instrumentation Construction (E&I) segment provides a full range of electrical and instrumentation construction and installation services to the Company's markets. This segment's services include new construction as well as electrical and instrumentation turnarounds, maintenance and renovation projects. Applications include installation of switchgear, AC and DC motors, drives, motor controls, lighting systems and high voltage cable.

Marine based oil and gas services include complete electrical system rig-ups, modifications, start-ups and testing for vessels, drilling rigs, and production modules. In 2012, the Company announced it was phasing out of the municipal water wastewater construction market, which is expected to be complete in the third quarter of 2013. The Company is focusing its construction efforts on strategic segments including oil & gas; power generation and distribution; and marine and other (non-oil & gas) industrial.

AAT

This segment manufactures and markets zone cabling enclosures and custom formed metal products. The zone cabling product line provides state-of-the-art flexible cabling and wireless solutions for the high-speed communication networks found throughout office buildings, hospitals, schools, industrial complexes and government buildings. Our patented enclosures mount in ceilings, walls, raised floors, and certain modular furniture to facilitate the routing of telecommunication network cabling, fiber optics and wireless solutions in a streamlined, flexible, and cost effective fashion. Omega Metals operates a precision sheet metal fabrication and assembly operation and provides services such as precision CNC (Computer Numerical Controlled) punching, laser cutting, bending, assembling, painting, powder coating and silk screening to a diverse client base including, engineering, technology and electronics companies, primarily in the Southeast region of the United States. Representative customers of AAT include Chatsworth Products, Inc., Tyco Electronics and Panduit.

Locations

The Company has facilities and sales offices in Texas, Mississippi and Florida. We have minority interests in foreign joint ventures which have facilities in Singapore; Xian, China; and Macae, Rio and Angra, Brazil.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Edgar Filing: American Electric Technologies Inc - Form 10-Q

We have adopted various critical accounting policies that govern the application of accounting principles generally accepted in the United States of America ("U.S. GAAP") in the preparation of our condensed consolidated financial statements. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Table of Contents

Certain accounting policies involve significant estimates and assumptions by us that have a material impact on our financial condition or operating performance. Management believes the following critical accounting policies reflect its most significant estimates and assumptions used in the preparation of our condensed consolidated financial statements. We do not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as special purpose entities, nor do we have any variable interest entities.

Inventories Inventories are stated at the lower of cost or market, with material value determined using an average cost method. Inventory costs for finished goods and work-in-process include direct material, direct labor, production overhead and outside services. TP&S and E&I indirect overhead is apportioned to work in process based on direct labor incurred. AAT production overhead, including indirect labor, is allocated to finished goods and work-in-process based on material consumption, which is an estimate that could be subject to change in the near term as additional information is obtained and as our operating environment changes.

Allowance for Obsolete and Slow-Moving Inventory The Company regularly reviews the value of inventory on hand using specific aging categories, and records a provision for obsolete and slow-moving inventory based on historical usage and estimated future usage. As actual future demand or market conditions may vary from those projected, adjustments to our inventory reserve may be required.

Allowance for Doubtful Accounts The Company maintains an allowance for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. The estimate is based on management's assessment of the collectability of specific customer accounts and includes consideration for credit worthiness and financial condition of those specific customers. We also review historical experience with the customer, the general economic environment and the aging of our receivables. We record an allowance to reduce receivables to the amount that we reasonably believe to be collectible. Based on our assessment, we believe our allowance for doubtful accounts is adequate.

Revenue Recognition The Company reports earnings from fixed-price and modified fixed-price long-term contracts on the percentage-of-completion method. Earnings are accrued based on the ratio of costs incurred to total estimated costs. However, for TP&S, we have determined that labor incurred provides an improved measure of percentage-of-completion. Costs include direct material, direct labor, and job related overhead. Losses expected to be incurred on contracts are charged to operations in the period such losses are determined. A contract is considered complete when all costs except insignificant items have been incurred and the facility has been accepted by the customer. Revenue from non-time and material jobs of a short-term nature (typically less than one month) is recognized on the completed-contract method after considering the attributes of such contracts. This method is used because these contracts are typically completed in a short period of time and the financial position and results of operations do not vary materially from those which would result from use of the percentage-of-completion method. The asset, Work-in-process, which is included in inventories, represents the cost of labor, material, and overhead on jobs accounted for under the completed-contract method. For contracts accounted for under the percentage-of-completion method, the asset, Costs and estimated earnings in excess of billings on uncompleted contracts, represents revenue recognized in excess of amounts billed and the liability, Billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenue recognized.

Foreign Currency Gains and Losses Foreign currency translations are included as a separate component of comprehensive income. We have determined the local currency of foreign joint ventures to be the functional currency. In accordance with ASC 830, the assets and liabilities of the foreign equity investees, denominated in foreign currency, are translated into United States dollars at exchange rates in effect at the condensed consolidated balance sheet date and revenue and expenses are translated at the average exchange rate for the period. Related translation adjustments are reported as comprehensive income which is a separate component of stockholders' equity, whereas gains and losses resulting from foreign currency transactions are included in results of operations.

Federal Income Taxes The liability method is used in accounting for federal income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The realizability of deferred tax assets are evaluated annually and a valuation allowance is provided if it is more likely than not that the deferred tax assets will not give rise to future benefits in the Company's tax returns.

Contingencies We record an estimated loss from a loss contingency when information indicates that it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Contingencies are often resolved over long time periods, are based on unique facts and circumstances, and are inherently uncertain. We regularly evaluate current information available to us to determine whether such accruals should be adjusted or other disclosures related to contingencies are required. We are a party to a number of legal proceedings in the normal course of our business for which we have made appropriate provisions where we believe an ultimate loss is probable. The ultimate resolution of these matters, individually or in the aggregate, is not likely to have a material impact on the Company's financial position.

Table of Contents

Equity Income from Foreign Joint Ventures Operations The Company accounts for its investments in foreign joint ventures operations using the equity method of accounting. Under the equity method, the Company's share of the joint ventures operations earnings or loss is recognized in the condensed consolidated statements of operations as equity income (loss) from foreign joint ventures operations. Joint venture income increases the carrying value of the joint venture investment and joint venture losses, as well as dividends received from the joint ventures, reduce the carrying value of the investment.

Carrying Value of Foreign Joint Venture Investments The Company evaluates the carrying value of these equity method investments as to whether an impairment adjustment may be necessary. In making this evaluation, a variety of quantitative and qualitative factors are considered including national and local economic, political and market conditions, industry trends and prospects, liquidity and capital resources and other pertinent factors.

Table of Contents

OVERALL RESULTS OF OPERATIONS

The following table represents revenue and income (loss) from domestic operations and equity in foreign joint ventures attributable to the business segments for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Revenue:								
Technical Products and Services	\$ 11,157		\$ 8,647		\$ 21,637		\$ 18,470	
Electrical and Instrumentation Construction	2,342		2,615		4,870		5,607	
American Access Technologies	1,670		1,610		3,092		3,227	
	\$ 15,169		\$ 12,872		\$ 29,599		\$ 27,304	
Gross profit:								
Technical Products and Services	\$ 1,832	17%	\$ 1,587	18%	\$ 3,689	17%	\$ 2,957	16%
Electrical and Instrumentation Construction	257	11%	330	13%	1,165	24%	532	9%
American Access Technologies	307	19%	255	16%	522	17%	456	14%
	\$ 2,396	16%	\$ 2,172	17%	\$ 5,376	18%	\$ 3,945	14%
Percentages are based on respective revenues.								
Income (loss) from domestic operations and net equity income from foreign joint ventures operations:								
Technical Products and Services	\$ 1,630	15%	\$ 1,448	17%	\$ 3,184	15%	\$ 2,553	14%
Electrical and Instrumentation Construction	257	11%	330	13%	1,165	24%	532	9%
American Access Technologies	(60)	-4%	(115)	-7%	(135)	-4%	(303)	-9%
Corporate and other unallocated expenses	(1,431)	-9%	(1,495)	-12%	(3,216)	-11%	(2,812)	-10%
Income (loss) from domestic operations	396	3%	168	1%	998	3%	(30)	0%
Equity income from BOMAY	647		1,062		1,648		1,761	
Equity income from MIEFE	138		11		158		20	
Equity income (loss) from AAG	463		(19)		900		44	
Foreign operations expenses	(87)		(123)		(138)		(223)	
Net equity income from foreign joint ventures operations	1,161		931		2,568		1,602	
Income from domestic operations and net equity income from foreign joint ventures operations	\$ 1,557		\$ 1,099		\$ 3,566		\$ 1,572	

Percentages are based on respective revenues.

Table of Contents

The Company's management does not separately review and analyze its assets on a segment basis for TP&S, E&I, and AAT and all assets for the segments are recorded within the corporate segment's records. Corporate and other unallocated expenses include compensation costs and other expenses that cannot be meaningfully associated with the individual segments. All other costs, expenses and other income have been allocated to their respective segments.

Sales to foreign joint ventures are made on an arm's length basis. See Footnote 5 in Notes to Condensed Consolidated Financial Statements for detailed financial information on the foreign joint ventures.

Non-US GAAP Financial Measures

A non-US GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable US GAAP measure. In this report, we define and use the non-US GAAP financial measure EBITDA as set forth below.

EBITDA

We define EBITDA as follows:

Net income (loss) before:

provision (benefit) for income taxes;

non-operating (income) expense items;

depreciation and amortization; and

dividends on redeemable convertible preferred stock.

Management's Use of EBITDA

We use EBITDA to assess our overall financial and operating performance. We believe this non-US GAAP measure, as we have defined it, is helpful in identifying trends in our day-to-day performance because the items excluded have little or no significance on our day-to-day operations. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

Limitations of EBITDA

AETI's calculation of EBITDA may not be comparable to similarly titled measures used by other companies. Please see the Company's 10-K filed with the SEC on March 28, 2013 for more information in the use and risks of EBITDA.

The table below shows the reconciliation of Net income (loss) attributable to common stockholders to EBITDA for the three and six months ended June 30, 2013 and 2012 (dollars in thousands):

Three Months ended June 30,		Six Months ended June 30,	
2013	2012	2013	2012

Edgar Filing: American Electric Technologies Inc - Form 10-Q

Net Income (loss) attributable to common stockholders	\$ 1,063	\$ 761	\$ 2,716	\$ 1,095
Add: Dividends on redeemable convertible preferred stocks	85	55	170	55
Depreciation and amortization	201	247	387	467
Interest expense and other, net	29	38	45	88
Provision (benefit) for income taxes	380	245	635	334
EBITDA	\$ 1,758	\$ 1,346	\$ 3,953	\$ 2,039

Table of Contents

Business Sectors Disclosures

Based on the increasing importance of the oil and gas sector for our business, management has begun capturing our financial results in three major market sectors in 2013. These sectors are: Oil and Gas; Power Generation and Distribution; and Marine and other Industrials as discussed in Domestic Operations on page 14. This information is supplemental and provided to allow investors to follow our future success at marketing to various customer groups and is not used by management in the decision making process.

	For the Three Months Ended June 30, 2013 (in thousands)				For the Six Months Ended June 30, 2013 (in thousands)			
	Oil & Gas	Power Generation & Distribution	Marine & Other Industrial	Total	Oil & Gas	Power Generation & Distribution	Marine & Other Industrial	Total
Revenue	\$ 8,727	\$ 1,471	\$ 4,971	\$ 15,169	\$ 17,808	\$ 1,953	\$ 9,838	\$ 29,599
Gross profit	1,518	333	545	2,396	3,473	434	1,469	5,376
Gross profit as % of revenue	17%	23%	11%	16%	20%	22%	15%	18%

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012 (in thousands)

Consolidated net revenue increased \$2,297, or 18% to \$15,169 for the three months ended June 30, 2013 over the comparable prior year period in 2012. The increase was primarily attributable to the TP&S segment's net revenue increase of \$2,510 offset by the E&I segment's revenue decline of \$273. This decline was primarily due to the Company's decision in the first quarter 2012 to exit the water/wastewater business.

Consolidated gross profit for the three months ended June 30, 2013, increased \$224 to \$2,396 compared to gross profit of \$2,172 in the comparable prior year period. The increase in gross profit is primarily attributable to the TP&S segment's net revenue increase of 29% resulting in an increase in gross profit of \$245 for the segment.

The TP&S segment's improved financial results reflect the increase in the demand for both our power conversion and distribution equipment.

The E&I segment reported net revenue of \$2,342 in the second quarter of 2013, a decrease of \$273 from the second quarter of 2012. The Company's revenue for the E&I segment declined due to the decision to exit the water/wastewater business based on the water/wastewater business being non-core to the Company's products coupled with low project margins.

The AAT segment reported net revenue of \$1,670 in the second quarter of 2013, up \$60 from the comparable prior year period. Gross profit improved \$52 to \$307 from \$255 in the prior year period. The improvement in revenue and gross profit is attributable to a shift in continued cost containment and marketing efforts to increase revenue.

Selling and marketing expenses for the quarter ended June 30, 2013 were \$706 compared to the prior year quarter ended June 30, 2012 of \$639. The increase is related to commission on increased revenue.

General and administrative expenses were down for the quarter ended June 30, 2013 over the same period in 2012 by \$136 from continued cost cutting and staff changes.

Research and development costs were up from the prior year period based on increased development of Amnor automation technology.

Net equity income from foreign joint ventures' operations increased in the quarter ended June 30, 2013 by \$230 as compared to the quarter ended June 30, 2012. The increase resulted from lower performance at BOMAY by \$415 and offset by improvement at MIEFE by \$127 and AAG by \$482. The BOMAY operations in China reflect a slowing demand for its products.

Table of Contents

Consolidated net other expense declined due to the \$4.5 million reduction in the revolving credit average balance in 2013 resulting from the \$5.0 million convertible preferred stock transaction in May 2012.

The effective tax expense rates for the three month period ended June 30, 2013 and 2012 were 25% and 23%, respectively. Because of the valuation allowance on deferred tax assets, the tax provision on U.S. income generated in 2013 and 2012 is offset by a reduction of the valuation allowance previously provided. The tax provision for 2013 reflects a 34% U.S. tax rate related to the income from the equity in joint ventures less dividends received in the current year.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012 (in thousands)

Consolidated net revenue increased \$2,295, or 8%, to \$29,599 for the six months ended June 30, 2013 over the comparable period in 2012. The TP&S segment recorded a \$3,167 increase in net revenue, or 17%. This improvement was offset by a decline in the E&I segment which recorded a \$737 decrease in net revenue.

Consolidated gross profit increased \$1,431 to \$5,376, or 18% of net revenue as compared to 14% gross profit percentage for the prior year six month period. This increase was mainly attributable to the TP&S segment's increased revenue and improvement in direct margin. This performance reflects the improving conditions in the oil & gas markets and benefits of the continued cost reduction efforts in all areas.

The TP&S segment's revenue of \$21,637 generated gross profit of \$3,689 for the first six months ended June 2013 compared to revenue of \$18,470 and gross profit of \$2,957 for the prior year six month period ended June 30, 2012. This segment's financial improvement reflects the increase in the oil and gas market.

The E&I segment reported net revenue of \$4,870 for the six months ended June 30, 2013, a decrease of \$737 over the six months ended June 30, 2012. Gross profit for the E&I segment during the six months ended June 30, 2013 was \$1,165, compared to \$532 in the corresponding prior year period. Gross profit as a percentage of net revenue increased to 24% from 10% in the comparable prior period. The Company's gross profit for the E&I segment improved due to the decision to exit the water/wastewater business based on the water/wastewater business being non-core to the Company's products coupled with low profit margins.

The AAT segment reported revenue of \$3,092 for the six months ended June 30, 2013, down \$135 from the comparable prior year period. Gross profit improved by \$66 driven substantially by a shift in demand for some of its products and lower costs. The AAT segment is examining continued cost containment for the remainder of the year and marketing efforts to increase revenue.

Selling and marketing expenses for the six months ended June 30, 2013 were \$1,371 compared to the prior six month period ended June 30, 2012 of \$1,360. The small increase in expenses is primarily attributed to the increased commissions.

General and administrative expenses were higher for the six months ended June 30, 2013 over the same period in 2012 by \$183. The first quarter 2013 reflected higher bonuses and stock compensations costs and increased staffing from 2012.

Research and development costs for the six months ended June 30, 2013 increased to \$244 from \$35 in the previous period due to the Company's Amnor technology development.

Net equity income from foreign joint ventures increased for the six months ended June 30, 2013 by \$966 as compared to the prior six month period ended June 30, 2012. The increase resulted from lower performance at BOMAY by \$113, offset by an increase at MIEFE of \$138 and AAG of \$856. The BOMAY operations in China reflect a strong demand for its products but demand is starting to slow. AAG was able to deliver on large labor projects that yielded better margins.

Consolidated net other expense for the six month period was \$45, a decrease of \$43 from the comparable prior year due to the \$4 million reduction in the average revolving credit balance from 2013 resulting from the \$5.0 million convertible preferred stock transaction in May 2012.

The effective tax expense rates for the six month period ended June 30, 2013 and 2012 were 18% and 23% respectively.

The tax provision on U.S. income generated in 2013 is offset by a reduction of the valuation allowance. The tax provision for 2013 reflects a 34% U.S. tax rate related to the income from the equity in foreign joint ventures' operations, net of dividends paid in 2013 for an effective rate of 18% for 2013.

BACKLOG

The Company's backlog as of June 30, 2013 was \$26.2 million compared to \$15.5 million at December 31, 2012. The backlog for the TP&S segment was \$21.9 million as of June 30, 2013, an increase of approximately \$7.0 million as compared to the backlog at December 31, 2012. Approximately 95% of this backlog is expected to be realized as revenue during the remainder of the fiscal year.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

	June 30, 2013 (in thousands except percentages and ratios)	December 31, 2012
Working capital	\$ 14,281	\$ 12,239
Current ratio	2.2 to 1	2.2 to 1
Debt as a percent of total capitalization	2%	2%

Notes Payable

The Company entered into a credit agreement with JP Morgan Chase Bank, N.A. (Chase) in October 2007. The credit agreement currently has a maturity on July 1, 2014. At June 30, 2013 and December 31, 2012, there were \$0.5 million of borrowings outstanding and at June 30, 2013, there was additional borrowing capacity of \$4.9 million. The agreement is collateralized by the Company's real estate in Houston and Beaumont, Texas, trade accounts receivable, equipment, inventories, and work-in-process, and the Company's subsidiaries are guarantors of the borrowings. Under the agreement, the Company pays a commitment fee of 0.3% of the unused portion of the credit limit each quarter. Additionally, the terms of the agreement contain covenants which provide for customary restrictions and limitations, the maintenance of certain financial ratios, including maintenance of a minimum current ratio and leverage ratio and restriction from paying dividends without prior written consent of the bank. On July 27, 2012, the Company amended its interest rate on the Company's borrowings to the 30 day LIBOR rate (0.19% at June 30, 2013) plus 3.25% per annum. Prior to July 27, 2012, the interest rate on the Company's borrowings was 30 day LIBOR rate plus 2.75% per year. See Note 6. Notes Payable to the condensed consolidated financial statements for more information on this facility.

Operating Activities

During the six months ended June 30, 2013, the Company provided cash of \$1.7 million from operations as compared to using \$2.1 million for the same period in 2012. The impact on cash from the operating income was burdened by the consumption of cash by working capital of \$2.1 million for the six months ended June 30, 2013 and for the six months ended June 30, 2012 the change in working capital required \$2.5 million. The reduction in cash required for working capital is a result of increased accounts payable partially offset by the timing of the receipt of the cash dividend from BOMAY.

Investing Activities

During the six months ended June 30, 2013, the Company utilized \$0.5 million in cash for investing activities compared to \$0.5 million provided in the comparable period in 2012. The increase use in 2013 is mainly attributable to the BOMAY dividend of \$0.9 million in Q2 in 2012 but not received until Q3 in 2013.

Financing Activities

During the six months ended June 30, 2013, the Company utilized \$0.3 million in cash from financing activities as compared to \$1.8 million provided for the comparable period in 2012. The difference was primarily the preferred stocks issued and partially offset by credit facility payments in 2012.

On May 2, 2012, the Company issued convertible preferred stock for \$5 million in a private equity financing with JCH Crenshaw Holdings, LLC. The convertible preferred stock accrue cumulative dividends at a rate of 6% per annum, whether or not dividends have been declared by the Board of Directors and whether or not there are profits, surplus or other funds available for the payment of such dividends. The convertible preferred stock (1,000,000 shares) is convertible into 1,000,000 shares of common stock at a conversion price of \$5.00 per share, subject to adjustment. The Company also issued to the investor warrants to purchase 125,000 shares of common stock at an exercise price of \$6.00 per share and 200,000 shares at an exercise price of \$7.00 per share.

The Company raised this capital for general corporate purposes which may include expansion of its manufacturing capacity to meet growing demand for its power delivery products, accelerating its international expansion in key energy markets including Brazil and China and making additional acquisitions

The Company believes its existing cash, working capital and unused credit facility combined with operating earnings will be sufficient to meet its working capital needs for the next twelve months. The Company continues to review growth opportunities and depending on the cash needs may raise cash in the form of debt, equity, or a combination of both.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rates

Our market risk sensitive items do not subject us to material risk exposures. Our revolving credit facility remains available through July 1, 2014. At June 30, 2013, the Company had \$0.5 million of variable-rate debt outstanding. At this borrowing level, a hypothetical relative increase of 10% in interest rates would have had an unfavorable but insignificant impact on the Company's pre-tax earnings and cash flows. The primary interest rate exposure on variable-rate debt is based on the LIBOR rate (0.2% at June 30, 2013) plus 3.25% per year. The agreement is collateralized by real estate, trade accounts receivable, equipment, inventory and work-in-process, and guaranteed by our operating subsidiaries.

Foreign Currency Transaction Risk

AETI maintains equity method investments in its Singapore, Chinese and Brazilian joint ventures, MIEFE, BOMAY, and AAG, respectively. The functional currencies of the joint ventures are the Singapore Dollar, the Chinese Yuan and the Brazilian Real, respectively. Investments are translated into United States Dollars at the exchange rate in effect at the end of each quarterly reporting period. The resulting translation adjustment is recorded as accumulated other comprehensive income in AETI's condensed consolidated balance sheets. In the current six months this item decreased from \$900 at December 31, 2012 to \$849 at June 30, 2013 due principally to the weakening of the Brazilian Real partial offset by the weakness of the United States Dollar against the Chinese Yuan. Each of the BOMAY investors may be required to guarantee the bank loans of BOMAY in proportion to their investment, and at this time, no guarantees have been provided by AETI.

Other than the aforementioned items, we do not believe we are exposed to foreign currency exchange risk because all of our net sales and purchases are denominated in United States Dollars.

Commodity Price Risk

We are subject to market risk from fluctuating market prices of certain raw materials. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We endeavor to recoup these price increases from our customers on an individual contract basis to avoid operating margin erosion. Although historically we have not entered into any contracts to hedge commodity risk, we may do so in the future. Commodity price changes can have a material impact on our prospective earnings and cash flows. Copper, steel and aluminum represents a significant element of our material cost. Significant increases in the prices of these materials could reduce our estimated operating margins if we are unable to recover such increases from our customers.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of June 30, 2013. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures were effective as of June 30, 2013.

There were no changes in our internal controls over financial reporting that occurred during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company becomes involved in various legal proceedings and claims in the normal course of business. In management's opinion, the ultimate resolution of these matters will not have a material effect on our financial position or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes during the period ended June 30, 2013 in the risk factors as set forth in Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Index to Exhibits

Exhibit No.	Exhibit Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer.
32	Section 1350 Certifications of Principal Executive Officer and Principal Financial Officer.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.*
101.PRE	XBRL Extension Presentation Linkbase Document.*

* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act), of otherwise subject to liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Exchange

Edgar Filing: American Electric Technologies Inc - Form 10-Q

Act, except as shall be expressly set forth by specific reference in such filing.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 14, 2013

AMERICAN ELECTRIC TECHNOLOGIES, INC.

By: /s/ Charles M. Dauber
Charles M. Dauber
President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ Andrew L. Puhala
Andrew L. Puhala
Senior Vice President and Chief Financial Officer

(Principal Financial Officer)