ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES INC
Form 10-Q
May 11, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011
OR

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

Commission File Number 1-10367

Advanced Environmental Recycling Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	71-0675758 (I.R.S. Employer Identification No.)
914 N. Jefferson Street Springdale, Arkansas (Address of principal executive offices)	72764 (Zip Code)

(479) 756-7400
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [ ] Accelerated filer [ ]
Non-accelerated filer [ ] Smaller reporting company [x]

(Do not check if a 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 [x]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 10, 2011, the number of shares outstanding of the Registrant's Class A common stock, which is the class registered under the Securities Exchange Act of 1934, was 87,515,632 and the number of shares outstanding of the Registrant's Class B Common Stock was 1,465,530.

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

Form 10-Q Index

PART I — FINANCIAL INFORMATION

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

BALANCE SHEETS
(in thousands)

Assets	December 31, 2010	March 31, 2011 (unaudited)
Current assets:		
Cash	$ 1,655	$ 557
Restricted cash	866	249
Trade accounts receivable, net of allowance of $110 at December 31, 2010 and $240 at March 31, 2011	2,497	2,180
Inventories	8,169	8,369
Prepaid expenses	645	637
Total current assets	13,832	11,992
Land, buildings and equipment:		
Land	1,989	1,989
Buildings and leasehold improvements	17,802	17,802
Machinery and equipment	52,232	52,498
Transportation equipment	757	757
Office equipment	2,260	2,260
Construction in progress	459	607
Total land, buildings and equipment	75,499	75,913
Less accumulated depreciation	39,635	41,035
Net land, buildings and equipment	35,864	34,878
Other assets:		
Debt issuance costs, net of accumulated amortization of $1,748 at December 31, 2010 and $5 at March 31, 2011	2,731	696
Debt service reserve fund	43	-
Other assets	1,017	976
Total other assets	3,791	1,672
Total assets	$ 53,487	$ 48,542

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

BALANCE SHEETS
(in thousands, except share and per share data)

Liabilities and Stockholders' Deficit	December 31, 2010	March 31, 2011 (unaudited)
Current liabilities:		
Accounts payable – trade	$ 11,711	$ 4,887
Accounts payable – related parties	1,510	818
Current maturities of long-term debt	7,622	231
Current maturities of capital lease obligations	203	206
Accruals related to expected settlement of class action lawsuit	5,079	4,560
Other accrued liabilities	6,586	4,085
Working capital line of credit	7,829	7,729
Notes payable	2,045	126
Total current liabilities	42,585	22,642
Long-term debt, less current maturities	23,313	19,885
Capital lease obligations, less current maturities	199	146
	23,512	20,031
Accrued dividends on convertible preferred stock	1,739	48
Series E convertible preferred stock, $0.01 par value; 30,000 shares authorized, 0 shares issued		
and outstanding at December 31, 2010 and 20,524 shares issued and outstanding		
at March 31, 2011	-	20,524
Stockholders' deficit:		
Convertible preferred stock, $0.01 par value; 5,000,000 shares authorized, 748,772 shares		
issued and outstanding at December 31, 2010 and 0 shares issued and outstanding at March 31, 2011;		
aggregate liquidation preference of $19,768 at December 31, 2010	7	-
Class A common stock, $0.01 par value; 125,000,000 shares authorized; 48,800,531		
shares issued and outstanding at December 31, 2010 and 87,463,907 shares issued and outstanding at March 31, 2011	488	875
Class B convertible common stock, $0.01 par value; 7,500,000 shares authorized;		
1,465,530 shares issued and outstanding at December 31, 2010 and March 31, 2011	15	15
Warrants outstanding; 3,787,880 at December 31, 2010	1,533	-
Additional paid-in capital	53,209	53,247
Accumulated deficit	(69,601)	(68,840)
Total stockholders' deficit	(14,349)	(14,703)
Total liabilities and stockholders' deficit	$ 53,487	$ 48,542

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

2

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2010	2011
Net sales	$ 16,391	$ 15,017
Cost of goods sold	13,237	12,911
Gross margin	3,154	2,106
Selling and administrative costs	2,648	3,023
Gain from fixed asset disposition	(1)	-
Operating income (loss)	507	(917)
Other income (expense):		
Gain on recapitalization	-	2,745
Other income	-	5
Net interest expense	(706)	(892)
Income (loss) before dividends	(199)	941
Dividends on preferred stock	(198)	(180)
Net income (loss) applicable to common stock	$ (397)	$ 761
Income (loss) per share of common stock (basic and diluted)	$ (0.01)	$ 0.01
Weighted average common shares outstanding (basic and diluted)	49,571,084	56,280,363

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Three Months Ended March 31,	
	2010	2011
Cash flows from operating activities:		
Net income (loss) applicable to common stock	$ (397)	$ 761
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on recapitalization	-	(2,745)
Depreciation and amortization	1,346	1,420
Dividends on preferred stock	198	180
Gain from fixed asset disposition	(1)	-
Increase in accounts receivable allowance	54	130
Changes in other assets	59	(2,305)
Changes in current assets and current liabilities	1,733	(4,389)
Net cash provided by (used in) operating activities	2,992	(6,948)
Cash flows from investing activities:		
Change in restricted cash	-	371
Purchases of land, buildings and equipment	(1,849)	(415)
Proceeds from disposition of equipment	1	-
Net cash used in investing activities	(1,848)	(44)
Cash flows from financing activities:		
Net borrowing (payments) on line of credit	-	(100)
Payments on notes	(238)	(46)
Payments on capital lease obligations	(61)	(49)
Proceeds from issuance of notes	-	5,843
Increase in cash restricted for financing activities	-	246
Net cash provided by (used in) financing activities	(299)	5,894
Increase (decrease) in cash	845	(1,098)
Cash, beginning of period	243	1,655
Cash, end of period	$ 1,088	$ 557

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

NOTES TO FINANCIAL STATEMENTS

Note 1: Unaudited Information

Advanced Environmental Recycling Technologies, Inc. (the Company or AERT) has prepared the financial statements included herein without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). However, all adjustments have been made to the accompanying financial statements which are, in the opinion of the Company's management, necessary for a fair presentation of the Company's operating results with the exception of the adjustments to report the recapitalization transactions described in Note 8, all adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented herein not misleading. It is recommended that these financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K.

Note 2: Description of the Company

Advanced Environmental Recycling Technologies, Inc. (AERT or the Company), founded in 1988, recycles polyethylene plastic and develops, manufactures, and markets composite building materials that are used in place of traditional wood or plastic products for exterior applications in building and remodeling homes and for certain other industrial or commercial building purposes. The Company's products are made primarily from approximately equal amounts of waste wood fiber, which has been cleaned, sized and reprocessed, and recycled polyethylene plastics which have been cleaned, processed, and reformulated utilizing our patented and proprietary technologies. Its products have been extensively tested, and are sold by leading national companies such as BlueLinx Corporation (BlueLinx), Lowe's Companies, Inc. (Lowe's) and Therma-Tru Corporation. The Company's products are primarily used in renovation and remodeling by consumers, homebuilders, and contractors as an exterior green (environmentally responsible) building alternative for decking, railing, and trim products.

On May 13, 2010, the Company changed its distributor for ChoiceDek® products from Weyerhaeuser Company, previously its largest customer, to BlueLinx. The change came primarily as a result of Weyerhaeuser's decision to transition away from non-lumber products. All ChoiceDek® products are sold by the distributor exclusively to Lowe's.

The Company currently manufactures all of its composite products at extrusion facilities in Springdale, Arkansas. The Company operates a plastic recycling, blending and storage facility in Lowell, Arkansas, where it also leases warehouses and land for inventory storage. In February 2010, the Company commenced operations at its Watts, Oklahoma recycling facility, which currently recycles polyethylene plastic scrap in order to reduce the Company's costs of recycled plastics. The Company expects to also use the Watts facility to recycle plastic for sales to third parties in the future.

Note 3: Statements of Cash Flows

In order to determine net cash provided by (used in) operating activities, net loss has been adjusted by, among other things, changes in current assets and current liabilities, excluding changes in cash, current maturities of long-term debt and current notes payable. Those changes, shown as an (increase) decrease in current assets and an increase (decrease) in current liabilities, are as follows for the three months ended March 31 (in thousands):

	2010 (unaudited)	2011 (unaudited)
Receivables	$ 1,840	$ 187

Inventories	(1,093)	(200)
Prepaid expenses and other	385	8
Accounts payable – trade and related parties	950	(5,051)
Accrued liabilities	(349)	667
	$ 1,733	$ (4,389)
Cash paid for interest, net of amounts capitalized of $260 in 2010 and $0 in 2011	$ 215	$ 211

Supplemental Disclosures of Non-cash Investing and Financing Activities (in thousands):

	March 31, 2010 (unaudited)	March 31, 2011 (unaudited)
Forgiven related party loan guarantee fees	$ -	$ 731
Dividends on preferred stock transferred to equity	-	1,870
Accrued interest exchanged for equity	-	3,368
Notes payable exchanged for equity	-	18,535
Note payable for financing insurance	-	98

Note 4: Significant Accounting Policies

Revenue Recognition Policy

The Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable and collectability is reasonably assured. The Company typically recognizes revenue at the time product is shipped or when segregated and billed under a bill and hold arrangement. Sales are recorded net of discounts, rebates and returns, which were $1.6 million and $0.7 million for the quarters ended March 31, 2010 and 2011, respectively. The decrease from 2010 was due to the replacement of our discontinued style of handrail with an updated handrail product line in 2010 and return of the discontinued product.

Estimates of expected sales discounts are calculated by applying the appropriate sales discount rate to all unpaid invoices that are eligible for the discount. The Company's sales prices are determinable given that its sales discount rates are fixed and given the predictability with which customers take sales discounts.

Shipping and Handling

The Company records shipping fees billed to customers in net sales and records the related expenses in cost of goods sold.

Inventories

Inventories are stated at the lower of cost or market. Material, labor, and factory overhead necessary to produce the inventories are included in their cost. Inventories consisted of the following (in thousands):

	Dec 31, 2010	March 31, 2011 (unaudited)
Parts and supplies	$ 1,188	$ 1,257
Raw materials	3,462	3,510
Work in process	1,310	1,372
Finished goods	2,209	2,230
	$ 8,169	$ 8,369

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management has the responsibility to determine the fair value of each of the securities issued in connection with the Company's recapitalization. Management has considered their fair values and has preliminarily assigned the stated face value of the Series A and B notes payable; management has also assigned the stated (liquidation) value as the fair value estimate of the Series E preferred stock. Management plans to complete these fair value assessments in the coming quarter. As a result, the fair value estimates currently assigned to these securities are subject to change.

Concentration Risk

The Company's revenues are derived principally from national and regional building products distributors and BlueLinx, the Company's primary decking customer. The ChoiceDek® brand of decking products sold to BlueLinx are in turn sold exclusively to Lowe's. BlueLinx is also one of the Company's MoistureShield® decking customers. The Company extends unsecured credit to its customers. The Company's concentration in the building materials industry has the potential to impact its exposure to credit risk because changes in economic or other conditions in the construction industry may similarly affect the Company's customers. The Company derived most of its revenue prior to May 2010 from Weyerhaeuser, its distributor of ChoiceDek® products prior to the change to BlueLinx. Since the change, the Company has derived most of its revenue from BlueLinx.

Share-Based Payments

The Company measures the cost of employee and director services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes that cost in the financial statements. Compensation cost is recognized as the awards vest. Since 2005, the Company has used restricted stock awards as its exclusive form of stock-based compensation. On March 18, 2011, with the change of control, all stock awards were vested.

Note 5: Income Taxes

As of March 31, 2011, the Company had net operating loss carryforwards that are available to eliminate taxable income for the quarter ended March 31, 2011 and reduce future taxable income. The net operating loss carryforwards will expire in 2011 through 2029, if not utilized. As there is insufficient certainty that the Company will be able to generate adequate future taxable income to enable it to realize its net operating loss carryforwards prior to expiration, the Company carries a valuation allowance to recognize its deferred tax assets only to the extent of its deferred tax liabilities. As a result, no income tax provision has been recorded for the quarter ended March 31, 2011.

Based upon a review of its income tax filing positions, the Company believes that its positions would be sustained upon an audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. The Company recognizes interest related to income taxes as interest expense and penalties as operating expenses.

The Company is no longer subject to income tax examinations by tax authorities for years before 2007, except in the State of Texas, for which the 2006 tax year is still subject to examination. The Company is not currently the subject of any income tax examinations by any tax authorities.

Note 6: Earnings Per Share

When applicable, the Company provides dual presentation of basic and diluted earnings per shares (EPS) on the face of the statements of operations, and provides a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

In computing diluted EPS, only potential common shares that are dilutive — those that reduce earnings per share or increase loss per share — are included. The exercise of options and warrants or conversion of convertible securities is not assumed if the result would be antidilutive, such as when a loss from continuing operations is reported. As a result, if there is a loss from continuing operations, diluted EPS would be computed in the same manner as basic EPS is computed, even if an entity has net income after adjusting for discontinued operations, an extraordinary item or the cumulative effect of an accounting change.

Although not included in a diluted EPS calculation due to being antidilutive, the Company had potentially dilutive securities outstanding at March 31, 2010 and 2011. The following schedule presents antidilutive securities for the quarters ended March 31, 2010 and 2011:

	2010	2011
Options	1,174,000	649,000
Warrants	3,787,880	-
Restricted common stock	1,457,341	-
Series D preferred stock	7,487,720	-
Series E preferred stock	-	273,655,322

Although these financial instruments were not included due to being antidilutive, such financial instruments may become dilutive and would then need to be included in future calculations of diluted EPS.

Note 7: Debt

Line of Credit

The maturity date of the Company's line of credit agreement with Liberty Bank of Arkansas was extended multiple times in 2010, and again in 2011 to a maturity date of March 15, 2012. The Company is currently working to restructure or replace the line, which had a balance of $7.7 million at March 31, 2011. The line is secured by inventory, accounts receivable, chattel paper, general intangibles and other current assets, as well as by fixtures and equipment, and bears an interest rate that was reduced in October 2010 from 9% to 7.5%. The full amount of the line is guaranteed as to payment by Marjorie Brooks, by Joe Brooks, the Company's chairman and chief executive officer, and by Steve Brooks, the Company's chief operating officer. Mrs. Brooks is collateralized by a subordinate lien on all of our assets subject to certain priority liens, and receives a fee as compensation for her guaranty.

The line of credit facility includes a debt service coverage ratio, current ratio, accounts payable, debt to equity ratio, and accounts receivable aging covenants, and customary restrictions on dividends and the incurrence of additional debt or liens, among other matters. The Company has not been in compliance with certain covenants. However, in connection with the recapitalization described below, Liberty Bank agreed that it would not declare an event of default or make a demand for payment through November 30, 2011.

Note 8: Recapitalization

On March 18, 2011, the Company consummated related recapitalization transactions (the "Transactions") with H.I.G. AERT, L.L.C., an affiliate of H.I.G. Capital L.L.C. ("H.I.G.") and with other existing preferred stockholders, pursuant to which, among other things, H.I.G. exchanged $32,620,816 of its secured debt in the Company, including interest accrued through March 17, 2011, for a combination of new debt and equity. Prior to the consummation of the Transactions, H.I.G. was the sole owner of four distinct obligations representing the Company's debt: (i) $6,806,656 of principal plus accrued interest owed under that certain Promissory Note, dated July 1, 2009, issued by the Company in favor of H.I.G.; (ii) $13,281,084 of principal plus accrued interest owed under the Adair County Industrial Authority Solid Waste Recovery Facilities Revenue Bonds issued in 2007; (iii) $10,436,409 of principal plus accrued interest owed under the City of Springdale Arkansas, Industrial Development Refunding Revenue Bonds issued in 2008; and (iv) $2,096,667 of principal plus accrued interest owed under the Secured Promissory Note ("2010 Note") issued on December 20, 2010. Items (i)-(iv) above are collectively referred to herein as the "Prior Debt." Stephens, Inc. was retained by the Company before finalization of H.I.G. recapitalization to issue a fairness opinion.

In connection with the consummation of the Transactions, the Company entered into a Securities Exchange Agreement with H.I.G. (the "Exchange Agreement"), and a Credit Agreement with H.I.G. (the "Credit Agreement"), each dated March 18, 2011. Pursuant to the Exchange Agreement and the Credit Agreement, in exchange for the Prior Debt and H.I.G. making approximately $6.9 million in additional new capital available to the Company, H.I.G. was issued (i) a Series A Term Note ("Series A Note") in the aggregate principal amount of $10,000,000, (ii) a Series B

Senior Term Note (“Series B Note”, and collectively with the Series A Note, the “Notes”) in the aggregate principal amount of $9,000,000 (or such lesser amount as is actually borrowed thereunder), and (iii) 20,524.149 shares of Series E Convertible Preferred Stock, par value $0.01 per share, of the Company (the “Series E Preferred Stock”). As a result, upon consummation of the Transactions (including the Series D Exchange Agreement described hereunder), H.I.G. holds $17,596,667 outstanding principal amount of senior secured debt of the Company and owns approximately 80% of the outstanding common equity securities of the Company on a fully diluted, as converted basis. Pursuant to the Exchange Agreement, until such time as H.I.G. no longer owns at least 20% of the Company’s outstanding Common Stock on a fully diluted basis, H.I.G. has the right to purchase securities in any subsequent issuance or sale of securities by the Company in an amount equal to the greater of (i) H.I.G.’s ownership percentage as of the business day prior to its receipt of notice of the proposed issuance or sale by the Company or (ii) 51%.

Notes Payable

Pursuant to the Credit Agreement, the Company issued to H.I.G. the Notes, which are secured by a grant of a security interest in all of the Company's assets in accordance with the terms of a Security Agreement, Patent Security Agreement, Copyright Security Agreement and Trademark Security Agreement, each dated March 18, 2011. The Series A Note matures six years after the closing of the Transactions (the "Closing") and, at the Company's option, either (i) bears cash interest at 8.0% per annum or (ii) bears cash interest at 4.0% per annum, plus a rate of interest equal to 4.0% per annum payable in kind and added to the outstanding principal amount of the Series A Note (with the latter option only being available for the first 24 months following the Closing, after which the Series A Note will bear cash interest at 8.0% per annum). H.I.G. and Liberty Bank of Arkansas ("Liberty") concurrently entered into an Amended Intercreditor Agreement pursuant to which H.I.G. has priority vis-a-vis Liberty with respect to its lien on all assets of the Company other than inventory, accounts receivable, deposit accounts, and receipts, revenues, cash and income derived from such inventory and accounts receivable and certain real estate, and Liberty has priority vis-à-vis H.I.G. with respect to its lien on all inventory, accounts receivable, deposit accounts, and receipts, revenues, cash and income derived from such inventory and accounts receivable and certain real estate.

Upon the Closing, H.I.G. converted the $2,000,000 principal amount of the 2010 Note and accrued interest thereon into borrowings under the Series B Note. In addition, an additional $5,500,000 was funded and drawn under the Series B Note at Closing. The remaining principal balance is available to be drawn down from time to time in the future upon request by the Company, subject to H.I.G.'s approval in its sole discretion. The Series B Note matures six years after the Closing and, at the Company's option, either (i) bears cash interest at 10.0% per annum or (ii) bears cash interest at 4.0% per annum, plus a rate of interest equal 6.0% per annum payable in kind and added to the outstanding principal amount of the Series B Term Note. The Series B Note ranks pari passu to the Series A Note.

The Credit Agreement contains provisions requiring mandatory payments upon the Notes equal to 50% of the Company's "Excess Cash Flow" (as defined in the Credit Agreement) and equal to 100% of proceeds from most non-ordinary course asset dispositions, additional debt issuances or equity issuances (subject to certain exceptions in each case or as H.I.G. otherwise agrees), and contains covenant restrictions on the incurrence of additional debt, liens, leases or equity issuances (subject to certain exceptions in each case or as H.I.G. otherwise agrees).

Guaranty Agreement

In connection with the execution of the Credit Agreement, Marjorie S. Brooks entered into a Second Amended and Restated Guaranty Agreement in favor of H.I.G., dated March 18, 2011 (the "H.I.G. Guaranty"), pursuant to which Mrs. Brooks agreed to guarantee the Company's obligations under the Credit Agreement up to a maximum guaranteed amount of $6,000,000 (plus certain potential expenses), replacing a prior guaranty Mrs. Brooks had agreed to with respect to certain of the Prior Debt. In consideration for Mrs. Brooks entering into the H.I.G. Guaranty and continuing to perform her obligations under a January 16, 2006 Guaranty Agreement, as amended, in favor of Liberty (the "Liberty Guaranty"), the Company entered into a Guaranty Fee Agreement with Mrs. Brooks, dated March 18, 2011 (the "Guaranty Fee Agreement"), pursuant to which the Company agreed to pay to Mrs. Brooks (i) for as long as the Liberty Guaranty remains in effect, a guaranty fee equal to 4.0% per annum multiplied by the average daily balance of the Company's obligations under its Loan Agreement with Liberty, as amended, for the month in which the fee is calculated, and (ii) for so long as the H.I.G. Guaranty remains in effect, a guaranty fee equal to 4.0% per annum multiplied by the lesser of $6,000,000 and the average daily balance of the Company's outstanding obligations under the Credit Agreement for the month in which the fee is calculated. The Company also agreed to pay Mrs. Brooks $313,124 at a later date in full satisfaction of previously accrued and unpaid guaranty fees, subject to the terms and conditions set forth in the Guaranty Fee Agreement. Previously accrued loan guarantee fees of $731,000 payable to Mrs. Brooks were cancelled in connection with the restructuring transaction.

Advisory Services Agreement

The Company also on March 18, 2011 entered into an Advisory Services Agreement between H.I.G. Capital, L.L.C., an affiliate of H.I.G., and the Company (the “Advisory Services Agreement”) that provides for an annual monitoring fee between $250,000 and $500,000 (the “Monitoring Fee”) and reimbursement of all other out of pocket fees and expenses incurred by H.I.G. Capital, L.L.C.. In addition, pursuant to the terms of the Advisory Services Agreement, H.I.G. Capital, L.L.C. will be entitled to a financial advisory fee and a supplemental management fee in connection with any acquisition, disposition or material public or private debt or equity financing of the Company, in each case which has been introduced, arranged, managed and/or negotiated by H.I.G. Capital, L.L.C. or its affiliates. H.I.G. Capital, L.L.C. was paid a $500,000 transaction fee under the Advisory Services Agreement in connection with the recapitalization.

Series E Convertible Preferred Stock

Pursuant to the Exchange Agreement, the Company issued 20,524.149 shares of newly authorized Series E Preferred Stock to H.I.G. at the Closing. The Series E Preferred Stock was authorized by the filing of a Certificate of Designations, Preferences and Rights of the Series E Convertible Preferred Stock of the Company filed on March 17, 2011 with the Delaware Secretary of State (the “Series E Designation”). Pursuant to the Series E Designation, holders of the Series E Preferred Stock are entitled to receive per share dividends equal to 6% per annum of the stated value of $1,000 per share of Series E Preferred Stock when declared by the Company’s Board of Directors. In addition, holders of the Series E Preferred Stock are entitled to participate in any dividends declared on shares of the Company’s Common Stock on an as-converted basis. Shares of the Series E Preferred Stock and all accrued dividends thereon are convertible at any time at the holder’s election into shares of the Company’s Class A Common Stock (the “Conversion Shares”) at a conversion price of $0.075 per share, subject to customary anti-dilution adjustments. The Series E Preferred Stock ranks senior to all other equity securities of the Company. Holders of the Series E Preferred Stock have the right to vote their ownership interests in the Series E Preferred Stock on an as-converted basis. In addition, holders of the Series E Preferred Stock also have the right to elect four of the Company’s seven directors for as long as there remain outstanding shares of Series E Preferred Stock representing at least 20% of the outstanding shares of Common Stock on an as-converted basis. If the outstanding shares of Series E Preferred Stock at any time represent less than 20% of the outstanding shares of Common Stock on an as-converted basis, the holders of the Series E Preferred Stock will have the right to elect one of the Company’s seven directors. The Series E Designation contains customary protective voting provisions and other rights customarily granted to holders of preferred equity securities.

Also, on March 18, 2011, the Company and H.I.G. entered into a Registration Rights Agreement under which, among other things, the Company granted to H.I.G. certain demand and “piggyback” registration rights with regard to its Conversion Shares and Series D Converted Shares. The Registration Rights Agreement provides for the payment of reasonable expenses in connection with such registrations (including the payment of fees of counsel up to $10,000 for each registration statement) and contains other customary provisions.

In order to satisfy its obligations under the Exchange Agreement with regard to the reservation of the Conversion Shares, at a meeting of the Company’s stockholders to be held no later than July 15, 2011, the Company is contractually obligated to present for stockholder approval an amendment to the Company’s Certificate of Incorporation to authorize 400,000,000 additional shares of the Company’s Class A Common Stock. On March 18, 2011, the Company, H.I.G., all of the prior Series D Preferred Stockholders, certain management stockholders and certain other stockholders, including Marjorie S. Brooks, entered into a Voting Agreement undertaking to vote in favor of such increase in authorized capital stock.

The Series E convertible Preferred Stock is not redeemable except under certain conditions which may be out of the control of the Company. An event of default under the Series A and B Term notes, for example, the failure to meet specified financial covenants, may trigger a redemption right to the holders of the Series E Convertible Preferred stockholders. As a result, the carrying value of the Series E Convertible Preferred Stock is reported in temporary equity.

Series D Preferred Stock and Warrant Exchange For Class A Common Stock

On March 18, 2011, immediately prior to the closing under the Exchange Agreement and Credit Agreement, the Company and the holders of the Company’s Series D Preferred Stock consummated the transactions contemplated by a Series D Preferred Stock Exchange Agreement (“Series D Exchange Agreement”), under which 748,772 shares of Series D Preferred Stock and Warrants exercisable for 3,787,880 shares of the Company’s Common Stock were exchanged for 36,313,377 shares of the Company’s Class A Common Stock (the “Series D Converted Shares”), equal to approximately 10% of the outstanding common shares of the Company on a fully diluted basis. At the date of the Series D Preferred Stock Exchange, HIG owned 315,273 shares of Series D Preferred Stock and 1,515,155 warrants exercisable for shares of the Company Class A common stock.

The Company also terminated the Series D Preferred Stock Purchase Agreement, the Series D Preferred Stock Registration Rights Agreement and the Warrants issued in connection with the Series D Preferred Stock purchase transaction, and terminated all rights and obligations of the parties thereunder except for any indemnification rights and obligations under the Series D Preferred Stock Registration Rights Agreement. No early termination penalties were paid or incurred by the Company in connection with such terminations.

The Company issued (i) 36,313,377 shares of Common Stock to seven existing Series D Preferred Stockholders, including H.I.G., in exchange for (A) all of the previously outstanding 748,772 shares of Series D Preferred Stock and (B) Warrants exercisable for an aggregate of 3,787,880 shares of Common Stock, and (ii) 20,524.149 shares of Series E Preferred Stock to H.I.G. in exchange for a portion of the Prior Debt held by H.I.G. All of such issuances in clauses (i) and (ii) above were done on an unregistered private placement basis pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder and pursuant to the exemption for exchanges with existing stockholders under Section 3(a)(9) of the Securities Act of 1933, as amended.

All of the Series D Preferred Stock of the Company was retired and the contractual rights associated with it were extinguished and, pursuant to the Board designation rights conferred upon the Series E Preferred Stock, the rights of holders of Common Stock with respect to the election of directors was materially limited.

H.I.G. acquired Series E Preferred Stock and Series D Converted Shares with the right to vote on an as-converted basis shares representing approximately 78.9% of the voting rights associated with outstanding voting capital stock immediately following the Transactions and with the right under the Series E Designation to designate four out of seven directors, representing a majority of the Board of Directors. As of the date of this Current Report, Michael Phillips is the only H.I.G. affiliate serving on the Board. However, it is anticipated that new directors will be appointed to the Board in accordance with the Series E Preferred Stock voting rights in the upcoming months.

In preparation for the recapitalization transactions, on March 16, 2011, the Board approved the Series E Designation, which was filed with the Delaware Secretary of State on March 17, 2011, as an amendment to the Company's Certificate of Incorporation.

In connection with the recapitalization, the Company also amended its bylaws to implement the changes to the Board of Directors size, composition and structure contemplated by such Series E Designation.

The recapitalization agreements have been accounted for as a troubled debt restructuring (ASC 470-60). The term notes, Series E Convertible Preferred Stock and Class A common stock issued have an estimated fair value of $45,383,000. The sum of cash proceeds and the recorded value of debt, accrued interest, Series D Preferred Stock, Warrants and certain other liabilities exchanged totaled $48,128,000, resulting in a gain on troubled debt restructuring of $2,745,000.

Note 9: Commitments and Contingencies

Class Action Lawsuits

The U.S. District Court, Western District of Washington (Seattle Division) approved a class action settlement in January 2009 related to a purported class action lawsuit seeking to recover on behalf of purchasers of ChoiceDek® composite decking for damages allegedly caused by mold and mildew stains on their decks. The settlement includes decking material purchased from January 1, 2004 through December 31, 2007, along with decking material purchased after December 31, 2007 that was manufactured before October 1, 2006, the date a mold inhibitor was introduced in the manufacturing process.

At March 31, 2011, AERT had a total remaining balance in accrued expenses of $4.6 million associated with the settlement of the class action lawsuit. The Company accrued an estimated $2.9 million for resolving claims. In the third quarter of 2009, the Company increased its estimate of costs to be incurred in resolving claims under the settlement by $5.1 million. The estimate was revised due to events that occurred and information that became available after the second quarter of 2009 concerning primarily the number of claims received. The deadline for submitting new claims has now passed. The claim resolution process will have an annual net cost limitation to AERT of $2.0 million until the claim resolution process is completed.

Other Matters

AERT is involved from time to time in litigation arising from the normal course of business that is not disclosed in its filings with the SEC. In management's opinion, this litigation is not expected to materially impact the Company's results of operations or financial condition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2011

The following table sets forth selected information from our statements of operations.

	Three Months Ended March 31, 2010	2011	% Change
Net sales	$16,391	$15,017	-8.4 %
Cost of goods sold	13,237	12,911	-2.5 %
% of net sales	80.8 %	86.0 %	
Gross margin	3,154	2,106	-33.2 %
% of net sales	19.2 %	14.0 %	
Selling and administrative costs	2,648	3,023	14.2 %
% of net sales	16.2 %	20.1 %	
Gain from fixed asset disposition	(1)	-	-100.0 %
Operating income (loss)	507	(917)	-280.9 %
% of net sales	3.1 %	-6.1 %	
Other income	-	5	*
Gain on restructure	-	2,745	*
Net interest expense	(706)	(892)	26.3 %
Income (loss) before dividends	(199)	941	*
% of net sales	-1.2 %	6.3 %	
Dividends on preferred stock	(198)	(180)	-9.1 %
Net (income) loss applicable to common stock	$(397)	$761	*
% of net sales	-2.4 %	5.1 %	

* Not meaningful as a percentage change.

NetSales

First quarter 2011 sales were down 8.4% from first quarter 2010 sales due primarily to reduced ChoiceDek® sales to BlueLinx of $3.4 million who lowered their inventory levels. This reduction was partially offset by increased MoistureShield® sales of $1.6 million.

Cost of Goods Sold and Gross Margin

Cost of goods sold was lower in the first quarter of 2011 compared to the first quarter of 2010 due to reduced sales. As a percentage of sales, cost of goods sold increased by 5.2 percentage points, reflecting increased raw material costs and reduced manufacturing overhead absorption.

Selling and Administrative Costs

Selling and administrative costs were up $0.4 million in the first quarter of 2011 compared to the first quarter of 2010. The increase relates to a one time cost of deferred equity compensation of $0.4 million relating to employee stock awards becoming fully vested as a result of the change in control. (See Note 8)

Earnings

An operating loss of $0.9 million was incurred in the first quarter of 2011, a $1.4 million reduction from the $0.5 million operating income recorded in the first quarter of 2010. As discussed above, $0.4 million of this reduction in operating income was due to a one time charge relating to the vesting of restricted stock. An increased in sales discounts, lower sales volume and higher unit costs contributed to the balance of the operating income reduction in the first three months of 2011 versus 2010.

We incurred a profit before dividends of $0.9 million in the first quarter of 2011 compared to a net loss of $0.2 million first quarter of 2010. This $1.1 million increase in profit is due to a gain of $2.7 million as the result of the H.I.G. recapitalization offset by increased selling and administrative costs of $0.4 million, increased interest cost of $0.2 million and lower margin of $1.0 million.

Liquidity and Capital Resources

The net cash realized of $4.5 million from the March 18, 2011 H.I.G. recapitalization (see Note 8) was used to pay down aged payables while the $2 million note provided by H.I.G. in the fourth quarter of 2010 provided funds to help maintain operations.

Cash Flows

Cash Flows from Operating Activities

Cash used in operations in the first quarter of 2011 was $6.9 million as compared to cash provided by operations of $3 million in 2010. The $6.9 million of cash used in operations for the first quarter of 2011 is primarily due to the gain on the H.I.G. recapitalization, reduction in other assets due primarily to reduction in debt issuance cost, and the change in current assets and current liabilities. (See Note 3)

This change in current assets and current liabilities is primarily due to a pay down of accounts payable related to H.I.G. recapitalization offset by an increase in accrued liabilities.

Cash Flows from Investing Activities

Cash used in investing activities in the first quarter of 2011 decreased $1.8 million compared to the same period in 2010. The decrease was due to lower capital expenditures for the construction of our Watts plastic recycling facility.

Cash Flows from Financing Activities

Cash provided by financing activities was $5.9 million in the first quarter of 2011 compared to cash used by financing activities of $0.3 million in the first quarter of 2010. The $6.2 million change in financing activities was due primarily to $5.8 million proceeds from H.I.G. notes and $0.2 million from State of Oklahoma for additions to Watts equipment offset by pay down to Liberty Bank of $0.1 million.

Working Capital

At March 31, 2011, we had a working capital deficit of $10.7 million compared to a working capital deficit of $28.8 million at December 31, 2010. The decrease in our deficit in 2011 was primarily the result of H.I.G. recapitalization. Components of working capital that fluctuated significantly include accounts payable, current maturities of long term debt, and accrued liabilities. See “Cash Flows from Operations” above for an explanation of those fluctuations.

Property, Plant and Equipment

The changes in our property, plant and equipment in the first quarter of 2011 are due primarily to fixed asset additions of our Watts recycling facility transferring from construction in process to fixed assets.

Debt

In addition to the H.I.G. transaction on March 18, 2011, as discussed above, we continue to explore financing options, including various financial assistance programs sponsored by state and federal governments.

Line of Credit

The maturity date of the Company’s line of credit agreement with Liberty Bank of Arkansas was extended multiple times in 2010, and again in 2011 to a maturity date of March 15, 2012. The Company is currently working to restructure or replace the line, which had a balance of $7.7 million at March 31, 2011. The line is secured by inventory, accounts receivable, chattel paper, general intangibles and other current assets, as well as by fixtures and equipment, and bears an interest rate that was reduced in October 2010 from 9% to 7.5%. The full amount of the line is guaranteed as to payment by Marjorie Brooks, by Joe Brooks, the Company’s chairman and chief executive officer, and by Steve Brooks, the Company’s chief operating officer. Mrs. Brooks is collateralized by a subordinate lien on all of our assets subject to certain priority liens, and receives a fee as compensation for her guaranty.

Debt Covenants

Our line of credit contains financial covenants that were waived through November 30, 2011.

H.I.G. Long Term Debt

On March 18, 2011, the Company consummated related recapitalization transactions (the "Transactions") with H.I.G. AERT, L.L.C., an affiliate of H.I.G. Capital L.L.C. ("H.I.G.") and with other existing preferred stockholders, pursuant to which, among other things, H.I.G. exchanged $32,620,816 of its secured debt in the Company, including interest accrued through March 17, 2011, for a combination of new debt and equity. Prior to the consummation of the Transactions, H.I.G. was the sole owner of four distinct obligations representing the Company's debt: (i) $6,806,656 of principal plus accrued interest owed under that certain Promissory Note, dated July 1, 2009, issued by the Company in favor of H.I.G.; (ii) $13,281,084 of principal plus accrued interest owed under the Adair County Industrial Authority Solid Waste Recovery Facilities Revenue Bonds issued in 2007; (iii) $10,436,409 of principal plus accrued interest owed under the City of Springdale Arkansas, Industrial Development Refunding Revenue Bonds issued in 2008; and (iv) $2,096,667 of principal plus accrued interest owed under the Secured Promissory Note ("2010 Note") issued on December 20, 2010. Items (i)-(iv) above are collectively referred to herein as the "Prior Debt."

In connection with the consummation of the Transactions, the Company entered into a Securities Exchange Agreement with H.I.G. (the "Exchange Agreement"), and a Credit Agreement with H.I.G. (the "Credit Agreement"), each dated March 18, 2011. Pursuant to the Exchange Agreement and the Credit Agreement, in exchange for the Prior Debt and H.I.G. making approximately $6.9 million in additional new capital available to the Company, H.I.G. was issued (i) a Series A Term Note ("Series A Note") in the aggregate principal amount of $10,000,000, (ii) a Series B Senior Term Note ("Series B Note", and collectively with the Series A Note, the "Notes") in the aggregate principal amount of $9,000,000 (or such lesser amount as is actually borrowed thereunder), and (iii) 20,524.149 shares of Series E Convertible Preferred Stock, par value $0.01 per share, of the Company (the "Series E Preferred Stock"). As a result, upon consummation of the Transactions (including the Series D Exchange Agreement described hereunder), H.I.G. holds $17,596,667 outstanding principal amount of senior secured debt of the Company and owns approximately 80% of the outstanding common equity securities of the Company on a fully diluted, as converted basis. Pursuant to the Exchange Agreement, until such time as H.I.G. no longer owns at least 20% of the Company's outstanding Common Stock on a fully diluted basis, H.I.G. has the right to purchase securities in any subsequent issuance or sale of securities by the Company in an amount equal to the greater of (i) H.I.G.'s ownership percentage as of the business day prior to its receipt of notice of the proposed issuance or sale by the Company or (ii) 51%.

Pursuant to the Credit Agreement, the Company issued to H.I.G. the Notes, which are secured by a grant of a security interest in all of the Company's assets in accordance with the terms of a Security Agreement, Patent Security Agreement, Copyright Security Agreement and Trademark Security Agreement, each dated March 18, 2011. The Series A Note matures six years after the closing of the Transactions (the "Closing") and, at the Company's option, either (i) bears cash interest at 8.0% per annum or (ii) bears cash interest at 4.0% per annum, plus a rate of interest equal to 4.0% per annum payable in kind and added to the outstanding principal amount of the Series A Note (with the latter option only being available for the first 24 months following the Closing, after which the Series A Note will bear cash interest at 8.0% per annum). H.I.G. and Liberty Bank of Arkansas ("Liberty") concurrently entered into an Amended Intercreditor Agreement pursuant to which H.I.G. has priority vis-a-vis Liberty with respect to its lien on all assets of the Company other than inventory, accounts receivable, deposit accounts, and receipts, revenues, cash and income derived from such inventory and accounts receivable and certain real estate, and Liberty has priority vis-à-vis H.I.G. with respect to its lien on all inventory, accounts receivable, deposit accounts, and receipts, revenues, cash and income derived from such inventory and accounts receivable and certain real estate.

Upon the Closing, H.I.G. converted the $2,000,000 principal amount of the 2010 Note and accrued interest thereon into borrowings under the Series B Note. In addition, an additional $5,500,000 was funded and drawn under the

Series B Note at Closing. The remaining principal balance is available to be drawn down from time to time in the future upon request by the Company, subject to H.I.G.'s approval in its sole discretion. The Series B Note matures six years after the Closing and, at the Company's option, either (i) bears cash interest at 10.0% per annum or (ii) bears cash interest at 4.0% per annum, plus a rate of interest equal 6.0% per annum payable in kind and added to the outstanding principal amount of the Series B Term Note. The Series B Note ranks pari passu to the Series A Note.

The Credit Agreement contains provisions requiring mandatory payments upon the Notes equal to 50% of the Company's "Excess Cash Flow" (as defined in the Credit Agreement) and equal to 100% of proceeds from most non-ordinary course asset dispositions, additional debt issuances or equity issuances (subject to certain exceptions in each case or as H.I.G. otherwise agrees), and contains covenant restrictions on the incurrence of additional debt, liens, leases or equity issuances (subject to certain exceptions in each case or as H.I.G. otherwise agrees).

Uncertainties, Issues and Risks

There are many factors that could adversely affect AERT's business and results of operations. These factors include, but are not limited to, general economic conditions, decline in demand for our products, business or industry changes, critical accounting policies, government rules and regulations, environmental concerns, litigation, new products / product transition, product obsolescence, competition, acts of war, terrorism, public health issues, concentration of customer base, loss of a significant customer, availability of raw material (plastic) at a reasonable price, management's failure to execute effectively, inability to obtain adequate financing (i.e. working capital), equipment breakdowns, low stock price, and fluctuations in quarterly performance.

Forward-Looking Information

An investment in our securities involves a high degree of risk. Prior to making an investment, prospective investors should carefully consider the following factors, among others, and seek professional advice. In addition, this Form 10-Q contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Such forward-looking statements, which are often identified by words such as "believes", "anticipates", "expects", "estimates", "should", "may", "will" and similar expressions, represent our expectations o beliefs concerning future events. Numerous assumptions, risks, and uncertainties could cause actual results to differ materially from the results discussed in the forward-looking statements. Prospective purchasers of our securities should carefully consider the information contained herein or in the documents incorporated herein by reference.

The foregoing discussion contains certain estimates, predictions, projections and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect management's current judgment regarding the direction of the business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, or other future performance suggested herein. Some important factors (but not necessarily all factors) that could affect the sales volumes, growth strategies, future profitability and operating results, or that otherwise could cause actual results to differ materially from those expressed in any forward-looking statement include the following: market, political or other forces affecting the pricing and availability of plastics and other raw materials; accidents or other unscheduled shutdowns affecting us, our suppliers' or our customers' plants, machinery, or equipment; competition from products and services offered by other enterprises; our ability to refinance short-term indebtedness; state and federal environmental, economic, safety and other policies and regulations, any changes therein, and any legal or regulatory delays or other factors beyond our control; execution of planned capital projects; weather conditions affecting our operations or the areas in which our products are marketed; adverse rulings, judgments, or settlements in litigation or other legal matters. We undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 4. Controls and Procedures.

Our chief executive officer, Joe G. Brooks, who is our principal executive officer, and our chief financial officer, J. R. Brian Hanna, who is our principal financial officer, have reviewed and evaluated the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that we have in place as of March 31, 2011 with respect to, among other things, the timely accumulation and communication of information to management and the recording, processing, summarizing and reporting thereof for the purpose of preparing and filing this quarterly report on Form 10-Q. Based upon their review, the aforementioned executive officers have concluded that our disclosure controls and procedures were effective as of March 31, 2011.

During the quarter ended March 31, 2011, there have been no changes in our internal controls over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION.

Item 1. Legal Proceedings – (See Note 9: Commitments and Contingencies)

Item 6. Exhibits.

The exhibits listed in the accompanying Index to Exhibits are filed and incorporated by reference as part of this report.

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.

ADVANCED ENVIRONMENTAL
RECYCLING TECHNOLOGIES, INC.

By: /s/ Joe G. Brooks

Joe G. Brooks,
Chairman and Chief Executive Officer
(principal executive officer)

/s/ J. R. Brian Hanna

J. R. Brian Hanna,
Chief Financial Officer
(principal financial officer)

Date: May 11, 2011

Index to Exhibits

Exhibit Number	Description
31.1	Certification per Sarbanes-Oxley Act of 2002 (Section 302) by the Company's chairman and chief executive officer.
31.2	Certification per Sarbanes-Oxley Act of 2002 (Section 302) by the Company's chief financial officer.
32.1	Certification per Sarbanes-Oxley Act of 2002 (Section 906) by the Company's chairman and chief executive officer.
32.2	Certification per Sarbanes-Oxley Act of 2002 (Section 906) by the Company's chief financial officer.