American Electric Technologies Inc
Form 10-K
March 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from   to

Commission File No. 000-24575

AMERICAN ELECTRIC TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida	59-3410234
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

1250 Wood Branch Park Drive, Suite 600, Houston TX 77079

(Address of principal executive offices)

(713) 644-8182

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 (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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes x 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. Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $33,870,000 based on the closing sale price on June 30, 2014 as reported by the NASDAQ Stock Market.

The number of shares of common stock outstanding on March 16, 2015 was 8,216,598.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the 2015 Annual Meeting of Stockholders to be held May 15, 2015 (Proxy Statement)	Part III

FORWARD-LOOKING STATEMENTS

The Description of Business section and other parts of this Annual Report on Form 10-K ("Form 10-K") contain forward-looking statements that involve risks and uncertainties. Many of the forward-looking statements are located in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any current or historical fact. Forward-looking statements can also be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," and similar terms. Forward-looking statements not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled "Risk Factors" under Part I, Item 1A of this Form 10-K. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Company Background and Corporate Structure

American Electric Technologies, Inc. (the "Company", "AETI", "our", "us" or "we") was incorporated on October 21, 1996 as Florida corporation. 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 1250 Wood Branch Park Drive, Suite 600, Houston Texas 77079 and our telephone number is 713-644-8182.

Our corporate structure currently consists of American Electric Technologies, Inc., which owns 100% of M&I Electric Industries, Inc., including its wholly-owned subsidiary, South Coast Electric Systems, LLC, M&I Electric Brazil Sistemas e Servicios em Energia LTDA ("M&I Brazil"), and American Access Technologies, Inc. ("AAT"). The operations of the AAT segment were sold on August 15, 2014 (except for its real estate) and its remaining assets are presented as "held for sale" and its results from operations are reported as discontinued operations. The Company reports financial data for two operating segments: the Technical Products and Services ("TP&S") segment and the Electrical and Instrumentation Construction ("E&I") segment. These two segments encompass the operations of M&I, and its interest in international joint ventures in China and Singapore

The Company is a leading provider of power delivery solutions to the global energy industry.

The principal markets that we serve include:

- Oil & gas – the Company provides "turn-key" power delivery solutions for the upstream, midstream and downstream oil and natural gas sectors.
- Upstream relates to the exploration and production of oil and natural gas. The Company serves customers in the land drilling, offshore drilling, land-based production, and offshore production segments of the market.
- Midstream, which is primarily related to oil & gas transportation, including oil & gas pipelines and compression and pumping stations. The Company also has a strong customer base in natural gas fractionation (separation), cryo, natural gas to liquids, and other natural gas related-plants.
- Downstream, which includes oil refining and petrochemical plants, as well as Liquefied Natural Gas (LNG) plants, export facilities, and storage facilities.
- Power generation and distribution– the Company also provides "turn-key" power delivery solutions for the power generation and distribution sectors.
- Distributed power generation includes on-site power generation, co-generation and independent power production customers.
- Renewable power generation includes biomass power generation, geothermal power generation and other renewable energy related businesses.
- Power distribution includes utility distribution markets such as substations.
- Marine and Industrial
- Marine includes vessels such as platform supply vessels (PSV), offshore supply vessels (OSV), tankers and other various work boats, typically up to 300 ft. in length.
- Industrial, including non-oil & gas industrial markets such as steel, paper, heavy commercial, and other non-oil & gas applications.

A key component of our Company's strategy is our international focus. We have three primary models for conducting our international business. First, where local market conditions dictate, we have expanded internationally by forming joint venture operations with local partners in key markets such as China and Singapore, where we can partner with the primary end-customer in that market, or there are local content requirements or a competitive advantage using local manufacturing. Second, in Brazil, we have exited our joint venture and formed a wholly-owned subsidiary to serve this expanding market. Third, we sell 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.

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

The Company is 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.

The Company reports financial data for two operating segments: the Technical Products and Services ("TP&S") segment and the Electrical Instrumentation Construction ("E&I") segment; which together encompass the operations of M&I, including its wholly-owned subsidiaries, South Coast Electric Systems, LLC and M&I Brazil and M&I's interest in international joint ventures' operations in China and Singapore.

Technical Products and Services

Our Technical Products and Services ("TP&S") business has provided sophisticated custom-designed power distribution, power conversion, automation and control 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 electricity (drilling machinery, motors, other process equipment, etc.) at low and medium voltages.

Our power distribution products include low and medium voltage switchgear that provide power distribution and protection for electrical systems from electrical faults. Our products include traditional low voltage and medium voltage switchgear, as well as a variety of arc-managed and arc-resistant switchgear to increase end-user safety in case of an arc-flash explosion. Our products are suitable for both ANSI ("American National Standards Institute") and IEC ("International Electrotechnical Commission") markets. Other power distribution products in our solution set include low voltage and medium voltage motor control centers, bus ducts, fuse and switch products, and other related power distribution equipment. We also bundle 3rd party products per our customer specifications including items such as battery backup power systems and transformers.

Our power conversion solutions include Analog, Digital SCR ("silicon controlled rectifier") and Alternating Current Variable Frequency Drive ("AC VFD") systems, that are used to adjust the speed and torque of an electric motor to match various user applications, primarily in the land and offshore drilling and marine vessel markets.

Our automation and control solutions are Programmable Logic Controllers ("PLC") based systems designed for the management and control of power in a user's application. Our DrillAssist™ for land and offshore drilling are control systems that enable the management of an entire drilling rig's operations. DrillAssist™ includes auto-drill capabilities and a driller's chair and cabin where the drilling rig operator manages the rig. DrillAssist and our Vessel Management System are based on technology from our March 2012 acquisition of the assets of Amnor Technologies, Inc.

Our packaged solutions include Power Distribution Centers ("PDC"), SCR houses, Drillers Cabins, and other packaged electrical buildings that incorporate our power distribution and power conversion products for land or offshore deployment.

We have the technical expertise to provide these solutions 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.

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.

Our technical services group provides services to commission and maintain our customers' electrical power conversion and controls systems. We also provide low and medium voltage start-up/commissioning, preventative maintenance, emergency call out services, and breaker and switchgear refurbishment services.

Technical Products and Services net sales:

Year	Amount (in thousands)	Percent of Consolidated Net Sales	
2014	$ 49,967	87	%
2013	$ 49,150	83	%
2012	$ 38,973	81	%

Foreign Joint Ventures

We use foreign joint ventures to drive growth in the key international markets of China and South East Asia. We believe our foreign joint ventures provide a prudent way to diversify and reduce the risk of international expansion, capitalize on the strengths and the relationships of our foreign joint venture partners with potential customers, and achieve competitive advantages. Our interests in foreign joint ventures are accounted for under the equity method of accounting. Sales made to the foreign joint ventures are made with terms and conditions similar to those of our other customers.

China. In March 2006, M&I Electric entered into a joint venture agreement with Baoji Oilfield Machinery Co., Ltd., (“BOMCO”), a wholly-owned subsidiary of the China National Petroleum Corporation, and AA Energies, Inc. of Houston, Texas, which markets oilfield equipment, to form BOMAY Electric Industries Co., Ltd. (“BOMAY”), as an equity joint venture limited liability company organized in China. M&I is a 40% interest owner in BOMAY with 51% being owned by BOMCO and the remaining 9% owned by AA Energies, Inc. BOMAY manufactures power and control systems for land drilling rigs. M&I has invested 16 million Yuan (approximately $2 million) in this joint venture in which M&I provides technology and services to BOMAY. Each of the BOMAY investors may be required to guarantee the bank loans of BOMAY in proportion to their investment. No guarantees have been provided by AETI at this time.

Singapore. In 1994, the Company formed a joint venture in Singapore to provide sales, engineering, manufacturing and technical support for our products in Southeast Asia called M & I Electric Far East PTE Ltd. (“MIEFE”). The Company currently owns 41% of the joint venture with our joint venture partner, Sonepar, owning 51% and MIEFE’s general manager owning the remaining 8%. In October 2013, Oakwell Distribution, including their interest in MIEFE, was acquired by Sonepar (private company) of France, who is now the owner of the controlling interest in MIEFE.

Brazil. During 2010, the Company entered into a joint venture agreement with Five Star Services, a Brazilian corporation, and formed AETI Alliance Group do Brazil Sistemas E Servicos Em Energia LTDA (“AAG”), a Brazilian Limited Liability Company, in which the Company held a 49% interest. AAG began operations mid-year 2010, and provides electrical products and services to the Brazilian energy industries. Effective April 30, 2014, the Company withdrew from this joint venture.

Investment in Foreign Joint Ventures:

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	BOMAY**	MIEFE	AAG	BOMAY	MIEFE	AAG

	(in thousands)			(in thousands)		
Investment as of end of year	$11,548	$ 505	$—	$10,609	$1,138	$1,286
Equity income (loss)*	2,054	138	2	2,066	115	843
Distributions received from joint ventures*	1,042	650	830	1,321	—	23
Foreign currency translation*	(73)	(121)	178	333	(40)	(168)
AETI sales to joint ventures	130	14	4	325	225	4
Accounts receivable due from joint ventures	32	2	1	119	—	8

* Numbers are reflected in the investment balance as of end of year.

** Each of the BOMAY investors may be required to guarantee the bank loans of BOMAY in proportion to their investment. The limit of BOMAY's loan amount shall be determined by the BOMAY Board of Directors subject to certain operating requirements. At this time, no guarantees have been provided by AETI.

During 2014 and 2013, the Company recognized approximately $522,000 and $267,000 respectively, for employee joint venture related expenses which are included in Foreign Joint Ventures Operation's Related Expenses in the accompanying statements of operations.

Electrical and Instrumentation Construction

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. The Company's E&I construction business is primarily generated from the installation ("rig up") of our power delivery solutions into our packaged power control systems. Applications include installation of switch-gear and other power distribution equipment, AC and DC motors, drives, motor controls, lighting systems and electrical cable. The remainder of the segment's business includes new construction as well as electrical and instrumentation turn-arounds, maintenance and renovation projects.

Electrical and Instrumentation Construction net sales:

Year	Amount (in thousands)	Percent of Consolidated Net Sales
2014	$ 7,287	13 %
2013	$ 10,089	17 %
2012	$ 9,196	19 %

American Access Technologies

During the second quarter of 2014, the decision was made to sell the AAT business segment. The sale of all non-cash assets, excluding the real property, closed effective August 14, 2014. The real estate was leased to the buyer for a minimum of one year with an option to purchase. This real estate is reported as assets held for sale. All AAT results are excluded from continuing operations and reflected as discontinued operations.

Segment Financial Data

Segment Information:

The table below represents segment results for the years ended December 31, 2014 and 2013 (in thousands), excluding the AAT segment:

	2014	2013
Net sales:		
Technical Products and Services	$49,967	$49,150
Electrical and Instrumentation Construction	7,287	10,089
	$57,254	$59,239
Gross profit:		
Technical Products and Services	$4,132	$9,072
Electrical and Instrumentation Construction	863	2,095
	$4,995	$11,167
Income (loss) from consolidated continuing operations and net equity income from foreign joint ventures' operations:		
Technical Products and Services	$3,177	$8,061
Electrical and Instrumentation Construction	525	2,095
Corporate and other unallocated expenses	(7,597)	(6,994)

Income (loss) from consolidated continuing operations	(3,895)	3,162
Equity income from BOMAY	2,054	2,066
Equity income from MIEFE	138	115
Equity income from AAG	2	843
Foreign operations expenses	(522)	(267)
Net equity income from foreign joint ventures' operations	1,672	2,757
Income (loss) from consolidated continuing operations and net equity income from foreign joint ventures' operations	$(2,223)	$5,919

International Sales

During 2014, approximately 9% of the Company's consolidated revenue were systems sold or shipped into international markets, principally from the TP&S segment and M&I Brazil. Sales from the U.S are generally made in U.S. dollars and settled prior to shipment or are collateralized by irrevocable letters of credit. M&I's Brazil sales are generally made in Brazilian Reais and are settled on a progress payment basis.

Marketing

We market our Technical Products and Services and E&I construction in the United States through direct contact with potential customers by our internal sales organization consisting of 10 full-time sales and sales support employees. We also exhibit at a variety of industry trade shows each year. We have appointed several sales agents and distributors in the United States and in a number of foreign countries. M&I Brazil markets in Brazil and other South American countries.

Our business is generally obtained through a competitive bid process where the lowest bid from pre-qualified suppliers is awarded the project. Depending on the market segment, we either sell directly to the end user or owner, or sell to an Engineering, Procurement and Construction ("EPC") firm.

Manufacturing

Manufacturing processes at our various facilities include machining, fabrication, wiring, subassembly, system assembly and final testing. We have invested in various automated and semi-automated equipment for the fabrication and machining of various parts and assemblies that we incorporate into our products. Our quality assurance program includes various quality control measures from inspection of raw material, purchased parts and assemblies through on-line inspection. We perform system design, assembly and testing in-house. Our manufacturing operations in Beaumont, Texas are ISO 9001:2008 certified.

Raw Materials and Suppliers

The principal raw materials for our products are copper, steel, aluminum and various manufactured electrical components. We obtain these products from a number of domestic and foreign suppliers. The market for most of the raw materials and parts we use is comprised of numerous participants and we believe that we can obtain each of the raw materials we require from more than one supplier. We do not have any long-term contractual arrangements with the suppliers of our raw materials.

Competition

Our products and services are sold in highly competitive markets. We compete in all of our segments and regions with a number of companies, some of which have financial and other resources comparable to or greater than us. Due to the demanding operating conditions in the energy sector and the high costs associated with project delays and equipment failure, we believe customers in this industry prefer suppliers with a track record of proven, reliable performance in their specific energy related project type. We seek to build strong long-term relationships with our customers by providing high-quality, efficient and reliable products and services, developing new products and services and responding promptly to our customers' needs.

The principal competitive factors in our markets are product and service quality and reliability, lead time, price, technical expertise and reputation.

We believe our principal competitive strengths include the following:

Our power delivery, control and drive systems are custom-designed and are built to meet our customers' specific requirements. We specialize in projects that are complex, require industry certification, have short lead times or other non-standard elements, such as systems that must be deployed in harsh environments or need to meet tight space or weight requirements. Our ability to provide custom-designed technical products, electrical and instrumentation construction services, and electrical startup and preventative maintenance services is unique, enabling us to provide customers total system responsibility for their electrical power control and distribution needs.

Our commitment to providing quality products and services, fair pricing, innovation and customer service is the foundation to the long-standing customer relationships that we enjoy with an attractive customer base. Since 1946, we have provided over 10,000 power delivery systems to many of the leading companies involved in oil and gas exploration, drilling, production, pipelines, shipbuilding, oil refineries, petrochemicals, power generation, and steel industries in the United States.

We are led by an experienced management team with a proven track record. We believe the experience of our management team provides us with an in-depth understanding of our customers' needs and enhances our ability to deliver customer-driven solutions. We believe our management has fostered a culture of loyalty, resulting in high employee retention rates for our professional and technical employees.

The company has multiple competitive advantages for our products:

- Custom design
- Quick delivery time
- Able to use best of breed components and mix and match subsystems from a variety of vendors versus an all one supplier solution
- Ability to provide integrated solution by self-performing our Technical Products and E&I construction work.

We have identified our largest competitors, by product line as follows:

Power Distribution/Switchgear Systems—Powell Industries, Siemens, Eaton, GE, ABB and Volta.

Power Conversion/Drive Systems—Omron, National Oilwell Varco (NOV), ABB, and Siemens.

Power Services—Tidal Power, Coastal Power, Eaton, and Group Schneider.

Construction—Jefferson Electric, Golderest Electronics, Newtron Electrical Services, M&D Electric Co., and Triple “S” Industrial Corp.

Backlog

Backlog represents the dollar amount of net sales that we expect to realize in the future as a result of performing work under multi-month contracts. Backlog is not a measure defined by generally accepted accounting principles, and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog. Backlog may not be indicative of future operating results. Not all of our potential net sales are recorded in backlog for a variety of reasons, including the fact that some contracts begin and end within a short-term period. Many contracts are subject to modification or termination by the customer. The termination or modification of any one or more sizeable contracts or the addition of other contracts may have a substantial and immediate effect on backlog. Our backlog does not include any backlog in place at our foreign joint ventures’ operations.

We generally include total expected net sales in backlog when a contract for a definitive amount of work is entered into. We generally expect our backlog to become net sales within a year from the signing of a contract. Backlog as of December 31, 2014 and 2013 totaled $ 26.5 million and $20 million, respectively.

Intellectual Property

We have a number of trademarks and trade names utilized with our products and services. While proprietary intellectual property is important to the Company, management believes the loss or expiration of any intellectual property right would not materially impact the Company or either of its segments.

Environmental Laws

We are subject to various federal, state, and local laws enacted for the protection of the environment. We believe we are in compliance with such laws. Our compliance has, to date, had no material effect on our capital expenditures, earnings, or competitive position.

Research and Development Costs

Total expenditures for research and development were $807,000 and $499,000 for the fiscal years ended December 31, 2014 and 2013. We incurred research costs to develop new products for our oil & gas markets including new power distribution, power conversion and automation and control products.

Employees

As of December 31, 2014, we had 332 employees. No employees are covered by a collective bargaining agreement, and we consider our relations with our employees to be satisfactory.

ITEM 1A. RISK FACTORS

You should carefully consider each of the following risks associated with an investment in our common stock and all of the other information in this 2014 Annual Report on Form 10-K. Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur, our business, prospects, financial condition and results of operations may suffer.

Customers in the oil and gas industry account for a significant portion of our sales. Reduced expenditures by customers in this industry are likely to reduce our net sales, profitability and cash flows.

Customers related to the oil and gas industry accounted for approximately 72% and 62% of our net sales in 2014 and 2013, respectively. The oil and gas industry is a cyclical commodity business, with product demand and prices based on numerous factors such as general economic conditions and local, regional and global events and conditions that affect supply, demand and profits. Demand for our products and services benefits from strong oil and gas markets. The recent decline in the price for oil will likely cause a decrease in demand for our products and services and result in a decline in our net sales, profit margins and cash flows.

Our products include complex systems for energy and industrial markets which are subject to operational and liability risks.

We are engaged in the manufacture and installation of complex power distribution and control systems for the energy and industrial markets. These systems are frequently complex and susceptible to unique engineering elements that are not tested in the actual operating environment until commissioned. As a result, we may incur unanticipated additional operating and warranty expenses that were not anticipated when the fixed-price contracts were estimated and executed resulting in reduced profit margins on such projects.

The industries in which we operate are highly competitive, which may result in a loss of market share or decrease in net sales or profit margin.

Our products and services are provided in a highly competitive environment and we are subject to competition from a number of similarly sized or larger businesses which may have greater financial and other resources than are available to us. Factors that affect competition include timely delivery of products and services, reputation, manufacturing capabilities, price, performance and dependability. Any failure to adapt to a changing competitive environment may result in a loss of market share and a decrease in net sales and profit margins.

We often utilize fixed-price contracts which could adversely affect our financial results.

We currently generate, and expect to continue to generate, a significant portion of our net sales under fixed-price contracts. We must estimate the costs of completing a particular project to bid for such fixed-price contracts. The cost of labor and materials, however, may vary from the costs we originally estimated. These variations, along with other risks inherent in performing fixed-price contracts, may result in actual costs and gross profits for a project differing from those we originally estimated and could result in reduced profitability and losses on projects. Depending upon the size of fixed-price contracts, variations from estimated contract costs can have a significant impact on our operating results for any fiscal quarter or year.

Our use of percentage-of-completion accounting could result in a reduction or elimination of previously reported profit.

A portion of our net sales is recognized on the percentage-of-completion method of accounting. The percentage-of-completion method of accounting practice we use results in recognizing contract net sales and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract net sales, costs and profitability. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Actual collection of contract amounts or change orders could differ from estimated amounts and could result in a reduction or elimination of previously recognized earnings in future periods. In certain circumstances, it is possible that such adjustments could be significant.

We may not be able to fully realize the net sales value reported in our backlog.

Orders included in our backlog are represented by customer purchase orders and contracts. Backlog develops as a result of new business which represents the net sales value of new project commitments received by us during a given period. Backlog consists of projects which have either (1) not yet been started or (2) are in progress and are not yet complete. In the latter case, the net sales value reported in backlog is the remaining value associated with work that has not yet been completed. From time to time, projects that were recorded as new business are cancelled. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total net sales included in our backlog. In addition to being unable to recover certain direct costs, we may also incur additional costs resulting from underutilized assets if projects are cancelled.

We rely on a few key employees whose absence or loss could disrupt our operations or be adverse to our business.

Our continued success is dependent on the continuity of several key management, operating and technical personnel. The loss of these key employees would have a negative impact on our future growth and profitability. We have entered into written employment agreements with our Chief Executive Officer; Chief Financial Officer; and International Director, who is responsible for managing our BOMAY joint venture operations relationships and Brazil subsidiary.

Our results of operations and financial condition may be adversely impacted by global recession.

The consequences of a prolonged recession could include a lower level of economic activity and uncertainty regarding commodity and capital markets. The lack of a sustained economic recovery could have an adverse effect on our results of operations, cash flows or financial position.

Our failure to attract and retain qualified personnel could lead to a loss of net sales or profitability.

Our ability to provide high-quality products and services on a timely basis requires that we employ an adequate number of skilled personnel. Accordingly, our ability to increase our productivity and profitability will be limited by our ability to employ, train and retain skilled personnel necessary to meet our requirements. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expenses will not increase as a result of a shortage in the supply of skilled personnel.

Natural disasters, terrorism, acts of war, international conflicts or other disruptions could harm our business and operations.

Natural disasters, acts or threats of war or terrorism, international conflicts, and the actions taken by the United States and other governments in response to such events could cause damage to or disrupt our business operations or those of our customers, any of which could have an adverse effect on our business.

We manufacture products and operate plants in Mississippi, Texas and Brazil. Operations in the U.S. were disrupted in 2008 due to Hurricanes Gustav and Ike and in 2005 due to Hurricanes Katrina and Rita. Although we did not suffer a material loss as a result of these disruptions due to our insurance coverage and advance preparations, it is not possible to predict future similar events or their consequences, any of which could decrease demand for our products, make it difficult or impossible for us to deliver products, or disrupt our supply chain.

We generate a significant portion of our net sales from international operations and are subject to the risks of doing business outside of the United States.

Approximately 9% of our net sales in 2014 were generated from projects and business operations outside of the United States, primarily provided to the oil and gas drilling and marine industries in the following countries: Mexico, Canada, United Arab Emirates, Singapore, Indonesia and Brazil. This percentage was approximately 16% in 2013. The oil and gas industry operates in both remote and potentially politically unstable locations, and numerous risks and uncertainties affect our non-United States operations. These risks and uncertainties include changes in political, economic and social environments, local labor conditions, changes in laws, regulations and policies of foreign governments, as well as United States laws affecting activities of United States companies abroad, including tax laws and enforcement of contract and intellectual property rights. In addition, the costs of providing our services can be adversely and/or unexpectedly impacted by the remoteness of the locations and other logistical factors.

We maintain a significant investment in a joint venture with a Chinese energy company. We may encounter unforeseen or unexpected operating, financial, political or cultural factors that could impact its business plans and the expected profitability from such investment. We will face risks if China loses normal trade relations with the United States and it may be adversely affected by the diplomatic and political relationships between the United States and China. As a result of the relatively weak Chinese legal system, in general, and the intellectual property regime, in particular, we may face additional risk with respect to the protection of our intellectual property in China. Changes in China's political and economic policies could adversely affect our investment and business opportunities in China.

The marketplace may not accept and utilize our newly developed products and services, the effect of which would prevent us from successfully commercializing our proposed products or services and may adversely affect our financial condition and results of operations.

Our ability to market and commercialize our new products and services depends on the acceptance of such products and services by the industry.

Joint Venture Limited Life Risk

The joint venture ("JV"), BOMAY was formed in 2006 in China. It was formed with a term of 12 years. The JV may be terminated earlier for valid business reasons including Force Majeure. In the event the JV is to be terminated either party may acquire the other parties' interests and continue the operations of the JV. Additionally, the term of the JV may be extended upon agreement of all parties. In such case, the JV shall apply for the extension to the relevant Chinese authority six months before expiry of the venture. At this time, AETI has no indication that the JV will not be extended beyond 12 years.

Risk from Restricted U.S. Government Access to Audit Documents in China

The audit of BOMAY for the fiscal year ended December 31, 2014 was conducted in China by a Chinese audit firm not registered with the PCAOB under the direction of the Company's independent auditor. The Company's independent auditor has directed additional procedures to comply with U.S. auditing standards.

Under the laws of the United States, auditors of public companies are to undergo regular inspections by the PCAOB and to make all requested work papers available for the SEC and the PCAOB inspection. However, due to laws of the People's Republic of China applicable to auditors, the SEC and the PCAOB are currently unable to conduct such inspections on work papers prepared in China without the approval of the Chinese government authorities.

As a result, the SEC or PCAOB may be unable to conduct inspections of the BOMAY audit work papers. The Company's stockholders may be deprived of the benefits of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of portions of our financial statements.

Joint Venture Centralized Government Risks

Since the centralized government of China controls most of the petroleum industry and related manufacturing through annual planning and budgets, the financial results realized by the Company's joint venture BOMAY will reflect the government's decisions on production levels for oil and gas equipment. The Company further understands that the value of BOMAY's assets including inventory may not be fully realized if demand for these products is reduced significantly because of economic policy decisions or other organizational changes in the Chinese Petroleum industry.

Foreign Currency Transaction Risk

AETI maintains equity method investments in its Singapore and Chinese joint ventures, MIEFE and BOMAY, respectively. The functional currencies of the joint ventures are the Singapore Dollar and the Chinese Yuan, respectively. Investments are translated into United States Dollars at the exchange rate in effect at the end of each reporting period. The resulting translation adjustment is recorded as accumulated other comprehensive income, net of deferred taxes in AETI's consolidated balance sheet. This item decreased from $983,000 at December 31, 2013 to $851,000 at December 31, 2014 due to the strength of the United States Dollar against the Brazilian Real and the withdrawal from the Brazil joint venture.

In M&I Brazil much of the business is conducted in Brazilian Reais and this has been determined to be the functional currency. Deterioration of the Real to the U.S. Dollar will reduce U.S. Dollar earnings on contracts.

Other than the aforementioned items, we do not believe we are exposed to significant foreign currency exchange risk because most 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 any 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 represent 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 customer net sales.

Interest Rates

Our market risk sensitive items do not subject us to material risk exposures. At December 31, 2014, the Company had $4.0 million of variable-rate debt outstanding under the facility. At this borrowing level, a hypothetical relative increase of 10% in interest rates would have had an insignificant, unfavorable impact on the Company's pretax earnings and cash flows. The primary interest rate exposure on variable-rate debt is based on the 30 day LIBOR rate (0.15% at December 31, 2014) plus 3.0% per year. A term loan of $4 million was completed in March 2015 and paid down the revolving facility. This has similar exposure to 30 day LIBOR plus 3.50%. The revolving credit facility agreement is collateralized by trade accounts receivable, inventory, work-in-process and equipment. The new term loan is secured by a mortgage note on the Beaumont real estate.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table describes the material facilities of AETI and its subsidiaries, including foreign joint ventures, as of December 31, 2014:

Location	General Description	Approximate Acres	Approximate Square Feet of Building	Owned/Leased
Houston, Texas	Company and M&I headquarters,	0.1	13,000	Leased
Beaumont, Texas	TP&S manufacturing, administration and storage	9.0	118,000	Owned
Bay St. Louis, Mississippi	M&I manufacturing	3.0	11,700	Owned
Keystone Heights, Florida*	Offices and manufacturing	9.7	67,500	Owned
Brazil - Macaé	M&I Brazil offices and manufacturing	1.0	10,764	Leased
Rio	M&I Brazil offices	0.1	6,458	Leased
Foreign joint ventures' operations:				
Xian, Shaanxi, China	BOMAY Electric Industries offices and manufacturing	4.1	100,000	Owned
			80,000	Leased
Singapore	M&I Electric Far East offices and manufacturing	0.3	15,000	Leased

* AAT facility is currently leased to purchaser of AAT operations.

ITEM 3. 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 is not expected to have a material effect on our consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES.
Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock trades on The NASDAQ Stock Market under the symbol "AETI".

The following table sets forth quotations for the high and low sales prices for the Company's common stock, as reported by NASDAQ, for the periods indicated below:

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	High	Low	High	Low
First Quarter	$ 11.21	$ 6.54	$ 5.23	$ 4.66
Second Quarter	7.15	5.67	7.27	5.12
Third Quarter	7.60	6.42	9.00	6.26
Fourth Quarter	7.60	5.00	10.22	6.75

As of March 16, 2015, there were 50 shareholders of record of our common stock.

The Company did not declare or pay cash dividends on common shares in either fiscal year 2014 or 2013. Dividends were paid on our Series A Convertible Preferred Stock. The Company anticipates that, for the foreseeable future, it will retain any earnings for use in the operation of its business. Our amended bank loan agreement prohibits the payment of cash dividends on our common stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In conjunction with the issuance of common stock to employees upon conversion of vested restricted stock units under the 2007 Employee Stock Incentive Plan, between February 25, 2014 and March 12, 2014, the Company withheld 59,113 of such shares for employee withholding tax of $466,000 in accordance with the provisions of the Plan. These shares are reflected as treasury stock at December 31, 2014.

In conjunction with the termination of certain AAT employees in August, 2014 the Company issued shares of common stock to separating employees upon conversion of vested restricted stock units under the 2007 Employee Stock Incentive Plan. The Company withheld 2,664 of such shares for employee withholding tax of $17,000 in accordance with the Plan. These shares are reflected as treasury stock at December 31, 2014.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information about outstanding equity plans as of December 31, 2014. The table includes additional shares that may be issuable pursuant to the amendment to add an additional 600,000 shares to the 2007 Employee Stock Incentive Plan that was approved at the Annual Meeting in May 2014.

Plan Category	Number of securities to be issued	Weighted-average exercise price of outstanding	Number of securities remaining

	upon exercise of outstanding rights (1)	options (2)		available for future issuance under equity compensation plans (excluding securities reflected in column (3) (a) (b)
Equity compensation plans approved by security holders	169,000	$	—	780,484
Equity compensation plans not approved by security holders	—		—	—
Total (c)	169,000	$	—	780,484

(1) Includes shares of common stock issuable upon vesting of outstanding restricted stock units (RSUs).

(2) The weighted average exercise price does not take into account the shares issuable upon vesting of outstanding RSUs, which convert to common stock on a one-to-one basis. No options were outstanding.

(3) Consists of the shares available for future issuance under 2007 Employee Stock Incentive Plan for services by eligible employees, board members, independent contractors and consultants.

(a) As of March 16, 2015, 728,474 shares were available for issuance under the 2007 Employee Stock Incentive Plan due to awards and vesting which occurred subsequent to December 31, 2014.

(b) See Note 10 to the consolidated financial statements included in this 10-K for the year ended December 31, 2014 for further information.

ITEM 6. SELECTED FINANCIAL DATA

The following table summarizes our consolidated financial data for continuing operations for the periods presented. This data excludes the results of the AAT segment, a discontinued operation. You should read the following selected consolidated financial data in conjunction with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this annual report. The information set forth below is not necessarily indicative of results of future operations. Amounts are in thousands of dollars except share and per share data.

CONTINUING OPERATIONS

	2014	2013	2012	2011	2010
Net sales	$57,254	$59,239	$48,169	$44,407	$32,086
Net income (loss) attributable to common stockholders***	$(2,399)	$4,918	$2,578	$(5,643)	$(1,944)
Earnings (loss) per common share:					
Basic	$(0.29)	$0.62	$0.33	$(0.72)	$(0.25)
Diluted	$(0.29)	$0.56	$0.31	$(0.72)	$(0.25)
Cash dividends declared per common share					
Shares used in computing earnings (loss) per common share:					
Basic	8,182,034	7,990,690	7,901,225	7,813,587	7,741,594
Diluted	8,182,034	9,472,506	8,258,742	7,813,587	7,741,594
Cash and cash equivalents	$3,550	$4,148	$4,477	$3,749	$1,364
Total assets**	43,254	45,836	38,974	36,231	34,027
Long-term debt (including current maturities)	4,000	500	500	5,211	4,365
Total liabilities**	17,701	15,565	13,789	18,710	11,101
Redeemable preferred stock (net of discount)	4,281	4,236	4,194	—	—
Total stockholders’ equity	21,272	26,035	20,991	17,521	22,926

Note: * In 2011 the Company recorded a net valuation reserve of $6.7 million related to its net operating loss carry forwards and other related deferred tax assets resulting in a $5.4 million non-cash tax expense.

** Includes assets and liabilities held for sale.

*** Equals continuing operations income after taxes less preferred dividends.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this Form 10-K. This discussion contains forward-looking statements, based on current expectations related to future events and AETI’s future financial performance that involves risks and uncertainties. AETI’s actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth in the section entitled “Risk Factors” in this Form 10-K.

Overview

Our corporate structure currently consists of American Electric Technologies, Inc., which owns 100% of M&I Electric Industries, Inc., its wholly-owned subsidiary, South Coast Electric Systems, LLC, M&I Electric Brazil Sistemas e Servicios em Energia LTDA ("M&I Brazil"), and American Access Technologies, Inc. ("AAT"). The operations of the AAT segment were sold on August 15, 2014 (except for its real estate) and its remaining assets are presented as "held for sale" and its operations are reported as discontinued operations. The Company reports financial data for two operating segments: the Technical Products and Services ("TP&S") segment and the Electrical and Instrumentation Construction ("E&I") segment. These two segments encompass the operations of M&I, including its interest in international joint ventures in China and Singapore. After withdrawing from the AAG joint venture in Brazil effective April 30, 2014 we formed a wholly-owned subsidiary in Brazil in July, 2014.

The Company is a leading provider of power delivery solutions to the global energy industry.

The principal markets that we serve include:

Oil & gas – the Company provides “turn-key” power delivery solutions for the upstream, midstream and downstream oil and natural gas sectors:

Upstream relates to the exploration and production of oil and natural gas. The Company serves customers in the land drilling, offshore drilling, land-based production, and offshore production segments of the market.

Midstream, which is primarily related to oil & gas transportation, including oil & gas pipelines and compression and pumping stations. The Company also has a strong customer base in natural gas fractionation (separation), cryo, natural gas to liquids, and other natural gas related-plants.

Downstream, which includes oil refining and petrochemical plants, as well as Liquefied Natural Gas (LNG) plants, export facilities, and storage facilities.

Power generation and distribution– the Company also provides “turn-key” power delivery solutions for the power generation and distribution sectors:

Distributed power generation includes on-site power generation, co-generation and independent power production customers.

Renewable power generation includes biomass power generation, geothermal power generation and other renewable energy related businesses.

Power distribution includes utility distribution markets such as substations.

Marine and Industrial:

Marine includes vessels such as platform supply vessels (PSV), offshore supply vessels (OSV), tankers and other various work boats, typically up to 300 ft. in length.

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

A key component of our Company’s strategy is our international focus. We have three primary models for conducting our international business. First, we sell 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 partners in key markets such as China and Singapore, where we can partner with the primary end-customer in that market, or there are local content requirements or a competitive advantage using local manufacturing. Third, in Brazil, we have exited our joint venture and formed a wholly-owned subsidiary to serve this expanding market.

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

The Company is 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.

The Company reports financial data for two operating segments: the Technical Products and Services ("TP&S") segment and the Electrical Instrumentation Construction ("E&I") segment; which together encompass the operations of M&I, including its wholly-owned subsidiaries, South Coast Electric Systems, LLC and M&I Brazil and M&I's interest in international joint ventures' operations in China and Singapore.

Business Sectors Disclosures

Based on the increasing importance of the oil and gas sector for our business, management began 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 Industrial as discussed in Item 7. on page 17. This information is supplemental and provided to allow investors to follow our future trends in marketing to various customer groups.

For Continuing Operations

	For the Twelve Months Ended December 31, 2014 and 2013 (in thousands)			
2014	Oil & Gas	Power Generation & Distribution	Marine & Other Industrial	Total
Net Sales	$41,378	$ 6,454	$ 9,422	$57,254
Gross Profit (Loss)	3,855	(89)	1,229	4,995
Gross Profit as % of Revenue	9 %	-1 %	13 %	9 %
2013				
Net Sales	$40,760	$ 6,408	$ 12,071	$59,239
Gross Profit	7,918	1,264	1,985	11,167
Gross Profit as of % of Revenue	19 %	20 %	16 %	19 %

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Non-U.S. GAAP Financial Measures

A non-U.S. 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-U.S. 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 redeemable preferred stock.

Management's Use of EBITDA

We use EBITDA to assess our overall financial and operating performance. We believe this non-U.S. 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 and value of companies in our industry.

Limitations of EBITDA

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

- the cash portion of dividends, 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-U.S. GAAP financial measures to supplement our U.S. 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 U.S. GAAP. You should not rely on EBITDA as a substitute for any such U.S. GAAP financial measure. We strongly urge you to review the reconciliation of EBITDA to U.S. GAAP net income (loss) attributable to common stockholders, along with our 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 U.S. 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) from continuing operations attributable to common stockholders to EBITDA for the years ended December 31, 2014 and 2013 (dollars in thousands):

	Years ending December 31, 2014	2013
Net income (loss) on continuing operations attributable to common stockholders*	$(2,399)	$4,918
Add: Dividends on redeemable preferred stock	345	342
Depreciation and amortization..	684	498
Interest expense and other (income), net	165	(54)
Provision (benefit) for income taxes	(334)	713
EBITDA	$(1,539)	$6,417

* Net Income (loss) from continuing operations less the dividends on redeemable convertible preferred stock.

Backlog

Backlog is another non-GAAP indicator management uses to measure the level of outstanding orders.

Effective in the second quarter, the Company changed its methodology for calculating backlog. While the change has no impact on orders that are not yet under construction, the Company believes the new method better reflects the amount of work remaining on orders under construction that extend beyond quarter end. Both methods will be shown through year-end 2014. Beginning in 2015, we will discontinue the reporting of the previous methodology.

Previous Methodology ($ millions)								
Segments	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
TPS	24.6	22.9	27.6	20.4	18.0	22.9	36.3	30.0
Construction / E&I	3.8	2.7	3.5	3.2	1.6	1.9	4.8	5.1
Total	28.4	25.6	31.1	23.6	19.6	24.8	41.1	35.1
Sectors								
Oil & Gas	17.9	17.6	27.1	18.6	13.4	18.3	33.0	30.9
Power Generation	5.7	4.3	1.8	2.1	3.6	3.6	5.8	2.9
Marine & Industrial	4.8	3.7	2.2	2.9	2.6	2.9	2.3	1.3
Total	28.4	25.6	31.1	23.6	19.6	24.8	41.1	35.1
New Methodology ($ millions)								
Segments								
TPS	21.8	19.8	21.6	16.8	11.6	14.8	25.2	22.7
Construction / E&I	3.8	2.7	3.5	3.2	1.6	1.9	2.8	3.8

Total	25.6	22.5	25.1	20.0	13.2	16.7	28.0	26.5
Sectors								
Oil & Gas	15.1	14.5	21.1	15.0	7.0	10.2	23.3	25.0
Power Generation	5.7	4.3	1.8	2.1	3.6	3.6	2.3	.7
Marine & Industrial	4.8	3.7	2.2	2.9	2.6	2.9	2.4	.8
Total	25.6	22.5	25.1	20.0	13.2	16.7	28.0	26.5

Foreign Joint Ventures:

Summary financial information of BOMAY, MIEFE and AAG in U.S. dollars was as follows at December 31, 2014 and 2013 (in thousands):

	BOMAY		MIEFE		AAG	
	2014	2013	2014	2013	2014	2013
	(in thousands)					
Assets:						
Total current assets	$77,812	$94,220	$3,488	$3,855	$—	$2,572
Total non-current assets	4,710	5,122	108	114	—	1,550
Total assets	$82,522	$99,342	$3,596	$3,969	$—	$4,122
Liabilities and equity:						
Total liabilities	$53,277	$72,644	$2,128	$1,197	$—	$1,291
Total joint ventures equity	29,245	26,698	1,468	2,772	—	2,831
Total liabilities and equity	$82,522	$99,342	$3,596	$3,969	$—	$4,122
Gross sales	$73,148	$86,332	$5,161	$7,997	$1,078	$10,658
Gross profit	$12,469	$12,130	$2,091	$2,066	$154	$4,282
Net income (loss)	5,136	5,165	336	279	4	1,721

The Company’s investments in and advances to its foreign joint ventures’ operations were as follows as of December 31, 2014 and 2013:

	2014				2013			
	BOMAY*	MEIFE	AAG	TOTAL	BOMAY*	MIEFE	AAG	TOTAL
	(in thousands)				(in thousands)			
Investment in joint ventures:								
Balance, beginning of year	$2,033	$ 14	$54	$2,101	$2,033	$14	$234	$2,281
Additional amounts invested and advanced	—	—	—	—	—	—	(180)	(180)
——Withdrawal from joint venture	—	—	(54)	(54)	—	—	—	—
Balance, end of year	2,033	14	—	2,047	2,033	14	54	2,101
Undistributed earnings:								
Balance, beginning of year	$7,145	$ 870	$1,481	$9,496	$6,400	$755	$661	$7,816
Equity in earnings (loss)	2,054	138	2	2,194	2,066	115	843	3,024
Dividend distributions	(1,042)	(650)	(830)	(2,522)	(1,321)	—	(23)	(1,344)
Withdrawal from joint venture	—	—	(653)	(653)	—	—	—	—
Balance, end of year	8,157	358	—	8,515	7,145	870	1,481	9,496
Foreign currency translation:								
Balance, beginning of year	$1,431	$ 254	$(249)	$1,436	$1,098	$294	$(81)	$1,311
Change during the year	(73)	(120)	178	(15)	333	(40)	(168)	125

Withdrawal from joint venture	—	—	71	71	—	—	—	—
Balance, end of year	1,358	134	—	1,492	1,431	254	(249)	1,436
Investments, end of year	$11,548	$ 506	$—	$12,054	$10,609	$1,138	$1,286	$13,033

* Accumulated statutory reserves in equity method investments of $2.1 and $1.9 million at December 31, 2014 and 2013, respectively, are included in AETI's consolidated retained earnings. In accordance with the People's Republic of China, ("PRC"), regulations on enterprises with foreign ownership, an enterprise established in the PRC with foreign ownership is required to provide for certain statutory reserves, namely (i) General Reserve Fund, (ii) Enterprise Expansion Fund and (iii) Staff Welfare and Bonus Fund, which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A non-wholly-owned foreign invested enterprise is permitted to provide for the above allocation at the discretion of its board of directors. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

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 consolidated statements of operations as equity income (loss) from foreign joint ventures' operations. Joint venture income increases the carrying value of the joint ventures and joint venture losses reduce the carrying value. Dividends received from the joint ventures reduce the carrying value.

The equity income for the Company's interest in the three joint ventures for 2014 and 2013 was: BOMAY $2,054 vs. $2,066, AAG $2 vs. $843 and MIEFE $138 vs. $115. These results reflect the relative size and activity in the three distinct markets of China, Brazil and Singapore. BOMAY's results reflects the market for land rigs in China with increasing exports to international markets.

The 2014 AAG results reflect that the Company exited the AAG Joint Venture in April 2014.

Historically, the operating results of BOMAY have appeared almost seasonal as budgets were established for new years in March and the companies worked to complete production to meet targets. After annual targets were met in the second or third quarter, only minimal new production results were reported in the fourth quarter. Most of BOMAY's production is for BOMCO for the Chinese National Petroleum Corporation for land drilling in China.

At December 31, 2014 there were inventories and work in progress at BOMAY of approximately $37 million compared to approximately $60 million at December 31, 2013. We expect much of this will be invoiced in 2015 after new budgets are established and products accepted. Additionally, new international orders will be completed and recognized. The 2015 level may approach recent years' results. BOMAY has addressed downturns with reduced staff and other cost cutting measures.

Results of Operations

The table below summarizes our consolidated net sales and profitability for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

CONTINUING OPERATIONS

	2014	2013	2012
Net sales	$57,254	$59,239	$48,169
Gross profit	4,995	11,167	7,162
Gross profit %	9 %	19 %	15 %
Research and development expenses	(807)	(499)	(103)
Selling and marketing expenses	(2,517)	(2,147)	(1,793)
General and administrative expenses	(5,566)	(5,359)	(4,364)
Income (loss) from consolidated continuing operations	(3,895)	3,162	902
Equity income from foreign joint ventures' operations	2,194	3,024	3,088
Foreign joint ventures' operations related expenses	(522)	(267)	(343)
Net equity income from foreign joint ventures' operations	1,672	2,757	2,745
Income (loss) from consolidated continuing operations and net equity income from foreign joint ventures' operations	(2,223)	5,919	3,647
Other income (expense), net	(165)	54	(137)
Net income (loss) from continuing operations before income taxes	(2,388)	5,973	3,510
(Provision for) benefit from income taxes	334	(713)	(707)

Net income (loss) before redeemable preferred dividends	(2,054)	5,260	2,803
Dividends on redeemable preferred stock	(345)	(342)	(225)
Net income from continuing operations attributable to common stockholders	$(2,399)	$4,918	$2,578

Year ended December 31, 2014 compared to year ended December 31, 2013

Net Sales

Consolidated net sales decreased $2.0 million or 3%, to $57.3 million for the year ended December 31, 2014 as compared to 2013. The Company's net sales decline from the comparative prior year period is due primarily to a $2.8 million reduction in the Electrical and Instrumentation Construction segment (E&I), partially offset by a $0.8 million increase in Technical Products and Service (TP&S) segment.

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Gross Profit

Consolidated gross profit for the year ended December 31, 2014 was $5.0 million compared $11.2 million for the year ended December 31, 2013, a decrease of $6.2 million or 55%. Gross profit as a percentage of net sales decreased to 9% in 2014, from 19% in 2013. Both the TP&S and E&I segments, The gross margin deterioration was primarily due to execution issues on large Power Distribution Center (PDC) projects and the manufacturing cost overruns on the introduction of new “Arc-Resistant” products in our TP&S segment.

Technical Products and Service (See segment Financial Data on page 6)

Net sales from TP&S for the year ended December 31, 2014 was $50.0 million, an increase of $0.8 million or 2% compared to the year ended December 31, 2013. Gross profit from the TP&S segment for the year ended December 31, 2014 was $4.1 million compared to $9.1 million for the year ended December 31, 2013, a decrease of $4.9 million or 55%. The decrease is primarily due to cost overruns in the second half of the year on both the manufacturing start-up of large PDC projects and the Company’s new arc-resistant switchgear. Additionally, the write-down of the Company’s remaining solar business assets and an increase in the Company’s warranty reserves on new products contributed to the decreased margins in the second half of the year.

Electrical and Instrumentation Construction (See segment Financial Data on page 6)

Net sales from Electrical and Instrumentation Construction (E&I) for the year ended December 31, 2014 was $7.3 million, a decrease of $2.8 million or 27.8% from the 2013 year, primarily due to lower overall construction sales caused by both a reduced sales focus on non-TP&S related construction projects and a reduction in the amount of time and materials based projects.

Gross profit from E&I was $0.9 million for the year ended December 31, 2014 compared to the year ended December 31, 2013, a decrease of $1.2 million or 59% from 2013. The decrease is primarily due cost overruns on three large construction projects and the impact lower overall E&I revenue levels.

Research and development costs

Research and development costs were $0.8 million for the year ended December 31, 2014 compared to $0.5 million for the year ended December 31, 2013. This increase was primarily due to increased development of the Company’s Arc-Resistant products and ongoing development of the Company’s DrillAssist technology.

Selling and marketing expenses

Selling and marketing expenses were $2.5 million for the year ended December 31, 2014 compared to $2.2 million for the year ended December 31, 2013. Selling and marketing expense, as a percentage of net sales, increased from 3.6% to 4.4% due to lower overall revenue levels and the onboarding during the year of new sales personnel.

General and Administrative Expenses

General and administrative (G&A) expenses were $5.6 million for the year ended December 31, 2014 compared to $5.4 million for the year ended December 31, 2013. G&A expenses increased to 9.7% of revenue in 2014 compared to 9% in 2013. These increases were primarily due to higher professional and recruiting fees, as well as a $0.3 million increase in costs related to the start-up of the Company’s wholly owned subsidiary in Brazil, offset by a reduction of $1.1 million in performance based incentive compensation expenses.

Net Equity Income from Foreign Joint Ventures

Net equity income from foreign joint ventures, net of related expenses, was $1.7 million for the year ended December 31, 2014 compared to $2.8 million for the year ended December 31, 2013. This decrease was primarily due to in the Company's withdrawal from its 49% investment in AETI Alliance Group do Brazil Sistemas E Servicos Em Energia LTDA ("AAG") in April 2014 as well as increased foreign operations expenses related to the oversight of the Company's investment in BOMAY.

Other income (expense), net

Other income (expense), net were expenses of $0.2 million for the year ended December 31, 2014 compared to incomes of $50 thousands in the year ended December 31, 2013. This change was primarily due to foreign exchange losses during 2014 and the gain on the sale of the Company's Long Drive facility in 2013.

Income Tax Provisions

The (benefit from) provision for income taxes for 2014 was $334,000 savings compared to expense of $713,000 in 2013. These amounts reflect the valuation allowance related to the Company's net deferred tax assets related to its U.S. operation. See Note 7 Income Taxes to the Consolidated Financial Statements included in this report for further details. The 2014 and 2013 tax accruals represent U.S. taxes on the foreign joint ventures equity income less dividends and proceeds received. During 2014 the combined dividends and proceeds exceeded the equity incomes and a credit (savings) was recognized at 34%. In 2013 the equity incomes exceeded the dividends and tax expenses was reflected at 34%.

LIQUIDITY AND CAPITAL RESOURCES

	December 31, 2014 (in thousands except percentages and ratios)	
Working capital	$11,348	
Current ratio	2.1 to 1	
Total debt	$4,000	
Debt as a percent of total capitalization	16	%
Consolidated net worth *	$25,553	

* "Consolidated Net Worth" represents the Company's consolidated total assets less consolidated total liabilities. AETI's long-term debt as of December 31, 2014 was $3.8 million on which payments were current.

See Note 8 Notes Payable for discussion of recent financial activity.

Notes Payable

On November 12, 2014 the Company entered into an amendment with JP Morgan Chase Bank N.A ("Chase") which extended the maturity of the facility to October 1, 2017. Additionally, the amendment modified the interest rate to LIBOR plus 3.00% per annum and the commitment fee to 0.4% per annum for the unused portion of the credit limit each quarter. The amendment provided for the exclusion of up to $4.9 million of capital expenditures related to the Company's Beaumont facility expansion from the fixed charge coverage ratio. The amendment also waived the $1.00 net income requirement for the period ended September 30, 2014 and modified the requirement at December 31, 2014 to be calculated using only the most recent three month period.

The Company and Chase executed a Third Amendment to Credit Agreement, Amendment to Revolving Credit Note and Limited Waiver effective March 13, 2015. See Note 8 Notes Payable for a complete discussion of this transaction.

The agreement is collateralized by the Company's real estate in Beaumont, Texas, trade accounts receivable, equipment, inventories, work-in-progress and investments in foreign subsidiaries, and the Company's U.S. subsidiaries are guarantors of the borrowing.

The Company has $4.0 million of borrowings outstanding under the JP Morgan Chase N.A. credit agreement at December 31, 2014 and $0.5 million at December 31, 2013. The Company had additional borrowing capacity of $3.2 million and $7.9 million at December 31, 2014 and December 31, 2013 respectively.

In conjunction with the facility expansion at Beaumont completed in June 2014, interest was capitalized at the 30 day LIBOR rate plus 3.25% per annum. Interest capitalized for the twelve months ending December 31, 2014 and 2013 was $18,000 and none respectively.

Sources and Use of Cash

We derive the majority of our operating cash inflow from receipts from the sale of goods and services and cash outflow is used for the procurement of materials and labor. Accordingly, cash flow is subject to market fluctuations and conditions. A substantial portion of our business, primarily construction and products, is characterized by long-term contracts. Most of our long-term contracts allow for several progress billings that provide us with cash receipts as costs are incurred throughout the project, rather than upon contract completion, thereby reducing working capital requirements. We also utilize borrowings under our revolving credit agreement, discussed in the preceding section, for our cash needs.

Operating Activities

During the twelve months ended December 31, 2014, the Company used cash flows in operations of $ 2.2 million as compared to generating $ 0.8 million for 2013. The cash from operating activities was negatively impacted by losses on continuing consolidated operations of $ 3.9 million offset by reduction in net working capital of $ 0.8 million compared to income of $ 5.3 million for the same period in 2013.

Investing Activities

During the twelve months ended December 31, 2014, the Company used $2.0 million in cash from investing activities compared to providing $0.3 million for the comparable period in 2013. This is mainly attributable to increased capital expenditures for our Beaumont plant expansion partially offset by dividends received from joint ventures, amounting to $2.5 million in 2014 and $1.3 million in 2013 respectively. Capital expenditures in 2014 totaled $4.9 million and $1.8 million in 2013 primarily Beaumont Plant expansion.

Financing Activities

During the twelve months ended December 31, 2014, the Company provided $2.8 million in cash from financing activities as compared to using $0.4 million in the comparable period in 2013. The drawdown of $3.5 million on the credit facility was partially offset by the purchase of treasury stock for $0.5 million and payment of preferred stock dividends of $0.3 million.

Cash Flow

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of debt requirements and operating cash needs. To meet our short and long-term liquidity requirements, we rely primarily on cash from operations. Beyond cash generated from operations, we have a credit facility with $3.2 million available at December 31, 2014 and $3.6 million of unrestricted cash at December 31, 2014. See Note 8 Notes Payable for recent financing discussion.

Operating Lease Commitments

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2014:

Year Ending December 31,	Amount (In thousands)
2015	506
2016	534
2017	455
2018	413
2019	220
2020	14
	$ 2,142

Contractual Obligations

Payments due under contractual obligations other than leases at December 31, 2014, are as follows:

	Within 1 Year	1 - 3 years	4 - 5 years	More Than 5 Years	Total
	(in thousands)				
Long-term debt obligations	$222	$ 533	$ 533	$ 2,712	$4,000
Interest on long-term debt	160	241	228	208	837
Total	$382	$ 774	$ 761	$ 2,920	$4,837

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Interest is estimated based on the current rate of approximately 3.4%

Outlook for Fiscal 2015

AETI enters 2015 with a backlog of $26.5 million which is up from the prior year because of new orders from increased sales activity. In this environment of low oil prices orders may be delayed or cancelled.

We closely monitor our backlog and order activity and continue to adjust our cost structure and expenditures accordingly as conditions require.

The Company believes its existing working capital, new term loan 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 cash needs may raise cash in the form of debt, equity, or a combination of both.

Effects of Inflation

We experienced minimal increases in our material prices in 2014. The Company has been generally successful in recovering these increases from its customers in the form of increased prices. As a result, AETI has not experienced material margin erosion in 2014 due to inflationary pressures. Future inflationary pressures will likely be largely dependent on the worldwide demand for these basic materials which cannot be predicted at this time.

Commitments and Contingencies

On September 1, 1999, the Company created a group medical and hospitalization minimum premium insurance program. For the policy year ended August 2014 and the subsequent policy, the Company is liable for all claims each year up to $70,000 per insured, or $1.5 million in the aggregate. An outside insurance company insures any claims in excess of these amounts. The Company's annual expense for this minimum premium insurance program totaled $1,165,000 and $879,000 during the years ended December 31, 2014 and 2013, respectively. Insurance reserves included in accrued payroll and benefits in the accompanying consolidated balance sheets were approximately $166,000 and $254,000 at December 31, 2014 and 2013, respectively.

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 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 consolidated 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 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.

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

Allowance for Doubtful Accounts – The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of 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. The Company also reviews historical experience with the customer, the general economic environment and the aging of receivables. The Company records an allowance to reduce receivables to the amount that is reasonably believed to be collectible. Based on this assessment, management believes the 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. Costs include direct material, direct labor, and job related overhead. However, For TP&S, we have determined that labor incurred, rather than total costs incurred, provides an improved measure of percentage-of-completion. For contracts with anticipated losses, estimated losses 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 project has been accepted by the customer. Revenue from non-time and material jobs of a short-term nature (typically less than one month) is recognized on the completed-contract method after considering the attributes of such contracts. This method is used because these contracts are typically completed in a short period of time and the financial position and results of operations do not vary materially from those which would result from use of the percentage-of-completion method. The asset, "Work-in-process," which is included in inventories, represents the cost of labor, material, and overhead on jobs accounted for under the completed-contract method. For contracts accounted for under the percentage-of-completion method, the asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenue recognized in excess of amounts billed and the liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenue recognized.

Foreign Currency Gains and Losses – Foreign currency translations are included as a separate component of comprehensive income. The Company has 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 and M&I Brazil, denominated in foreign currency, are translated into United States dollars at exchange rates in effect at the consolidated balance sheet date and net sales and expenses are translated at the average exchange rate for the period. Related translation adjustments are reported as comprehensive income, net of deferred income taxes, 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 the 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 – The Company records 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. The Company regularly evaluates the current information that is available to determine whether such accruals should be adjusted or other disclosures related to contingencies are required. The Company is a party to a number of legal proceedings in the normal course of business for which appropriate provisions have been made if it is believed 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 consolidated financial position or results of operations.

Equity Income from Foreign Joint Ventures' Operations – The Company accounts for its investments in foreign joint ventures' using the equity method. Under the equity method, the Company records its pro-rata share of foreign joint ventures' income or losses and adjusts the basis of its investment accordingly. Dividends received from the joint ventures, if any, are recorded as reductions to the investment balance.

Carrying Value of Joint Venture Investments – The Company evaluates the carrying value of 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 international, national and local economic, political and market conditions, industry trends and prospects, liquidity and capital resources and other pertinent factors.

Recently Issued Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-01, Balance Sheet (Topic 210) – Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU No. 2013-01 was issued to clarify that ordinary trade receivables and receivables are not within the scope of ASU No. 2011-11. ASU No. 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the Codification or subject to a master netter arrangement or similar agreement. ASU No. 2013-01 is effective for annual periods beginning on or after January 1, 2013 and interim periods within those periods. The adoption of ASU No. 2013-01 did not have a significant impact on the Company’s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830) – Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an

Investment in a Foreign Entity. ASU No. 2013-05 provides guidance on releasing cumulative translation adjustments when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, ASU No. 2013-05 provides guidance on the release of cumulative translation adjustments in partial sales of equity method investments and in step acquisition. ASU No. 2013-05 is effective on a prospective basis for annual periods beginning after December 15, 2013 and interim periods within those periods. The adoption of ASU No. 2013-05 did have a significant impact on the Company's consolidated financial position or results of operations.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU No. 2014-08 changes the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under ASU No. 2014-08, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. In addition, ASU No. 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The guidance also requires disclosure of pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. ASU No. 2014-08 is effective in the first quarter of 2015 with early adoption permitted. Management is currently evaluating the future impact of ASU No. 2014-08 on the Company's consolidated financial position, results of operations and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the future impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method with which we will adopt the standard in 2017.

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in this ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and shill be eligible to vest in the award if the performance target is achieved. The amendments in ASU No. 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. Management is currently evaluating the future impact of ASU No. 2014-12 on the Company's consolidated financial position, results of operations and disclosures.

In November 2014, the FASB issued ASU No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting a census of the FASB Emerging Issues Task Force. ASU No. 2014-17 provides that an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. ASU No. 2014-17 is effective on November 15, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplified Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income statement – Extraordinary and Unusual Items, requires that an entity separately classify, present and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. ASU No. 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments of ASU No. 2015-01 can be applied prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. The adoption of ASU No. 2015-01 is not expected to have a significant impact on the Company's consolidated financial position, results of operations or disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. ASU No. 2015-02 focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification ™ and improves current GAAP by: (1) Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met; (2) Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity; and (3) Changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or variable interest entities. ASU No. 2015-02 is effective for periods beginning after December 15, 2015. Management is currently evaluating the future impact of ASU No. 2015-02 on the Company's consolidated financial position, results of operations and disclosures.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rates

Our variable interest rate items do not subject us to material risk exposures. Our revolving credit facility remains available through December 31, 2015. At December 31, 2014, the Company had $4.0 million of variable-rate debt outstanding. At this borrowing level, a hypothetical relative increase of 10% in interest rates would have had an insignificant, unfavorable impact on the Company's pre-tax earnings and cash flows. The primary interest rate exposure on variable-rate debt is based on the 30 day LIBOR rate (0.15% at December 31, 2014) 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. See Notes Payable on page 25.

Foreign Currency Transaction Risk

AETI maintains equity method investments in its Singapore and Chinese Yuan joint ventures, MIEFE and BOMAY respectively. The functional currencies of the joint ventures are the Singapore Dollar and the Chinese respectively. Investments are translated into United States Dollars at the exchange rate in effect at the end of each quarterly reporting period with associated income statements are translated at average period exchange rates. The M&I Brazil statements are translated into U.S. Dollars at period end rate for balance sheets and average period exchange rate for income statements. The resulting translation adjustments is recorded as accumulated other comprehensive income net of taxes in AETI's consolidated balance sheets. In the current period this item decreased from $983,000 at December 31, 2013 to $813,000 at December 31, 2014 due principally to the strength of the United States Dollar against the Brazilian Real.

Other than the aforementioned items, we do not believe we are exposed to foreign currency exchange risk because most 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 represent 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Table of Contents on page F-2 of our Consolidated Financial Statements and Notes thereto contained herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures

Under the direction of our Principal Executive Officer and Principal Financial Officer, we evaluated our disclosure controls and procedures as of December 31, 2014. Our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2014.

Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2014 based on these criteria. This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to section 404(c) of the Sarbanes-Oxley Act of 2002, as amended that permits the Company, as a smaller reporting company, to provide only management's report in this annual report.

Changes in internal control over financial reporting

There were no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

Information required by this Item is incorporated by reference to the information contained in the Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed within 120 days after our December 31, 2014 fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The additional information required by this Item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the “Director Independence” and “Certain Relationships and Related Transactions” sections of our Proxy Statement for the 2015 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm

See Index on page F-2.

2. Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements and Notes thereto.

3. Exhibits

A list of exhibits filed or furnished with this report on Form 10-K (or incorporated by reference to exhibits previously filed or furnished by us) is provided in the Exhibit Index immediately following the signature pages of this report. We will furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request. Stockholders may request exhibit copies by contacting: Rachel Acree, Assistant Corporate Secretary, American Electric Technologies, Inc., 1250 Wood Branch Park Drive, Suite 600, Houston, Texas 77079.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: March 30, 2015

AMERICAN ELECTRIC TECHNOLOGIES, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ Charles M. Dauber Charles M. Dauber	President, Chief Executive Officer, Director (Principal Executive Officer)	March 30, 2015
/s/ Andrew L. Puhala Andrew L. Puhala	Chief Financial Officer (Principal Financial Officer)	March 30, 2015
/s/ Don W. Boyd Don W. Boyd	Controller (Principal Accounting Officer)	March 30, 2015
/s/ Neal M. Dikeman Neal M. Dikeman	Director	March 30, 2015
/s/ Peter Menikoff Peter Menikoff	Director	March 30, 2015
/s/ J. Hoke Peacock II		

J. Hoke Peacock II	Director	March 30, 2015
/s/ Casey Crenshaw Casey Crenshaw	Director	March 30, 2015
/s/ Edward Kuntz Edward Kuntz	Director	March 30, 2015

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EXHIBIT INDEX

3.1 Restated Articles of Incorporation of the Registrant. (Incorporated by Reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed May 12, 2008)
3.2 Articles of Amendment to Registrant's Articles of Incorporation filed April 30, 2012. (Incorporated by Reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed May 4, 2012)
3.3 Amended and Restated Bylaws of the Registrant. (Incorporated by Reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed February 9, 2009)
4.1 Warrant to purchase 125,000 shares of Registrant's common stock dated May 2, 2012. (Incorporated by reference to Exhibit 4.1 to Registrant's Quarterly Report of Form 10-Q filed on August 14, 2012)
4.2 Warrant to purchase 200,000 shares of Registrant's common stock dated May 2, 2012. (Incorporated by reference to Exhibit 4.2 to Registrant's Quarterly Report of Form 10-Q filed on August 14, 2012)
4.3 Investors Rights Agreement between Registrant and JCH Crenshaw Holdings, LLC dated May 2, 2012. (Incorporated by reference to Exhibit 4.3 to Registrant's Quarterly Report of Form 10-Q filed on August 14, 2012)
4.4 Registration Rights Agreement between Registrant and JCH Crenshaw Holdings, LLC dated May 2, 2012. (Incorporated by reference to Exhibit 4.4 to Registrant's Quarterly Report of Form 10-Q filed on August 14, 2012)
10.3 Amended 2007 Employee Stock Incentive Plan*
10.4 Non-Employee Directors' Deferred Compensation Plan (Incorporated by reference to Exhibit 10.4 to the Registrant's report on Form 10-QSB filed November 14, 2007)*
10.5 2007 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.5 to the Registrant's report on Form 10-QSB filed November 14, 2007)*
10.15 Summary of Non-Employee Director compensation effective January 1, 2015.*
10.16 First Amendment to Credit Agreement and Amendment to Security Agreements.
10.17 Second Amendment to Credit Agreement, amendment to Credit Agreement and Limited Waiver.
10.18 Amended Credit Agreement and Term Note between Registrant and JP Morgan Chase Bank, N.A. dated March 13, 2015.
10.21 Form of Employee Stock Option Award Agreement under 2007 Employee Stock Incentive Plan. (Incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K filed March 31, 2008) *
10.22 Form of Restricted Stock Unit Award Agreement under 2007 Employee Stock Incentive Plan. (Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K filed March 31, 2008) *
10.23 Securities Purchase Agreement between Registrant and JCH Crenshaw Holdings, LLC dated April 13, 2012. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed April 19, 2012)
10.25 Deferred Compensation Plan for executives. (Incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K filed March 27, 2009)*
10.27 Notification of annual salary and target for performance bonus compensation. (Incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K filed March 27, 2009)*
10.29 Employment Agreement with Arthur G. Dauber dated August 25, 2009. (Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed August 27, 2009)*
10.33 Amendment No. 1 to Employment Agreement with Arthur G. Dauber. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 30, 2010)*
10.34 Amendment to Employment Agreement with Arthur G. Dauber. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 13, 2012)*
10.35 Employment Agreement with Charles M. Dauber dated November 6, 2013. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 13, 2013) *
10.36

	Employment Agreement with Andrew L. Puhala. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 23, 2013) *
10.37	Summary of Compensation for Named Executive Officers 2015.*

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10.38	Employment Agreement with William C. Miller dated August 4, 2014 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 8, 2014)*
14	Code of Ethics. (Incorporated by reference to Exhibit 14 to the Registrant's Annual Report on Form 10-KSB filed March 21, 2004)
21	Subsidiaries of the Registrant.
23.1	Consent of Ham, Langston & Brezina, LLP
31.1	Rule 13a-14(a) / 15d-14(a) Certifications of the Principal Executive Officer.
31.2	Rule 13a-14(a) / 15d-14(a) Certifications of the Principal Accounting Officer.
32.1	Section 1350 Certifications of the Principal Executive Officer and Principal Accounting Officer.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Extension Presentation Linkbase Document.

* Indicates a management contract or compensatory plan or arrangement.

** Appointment of Edward L. Kuntz, a director of the Board and member of the Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee as of September 15, 2013. (Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed September 19, 2013).

AMERICAN ELECTRIC TECHNOLOGIES, INC.

AND SUBSIDIARIES

Consolidated Financial Statements

With Report of Independent Registered Public Accounting Firm

December 31, 2014 and 2013

American Electric Technologies, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2014 and 2013

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

American Electric Technologies, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of American Electric Technologies, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 and, accordingly, we do not express an opinion thereon.

/s/ Ham, Langston & Brezina, L.L.P.

Houston, Texas

March 30, 2015

American Electric Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 3,550	$ 4,148
Accounts receivable-trade, net of allowance of $315 and $327 at December 31, 2014 and December 31, 2013	11,877	10,462
Inventories, net of allowance of $73 and $40 at December 31, 2014 and December 31, 2013	2,769	3,184
Cost and estimated earnings in excess of billings on uncompleted contracts	2,989	5,312
Prepaid expenses and other current assets	750	376
Current assets held for sale	—	3,113
Total current assets	21,935	26,595
Property, plant and equipment, net	8,373	4,077
Advances to and investments in foreign joint ventures	12,054	13,033
Other assets	242	126
Long-term assets held for sale	650	2,005
Total assets	$ 43,254	$ 45,836
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,447	$ 5,327
Accrued payroll and benefits	1,145	1,911
Other accrued expenses	640	397
Billings in excess of costs and estimated earnings on uncompleted contracts	1,983	3,021
Short-term notes payable	222	—
Other current liabilities	150	121
Current liabilities held for sale	—	536
Total current liabilities	10,587	11,313
Notes payable	3,778	500
Deferred income taxes	3,046	3,541
Deferred compensation	290	211
Total liabilities	17,701	15,565
Convertible preferred stock:		
Redeemable convertible preferred stock, Series A, net of discount	4,281	4,236

of $729 at December 31, 2014 and $764 at December 31, 2013;		
$0.001 par value, 1,000,000 shares authorized, issued		
and outstanding at December 31, 2014 and December 31, 2013		
Stockholders’ equity:		
Common stock; $0.001 par value, 50,000,000 shares		
authorized, 8,185,323 and 8,008,759 shares issued and		
outstanding at December 31, 2014 and December 31, 2013	8	8
Treasury stock, at cost 111,640 shares at December 31, 2014		
and 49,863 shares at December 31, 2013)	(722)	(238)
Additional paid-in capital	11,418	10,494
Accumulated other comprehensive income	851	983
Retained earnings; including accumulated statutory reserves		
in equity method investments of $2,100 and $1,857 at December 31, 2014		
and December 31, 2013	9,717	14,788
Total stockholders’ equity	21,272	26,035
Total liabilities and stockholders’ equity	$ 43,254	$ 45,836

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

American Electric Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations

(in thousands, except share and per share data)

	Year Ended December 31, 2014	Year Ended December 31, 2013
Net sales	$57,254	$59,239
Cost of sales	52,259	48,072
Gross profit	4,995	11,167
Operating expenses:		
Research and development	807	499
Selling and marketing	2,517	2,147
General and administrative	5,566	5,359
Total operating expenses	8,890	8,005
Income (loss) from consolidated continuing operations	(3,895)	3,162
Net equity income from foreign joint ventures' operations:		
Equity income from foreign joint ventures' operations	2,194	3,024
Foreign joint ventures' operations related expenses	(522)	(267)
Net equity income from foreign joint ventures' operations	1,672	2,757
Income (loss) from consolidated continuing operations and net equity income from foreign joint ventures' operations	(2,223)	5,919
Other income (expense):		
Interest expense and other, net	(165)	54
Continuing operations income (loss) before income taxes	(2,388)	5,973
Provision for income taxes (benefit) on continuing operations	(334)	713
Net income (loss) from continuing operations	(2,054)	5,260
Discontinued operations income (loss)	(2,673)	(709)
Provision for income taxes on discontinued operations	—	—
Net income (loss) from discontinued operations	(2,673)	(709)
Net income (loss) before dividends on redeemable convertible preferred stock	(4,727)	4,551
Dividends on redeemable convertible preferred stock	(345)	(342)
Net income (loss) attributable to common stockholders	$(5,072)	4,209
Earnings (loss) from continuing operations per common share:		

Basic	$(0.29)	0.62
Diluted	(0.29)	0.56
Weighted - average number of continuing operations shares outstanding:		
Basic	8,182,034	7,990,690
Diluted	8,182,034	9,472,506
Loss per common share from discontinued operations:		
Basic and diluted	$(0.33)	(0.09)
Total earnings (loss) per common share:		
Basic	$(0.62)	0.53
Diluted	(0.62)	0.48
Weighted - average number of common shares outstanding:		
Basic	8,182,034	7,990,690
Diluted	8,182,034	9,472,506

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

American Electric Technologies, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Twelve Months Ended December 31,	
	2014	2013
Net income (loss)	$(4,727)	$4,551
Other comprehensive income:		
Foreign currency translation gain (loss), net of deferred income taxes of $43 and $(42) for the twelve months ended December 31, 2014 and 2013	(132)	83
Total comprehensive income (loss)	$(4,859)	$4,634

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

American Electric Technologies, Inc. and Subsidiaries

Consolidated Statements of Stockholders’ Equity

(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders’ Equity
	Shares	Amount				
Balance at December 31, 2012	7,919,032	$ 7.940	$ 9,505	$ 900	10,578	20,991
Common stock issued to ESPP	4,697	0.005	25	—	—	25
Options Exercised	3,827	0.004	22	—	—	22
Issued for Acquisition	11,000	0.011	—	—	—	—
Treasury stock purchase	(29,641)	—	(145)	—	—	(145)
Restricted stock units (1)	99,844	0.100	850	—	—	850
Net income to common stockholders*	—	—	—	—	4,209	4,209
Foreign currency translation	—	—	—	83	—	83
Balance at December 31, 2013	8,008,759	7.960	10,256	983	14,787	26,035
Common stock issued to ESPP	3,640	0.004	26	—	—	26
Options Exercised	11,980	0.012	70	—	—	105
Issued for Acquisition	11,000	0.011	—	—	—	—
Treasury stock purchase	(61,777)	—	(483)	—	—	(483)
Restricted stock units (1)	211,719	0.311	828	—	—	793
Net income (loss) to common stockholders*	—	—	—	—	(5,072)	(5,072)
Foreign currency translation	—	—	—	(132)	—	(132)
Balance at December 31, 2014	8,185,324	$ 8.298	$ 10,696	$ 851	$ 9,717	$ 21,272

* Net of preferred dividends of $345 and $342 in 2014 and 2013 respectively.
(1) Converted to common stock.

American Electric Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

	Twelve Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss) from continuing operations	$(2,054)	$5,260
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income tax provision (benefit)	(334)	593
Equity income from foreign joint ventures' operations	(2,194)	(3,024)
Depreciation and amortization	684	498
Stock based compensation	793	850
Provision for bad debt	(12)	65
(Gain)/Loss on sale of property and equipment	—	(143)
Allowance for obsolete inventory	33	32
Deferred compensation costs	78	90
Change in operating assets and liabilities:		
Accounts receivable	(1,645)	(1,438)
Income taxes payable	30	111
Inventories	383	352
Costs and estimated earnings in excess of billings on uncompleted contracts	2,324	(3,107)
Prepaid expenses and other current assets	(66)	(215)
Accounts payable and accrued liabilities	787	1,487
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,038)	(555)
Other	22	
Net cash provided by (used in) operating activities	(2,209)	856
Cash flows from investing activities:		
Purchases of property, plant and equipment and other assets	(4,878)	(1,805)
Proceeds from disposal of property plant and equipment	—	575
Proceeds from joint ventures' operations dividends	2,522	1,344
Proceeds from joint ventures' repayment of advances	—	180
Proceeds from disposal of joint venture	317	—
Net cash provided by (used in) from investing activities	(2,039)	294
Cash flows from financing activities:		
Proceeds from issuance of common stock	132	47
Treasury stocks purchase	(484)	(147)
Preferred stock cash dividend	(300)	(300)
Advances from credit facility	3,500	—
Net cash provided by (used in) financing activities	2,848	(400)
Net increase (decrease) in cash and cash equivalents from continuing operations	(1,400)	750
Advances from (to) discontinued operations	802	(1,079)
Net increase (decrease) in cash and cash equivalents	(598)	(329)

Cash and cash equivalents, beginning of period	4,148	4,477
Cash and cash equivalents, end of period	$3,550	$4,148
Supplemental disclosures of cash flow information:		
Interest paid	$36	$27
Income taxes paid	$344	$179

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

American Electric Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(1) Organization and Nature of Business

American Electric Technologies, Inc. ("AETI" or the "Company") is the surviving financial reporting entity from a reverse acquisition of an 80% interest in American Access Technologies, Inc. by the shareholders of M&I Electric Industries, Inc.("M&I") on May 17, 2007. Immediately upon the completion of the reverse acquisition, American Access Technologies, Inc. changed its name to American Electric Technologies, Inc. AETI is a Florida corporation and M&I, AETI's wholly-owned subsidiary is a Texas corporation. M&I has a wholly-owned subsidiary, South Coast Electric Systems, LLC ("SC"), a Mississippi based company, and joint venture interests in China and Singapore. On January 1, 2008, AETI established a wholly- owned subsidiary through which it conducted its American Access Technology segment's business. On August 14, 2014 AETI sold the AAT business except for the real estate. AAT's operations are reported as discontinued in all periods.

In 2014 the Company formed a wholly-owned subsidiary in Brazil. The Company has U.S. facilities and sales offices in Texas, Mississippi and Florida; and Brazil facilities and sales offices in Macaé and Rio; and foreign joint ventures' operations that have facilities in Singapore and Xian, China. The Company owns the Beaumont, Texas facilities, comprised of 9 acres and 118,000 square feet, the Mississippi facility, comprised of 3 acres and 11,000 square feet and the Florida facility, comprised of a 67,500 square foot manufacturing facility situated on 9.7 acres of land. In Brazil we lease facilities in Rio and Macaé.

American Electric Technologies, Inc. is comprised of two segments: Technical Products and Services ("TP&S) and Electrical and Instrumentation Construction ("E&I"). The TP&S segment designs, manufactures, markets and provides products designed to distribute the flow of electricity and protect electrical equipment such as motors, transformers and cables, and also provides variable speed drives to both AC ("alternating current") and DC ("direct current") motors. Products offered by this segment include low and medium voltage switchgear, generator control and distribution switchgear, motor control centers, powerhouses, bus duct, variable frequency AC drives, variable speed DC drives, program logic control ("PLC") based automation systems, human machine interface ("HMI") and specialty panels. The products are built for application voltages from 480 volts to 40,000 volts and are used in a wide variety of industries, including renewable energy. Services provided by TP&S include electrical equipment retrofits, upgrades, startups, testing and troubleshooting of substations, switchgear, drives and control systems.

The E&I segment provides a full range of electrical and instrumentation construction and installation services to both land and marine based markets of the oil and gas industry and other commercial and industrial markets. The E&I segment provides services on both a fixed-price and a time-and-materials basis. The segment's services include electrical and instrumentation turnarounds, maintenance, renovation and new construction. Applications include installation of switchgear, AC and DC motors, drives, motor controls, lighting systems, high voltage cable, and data centers. Marine based oil and gas services include complete electrical system rig-ups, modifications, start-ups and testing for vessels, drilling rigs, and production modules. These services can be manufactured and installed utilizing NEMA and ANSI or IEC equipment to meet ABS, USCG, Lloyd's Register, a provider of marine certification services, and DNV standards.

M&I's wholly-owned subsidiary, SC, is a Delaware Limited Liability Company organized on February 20, 2003. With the exception of electrical contracting, it is engaged in the same lines of business as M&I, but it participates in different market segments. After withdrawing from the AAG joint venture in Brazil effective April 30, 2014 we formed a wholly-owned subsidiary in Brazil in July 2014. The newly formed Brazil company, M&I Brazil, is owned

20% by AETI and 80% by M&I.

M&I has foreign joint ventures' interests in M&I Electric Far East PTE Ltd. ("MIEFE") and BOMAY Electrical Industries Company, Ltd. ("BOMAY"). MIEFE is a Singapore company that provides sales, manufacturing and technical support internationally. BOMAY provides electrical systems primarily for land and marine based drilling rigs in China. These ventures are accounted for using the equity method of accounting.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AETI and its wholly-owned subsidiaries, M&I and AAT (which is reported as discontinued operations), and M&I's wholly-owned subsidiary SC and the wholly-owned subsidiary M&I Brazil. Significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 net sales and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates made by management include:

(1) Percentage-of-completion estimates on long-term contracts
(2) Estimates of the provision for doubtful accounts
(3) Estimated useful lives of property and equipment
(4) Valuation allowances related to deferred tax assets

Financial Instruments

The Company includes fair value information in the notes to the consolidated financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made, which is the case for financial instruments outstanding as of December 31, 2014 and 2013. The Company assumes the book value of those financial instruments that are classified as current approximates fair value because of the short maturity of these instruments. For non-current financial instruments, the Company uses quoted market prices or, to the extent that there are no available quoted market prices, market prices for similar instruments.

Cash and Cash Equivalents

Cash equivalents consist of liquid investments with original maturities of three months or less. Cash balances routinely exceed FDIC limits however all cash is maintained in JP Morgan Chase and believed to be secure.

Accounts Receivable and Provision for Bad Debts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its 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. The Company also reviews historical experience with the customer, the general economic environment and the aging of its receivables. The Company records an allowance to reduce receivables to the amount it reasonably believes to be collectible. Based on this assessment, management believes the allowance for doubtful accounts is adequate.

Inventories

Inventories are stated at the lower of cost or market, with material value determined using an average cost method. Inventory costs for 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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for repairs and maintenance are expensed as incurred while renewals and betterments are capitalized. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets after giving effect to salvage values.

Long-lived assets

If events or circumstances indicate the carrying amount of an asset may not be recoverable, management tests long-lived assets for impairment. If the estimated future cash flows are projected to be less than the carrying amount, an impairment write-down (representing the carrying amount of the long-lived asset which exceeds the present value of estimated expected future cash flows) would be recorded as a period expense. Events that would trigger an impairment test include the following:

- A significant decrease in the market price of a long-lived asset.
- A significant change in the use of long-lived assets or in its physical condition.
- A significant change in the business climate that could affect an assets value.
- An accumulation of cost significantly greater than the amount originally expected to acquire or construct a long-lived asset.
- A current period operating or cash flow loss combined with a history of such losses or a forecast demonstrating continued losses associated with the use of a long-lived asset.
- An expectation to sell or otherwise dispose of a long-lived asset significantly before the end of its estimated useful life.

Based on management's reviews during each of the years ended December 31, 2014 and 2013, there were no events or circumstances that caused management to believe that impairments were necessary.

Other Assets

Intangible Assets at December 31, 2014	Useful Lives (Years)	Cost	Accumulated Amortization	Net Value
	(in thousands)			
Intellectual property	3	322	305	17
License	-	218	-	218
		$540	$ 305	$ 235

Amortization expense related to intangible assets held by the Company for the year ended December 31, 2014 was approximately $108,000 and was approximately $108,000 in 2013. Estimated amortization expense for the next five years is as follows:

For the Year Ending December 31,	Amount
	(in thousands)
2015	$ 17
2016	-
2017	-
2018	-
2019	-
	$ 17

On March 8, 2012, the Company acquired certain technology from Amnor Technologies, Inc. for cash of $100,000 plus 44,000 shares of the Company's common stock valued at $4.95 per share (the closing price on that date). One fourth of the shares were issued initially with the balance to be issued one third annually on the anniversaries over the subsequent 3 years. The purchase price was valued at $322,000 (including $4,000 of transaction costs) at March 8, 2012 and is recorded as an intangible asset and included in other assets in the consolidated balance sheet. This cost is being amortized over its estimated useful life of 3 years. Amortization expense of $108,000 and $108,000 was recognized annually during the years ended December 31, 2014 and 2013 and is included in general and administrative expenses in the consolidated statements of operations.

The technology provides automation and control system technologies for land and offshore drilling monitoring and control (auto-driller); marine automation including ballast control and tank monitoring and machinery plant control and monitoring systems; IP-based CCTV systems; and military vessel security and safety systems, all proven in multiple installations.

During 2014 we acquired arc-resistant technology and capitalized the cost of $218,000. We will evaluate the remaining value regularly and expense any reduction in value.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method of accounting for income taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to be reported to the taxing authority. The Company also records any financial statement recognition and disclosure requirements for uncertain tax positions taken or expected to be taken in its tax return. Financial statement recognition of the tax position is dependent on an assessment of a 50% or greater likelihood that the tax position will be sustained upon examination, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions are recorded as interest expense in the accompanying consolidated statements of operations.

Foreign Currency Gains and Losses

Foreign currency translations are included as a separate component of comprehensive income. We have determined the local currency of our foreign joint ventures' operations and M&I Brazil to be the functional currency. In accordance with ASC 830, the assets and liabilities of our foreign equity investees, denominated in foreign currency, are translated into U.S. dollars at exchange rates in effect at the consolidated balance sheet date; net sales and expenses are translated at the average exchange rate for the period. Related translation adjustments are reported as other comprehensive income, net of taxes, which is a separate component of stockholders’ equity, whereas gains and losses resulting from foreign currency transactions are included in results of operations.

Net Sales 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. Net sales from non-time and material jobs of a short-term nature (typically less than one month) are 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 Company records net sales from its field and technical service and repair operations on a completed service basis after customer acknowledgement that the service has been completed and accepted. Approximately 8% of the Company’s consolidated net sales are recorded on this basis. In addition, the Company sells certain purchased parts and products. These net sales are recorded when the product is shipped and title passes to the customer. Approximately 3% of the Company’s consolidated net sales are recorded on this basis.

The asset, “Work-in-process,” which is included in inventories, represents the cost of labor, material, and overhead in excess of amounts billed 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 billing on uncompleted contracts,” represents net sales recognized in excess of amounts billed and the liability, “Billings in excess of costs and estimated earnings on uncompleted contracts,” represents billings in excess of net sales recognized. Any billed net sale that has not been collected is reported as accounts receivable. The timing of when we bill our customers is generally dependent upon advance billing terms or completion of certain phases of the work.

On occasion, the Company enters into long-term contracts that include services performed by more than one operating segment particularly TP&S contracts which include electrical and instrumentation construction services performed by our E&I segment. The Company segments net sales, costs and gross profit related to these contracts if they meet the contract segmenting criteria in ASC 605-35, including that the terms and scope of the project clearly call for separate elements, the separate elements are often bid or negotiated by the Company separately and the total economic returns and risks of the separate elements are similar to the economic returns and risks of the overall contract. For segmented contracts, the Company recognizes net sales as if they were separate contracts over the performance periods of the individual elements.

Contract net sales recognition inherently involves estimation, including the contemplated level of effort to accomplish the tasks under the contract, the cost of the effort, and an ongoing assessment of progress toward completing the contract. From time to time, as part of the normal management processes, facts develop that requires revisions to estimated total cost or net sales expected. The cumulative impact of any revisions to estimates and the full impact of anticipated losses on contracts are recognized in the period in which they become known.

Shipping and Handling Fees and Costs

Shipping and handling fees, if billed to customers, are included in net sales. Shipping and handling costs associated with inbound freight are expensed as incurred. Shipping and handling costs associated with outbound freight are classified as cost of sales.

Concentration of Market Risk and Geographic Operations

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company's market risk is dependent primarily on the strength of the oil and gas and energy related industries. The Company grants credit to customers and generally does not require security except in the case of certain international contracts. Procedures are in effect to monitor the credit worthiness of its customers. During 2013, one customer accounted for approximately 17% of net sales and 9% of net accounts receivable trade. During 2014, one customer accounted for approximately 12% of net sales and 4% of net accounts receivable trade.

The Company sells its products and services in domestic and international markets; however, significant portions of the Company's sales are concentrated with customers located in the Gulf Coast region of the United States. The Gulf Coast region accounts for approximately 7% of the Company's net sales during the year ended December 31, 2014 and 9% during 2013.

Reclassification

Certain items are reclassified in the 2013 consolidated financial statements to conform to the 2014 presentation.

Recently Issued Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-01, Balance Sheet (Topic 210) – Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU No. 2013-01 was issued to clarify that ordinary trade receivables and receivables are not within the scope of ASU No. 2011-11. ASU No. 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the Codification or subject to a master netter arrangement or similar agreement. ASU No. 2013-01 is effective for annual periods beginning on or after January 1, 2013 and interim periods within those periods. The adoption of ASU No. 2013-01 did not have a significant impact on the Company’s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830) – Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU No. 2013-05 provides guidance on releasing cumulative translation adjustments when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, ASU No. 2013-05 provides guidance on the release of cumulative translation adjustments in partial sales of equity method investments and in step acquisition. ASU No. 2013-05 is effective on a prospective basis for annual periods beginning after December 15, 2013 and interim periods within those periods. The adoption of ASU No. 2013-05 did have a significant impact on the Company’s consolidated financial position or results of operations.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU No. 2014-08 changes the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under ASU No. 2014-08, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results. In addition, ASU No. 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The guidance also requires disclosure of pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. ASU No. 2014-08 is effective in the first quarter of 2015 with early adoption permitted. Management is currently evaluating the future impact of ASU No. 2014-08 on the Company’s consolidated financial position, results of operations and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the future impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method with which we will adopt the standard in 2017.

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in this ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and shill be eligible to vest in the award if the performance target is achieved.

The amendments in ASU No. 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. Management is currently evaluating the future impact of ASU No. 2014-12 on the Company's consolidated financial position, results of operations and disclosures.

In November 2014, the FASB issued ASU No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting a census of the FASB Emerging Issues Task Force. ASU No. 2014-17 provides that an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. ASU No. 2014-17 is effective on November 15, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplified Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income statement – Extraordinary and Unusual Items, requires that an entity separately classify, present and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. ASU No. 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments of ASU No. 2015-01 can be applied prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. The adoption of ASU No. 2015-01 is not expected to have a significant impact on the Company's consolidated financial position, results of operations or disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. ASU No. 2015-02 focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification ™ and improves current GAAP by: (1) Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met; (2) Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity; and (3) Changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or variable interest entities. ASU No. 2015-02 is effective for periods beginning after December 15, 2015. Management is currently evaluating the future impact of ASU No. 2015-02 on the Company's consolidated financial position, results of operations and disclosures.

(3) Inventories

Inventories consisted of the following at December 31, 2014 and 2013.

	2014	2013
Raw materials	$940	$1,056
Work in progress	1,902	2,168
Less: Allowance	(73)	(40)
Total inventories	$2,769	$3,184

(4) Costs, Estimated Earnings, and Related Billings on Uncompleted Contracts

Contracts in progress at December 31, 2014 and 2013 consisted of the following:

	2014	2013
	(in thousands)	
Costs incurred on uncompleted contracts	$7,279	$7,271
Estimated earnings	5,208	2,172
	12,487	9,443
Billings on uncompleted contracts	(11,481)	(7,152)
	$1,006	$2,291

Costs, estimated earnings, and related billing on uncompleted contracts consisted of the following at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Cost and estimated earnings in excess of billings on uncompleted contracts	$2,989	$5,312
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,983)	(3,021)
	$1,006	$2,291

(5) Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2014, and 2013:

Category	Estimated Useful Lives (years)	2014	2013
		(in thousands)	
Buildings and improvements	15 – 25	$8,117	$2,638
Office equipment and furniture	2 – 7	2,583	1,969
Automobiles and trucks	2 – 5	265	197
Machinery and shop equipment	2 – 10	3,349	2,714
Construction in progress		428	2,464
		14,742	9,982
Less: accumulated depreciation and amortization		6,503	6,039
		8,239	3,943
Land		134	134
		$8,373	$4,077

During the years ended December 31, 2014 and 2013, depreciation charged to operations amounted to $563,000 and $390,000 respectively. Of these amounts, $428,000 and $228,000 was charged to cost of sales while $135,000 and $162,000 was charged to selling, general and administrative expenses for the years ended December 31, 2014 and 2013, respectively.

On October 9, 2013, the Company sold the property and improvements at 6410 Long Drive, Houston, Texas. The proceeds were received in cash and resulted in a gain of $128,000 included in other income in the accompanying consolidated statements of operations. The facility was leased by the Company until March 14, 2014 when it relocated to its new leased facilities discussed in Note 9.

(6) Advances to and Investments in Foreign Joint Ventures' Operations

The Company has a foreign joint venture agreement and holds a 40% interest in a Chinese company, BOMAY, which builds electrical systems for sale in China. The majority partner in this foreign joint venture is a subsidiary of a major Chinese oil company. M&I made an initial investment of $1.0 million in 2006 and made an additional $1.0 million investment in 2007. The Company's equity in the income of the foreign joint venture was $2.1 million and $2.1 million for the years ended December 31, 2014 and 2013, respectively. Sales made to the foreign joint venture were $130,000 and $325,000 for the years ended December 31, 2014 and 2013, respectively. Accounts receivable from BOMAY were $82,000 and $119,000 at December 31, 2014 and 2013.

The Company owns a 41% interest in MIEFE which provides additional sales and technical support in Asia. The Company's equity in the income of the foreign joint venture was $138,000 and $115,000 for the years ended December 31, 2014 and 2013, respectively. Sales made to the foreign joint venture were $14,000 and $225,000 for the years ended December 31, 2014 and 2013, respectively. Accounts receivable from MIEFE was $2,000 and $0 at December 31, 2014 and 2013, respectively.

In April 2014 the Company withdrew from the AAG joint venture. The Company received a note from the joint venture
payable over 12 months. At December the outstanding note was valued at $201,000 and does not bear interest.

The Company's equity in income of the foreign joint ventures before our foreign operations expenses, totaled $2.2 million and $3.0 million for the years ended December 31, 2014 and 2013, respectively.

During 2014 and 2013, the Company also recognized approximately $522,000 and $267,000, respectively, for employee related expenses directly attributable to the foreign joint ventures.

Sales to foreign joint ventures' operations are made on an arm's length basis and intercompany profits, if any, are eliminated in consolidation.

Summary financial information of BOMAY, MIEFE and AAG in U.S. dollars was as follows at December 31, 2014 and 2013:

	BOMAY		MIEFE		AAG	
	2014	2013	2014	2013	2014	2013
	(in thousands)					
Assets:						
Total current assets	$77,812	$94,220	$3,488	$3,855	$—	$2,572
Total non-current assets	4,710	5,122	108	114	—	1,550
Total assets	$82,522	$99,342	$3,596	$3,969	$—	$4,122
Liabilities and equity:						
Total liabilities	$53,277	$72,644	$2,128	$1,197	$—	$1,291
Total joint ventures equity	29,245	26,698	1,468	2,772		2,831
Total liabilities and equity	$82,522	$99,342	$3,596	$3,969	$—	$4,122
Gross sales	$73,148	$86,332	$5,161	$7,997	$1,078	$10,658
Gross profit	12,469	12,130	2,091	2,066	154	4,282
Net income	5,136	5,165	336	279	4	1,721

The Company's investments in and advances to its foreign joint ventures' operations were as follows as of December 31, 2014 and 2013:

	2014 BOMAY*	MEIFE	AAG	TOTAL	2013 BOMAY*	MIEFE	AAG	TOTAL
	(in thousands)				(in thousands)			
Investment in joint ventures:								
Balance, beginning of year	$2,033	$ 14	$54	$2,101	$2,033	$14	$234	$2,281
Additional amounts invested and advanced	—	—	—	—	—	—	(180)	(180)
Withdrawal from joint venture	—	—	(54)	(54)	—	—	—	—
Balance, end of year	2,033	14	—	2,047	2,033	14	54	2,101
Undistributed earnings:								
Balance, beginning of year	$7,145	$ 870	$1,481	$9,496	$6,400	$755	$661	$7,816
Equity in earnings (loss)	2,054	138	2	2,194	2,066	115	843	3,024
Dividend distributions	(1,042)	(650)	(830)	(2,522)	(1,321)	—	(23)	(1,344)
Withdrawal from joint venture	—	—	(653)	(653)	—	—	—	—
Balance, end of year	8,157	358	—	8,515	7,145	870	1,481	9,496
Foreign currency translation:								
Balance, beginning of year	$1,431	$ 254	$(249)	$1,436	$1,098	$294	$(81)	$1,311
Change during the year	(73)	(120)	178	(15)	333	(40)	(168)	125
Withdrawal from joint venture	—	—	71	71	—	—	—	—
Balance, end of year	1,358	134	—	1,492	1,431	254	(249)	1,436
Investments, end of year	$11,548	$ 506	$—	$12,054	$10,609	$1,138	$1,286	$13,033

* Accumulated statutory reserves in equity method investments of $2,100,000 and $1,857,000 at December 31, 2014 and 2013, are included in AETI's consolidated retained earnings. In accordance with the People's Republic of China, ("PRC"), regulations on enterprises with foreign ownership, an enterprise established in the PRC with foreign ownership is required to provide for certain statutory reserves, namely (i) General Reserve Fund, (ii) Enterprise Expansion Fund and (iii) Staff Welfare and Bonus Fund, which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A non-wholly-owned foreign invested enterprise is permitted to provide for the above allocation at the discretion of its board of directors. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

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 consolidated statements of operations as equity income (loss) from foreign joint ventures' operations. Joint venture income increases the carrying value of the joint ventures and joint venture losses reduce the carrying value. Dividends received from the joint ventures reduce the carrying value. 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.

(7) Income Taxes

The components of income (loss) before income taxes and dividends on preferred stock for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
	(in thousands)	
United States	$(7,255)	$2,240
Foreign	2,194	3,024
	$(5,061)	$5,264

The components of the provision (benefit) for income taxes by taxing authority for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
	(in thousands)	
Current provision:		
Federal	$—	$—
Foreign	—	—
States	—	141
Total current provision	—	141
Deferred provision (benefit):		
Federal	(309)	536
Foreign		—
States	(25)	36
Total deferred provision (benefit):	(334)	572
	$(334)	$713

Significant components of the Company's deferred federal income taxes were as follows:

	At December 31, 2014		2013	
	Current	Non-Current	Current	Non-Current
	(in thousands)		(in thousands)	
Deferred tax assets:				
Accrued liabilities	$161	$ —	$413	$ —
Deferred compensation	—	726	—	686
Allowance for doubtful accounts	111	—	120	—
Inventory	122	—	270	—
Long-term contracts	—	—	149	—
Net operating loss	—	3,848	—	2,909
Intangible assets	—	—	—	86
Foreign tax credit carry forward	—	2,811	—	1,153
Valuation allowance	—	(7,845)	—	(5,385)
Deferred tax assets	394	(460)	952	(551)
Deferred tax liabilities:				
Equity in foreign investments	—	(2,900)	—	(3,233)
Property and equipment	—	66	—	(147)
Intangible assets	—	—	—	(9)
Translation gain	—	(523)	—	(553)
Deferred tax liabilities		(3,357)	—	(3,942)
Net deferred tax assets (liabilities)	$394	$ (3,817)	$952	$ (4,493)

The provision for income taxes for the year ended December 31, 2014 was primarily a non-cash savings of $0.3 million and reflect deferred taxes associated with the Company's foreign joint ventures. The Company's deferred tax assets are primarily related to net operating loss carry forwards. These net operating losses include losses generated by American Access Technologies. Inc. ("AAT"), prior to the Company's merger in 2007, additional net operating losses, and foreign tax credit carry forwards. A valuation allowance was established at December 31, 2014 and 2013 due to uncertainty regarding future realization of deferred tax assets. Our total valuation allowance as of December 31, 2014 and 2013 is $7.8 million and $5.4 million, respectively.

The Company has federal net operating loss carry forwards of approximately $7.4 million which include $7.4 million acquired from AAT that are subject to the utilization limitation under Section 382 of the Internal Revenue Code. The Company has state net operating losses of $11 million. These tax loss carry forwards are available to offset future taxable income and expire if unused during the federal tax year ending December 31, 2019 through 2031.

The Company's 2008 U.S. federal income tax return was examined by the Internal Revenue Service ("IRS"). In the fourth quarter 2011, the IRS concluded its audit which adjusted the annual net operating loss carry forward limitation under Sec. 382 related to AAT's pre-acquisition net operating loss carry forwards to $299,000 per year through 2027. The Company has adopted the provisions of ASC Topic 740-10 "Income Taxes" to assess tax benefits claimed on a tax return should be recorded in the financial statements. The Company has assessed all open tax years and has recorded no uncertain tax positions related to the open tax years.

The difference between the effective income tax rate reflected in the provision for income taxes and the amounts, which would be determined by applying the statutory income tax rate of 34%, is summarized as follows:

	2014	2013
	(in thousands)	
(Provision for) benefit from U.S federal statutory rate	$1,611	$(1,798)
Effect of state income taxes	35	(141)
Non-deductible business meals and entertainment expenses	(486)	(18)
Foreign income taxes included in equity in earnings	1,400	551
Adjustment of net operating loss carry forwards based on IRS audit, accrual to return adjustments and other	(12)	(153)
Change in valuation allowance	(2,214)	846
Total (Expense)	$334	$(713)

The Company files income tax returns in the United States Federal jurisdiction and various state jurisdictions.

(8) Notes Payable

The components of notes payable at December 31, 2014 and 2013 are as follows:

	2014	2013
	(In thousands)	
Revolving credit agreement	$4,000	$500
Total notes payable	4,000	500
Non-current notes payable*	$3,778	$500

*Because of the amendment in March 2015 $222,222 will be due in 2015 on the term loan.

Revolving Credit Agreement

On November 30, 2013, the Company entered into a $10.0 million Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A. (Chase). The agreement replaced in its entirety the Company's prior credit agreement, as amended, originally entered into with JPMorgan Chase Bank, N.A. in October of 2007

The 2013 agreement had a maturity date of October 1, 2015. 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 is charged on the unused portion of the credit limit each quarter.

The 2013 agreement provides for usual and customary covenants and restrictions including that the borrower must maintain a fixed charge coverage ratio of no less than 1.25 to 1.00, and will not permit the ratio of consolidated total liabilities to consolidated net worth to exceed 1.00. Additionally, the borrower will not permit, at the end of each calendar quarter, for its net income for the most recently ended six month period to be less than $1.00. Effective June 30, 2014 the Company and Chase amended the 2013 credit agreement to exclude the impact of the AAT discontinued operations and anticipated sale of that segment from the calculation of the net income covenant. On November 12, 2014 the Company entered into an amendment with Chase which extended the maturity of the facility to October 2017. Additionally the amendment modified the interest rate to LIBOR plus 3.00 % per annum and the commitment fee to 0.4% per annum for the unused portion of the credit limit each quarter. The amendment provided for the exclusion of up to $4.9 million of capital expenditures related to the Company’s Beaumont facility expansion from the fixed charge coverage ratio. The amendment also waived the $1.00 net income requirement for the period ended September 30, 2014 and modified the requirement at December 31, 2014 to be calculated using only the most recent three month period.

The Company had $4.0 million of borrowings outstanding under the JPMorgan Chase N.A. credit agreement at December 31, 2014 and $0.5 million at December 31, 2013. The company had additional borrowing capacity of $3.2 million and $7.9 million at December 31, 2014 and December 31, 2013 respectively.

New Financings

In March 2015, the Company and Chase executed the Third Amendment to Credit Agreement, Amendment to Revolving Credit Note and Limited Waiver. The amendment established the Revolving Credit Maturity Date as December 31, 2015. It established an available amount of not less than $1,500,000 and up to the lesser of the Borrowing Base and the Commitment of $4,000,000. The $4,000,000 outstanding under the current Revolving Credit was repaid from the new Term Loan for $4,000,000 upon the effective date of the Third Amendment. The new Term Loan is secured by a mortgage on the Beaumont, Texas Facility. The Term Loan accrues interest at the adjusted LIBOR Rate plus a margin of 3.50%.

The maturity date of the term loan is March 31, 2020. The loan requires payment of principal on the last day of each calendar quarter totaling $222,222 in 2015. This amount would have reduced our working capital and resulted in a current ratio of 2.07 at December 31, 2014.

Additionally trade accounts receivable, equipment, inventories, and work-in-process, and investments in foreign subsidiaries secure the financings and the Company's U.S. subsidiaries are guarantors of the borrowings under the new revolving credit facility.

(9) Leases
New Corporate Office Lease

In late December 2013 the Company executed a new lease for office space at 1250 Wood Branch Park Drive, Houston, Texas. The lease covers approximately 13,000 square feet.

The term of the lease is 64 months and commenced upon completion of tenant improvements, which were completed in March 2014.

The Company leases equipment (principally trucks and forklifts) under operating lease agreements that expire at various dates to 2016. Rental expense relating to operating leases and other short-term leases for the years ended December 31, 2014 and 2013, amounted to approximately $0.4 million and $0.3 million, respectively.

The following is a schedule of future lease payments:

Year Ending December 31,	Amount (In thousands)
2015	$ 506
2016	534
2017	455
2018	413

2019	220
2020	14
	$ 2,142

(10) Stock and Stock-based Compensation
Employee Stock Purchase Plan

The Company issued 3,640 and 4,697 shares of Company stock during 2014 and 2013, respectively, in connection with an Employee Stock Purchase ("ESPP") Plan that commenced in April 2008.

Restricted Stock Units

During 2014 and 2013, the Board of Directors approved the grants of approximately 160,000 and 234,525 restricted stock units ("RSU"s) to members of management and key employees as part of the 2007 Employee Stock Incentive Plan. In May 2010, the stockholders of the Company approved amendments to the 2007 Employee Stock Incentive Plan to increase the number of shares available for issuance under the plan from 300,000 shares to 800,000 shares of stock. In June 2012 the stockholders approved an increase from 800,000 to 1,100,000 shares of stock available under the plan. In May 2014 the stock holders increased the share available under the plan from 1,100,000 to 1,700,000. The number of RSUs awarded is generally subject to the substantial achievement of budgeted performance and other metrics in the year granted. The RSUs do not have voting rights of the common stock, and the shares of common stock underlying the RSUs are not considered issued and outstanding until actually vested and issued. In general, the awards convert to common stock on a one to one basis in 25% increments over four years from the grant date subject to a continuing employment obligation.

The following table summarizes the activity for unvested restricted stock units for the years ended December 31, 2014 and 2013:

	Units	Weighted Average Fair Value Per RSU
Unvested restricted stock units at December 31, 2012	391,413	$ 4.11
Awarded	234,525	$ 5.00
Vested	(99,844)	$ 3.15
Forfeited	(54,464)	$ 3.40
Unvested restricted stock units at December 31, 2013	471,630	$ 4.77
Awarded	160,000	$ 6.84
Vested	(211,719)	$ 4.23
Forfeited	(251,269)	$ 6.47
Unvested restricted stock units at December 31, 2014	168,642	$ 4.88

Compensation expense of approximately $676,000 and $767,000 was recorded in general administrative expense, selling and indirect operating expense for the years ended December 31, 2014 and 2013, respectively, to reflect the fair value of the original RSU's granted or anticipated to be granted less forfeitures, amortized over the portion of the vesting period occurring during the period. The fair value of the RSUs was based on the closing price of our common stock as reported on the NASDAQ Stock Market ("NASDAQ") on the grant date. Based upon the fair value on the grant date of the number of shares awarded or expected to be awarded, it is anticipated that approximately $0.8 million of additional compensation cost will be recognized in future periods through 2017. The weighted average period over which this additional compensation cost will be expensed is 2 years.

During February 2015, the Board of Directors approved the grants of approximately 217,000 RSUs in conjunction with the Plan, of which, approximately 45,000 units are subject to 2015 fiscal performance measures.

Stock Options

The Company recognizes compensation expense related to stock options in accordance with ASC 718 and has measured the share-based compensation expense for stock options granted during the year ended December 31, 2008 based upon the estimated fair value of the award on the date of grant and recognizes the compensation expense over the award's requisite service period. The weighted average fair values were calculated using the Black Scholes-Merton option pricing model. There were no options issued in 2014 or 2013.

Details of stock option activity during the years ended December 31, 2014 and 2013 follows:

	2014	2014 Weighted Average Exercise Price	2013	2013 Weighted Average Exercise Price
Outstanding at beginning of year	16,944	$ 4.09	25,778	$ 4.23

Options granted	—	—	—	—
Options exercised	(11,980)	4.09	(3,827)	4.09
Options forfeited	—	4.09	(5,007)	5.11
Options expired	(4,964)	4.09	—	—
Outstanding at end of year	—	—	16,944	4.09
Exercisable at end of year	—	$ —	16,944	$ 4.09

No stock options were outstanding as of December 31, 2014.

Compensation expense of approximately none and $20,000 was recorded in the years ended December 31, 2014 and 2013, respectively, which is included in general and administrative expenses in the consolidated statements of operations. As of December 31, 2014, there was no unrecognized compensation cost related to stock option awards.

Board of Directors Compensation

Directors who are not employees of the Company and who do not have a compensatory agreement providing for service as a director of the Company receive a retainer fee payable quarterly. Eligible directors may elect to defer 50% to 100% of their retainer fee, which may be used to acquire common stock of the Company at the fair market value on the date the retainer fee would otherwise be paid, acquire stock units equivalent to the fair market value of the Company's common stock on the date the retainer fee would otherwise be paid, or be paid in cash. During the years ended December 31, 2014 and 2013, directors of the Company elected to defer retainer fees to acquire approximately 18,800 and 5,000, respectively, stock units. Compensation expense of approximately $130,000 and $32,000 was recorded in the years ended December 31, 2014 and 2013 respectively, which is included in general and administrative expenses in the consolidated statements of operations.

(11) 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 lessor 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%.

The preferred stock and warrants were issued for a total of $5.0 million. This amount was allocated to the preferred stock and warrants based on their relative fair values. The fair value of the warrants was calculated using the Black Scholes-Merton pricing model using the following weighted average assumptions:

Number of warrants	325,000
Exercise price	$6.62

Expected volatility of underlying stock	74	%
Risk-free interest rate	1.62	%
Dividend yield	0	%
Expected life of warrants	8 years	
Weighted-average fair value of warrants	$3.11	
Expiration date	May 2, 2020	

Based on these calculations and the actual consideration, the warrants were valued at $840,000 and the Series A Convertible Preferred Stock was valued at $4,160,000.

The initial values allocated to the warrants were recognized as a discount on the Series A Convertible Preferred Stock, with a corresponding charge to additional paid-in capital. The discount related to the warrants is accreted to retained earnings through the scheduled redemption date of the mandatorily redeemable Series A Convertible Preferred Stock. Discount accretion for the year 2014 totaled $45,000 and $42,000 in 2013.

(12) Employee Benefit and Bonus Plans

The employees of the Company are eligible to participate in a 401(k) plan sponsored by the Company. The plan is a defined contribution 401(k) Savings and Profit Sharing Plan (the "Plan") that covers all full-time employees who meet certain age and service requirements. Employees may contribute up to 20% of their annual gross pay through salary deferrals. The Company may provide discretionary contributions to the Plan as determined by the Board of Directors. For the years ended December 31, 2014 the Company contributed none to the plan and $201,000 in 2013.

The Company maintains an "Executive Performance" bonus plan, which covers approximately 60 key employees. Under the plan, the participants receive a percentage of a bonus pool based primarily on pre-tax income in relation to budget. The Board of Directors approves the Executive Performance plan at the beginning of each year. During the years ended December 31, 2014 and 2013, the Company recorded approximately $121,000 and $813,000 under the plan, respectively, all of which was included in accrued payroll and benefits expenses as of the respective year end.

(13) Related Party Transactions

During 2014 and 2013, the Company received legal advice on various Company matters from a law firm related to a director of the Company. The Company incurred expenses totaling approximately $50,000 and $89,000 related to these services during 2014 and 2013, respectively, which is included in general and administrative expenses in the accompanying consolidated statements of operations. As of December 31, 2014 and 2013, there were no overdue outstanding amounts owed to this law firm for services provided.

In August 2009, the Company entered into an employment agreement (amended in 2012 and 2013) with the Executive Chairman of the Board of Directors ("Executive Chairman"), whereby the Company compensated the Executive Chairman $130,000 and $130,000 during 2014 and 2013, respectively. Under the terms of the agreement, the Executive Chairman will assist in international joint venture relations and operations, technical developments, manufacturing and transformative business development projects and other special projects assigned by the Company. In November 2013, the Company amended the agreement to extend the term through 2015 with annual compensation of $130,000 and $130,000 for 2014 and 2015. In addition, the amendment included a bonus equal to 1% of the amount reported by the Company as equity income from foreign joint ventures' operations in the consolidated statements of operations. During 2014 and 2013, the Company paid compensation of $130,000 and $157,570, respectively, under the terms of the agreement, which is included in general and administrative expenses in the accompanying consolidated statements of operations.

(14) Segment Reporting

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

Management has organized the Company around its products and services and has two reportable segments: Technical Products and Services ("TP&S") and Electrical and Instrumentation Construction ("E&I"). 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 reported in the section net equity income (loss) from foreign operations. The E&I segment installs electrical equipment for the energy, water, industrial, marine and commercial markets.

The table below represents segment results for continuing operations for the years ended December 31, 2014, and 2013.

	2014	2013
Net sales:		
Technical Products and Services	$49,967	$49,150
Electrical and Instrumentation Construction	7,287	10,089
	$57,254	$59,239
Gross profit (loss):		
Technical Products and Services	$4,132	$9,072
Electrical and Instrumentation Construction	863	2,095
	$4,995	$11,167
Income (loss) from domestic operations and net equity income from foreign joint ventures' operations		
Technical Products and Services	$3,177	$8,061
Electrical and Instrumentation Construction	525	2,096
Corporate and other unallocated expenses	(7,597)	(6,995)
Income (loss) from continuing consolidated operations	(3,895)	3,162

The Company's management does not separately review and analyze its assets on a segment basis for TP&S and E&I, 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.

(15) Quarterly Results for Continuing Operations
The following table reflects the quarterly information for continuing operations for the applicable time periods.

	2014				
	Q1	Q2	Q3	Q4	Total
Net Sales	$15,848	$13,430	$14,283	$13,693	$57,254
Gross Profit	2,435	2,028	495	37	4,995
Net income (loss)	848	1,062	(1,982)	(1,982)	(2,054)
Earnings (loss) per share:					
Basic	$0.09	$0.12	$(0.25)	$(0.25)	$(0.29)

	2013				
	Q1	Q2	Q3	Q4	Total
Net Sales	$13,008	$13,499	$16,236	$16,496	$59,239
Gross Profit	2,765	2,089	2,759	3,554	11,167
Net income (loss)	1,813	1,208	1,202	1,027	5,260
Earnings (loss) per share:					
Basic	$0.22	$0.14	$0.14	$0.12	$0.62

(16) Commitments and Contingencies

On September 1, 1999, the Company created a group medical and hospitalization minimum premium insurance program. For the policy year ended August 2015, the Company is liable for all claims each year up to $70,000 per insured, or $1.5 million in the aggregate. An outside insurance company insures any claims in excess of these amounts. The Company's expense for this minimum premium insurance totaled $1,165,000 and $879,000 during the years ended December 31, 2014 and 2013. Insurance reserves included in accrued payroll and benefits in the accompanying consolidated balance sheets were approximately $166,000 and $254,000 at December 31, 2014 and 2013.

(17) Earnings (Loss) from Continuing Operations Per Common Share

Basic earnings (loss) per common share is based on the weighted average number of common shares outstanding for the year ended December 31, 2014 and 2013. Diluted earnings (loss) 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 exercise of all potentially dilutive stock options and other units subject to anti-dilution limitations.

The following table sets forth the computation of basic and diluted earnings (loss) per common share (in thousands, except share and per share data):

	Year Ended December 31,	
	2014	2013
Net income (loss)**	$(2,399)	$4,918
Weighted average basic shares	8,182,034	7,990,690
Dilutive effect of stock options, restricted stock units, preferred stock and warrants*	0	1,481,816
Total weighted average diluted shares with assumed conversions	8,182,034	9,472,506
Earnings loss from continuing operations per common share:		
Basic	$$(0.29)	$0.62
Dilutive	$$(0.29)	$0.56

*No units or shares are considered when losses cause the effect to be anti-dilutive.

**Net income (loss) represents net income (loss) from continuing operations less the dividends on redeemable convertible preferred stock.

(18) Discontinued Operations

During the first quarter of 2014, the management and the Board of Directors of AETI initiated a process to evaluate the possible sale of the AAT segment as well as other alternatives. The segment is comprised entirely of the American Access Technologies, Inc. operations in Florida. During the second quarter, the decision was made to sell the AAT business. Based on the expected value of the assets and liabilities for sale and the costs associated with the sale, an impairment loss of approximately $2.3 million after tax was recorded in the second quarter in discontinued operations results along with the $84,000 operating loss for the second quarter and $268,000 operating loss in the first quarter for AAT. AAT results are considered discontinued operations and its assets and associated liabilities are carried as assets and liabilities held for sale. Therefore, its results are presented below continuing operating results as discontinued operations. Future periods will continue to report AAT results as discontinued in all comparative periods. The sale of all non-cash assets excluding the real property closed effective August 14, 2014. Prior to the closing AAT incurred an operating loss of $21,000 in the third quarter. The real estate was leased to the buyer for a minimum of one year with an option to purchase and remains in assets held for sale.

The following tables summarize the AAT assets and liabilities held for sale, the operating results for AAT and its impairment charge, and AAT’s summary cash flow components:

American Access Technologies, Inc.

Assets and Liabilities held for sale

(in thousands)

	December 31, 2014 (unaudited)	December 31, 2013
Current assets held for sale	$ -	$ 3,113
Long term assets held for sale	650	2,005
Total assets held for sale	$ 650	$ 5,118
Current liabilities held for sale	-	536
Total Liabilities held for sale	-	536
Net assets and liabilities held for sale	$ 650	$ 4,582

American Access Technologies, Inc.

Condensed Statements of Operations

Unaudited

(in thousands)

	Year Ended December 31,	
	2014	2013
Operating income (loss) from discontinued operations	$(373)	$(709)
Provision for income taxes	-	-
Valuation provision ("impairment") on assets for sale	(2,300)	-
Income taxes on discontinued operations	-	-
Net loss after tax	$(2,673)	$(709)

American Access Technologies, Inc.

Condensed Statements of Cash Flow Components

Unaudited

(in thousands)

	Year Ended December 31,	
	2014	2013
Net cash (used in) operating activities	$(1,691)	$(496)
Net cash provided by (used in) investing activities*	2,769	(176)
Net cash (used in) financing activities	-	(58)
Advances (to) from parent	(1,078)	730
Net increase (decrease) in cash and cash equivalents	$-	$-

* Includes sale proceeds of $2.3 million.

Cash is not included in assets held for sale and is included in the consolidated balance sheets in cash.

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