

American Electric Technologies Inc  
Form 10-Q  
May 14, 2013  
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# 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 MARCH 31, 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)**

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Florida  
(State or other jurisdiction)

59-3410234  
(I.R.S. Employer

of incorporation)

6410 Long Drive, Houston, TX 77087

Identification No.)

(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 April 25, 2013, the registrant had 8,001,576 shares of its Common Stock outstanding.

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AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

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For the Quarterly Period Ended March 31, 2013

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**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)**

|   | March 31, 2013<br>(unaudited) | December 31,<br>2012 |
|---|-------------------------------|----------------------|
| <b>Assets</b>   |                               |                      |
| Current assets:   |                               |                      |
| Cash and cash equivalents   | \$ 5,203                      | \$ 4,477             |
| Accounts receivable-trade, net of allowance of \$398 and \$225 at March 31, 2013 and December 31, 2012  | 11,512                        | 9,731                |
| Inventories, net  | 5,195                         | 5,616                |
| Costs and estimated earnings in excess of billings on uncompleted contracts   | 2,575                         | 2,205                |
| Prepaid expenses and other current assets   | 327                           | 318                  |
| <b>Total current assets</b>   | <b>24,812</b>                 | <b>22,347</b>        |
| Property, plant and equipment, net  | 5,045                         | 4,922                |
| Investments in foreign joint ventures   | 12,913                        | 11,408               |
| Other assets  | 264                           | 297                  |
| <b>Total assets</b>   | <b>\$ 43,034</b>              | <b>\$ 38,974</b>     |
| <b>Liabilities and Stockholders Equity</b>  |                               |                      |
| Current liabilities:  |                               |                      |
| Accounts payable  | \$ 5,196                      | \$ 4,438             |
| Accrued payroll and benefits  | 1,190                         | 1,519                |
| Other accrued expenses  | 358                           | 513                  |
| Billings in excess of costs and estimated earnings on uncompleted contracts   | 5,338                         | 3,576                |
| Short-term notes payable  | 14                            | 54                   |
| Other current liabilities   | 17                            | 9                    |
| <b>Total current liabilities</b>  | <b>12,113</b>                 | <b>10,109</b>        |
| Notes payable   | 500                           | 500                  |
| Deferred income taxes   | 3,329                         | 3,058                |
| Deferred compensation   | 156                           | 122                  |
| <b>Total liabilities</b>  | <b>16,098</b>                 | <b>13,789</b>        |
| Convertible preferred stock:  |                               |                      |
| Redeemable convertible preferred stock, Series A, net of discount of \$796 at March 31, 2013 and \$806 at December 31, 2012; \$0.001 par value, 1,000,000 shares authorized, issued and outstanding at March 31, 2013 and December 31, 2012 | 4,204                         | 4,194                |
| Stockholders equity:  |                               |                      |
| Common stock; \$0.001 par value, 50,000,000 shares authorized, 7,960,925 and 7,919,032 shares issued and outstanding at March 31, 2013 and December 31, 2012  | 8                             | 8                    |
| Treasury stock, at cost (49,863 shares at March 31, 2013 and 20,222 shares at December 31, 2012)  | (238)                         | (92)                 |
| Additional paid-in capital  | 9,800                         | 9,597                |
| Accumulated other comprehensive income  | 931                           | 900                  |

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|   |           |           |
|---|-----------|-----------|
| Retained earnings; including accumulated statutory reserves in equity method investments of \$1,857 and \$1,620 at March 31, 2013 and December 31, 2012 | 12,231    | 10,578    |
| Total stockholders' equity  | \$ 22,732 | \$ 20,991 |
| Total liabilities and stockholders' equity  | \$ 43,034 | \$ 38,974 |

**Table of Contents****American Electric Technologies, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****Unaudited****(in thousands, except share and per share data)**

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2013</b>                         | <b>2012</b> |
| Net sales  | \$ 14,430                           | \$ 14,432   |
| Cost of sales  | 11,450                              | 12,660      |
| Gross profit   | 2,980                               | 1,772       |
| Operating expenses:  |                                     |             |
| Research and development   | 169                                 | 25          |
| Selling and marketing  | 665                                 | 721         |
| General and administrative   | 1,544                               | 1,225       |
| Total operating expenses   | 2,378                               | 1,971       |
| Income (loss) from domestic operations   | 602                                 | (199)       |
| Net equity income from foreign joint ventures operations:                                    |                                     |             |
| Equity income from foreign joint ventures operations   | 1,458                               | 771         |
| Foreign joint ventures operations related expenses   | (51)                                | (100)       |
| Net equity income from foreign joint ventures operations                                     | 1,407                               | 671         |
| Income from domestic operations and net equity income from foreign joint ventures operations | 2,009                               | 472         |
| Interest expense and other, net  | (16)                                | (49)        |
| Income before income taxes   | 1,993                               | 423         |
| Provision for income taxes   | 255                                 | 89          |
| Net income before dividends on redeemable convertible preferred stock                        | 1,738                               | 334         |
| Dividends on redeemable convertible preferred stock  | 85                                  |             |
| Net income attributable to common stockholders   | \$ 1,653                            | \$ 334      |
| Earnings per common share:   |                                     |             |
| Basic  | \$ 0.21                             | \$ 0.04     |
| Diluted  | \$ 0.18                             | 0.04        |
| Weighted-average number of common shares outstanding:  |                                     |             |
| Basic  | 7,949,571                           | 7,857,650   |
| Diluted  | 9,383,378                           | 8,494,545   |

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)**

|  | <b>Three Months Ended March 31,</b> |                 |
|--|-------------------------------------|-----------------|
|  | <b>2013</b>                         | <b>2012</b>     |
| <b>Cash flows from operating activities:</b>   |                                     |                 |
| Net Income   | \$ 1,738                            | \$ 334          |
| <b>Adjustments to reconcile net income to net cash (used in) provided by operating activities:</b> |                                     |                 |
| Deferred income tax provision  | 255                                 | 89              |
| Equity income from foreign joint ventures operations   | (1,458)                             | (771)           |
| Depreciation and amortization  | 186                                 | 220             |
| Stock based compensation   | 197                                 | 104             |
| Provision for bad debt   | 110                                 | 30              |
| Allowance for obsolete inventory   | 8                                   | 8               |
| Gain on sale of property, plant and equipment  |                                     | (13)            |
| Deferred compensation costs  | 33                                  | 1               |
| <b>Change in operating assets and liabilities:</b>   |                                     |                 |
| Accounts receivable  | (1,793)                             | 1,444           |
| Income taxes payable   | 8                                   |                 |
| Inventories  | 422                                 | (25)            |
| Costs and estimated earnings in excess of billings on uncompleted contracts                        | (371)                               | (1,146)         |
| Accounts payable and accrued liabilities   | 276                                 | (184)           |
| Billings in excess of costs and estimated earnings on uncompleted contracts                        | 1,761                               | (818)           |
| Prepaid expenses and other current assets  | (113)                               | (2)             |
| <b>Net cash (used in) provided by operating activities</b>   | <b>1,259</b>                        | <b>(729)</b>    |
| <b>Cash flows from investing activities:</b>   |                                     |                 |
| Purchases of property, plant and equipment and other assets  | (277)                               | (151)           |
| Proceeds from disposal of property, plant and equipment  |                                     | 13              |
| Investment (in) foreign joint ventures operations  |                                     |                 |
| Purchase of intangible assets  |                                     | (104)           |
| <b>Net cash provided from (used in) investing activities</b>                                       | <b>(277)</b>                        | <b>(242)</b>    |
| <b>Cash flows from financing activities:</b>   |                                     |                 |
| Proceeds from issuance of common stock   | 6                                   | 7               |
| Proceeds from sale of preferred stock and warrants   |                                     |                 |
| Treasury stock purchase, in accordance with the employee stock incentive plan                      | (147)                               | (92)            |
| Preferred stock cash dividend  | (75)                                |                 |
| Capital lease obligation payment   | (40)                                | (40)            |
| <b>Net cash (used in) provided by financing activities</b>   | <b>(256)</b>                        | <b>(125)</b>    |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>726</b>                          | <b>(1,096)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>  | <b>4,477</b>                        | <b>3,749</b>    |
| <b>Cash and cash equivalents, end of quarter</b>   | <b>\$ 5,203</b>                     | <b>\$ 2,653</b> |



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### Supplemental disclosures of cash flow information:

|               |    |   |    |    |
|---------------|----|---|----|----|
| Interest paid | \$ | 7 | \$ | 50 |
|---------------|----|---|----|----|

|                   |    |   |    |  |
|-------------------|----|---|----|--|
| Income taxes paid | \$ | 1 | \$ |  |
|-------------------|----|---|----|--|

### Non-cash investing and financing activities:

|  |    |  |    |     |
|--|----|--|----|-----|
| Common stock issuance to acquire intangible assets | \$ |  | \$ | 219 |
|--|----|--|----|-----|

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)

**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 March 31, 2013 and for the three 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 March 31, 2013 and results of operations for the three months ending March 31, 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 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 (Loss) Per Common Share**

Basic earnings per common share is based on the weighted average number of common shares outstanding for the three months ended March 31, 2013 and 2012. Diluted earnings per common 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 per common share (in thousands, except shares and per share data):

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2013                            | 2012      |
| Net income   | \$ 1,653                        | \$ 334    |
| Weighted average basic shares  | 7,949,571                       | 7,857,650 |
| Dilutive effect of convertible preferred stock, stock options and restricted stock units | 1,433,807                       | 636,895   |
| Total weighted average diluted shares with assumed conversions                           | 9,383,378                       | 8,494,545 |
| <b>Earnings per common share:</b>  |                                 |           |
| Basic  | \$ 0.21                         | \$ 0.04   |
| Dilutive   | \$ 0.18                         | \$ 0.04   |

**3. Recent Accounting Pronouncements**

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.

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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.

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The Company follows the guidance prescribed by the Accounting Standard Codification ( 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. Equity income from foreign joint ventures and joint venture management related expenses are considered in the TP&S segment because their operations are exclusively involved in TP&S activities. 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.

The following are selected financial details regarding the Company's reportable segments (in thousands):

|   | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2013</b>                         | <b>2012</b>      |
| <b>Revenue:</b>   |                                     |                  |
| Technical Products and Services   | \$ 10,480                           | \$ 9,823         |
| Electrical and Instrumentation Construction   | 2,528                               | 2,992            |
| American Access Technologies  | 1,422                               | 1,617            |
|   | <b>\$ 14,430</b>                    | <b>\$ 14,432</b> |
| <b>Gross profit:</b>  |                                     |                  |
| Technical Products and Services   | \$ 1,857                            | \$ 1,369         |
| Electrical and Instrumentation Construction   | 908                                 | 202              |
| American Access Technologies  | 215                                 | 201              |
|   | <b>\$ 2,980</b>                     | <b>\$ 1,772</b>  |
| <b>Income (loss) from domestic operations and net equity income from foreign joint ventures operations:</b> |                                     |                  |
| Technical Products and Services   | \$ 1,554                            | \$ 1,100         |
| Electrical and Instrumentation Construction   | 908                                 | 202              |
| American Access Technologies  | (75)                                | (187)            |
| Corporate and other unallocated expenses  | (1,785)                             | (1,314)          |
| Income (loss) from domestic operations  | 602                                 | (199)            |
| Equity income from BOMAY  | 1,001                               | 698              |
| Equity income (loss) from MIEFE   | 20                                  | 10               |
| Equity income (loss) from AAG   | 437                                 | 63               |
| Foreign operations (expenses)   | (51)                                | (100)            |
| Net equity income from foreign joint ventures operations  | 1,407                               | 671              |
| Income (loss) from domestic operations and net equity income from foreign joint ventures operations         | <b>\$ 2,009</b>                     | <b>\$ 472</b>    |

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 general and administrative expenses include compensation costs and other expenses that cannot be meaningfully associated with the individual segments. With the exception of equity

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income from foreign joint ventures operations and joint venture management related expenses, which are associated with TP&S, all other costs, expenses and other income have been allocated to their respective segments.

### **5. Investments in Foreign Joint Ventures**

We have interests in three joint ventures outside of the United States of America ( 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;

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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, 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.

Sales to joint ventures are made on an arms length basis.

Summary financial information of our foreign joint ventures in U.S. dollars was as follows at March 31, 2013 (unaudited) and December 31, 2012 (in thousands):

|                                     | BOMAY             |                  | MIEFE           |                 | AAG             |                 |
|-------------------------------------|-------------------|------------------|-----------------|-----------------|-----------------|-----------------|
|                                     | 2013              | 2012             | 2013            | 2012            | 2013            | 2012            |
| <b>Assets:</b>                      |                   |                  |                 |                 |                 |                 |
| Total current assets                | \$ 107,257        | \$ 91,926        | \$ 4,287        | \$ 3,894        | \$ 3,695        | \$ 2,241        |
| Total non-current assets            | 5,059             | 5,116            | 115             | 116             | 823             | 776             |
| <b>Total assets</b>                 | <b>\$ 112,316</b> | <b>\$ 97,042</b> | <b>\$ 4,402</b> | <b>\$ 4,010</b> | <b>\$ 4,518</b> | <b>\$ 3,017</b> |
| <b>Liabilities and equity:</b>      |                   |                  |                 |                 |                 |                 |
| Total liabilities                   | \$ 85,858         | \$ 73,293        | \$ 1,800        | \$ 1,422        | \$ 2,163        | \$ 1,511        |
| Total joint ventures equity         | 26,458            | 23,749           | 2,602           | 2,588           | 2,355           | 1,505           |
| <b>Total liabilities and equity</b> | <b>\$ 112,316</b> | <b>\$ 97,042</b> | <b>\$ 4,402</b> | <b>\$ 4,010</b> | <b>\$ 4,518</b> | <b>\$ 3,016</b> |

|          | Three Months Ended March 31, |           |          |          |          |          |
|----------|------------------------------|-----------|----------|----------|----------|----------|
|          | BOMAY                        |           | MIEFE    |          | AAG      |          |
|          | 2013                         | 2012      | 2013     | 2012     | 2013     | 2012     |
| Revenue  | \$ 33,509                    | \$ 23,017 | \$ 2,667 | \$ 2,894 | \$ 3,485 | \$ 1,514 |
| Earnings | \$ 2,502                     | \$ 1,746  | \$ 48    | \$ 20    | \$ 891   | \$ 129   |

The following is a summary of activity in investments in foreign joint ventures for the three months ended March 31, 2013, (unaudited) (in thousands):

|   | BOMAY*           | March 31, 2013  |                 | TOTAL            |
|---|------------------|-----------------|-----------------|------------------|
|   |                  | MIEFE           | AAG             |                  |
| <b>Investments in foreign joint ventures:</b>               |                  |                 |                 |                  |
| Balance at December 31, 2012                                | \$ 9,531         | \$ 1,063        | \$ 814          | \$ 11,408        |
| Equity in earnings (loss) in 2013                           | 1,001            | 20              | 437             | 1,458            |
| Dividend distributions in 2013                              |                  |                 |                 |                  |
| Foreign currency translation adjustment                     | 57               | (15)            | 5               | 47               |
| <b>Investments, end of period</b>                           | <b>\$ 10,589</b> | <b>\$ 1,068</b> | <b>\$ 1,256</b> | <b>\$ 12,913</b> |
| <b>Components of investments in foreign joint ventures:</b> |                  |                 |                 |                  |
| Investment in joint ventures                                | \$ 2,033         | \$ 15           | \$ 233          | \$ 2,281         |
| Undistributed earnings                                      | 7,401            | 774             | 1,098           | 9,273            |

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|                              |           |          |          |           |
|------------------------------|-----------|----------|----------|-----------|
| Foreign currency translation | 1,155     | 279      | (75)     | 1,359     |
| Investments, end of period   | \$ 10,589 | \$ 1,068 | \$ 1,256 | \$ 12,913 |

\* Accumulated statutory reserves in equity method investments of \$1.9 million at March 31, 2013 and \$1.6 million at December 31, 2012 are included in AETI's consolidated retained earnings. In accordance with the People's Republic of China, ( PRC ), regulations on enterprises with foreign operations, an enterprise established in the PRC with foreign operations 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.

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Under the equity method, the Company's share of the 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 March 31, 2013 and December 31, 2012 there was \$0.5 million of borrowings outstanding. There was additional borrowing capacity of \$8.9 million at March 31, 2013.

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 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 plus 3.25% per annum and 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. On May 1, 2012 the Company and Chase executed a consent and amendment to the credit agreement to allow for the \$5.0 million convertible preferred stock transaction as discussed in Note 10.

**7. Inventories**

Inventories consisted of the following at March 31, 2013 (unaudited) and December 31, 2012 (in thousands):

|                   | March 31, 2013 | December 31, 2012 |
|-------------------|----------------|-------------------|
|                   | (in thousands) |                   |
| Raw materials     | \$ 1,631       | \$ 1,596          |
| Work-in-process   | 2,725          | 3,173             |
| Finished goods    | 1,052          | 1,052             |
|                   | 5,408          | 5,821             |
| Less: Allowance   | (213)          | (205)             |
| Total inventories | \$ 5,195       | \$ 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. 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 13% and 21% because of the mix of US income or loss and foreign equity income.

**9. Fair Value of Financial Instruments and Fair Value Measurements**



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

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.

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.

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### **10. Redeemable Convertible Preferred Stock**

On April 13, 2012, the Company signed a securities purchase agreement (the "Securities Purchase Agreement") with a private investor for the sale (the "Preferred Stock Financing") of 1,000,000 shares of the Company's Series A Convertible Preferred Stock (the "Series A Convertible Preferred Stock") at \$5.00 per share and 325,000 warrants to purchase shares of the Company's common stock expiring in May 2020. The Series A Convertible Preferred Stock shares are initially convertible into 1,000,000 shares of the Company's common stock at a conversion price of \$5.00 per share. The warrants were issued in two tranches with 125,000 of such warrants at an initial exercise price of \$6.00 per share and 200,000 of such warrants at an initial exercise price of \$7.00 per share. On May 2, 2012, the Company completed the issuance of the Series A Convertible Preferred Stock and warrants.

On April 30, 2012, the Company filed an Articles of Amendment to its Articles of Incorporation designating 1,000,000 shares of the Company's authorized preferred stock as Series A Convertible Preferred Stock. The Company also entered into a Registration Rights Agreement and Investor Rights Agreement with the private investor.

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. The Company may pay such dividends in shares of the Company's common stock based on the then current market price of the common stock. At any time following a material default by the Company, as defined in the Securities Purchase Agreement, or April 30, 2017, the holders of a majority of the outstanding shares of the Series A Convertible Preferred Stock may require the Company to redeem the Series A Convertible Preferred Stock at a redemption price equal to the lesser of (i) the liquidation preference per share (initially \$5.00 per share, subject to adjustments for certain future equity transactions defined in the Securities Purchase Agreement) and (ii) the fair market value of the Series A Convertible Preferred Stock per share, as determined in good faith by the Company's Board of Directors. The redemption price, plus any accrued and unpaid dividends, shall be payable in 36 equal monthly installments plus interest at an annual rate of 6%.

On May 1, 2012, the Company and Chase executed a consent and amendment to our revolving credit agreement, whereby Chase as lender agreed to consent to the Securities Purchase Agreement; the issuance and sale of the Series A Convertible Preferred Stock and warrants; the payment of the preferred dividends required; and the redemption of the Series A Convertible Preferred Stock, all subject to the terms and conditions set forth in the agreements and the associated Amended Articles of Incorporation.

### **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 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 intended 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.

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### **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;

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.

### **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

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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, tankers

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.

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.

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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.

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

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expected to be complete in 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.

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### 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**

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 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.

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** We regularly review the value of inventory on hand using specific aging categories, and record 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

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excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenue recognized.



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**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.

**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 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.

**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):

|   | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2013</b>                         | <b>2012</b>      |
| <b>Revenue:</b>                             |                                     |                  |
| Technical Products and Services             | \$ 10,480                           | \$ 9,823         |
| Electrical and Instrumentation Construction | 2,528                               | 2,992            |
| American Access Technologies                | 1,422                               | 1,617            |
|   | <b>\$ 14,430</b>                    | <b>\$ 14,432</b> |
| <b>Gross profit:</b>                        |                                     |                  |
| Technical Products and Services             | \$ 1,857                            | \$ 1,369         |
| Electrical and Instrumentation Construction | 908                                 | 202              |
| American Access Technologies                | 215                                 | 201              |
|   | <b>\$ 2,980</b>                     | <b>\$ 1,772</b>  |

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| <b>Operating Income (loss) from domestic operations and net equity in foreign joint ventures operations:</b> |          |          |
|--|----------|----------|
| Technical Products and Services  | \$ 1,554 | \$ 1,100 |
| Electrical and Instrumentation Construction  | 908      | 202      |
| American Access Technologies   | (75)     | (187)    |
| Corporate and other unallocated expenses   | (1,785)  | (1,314)  |
| Income (loss) from domestic operations   | 602      | (199)    |
| Equity income from BOMAY   | 1,001    | 698      |
| Equity income /(loss) from MIEFE   | 20       | 10       |
| Equity income /(loss) from AAG   | 437      | 63       |
| Foreign operations expenses  | (51)     | (100)    |
| Net equity income from foreign joint ventures operations   | 1,407    | 671      |
| Income (loss) from domestic operations and net equity income from foreign joint ventures operations          | \$ 2,009 | \$ 472   |

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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. With the exception of equity income from foreign joint ventures operations and foreign operations expenses, which are attributable to TP&S, 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-GAAP Financial Measures**

A non-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 GAAP measure. In this report, we define and use the non-GAAP financial measure EBITDA as set forth below.

#### ***EBITDA***

##### *Definition of 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 mandatorily redeemable preferred stock.

##### *Management's Use of EBITDA*

We use EBITDA to assess our overall financial and operating performance. We believe this non-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.

EBITDA provides us with a measure of financial performance, independent of items that are beyond the control of management in the short-term, such as dividends required on preferred stock, depreciation and amortization, taxation and interest expense associated with our capital structure. This metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. EBITDA is one of the metrics used by senior management and the board of directors to review the financial performance of the business on a regular basis. EBITDA is also used by research analysts and investors to evaluate the performance of and value companies in our industry.

**Table of Contents***Limitations of EBITDA*

EBITDA has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of earnings. Material limitations in making the adjustments to our earnings to calculate EBITDA, and using this non-GAAP financial measure as compared to GAAP net income (loss), include:

the cash portion of dividends and interest expense and income tax (benefit) provision generally represent charges (gains), which may significantly affect our financial results; and

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our fixed assets and may be indicative of future needs for capital expenditures.

An investor or potential investor may find this item important in evaluating our performance, results of operations and financial position. We use non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

EBITDA is not an alternative to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with GAAP. You should not rely on EBITDA as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of EBITDA to GAAP net income (loss) attributable to common stockholders, along with our condensed consolidated financial statements included herein.

We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, the EBITDA measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

The table below shows the reconciliation of Net income (loss) attributable to common stockholders to EBITDA for the three months ended March 31, 2013 and 2012 (dollars in thousands):

|   | <b>Three Months<br/>ended March 31,</b> |               |
|---|---|---------------|
|   | <b>2013</b>                             | <b>2012</b>   |
| Net Income (loss) attributable to common Stockholders     | \$ 1,653                                | \$ 334        |
| Add: Dividends on redeemable convertible preferred stocks | 85                                      |               |
| Depreciation and Amortization                             | 186                                     | 220           |
| Interest expense and other, net                           | 16                                      | 49            |
| Provision (benefit) for income taxes                      | 255                                     | 89            |
| <b>EBITDA</b>   | <b>\$ 2,195</b>                         | <b>\$ 692</b> |

**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 12. This information is supplemental and provided to allow investors to follow our future success at marketing to various customer groups.

**For the Three Months Ended March 31, 2013**

(in thousands)

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|                              | Oil & Gas | Power Generation & Distribution | Marine & Other Industrial | Total     |
|------------------------------|-----------|---------------------------------|---------------------------|-----------|
| Revenue                      | \$ 9,081  | \$ 482                          | \$ 4,867                  | \$ 14,430 |
| Gross Profit                 | 1,954     | 101                             | 925                       | 2,980     |
| Gross Profit as % of Revenue | 21.52%    | 21.03%                          | 19.0%                     | 20.7%     |

**Three Months Ended March 31, 2013 as Compared with the Three Months Ended March 31, 2012**

**Consolidated revenues** were essentially unchanged at \$14.3 million for the quarter ended March 31, 2013 from the comparable period in 2012. The TP&S segment's revenue increase of \$0.7 million or 7% was offset by decreases in other segments. The TP&S's strong revenue growth is primarily due to increased demand for its technical products related to the increasing oil and gas related activity.

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**Consolidated gross profit** for the quarter was \$3.0 million. The consolidated gross profit improved by \$1.2 million compared to the prior year's first quarter. This increase was mainly attributable to the TP&S segment's increased revenue and higher margins in both TP&S and E&I segments compared to the same period in 2012, reflecting increased focus on oil and gas projects and winding down of remaining water/wastewater construction projects.

### ***Segment Comparisons***

**The TP&S segment's** revenue increased \$0.7 million from \$9.8 million for the quarter ended March 31, 2012, to \$10.5 million for the quarter ended March 31, 2013, a 7% improvement which reflects the continued increase in the oil and gas market. Gross profit for the segment for the quarter ended March 31, 2013 was \$1.9 million, an increase of \$0.5 million over the quarter ended March 31, 2012.

**The E&I segment** reported revenue of \$2.5 million for the quarter ended March 31, 2013, a decrease of \$0.5 million, or 16%, from the quarter ended March 31, 2012, which primarily reflects a decrease in the water/wastewater construction industries partially offset by the increased revenue from industrial projects. Gross profit for the E&I segment during the quarter ended March 31, 2013 was \$0.9 million, an improvement of \$0.7 million over the prior year's first quarter results due to mix of projects moving to those with higher margins.

**The AAT segment** reported revenue of \$1.4 million for the quarter ended March 31, 2013, down \$0.2 million from the comparable prior year period, a 12% decrease. Gross profit improved by \$0.02 million for the quarter ended March 31, 2013, from \$0.2 million in the prior year quarterly period. Gross profit as a percentage of net revenue increased to 15% for the quarter ended March 31, 2013 from 12% in the comparable 2012 quarterly period. This segment continues to be challenged by competitive pricing and foreign competition.

**Research and development costs** for the quarter ended March 31, 2013 were up to \$0.2 million from \$0.03 million for the quarter ended March 31, 2012, most all of which relate to the continued development of the Company's drilling controls systems.

**Selling and marketing expenses** for the quarter ended March 31, 2013 were \$0.65 million compared to the quarter ended March 31, 2012 of \$0.7 million. This small decrease is primarily attributable to timing of costs related to marketing and trade shows.

**General and administrative expenses** were up for the quarter ended March 31, 2013 over the same period in 2012 by \$0.3 million due to an increase in the Company's employee stock compensation and bonus expenses as well as salary increases.

**Net equity income from foreign joint ventures' operations** increased for the quarter ended March 31, 2013 by \$0.7 million to \$1.5 million as compared to the quarter ended March 31, 2012. The increase was driven by continued joint venture's earnings growth from oil and gas business in China and Brazil as major projects were completed.

**Interest expense and other, net** was \$16K for the quarter ended March 31, 2013, a decrease of \$33K from the comparable 2012 quarter. The decrease primarily resulted from a decrease in interest expense on lower outstanding debt balances.

**The provision for (benefit from) income taxes** for the quarter ended March 31, 2013 was an expense of \$255K which reflects the provision for taxes on the increased foreign joint venture equity earnings based on the annual estimated foreign joint venture equity earnings, net of dividends compared to an expense of \$89K in the 2012 comparable quarter. This increase was primarily caused by the improved foreign earnings.

### **Backlog**

The Company's backlog as of March 31, 2013 was \$28.4 million compared to \$15.5 million at December 31, 2012. The backlog for the TP&S segment was approximately \$25.0 million as of March 31, 2013, an increase of approximately \$10.1 million as compared to that backlog at December 31, 2012. The backlog is expected to be realized as revenue during the remainder of the fiscal year.

The backlog for the E&I segment was approximately \$3.4 million as of March 31, 2013, an increase of \$2.8 million as compared to the backlog at December 31, 2012. The backlog is expected to be primarily realized as revenue during the remainder of the fiscal year.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

|   | March 31, 2013<br>(in thousands except percentages and ratios) | December 31, 2012 |
|---|--|-------------------|
| Working capital                           | \$12,699   | \$12,239          |
| Current ratio                             | 2.1 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 March 31, 2013 and December 31, 2012, there were \$0.5 million of borrowings outstanding and at March 31, 2013, there was additional borrowing capacity of \$8.9 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 (0.2% at March 31, 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 8 notes payable to the consolidated financial statement for more information on this facility.

**Operating Activities**

During the three months ended March 31, 2013, the Company provided cash of \$1.3 million from operations as compared to using \$0.7 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 \$0.7 million for the three months ended March 31, 2012 and for the current quarter in 2013 the change in working capital generated \$0.2 million. The increase in cash generated from working capital is a result of reduced inventory levels and increased billings resulting from the increase in product demand, primarily in TP&S.

**Investing Activities**

During the three months ended March 31, 2013, the Company utilized \$0.3 million in cash for investing activities compared to \$0.2 million for the comparable period in 2012. The increase in 2013 is mainly attributable to the construction at the manufacturing facility at Beaumont new manufacturing equipment and computer software.

**Financing Activities**

During the three months ended March 31, 2013, the Company utilized \$0.3 million in cash from financing activities as compared to \$0.1 million for the comparable period in 2012. The cash utilized for the quarter ended March 31, 2013 was \$0.15 million for the purchase of treasury shares in accordance with the employee stock incentive plan and preferred dividend of \$0.08 million.

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.





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**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 March 31, 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 (0.20% at March 31, 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 quarter this item increased from \$900K at December 31, 2012 to \$931K at March 31, 2013 due principally to 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 March 31, 2013. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures were effective as of March 31, 2013.

There were no changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**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 March 31, 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.LAB     | XBRL Taxonomy Extension Labels Linkbase Document.*  |
| 101.PRE     | XBRL Taxonomy 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 purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act), or otherwise subject to the 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 Act, except as shall be expressly set forth by specific reference in such filing.



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**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: May 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)