

American Electric Technologies Inc
Form 10-Q
August 08, 2017
.

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2017

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File No. 000-24575

AMERICAN ELECTRIC TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida	59-3410234
(State or other jurisdiction	(I.R.S. Employer
of incorporation)	Identification No.)
1250 Wood Branch Park Drive, Suite 600, Houston, TX 77079	

(Address of principal executive offices)

(713) 644-8182

(Registrant's telephone number)

* * * * *

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 26, 2017 the registrant had 8,615,269 shares of its Common Stock outstanding.

AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

FORM 10-Q Index

For the Quarterly Period Ended June 30, 2017

	Page
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016</u>	4
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2017 and 2016</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
<u>Part II. Other Information</u>	
<u>Legal Proceedings</u>	24

Item 1.

Item 1A. Risk Factors 24

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 24

Item 3. Defaults upon Senior Securities 24

Item 4. Mine Safety Disclosures 24

Item 5. Other Information 24

Item 6. Exhibits 24

Signatures 25

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,242	\$ 1,618
Restricted short-term investments	507	507
Accounts receivable-trade, net of allowance of \$99 and \$204 at June 30, 2017 and December 31, 2016	6,803	6,717
Inventories, net of allowance of \$134 and \$60 at June 30, 2017 and December 31, 2016	1,106	1,181
Cost and estimated earnings in excess of billings on uncompleted contracts	6,701	5,829
Prepaid expenses and other current assets	275	349
Total current assets	18,634	16,201
Property, plant and equipment, net	7,016	7,298
Advances to and investments in foreign joint ventures	10,245	10,663
Retainage receivable	741	649
Intangibles	493	527
Other assets	85	46
Total assets	\$ 37,214	\$ 35,384
Liabilities, Convertible Preferred Stock and Stockholders' Equity		
Current liabilities:		
Revolving line of credit	\$ -	\$ 1,500
Current portion of long-term note payable	-	300
Short-term note payable	299	-
Accounts payable and other accrued expenses	10,060	9,798
Accrued payroll and benefits	1,039	1,093
Billings in excess of costs and estimated earnings on uncompleted contracts	4,387	208
Total current liabilities	15,785	12,899
Long-term note payable, net	6,104	3,900
Deferred compensation	237	260
Deferred income taxes	2,726	2,824
Total liabilities	24,852	19,883
Convertible preferred stock:		
Redeemable convertible preferred stock, Series A, net of discount of \$590 at June 30, 2017 and \$617 at December 31, 2016; \$0.001 par value, 1,000,000 shares authorized, issued and outstanding at June 30, 2017 and December 31, 2016	4,410	4,383
Stockholders' equity:		
Common stock; \$0.001 par value, 50,000,000 shares authorized, 8,710,677 and 8,499,508 shares issued and 8,529,795 and 8,335,968 shares outstanding at June 30, 2017 and	9	8

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

December 31, 2016

Treasury stock, at cost 180,882 and 163,540 shares at June 30, 2017 and December 31, 2016	(893)	(863)
Additional paid-in capital	13,106	12,613
Accumulated other comprehensive income	100	(2)
Retained Deficit; including accumulated statutory reserves in equity method investments of \$2,887 at June 30, 2017 and December 31, 2016	(4,370)	(638)
Total stockholders' equity	7,952	11,118
Total liabilities, convertible preferred stock and stockholders' equity	\$ 37,214	\$ 35,384

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

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

American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

Unaudited

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$12,960	\$11,444	\$20,990	\$19,742
Cost of sales	12,144	10,218	20,730	18,425
Gross margin	816	1,226	260	1,317
Operating expenses:				
Research and development	78	196	182	719
Selling and marketing	695	417	1,306	1,293
General and administrative	897	981	1,991	2,327
Total operating expenses	1,670	1,594	3,479	4,339
Loss from operations	(854)	(368)	(3,219)	(3,022)
Net equity income from foreign joint ventures' operations:				
Equity income from foreign joint ventures' operations	134	347	186	152
Foreign joint ventures' operations related expenses	(64)	(98)	(128)	(149)
Net equity income from foreign joint ventures' operations	70	249	58	3
Loss from operations and net equity income from foreign joint ventures' operations	(784)	(119)	(3,161)	(3,019)
Other income (expense):				
Interest expense and other, net	(365)	317	(465)	278
Income (loss) before income taxes	(1,149)	198	(3,626)	(2,741)
Provision for (benefit from) income taxes	(90)	47	(72)	(9)
Net income (loss) before dividends on redeemable convertible preferred stock	(1,059)	151	(3,554)	(2,732)
Dividends on redeemable convertible preferred stock	(89)	(88)	(178)	(176)
Net income (loss) attributable to common stockholders	\$(1,148)	\$63	\$(3,732)	\$(2,908)
Earnings (loss) per common share:				
Basic	\$(0.13)	\$0.01	\$(0.44)	\$(0.35)
Diluted	\$(0.13)	\$0.01	\$(0.44)	\$(0.35)
Weighted - average number of common shares outstanding:				
Basic	8,504,240	8,292,751	8,420,680	8,277,897
Diluted	8,504,240	8,292,751	8,420,680	8,277,897

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

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

American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands)

	Three Months Ended June 30,	
	2017	2016
Net income (loss) before dividends on redeemable convertible		
preferred stock	\$(1,059)	\$151
Other comprehensive income:		
Foreign currency translation gain (loss), net of deferred income taxes of		
(\$31) and \$85 for the three months ended June 30, 2017 and 2016	61	(165)
Total comprehensive income (loss)	\$(998)	\$(14)
	Six Months Ended June 30,	
	2017	2016
Net income (loss) before dividends on redeemable convertible		
preferred stock	\$(3,554)	\$(2,732)
Other comprehensive income:		
Foreign currency translation gain (loss), net of deferred income taxes of		
(\$53) and \$33 for the six months ended June 30, 2017 and 2016	102	(65)
Total comprehensive income (loss)	\$(3,452)	\$(2,797)

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

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

American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Unaudited

(in thousands)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income (loss)	\$ (3,554)	\$ (2,732)
Adjustments to reconcile net income (loss) to net cash provided by		
operating activities:		
Deferred income tax provision (benefit)	(151)	(129)
Equity income (loss) from foreign joint ventures' operations	(186)	(152)
Depreciation and amortization	436	444
Stock based compensation	186	267
Gain on fixed asset disposal	-	(75)
Bad debt expense	(157)	84
Obsolete inventory expense	66	35
Deferred compensation costs	(23)	(22)
Amortization of debt issuance costs	31	-
Change in operating assets and liabilities:		
Accounts receivable	159	(811)
Inventories	9	198
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,031)	(2,784)
Prepaid expenses and other current assets	(12)	(55)
Accounts payable	807	2,793
Billings in excess of costs and estimated earnings on	4,179	(723)

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

uncompleted contracts		
Accrued liabilities and other current liabilities	(331)	(559)
Net cash provided by (used in) operating activities	428	(4,221)
Cash flows from investing activities:		
Proceeds from sale of property and equipment and other assets	-	309
Purchases of property, plant and equipment and other assets	(133)	(372)
Proceeds from foreign joint ventures' operations dividends	780	589
Net cash provided by (used in) from investing activities	647	526
Cash flows from financing activities:		
Proceeds from sale of common stock, preferred stock, and warrants	8	10
Treasury stocks purchase	(30)	(36)
Preferred stock cash dividend	-	(75)
Proceeds from long-term notes payable	7,000	-
Proceeds from short-term notes payable	200	-
Payments on revolving credit facility	(1,500)	(143)
Payments on long-term notes payable	(4,200)	(150)
Payments on short-term notes payable	(500)	-
	(427)	-

Payments of debt issuance costs		
Net cash provided by (used in) financing activities	551	(394)
Effect of exchange rate on cash	(2)	61
Net increase (decrease) in cash and cash equivalents	1,624	(4,028)
Cash and cash equivalents, beginning of period	1,618	7,989
Cash and cash equivalents, end of period	3,242	3,961
Supplemental disclosures of cash flow information:		
Interest paid	\$ 332	\$ 95
Non-cash investing and financing transactions:		
Issuance of shares of common stock on accrued preferred dividends payables	\$ 300	\$ -

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

AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of American Electric Technologies, Inc. and its wholly-owned subsidiaries (“AETI”, “the Company”, “our”, “we”, “us”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and include all adjustments which, in the opinion of management, are necessary for fair financial statement presentation. All adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The statements should be read in conjunction with the Company’s consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed on March 30, 2017. All dollar amounts disclosed in the footnotes are stated in thousands.

2. Earnings per Common Share

Basic earnings per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding for the three and six months ended June 30, 2017 and 2016 .

Diluted earnings per share is computed by dividing net income (loss) attributable to common stockholders, by the sum of (1) the weighted-average number of shares of common stock outstanding during the period, (2) the dilutive effect of the assumed exercise of convertible instruments and (3) the dilutive effect of the exercise of stock options and other stock units to our common stock.

For the three and six months ended June 30, 2017, common stock equivalents from convertible instruments, stock options and other stock units have been excluded from the calculation of weighted average diluted shares because all such instruments were anti-dilutive.

The following table sets forth the computation of basic and diluted weighted average common shares.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average basic shares	8,504,240	8,292,751	8,420,680	8,277,897
Dilutive effect of preferred stock, warrants, stock options				
and restricted stock units	-	-	-	-
Total weighted average diluted shares	8,504,240	8,292,751	8,420,680	8,277,897

3. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 No. 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 No. 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 No. 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In July 2015, the FASB issued ASU No. 2015-14 which delayed the effective date of ASU No. 2014-09 by one year (effective for annual periods beginning after December 15, 2017). AETI is evaluating the impact of ASU 2014-09 and currently expects that the standard will not have a material impact on the Company’s Consolidated Financial Statements other than enhanced disclosures related to the disaggregation of revenues from contracts with customers, the Company’s performance obligations and any significant judgments. AETI intends to adopt the new standard using the modified retrospective method at the date of adoption.

In July 2015, the FASB issued ASU No. 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory, which is intended to converge U.S. GAAP on this topic with International Financial Reporting Standards (“IFRS”). ASU No. 2015-11 focuses on the premeasurement of inventory measured using any method other than LIFO, for example, average cost. Inventory within the scope of ASU No. 2015-11 is required to be measured at the lower of cost and net realizable value. When evidence exists that the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in earnings in the period in which it occurs. That loss may be required, for example, due to damage, physical deterioration, obsolescence, changes in price levels, or other causes. For public business entities, the amendments in ASU No. 2015-11 are effective for fiscal years beginning after December 15,

2016, including interim periods within those fiscal years. The adoption of ASU No. 2015-11 did not have a significant impact on the Company's consolidated financial position, results of operations and disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU No. 2016-01 requires (1) an entity to measure equity instruments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) at fair value with changes in fair value recognized in net income; (2) entities to use the exit price notation when measuring the fair value of financial instruments for disclosure purposes; (3) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and (4) elimination of the requirement to disclose the methods and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. Management is currently evaluating the future impact of ASU No. 2016-01 on the Company's consolidated financial position, results of operations and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under ASU No. 2016-02, lessor accounting is largely unchanged. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 with early application permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases expiring before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Management is currently evaluating the future impact of ASU No. 2016-02 on the Company's consolidated financial position, results of operations and disclosures.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, to clarify two aspects of Topic 606: (i) identifying performance obligations; and (ii) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for ASU No. 2016-10 are the same as the effective date and transition requirements for ASU No. 2014-09. Management is currently evaluating the future impact of ASU No. 2016-10 on the Company's consolidated financial position, results of operations and disclosures. Please refer to ASU No. 2014-09 above.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU No. 2016-12 provides narrow-scope improvements to the guidance on collectability, noncash consideration, and completed contracts at transition. The amendment also provides a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers and are expected to reduce the judgment necessary to comply with Topic 606. The effective date and transition requirements for ASU No. 2016-12 are the same as the effective date and transition requirements for ASU No. 2014-09. Management is currently evaluating the future impact of ASU No. 2016-12 on the Company's consolidated financial position, results of operations and disclosures. Please refer to ASU No. 2014-09 above.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 eliminates the probable initial recognition threshold in current U.S. GAAP and, instead, requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, ASU No. 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU No. 2016-13 is effective for annual periods beginning after

December 15, 2019, with early application permitted in annual periods beginning after December 15, 2018. The amendments of ASU No. 2016-13 should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Management is currently evaluating the future impact of ASU No. 2016-13 on the Company's consolidated financial position, results of operations and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for reporting periods beginning after December 15, 2017. Early adoption is permitted. Management is currently evaluating the future impact of ASU No. 2016-15 on the Company's consolidated financial position, results of operations and disclosures.

In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. ASU No. 2016-20 allows entities not to make quantitative disclosures about remaining performance obligations in certain cases and require entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. The amendment also clarifies narrow aspects of ASC 606, including contract modifications, contract costs, and the balance sheet classification of items as contract assets versus receivables, or corrects unintended application of the guidance. The effective date and transition requirements for ASU No. 2016-20 are the same as the effective date and transition requirements for ASU No. 2014-09. Management is currently evaluating the future impact of ASU No. 2016-20 on the Company's consolidated financial position, results of operations and disclosures.

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

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU No. 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of a business or as acquisitions (or disposals) of assets. ASU No. 2017-01 is effective for annual periods beginning after December 15, 2018, with early adoption permitted under certain circumstances. The amendments of ASU No. 2017-01 should be applied prospectively as of the beginning of the period of adoption. Management is currently evaluating the future impact of ASU No. 2017-01 on the Company's consolidated financial position, results of operations and disclosures.

In January 2017, the FASB issued ASU No. 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings. The amendments in this update relate to disclosures of the impact of recently issued accounting standards. The SEC staff's view that a registrant should evaluate ASC updates that have not yet been adopted to determine the appropriate financial disclosures about the potential material effects of the updates on the financial statements when adopted. If a registrant does not know or cannot reasonably estimate the impact of an update, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact. The staff expects the additional qualitative disclosures to include a description of the effect of the accounting policies expected to be applied compared to current accounting policies. Also, the registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The amendments specifically addressed recent ASC amendments to ASU No. 2016-13, Financial Instruments – Credit Losses, ASU No. 2016-02, Leases, and ASU No. 2014-09, Revenue from Contracts with Customers, although, the amendments apply to any subsequent amendments to guidance in the ASC. ASU No. 2017-03 is effective upon issuance and did not have a significant impact on the Company's consolidated financial position, results of operations and disclosures.

4. Investments in Foreign Joint Ventures

We have interests in two joint ventures, outside of the United States of America ("U.S.") which are accounted for using the equity method:

BOMAY Electric Industries Company, Ltd. ("BOMAY"), in which the Company holds a 40% interest, Baoji Oilfield Machinery Co., Ltd. (a subsidiary of China National Petroleum Corporation) holds a 51% interest, and AA Energies, Inc., holds a 9% interest. BOMAY was formed in 2006 in China with a term of 12 years. The term of the joint venture may be extended upon agreement of all parties. In such case, the joint venture shall apply for the extension to the relevant Chinese authority six months before expiry of the venture; and,

M&I Electric Far East, Ltd. ("MIEFE"), in which the Company holds a 41% interest, MIEFE's general manager holds an 8% interest and, Sonepar of France holds a 51% interest. In 2016, due to market conditions, the business suspended current operations and the investment in MIEFE was written down to zero excluding foreign currency translation.

There were no sales to joint ventures for the three months ended June 30, 2017 and 2016. Sales to joint ventures totaled \$0.00 million and \$0.04 million for the six months ended June 30, 2017 and 2016.

Summary (unaudited) financial information of our foreign joint ventures in U.S. dollars was as follows at June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016 (in thousands):

	BOMAY		MIEFE	
	2017	2016	2017	2016
Assets:				

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

Total current assets	\$49,459	\$47,700	\$155	\$425
Total non-current assets	3,535	3,589	15	17
Total assets	\$52,994	\$51,289	\$170	\$442
Liabilities and equity:				
Total liabilities	\$26,976	\$24,196	\$243	\$551
Total joint ventures' equity	26,018	27,093	(73)	(109)
Total liabilities and equity	\$52,994	\$51,289	\$170	\$442

I

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

Three Months Ended June 30,				
	BOMAY		MIEFE	
	2017	2016	2017	2016
Revenue	\$6,928	\$17,000	\$34	\$178
Gross Profit	\$1,311	\$2,118	\$11	\$147
Earnings	\$335	\$1,032	\$40	\$50

Six Months Ended June 30,				
	BOMAY		MIEFE	
	2017	2016	2017	2016
Revenue	\$11,149	\$23,987	\$34	\$840
Gross Profit	\$2,646	\$3,262	\$11	\$318
Earnings	\$465	\$1,065	\$40	\$(619)

The following is a summary of activity in investments in foreign joint ventures for the six months ended June 30, 2017 (unaudited):

	June 30, 2017		
	BOMAY*	MIEFE	TOTAL
	(in thousands)		
Investments in foreign joint ventures:			
Balance at December 31, 2016	\$10,450	\$ 213	\$10,663
Equity in earnings (loss) in 2017	186	-	\$186
Dividend distributions in 2017	(781)	-	\$(781)
Foreign currency translation adjustment	179	(2)	\$177
Investments, end of period	\$10,034	\$ 211	\$10,245
Components of investments in foreign joint ventures:			
Investment in joint ventures	\$2,033	\$ 14	\$2,047
Undistributed earnings	7,718	(14)	\$7,704
Foreign currency translation	283	211	\$494
Investments, end of period	\$10,034	\$ 211	\$10,245

** Accumulated statutory reserves of \$2.89 million in equity method investments at June 30, 2017 and December 31, 2016, 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.

Under the equity method of accounting, the Company's share of the joint ventures' operations' earnings or loss is recognized in the condensed consolidated statement of operations as equity income (loss) from foreign joint ventures' operations. Joint venture income increases the carrying value of the joint venture investment and joint venture losses, as well as dividends received from the joint ventures, reduce the carrying value of the investment.

The Company reviews its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable or the inability of the investee to sustain an

earnings capacity that would justify the carrying amount of the investment.

5. Notes Payable

Senior Secured Term Note

On March 23, 2017, the Company and its subsidiaries, M&I Electric Industries, Inc. and South Coast Electric Systems, LLC (collectively, the “Sellers”) issued and sold to HD Special-Situations III, L.P. (the “Purchaser”) a \$7.00 million principal amount Senior Secured Term Note (the “Note”) with principal of \$0.50 million paid on June 30, 2017 with the balance due 48 months after issuance for cash at par pursuant to a Note Purchase Agreement dated March 23, 2017 (the “Purchase Agreement”). Proceeds from the

sale of the Note were used to fully repay and terminate the Company's prior revolving credit facilities with approximately \$1.00 million being available for the Company's working capital and general business purposes.

The Note bears interest at 11.5% per annum payable monthly in arrears. The Note is secured by a first-priority lien on substantially all existing and after-acquired personal property assets and real estate owned by the Sellers (with certain exceptions) and is subject to covenants restricting the Company's ability to incur debt, grant liens, pay dividends, engage in transactions with affiliates and other customary covenants for financing of this type (subject to certain exceptions). The Note is subject to an interest "make-whole" provision such that any prepayment of the principal thereunder in excess of \$1.50 million (the "Prepayment Threshold") within one year of the date of issuance (the "Make-Whole Period") shall be subject to the payment of a prepayment premium, on the date of such prepayment, in an amount based on an interest rate of 11.5% per annum of the prepayment amount in excess of the Prepayment Threshold for the portion of the Make-Whole Period that will remain after the date that the prepayment is made. After the one year Make- Whole Period the Note may be prepaid in part or in full with no penalty.

The Purchase Agreement contains representations and affirmative, negative and financial covenants usual and customary for financing of this type, including covenants that place conditions upon the Company's ability to merge or consolidate with other companies, sell any material part of their business or property, incur liens, and pay dividends on, make distributions on or redeem their equity interests. Other covenants in the Purchase Agreement require the Company to maintain minimum monthly revenue, maintain minimum monthly EBITDA, maintain minimum monthly cash on hand, maintain a minimum monthly debt service coverage ratio, maintain a maximum debt-to-EBITDA ratio, maintain a minimum monthly collateral coverage ratio and obtain consent of the Purchaser for certain capital expenditures.

As of June 30, 2017, the Company was not in compliance with the minimum monthly EBITDA covenant but was granted a waiver for the period. There can be no assurances that covenants can be met in the future and if not met, waivers can be obtained. In the event that the Company fails to meet covenants in the future, the Company may not be able to obtain the necessary waivers or amendments to remain in compliance with the Purchase Agreement and the Purchaser may declare a default and cause all of the Company's outstanding indebtedness under the Purchase Agreement to become immediately due and payable or otherwise subject to an additional rate of 4.0% per annum and scheduled amortization of principal.

On June 6, 2017, the Company's subsidiary, M&I Brazil, entered into a Loan Agreement with the former chairman of AETI. The Loan Agreement provides the Company with a \$0.30 million loan facility of which \$0.20 million is drawn and is outstanding as of June 30, 2017 with the balance due June 7, 2018. Under the loan agreement, the interest rate on the loan facility is 10.0%, per annum, payable each quarter. The loan facility is secured by the assets held by M&I Brazil.

6. Inventories

Inventories consisted of the following at June 30, 2017 (unaudited) and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	\$ 553	\$ 513
Work-in-process	687	728

	1,240	1,241
Less: allowance	(134)	(60)
Total inventories \$	\$ 1,106	\$ 1,181

7. Income Taxes

The tax provision for the three and six months ended June 30, 2017 and 2016 reflect a 34% U.S. tax rate related to the equity in earnings from foreign joint ventures' operations, net of dividends received and taxes paid on dividends from China, resulting in an effective rate of 1% and 2%, respectively.

8. Fair Value of Financial Instruments and Fair Value Measurements

The carrying amounts of cash and cash equivalents, trade accounts receivable and accounts payable approximate fair value as of June 30, 2017 and December 31, 2016 because of the relatively short maturity of these instruments.

The carrying amount of our long-term note payable approximates the fair value as the interest rate on the note is based on a market rate.

9. Redeemable Convertible Preferred Stock

In conjunction with the issuance of the Redeemable Convertible Preferred Stock, Series A in May 2012, warrants to purchase 325,000 shares of our common stock (the "Warrants") were issued for common stock.

The initial value allocated to the Warrants was 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 redeemable Series A Convertible Preferred Stock. Discount accretion for the three and six months ended June 30, 2017 and 2016 totaled \$0.01 million and \$0.02 million, each period.

The Series A Convertible Preferred Stock accrues cumulative dividends at a rate of 6% per annum payable quarterly in cash or with our Common Stock, at the option of the Company, based on the then current liquidation market price value of the Series A Convertible Preferred Common Stock which is currently \$5.00 per share. Quarterly dividends not paid in cash or Common Stock accumulate without interest and must be fully paid before any dividend or other distribution can be paid on or declared and set apart for the Common Stock or conversion of the Series A Convertible Preferred Stock to Common Stock. At June 30, 2017 and December 31, 2016, the company had accrued but unpaid dividends totaling \$0.08 million and \$0.23 million, respectively, which is included in accounts payable and other accrued expenses in the condensed consolidated balance sheet. For the six months ended June 30, 2017, a total of 211,169 common shares have been issued. Of that amount, 149,422 shares were issued as payment of accrued preferred dividends in accordance with the terms of the preferred stock agreement. The remaining balance of common shares were issued in relation to the employee stock purchase plan and the vesting of restricted stock units.

On or after April 30, 2017, the holders of a majority of the outstanding shares of the Series A Convertible Preferred Stock may require the Company to redeem the Series A Convertible Preferred Stock at a redemption price equal to the lesser of (i) the liquidation preference per share (initially \$5.00 per share, subject to adjustments for certain future equity transactions defined in the Securities Purchase Agreement) and (ii) the fair market value of the Series A Convertible Preferred Stock per share, as determined in good faith by the Company's Board of Directors. As of June 30, 2017 and December 31, 2016, the redemption price per share was \$5.00 in both years. 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%.

However, in connection with the issuance of the Company's senior secured Term Note, described in Note 5, the Company has agreed with the Purchaser of the Term Note and the holder of the Preferred Stock (the "Holder") not to declare, authorize or pay any cash dividends on the Preferred Stock until the earlier of (i) March 22, 2018, or (ii) the date the obligations under the Note Purchase Agreement have been paid in full (the "Standstill Period"), without the prior written consent of the Purchaser. Following the expiration of the Standstill Period, for so long as the obligations under the Note Purchase Agreement remain outstanding, the Company may, at its sole discretion, declare, authorize or pay dividends in cash on the Preferred Stock so long as no event of default exists under the Term Note or would result therefrom. The Holder also agreed that it shall not exercise its rights to require the Company to redeem any of the Preferred Stock during the Standstill Period. Following the expiration of the Standstill Period, so long as the obligations under the Note Purchase Agreement remain outstanding, the Holder may compel the Company to redeem shares of Preferred Stock provided no event of default exists under the Term Note or would result from such redemption. In consideration for the Holder's to consent to the foregoing restrictions on the payment of cash dividends on or redemption of the Preferred Stock, the Company has negotiated with the Holder an adjustment to certain the conversion rights price of the Common Stock issued upon conversion of the Preferred Stock and exercise price of the Warrants to reflect their respective market value along with any such amendments to the Articles and Warrants as necessary to effect the foregoing such adjustments agreed upon.

On August 1, 2017 we entered into an agreement (the "Repricing Agreement") with the Holder which includes the following:

Revised Initial Conversion Price of Series A Preferred Stock:

Pursuant to the Repricing Agreement each share of Series A Preferred Stock will be initially convertible, at the option of the holder, into one (1) share of common stock at a conversion price of \$2.26 per share of common stock, so that

the Series A Preferred Stock sold to the Holder are currently convertible into an aggregate of 2,212,389 shares of common stock.

Revised Initial Exercise Price of the Warrants:

Pursuant to the Repricing Agreement, the Series A Warrants sold to the Holder will be exercisable for 125,000 shares of common stock at an initial exercise price of \$2.72 per share and the Series B Warrants sold to the Holder will be exercisable for 200,000 shares of common stock at an initial exercise price of \$3.17 per share.

Limitations on Issuance and Voting:

In order to comply with the rules of the NASDAQ Stock Market, the Repricing Agreement prohibits the issuance of more than 19.99% of our common stock or voting power outstanding to the Investor as of the date of the Repricing Agreement without stockholder approval. The Company has agreed to seek the approval of its stockholders as soon as practicable. In the event that stockholder approval is received and the Holder were to convert all of its Series A Preferred Stock into common stock and exercised all of its Common Stock Purchase Warrants for cash, the Investor would be issued more than 19.99% of our common stock and voting power as of the date of the Repricing Agreement.

This agreement was approved by a committee of the Board of Directors comprised solely of independent directors.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in the Form 10-Q and the consolidated financial statements included in the 2016 Annual Report on Form 10-K filed on March 30, 2017. Historical results and percentage relationships set forth in the condensed consolidated statements of operations and cash flows, including trends that might appear, are not necessarily indicative of future operations or cash flows.

FORWARD-LOOKING STATEMENTS

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

These statements, including statements regarding our capital needs, business strategy, expectations and intentions, are subject to numerous risks and uncertainties, many of which are beyond our control, including our ability to maintain key products' sales or effectively react to other risks including those discussed in Part I, Item 1A, Risk Factors, of our 2016 Annual Report on Form 10-K filed on March 30, 2017. We urge you to consider that statements that use the terms "believe," "do not believe," "anticipate," "expect," "plan," "estimate," "intend" and similar expressions are intended to identify forward-looking statements. No forward-looking statement can be guaranteed, and actual results may differ materially from those projected. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

BUSINESS

The Company was incorporated on October 21, 1996 as a 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. ("AETI"). M&I Electric was originally founded in 1946. 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 subsidiaries, South Coast Electric Systems, LLC ("SCES") and M&I Electric Brazil Sistemas e Servicos em Energia LTDA ("M&I Brazil"). The manufacturing operations of SCES were sold on June 24, 2016. AETI has retained the entity along with the existing service organization.

Products and Services

We have provided custom-designed power distribution, power conversion, and automation and control systems for our customers since 1946. Our products are used to safely distribute and control the flow of electricity from a power generation source (e.g. a diesel generator, turbine or the utility grid) to whatever mechanical device utilizes the power (drilling machinery, motors, other process equipment, the utility grid, etc.) at low and medium voltages.

Our power distribution products include low and medium voltage switchgear that provides power distribution and protection for electrical systems from electrical faults. Our products include traditional low voltage and medium voltage switchgear, and our IntelliSafe™ medium voltage arc-resistant switchgear designed to increase end-user safety in case of an arc-flash explosion. IntelliSafe™ is designed for the downstream oil & gas sector, process industries and the power generation market, and was designed to be the safest arc-resistant product on the market. IntelliSafe™ meets key industry specifications and certifications. Our products are suitable for both American National Standards Institute (“ANSI”) and International Electrotechnical Commission (“IEC”) 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 purchase and integrate third party products into turnkey solutions per our customer specifications including items such as battery backup power systems and transformers.

Our power conversion solutions include alternating current variable frequency drive (“AC VFD”) systems, analog systems and digital silicon controlled rectifier (“SCR”) products, 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 power distribution and control products are generally custom-designed to our customers’ specific requirements, and we do not maintain an inventory of such products.

We have the technical expertise to provide our solutions in compliance with a number of applicable industry standards such as National Electrical Manufacturers Association (“NEMA”) and ANSI or IEC equipment to meet American Bureau of Shipping (“ABS”), United States Coast Guard (“USCG”), 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 automation and control solutions are designed for the management and control of power in a customer’s application. The DrillAssist™ is a control system that enables the management of a land and offshore drilling rig’s operations. DrillAssist™ includes auto-drill capabilities and a driller’s chair and cabin where the drilling rig operator manages the rig. The Company’s Vessel Management system is a packaged control platform for management of vessel operations.

Our Power Distribution Centers (“PDC”) are used to house our power distribution and power conversion products. Our PDCs can be manufactured over 100 ft. long and 40 ft. wide. The Company also manufactures VFD and SCR houses for land drilling and driller’s cabins for land and offshore deployment.

We provide a variety of electrical services including the commissioning and maintenance of our customers’ full electrical power infrastructure. We provide low and medium voltage start-up/commissioning, preventative maintenance, emergency call out services, and breaker and switchgear refurbishment services.

We offer a full range of electrical and instrumentation construction and installation services to our markets. These services include new construction as well as electrical and instrumentation turnarounds, maintenance and renovation projects. Applications include installation of switchgear, AC and DC motors, drives, motor controls, lighting systems and high voltage cable.

The principal markets that we serve include:

• Power generation and distribution – the Company provides “turn-key” power delivery solutions for the power generation and distribution market sectors.

• The Company works with engine-generator manufacturers and dealers, turbine manufacturers, Engineering, Procurement and Construction (“EPC”) firms, and other electrical engineering service companies to provide electric power delivery products and solutions. The Company also provides products and services for renewable power generation including biomass, geothermal and other renewable energy projects.

• The Company designs, manufactures, commissions and maintains our equipment for implementation in base-load, peaking power, cogeneration, and substation transmission facilities worldwide.

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

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

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

Marine and industrial

Marine applications includes blue water vessels such as platform supply vessels (PSV), offshore supply vessels (OSV), tankers and other various work boats, typically up to 300 ft. in length. The Company also provides solutions to brown water vessels such as barges, dredges and other river and inland water vessels.

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

Foreign Operations

We have three primary models for conducting our international business.

First, in Brazil, we have a wholly-owned subsidiary, M&I Electric Brazil, with offices in Rio de Janeiro, Macaé and Belo Horizonte to serve this market. The M&I Electric Brazil team focuses primarily on services for the oil and gas, marine vessel, power generation and broad industrial market segments in Brazil.

Second, in certain international markets, we sell through foreign sales agents that we have appointed in energy regions around the world. Many of these international partners also provide local service and support for our products in those overseas markets.

Finally, where local market conditions dictate, we have formed joint venture operations with local partners in markets such as China, where we can partner with the primary end-customer in that market, or there are local content requirements or a competitive advantage to using local manufacturing.

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

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

M&I Electric Far East, Ltd. (“MIEFE”), in which the Company holds a 41% interest; MIEFE’s general manager holds an 8% interest and, Sonepar of France, holds a 51% interest. In 2016, due to market conditions, the business suspended current operations and the investment in MIEFE was written down to zero excluding foreign currency translation.

Locations

Our Company headquarters are located in Houston, Texas. We have domestic facilities and sales offices in Houston and Beaumont, Texas. We also have a service operation in Houma, Louisiana.

We operate M&I Electric Brazil as a wholly-owned subsidiary with three locations (Macaé, Rio de Janeiro and Belo Horizonte) in Brazil to offer our services to the Brazil oil & gas, marine vessel, power generation and broad industrial markets.

We also have minority interests in foreign joint ventures which have facilities in Xian, China and Singapore.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

future, they may ultimately differ from actual results.

Certain accounting policies involve significant estimates and assumptions by us that have a material impact on our 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 condensed consolidated financial statements. We do not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as “special purpose entities”, nor do we have any “variable interest entities”.

Inventories – Inventories are stated at the lower of cost or market, with material value determined using an average cost method. Inventory costs for work-in-process include direct material, direct labor, production overhead and outside services. 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. Based on this assessment at June 30, 2017 and December 31, 2016, management believes the inventory reserve is adequate.

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 the 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 at June 30, 2017 and December 31, 2016, 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 our manufacturing activities 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 its foreign joint ventures and foreign subsidiary, M&I Brazil, 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. Our ability to realize the 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 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 reviews its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable or the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. Based on the most recent review at June 30, 2017 and December 31, 2016, management believes the carrying value of investments in foreign joint ventures is recoverable.

Business Outlook

Although the market experienced significant losses in 2015 and 2016 due to reduced oil and gas price-based demand, the Company believes it has several potential areas of opportunity in 2017.

The Company believes the availability of low cost natural gas in the power generation and distribution markets, coupled with political pressures on coal-fired power generation plants, creates a market opportunity for the Company.

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

The Company is also pursuing opportunities it sees in the midstream and downstream niches of the oil & gas market including pipelines, gas processing plants, storage terminals, LNG projects, refineries and petrochemical facilities.

The Company also sees opportunities for its IntelliSafe™ medium voltage arc-resistant switchgear primarily in the downstream and power generation and distribution sectors in 2017 and beyond.

The Company believes that an increase in the price of oil above 2016 levels could create growth opportunities for its services business as drilling companies need to get their drilling rigs working.

Internationally, the Company believes our global energy markets in China will remain flat at 2016 levels throughout 2017. There is still uncertainty in the Brazil market in 2017 as the political and economic challenges facing Brazil continue to slow energy investments.

The Company ended the quarter with a backlog of \$22.67 million, which is down approximately \$3.97 million from the end of the first quarter. We closely monitor our backlog and order activity and continue to adjust our cost structure and expenditures as conditions require. We anticipate a large portion of this backlog will be recognized in revenue during 2017.

The Company continues to review its business and depending on cash needs may raise cash in the form of debt, equity, or a combination of both.

OVERALL RESULTS OF OPERATIONS

The following table represents revenue and income (loss) from consolidated operations and net equity income from foreign joint ventures' operations, for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$12,960	\$11,444	\$20,990	\$19,742
Cost of sales	12,144	10,218	20,730	18,425
Gross margin	816	1,226	260	1,317
Operating expenses:				
Research and development	78	196	182	719
Selling and marketing	695	417	1,306	1,293
General and administrative	897	981	1,991	2,327
Total operating expenses	1,670	1,594	3,479	4,339
Loss from operations	(854)	(368)	(3,219)	(3,022)
Net equity income from foreign joint ventures' operations:				
Equity income from foreign joint ventures' operations	134	347	186	152
Foreign joint ventures' operations related expenses	(64)	(98)	(128)	(149)
Net equity income from foreign joint ventures' operations	70	249	58	3
Loss from operations and net equity loss from foreign joint ventures' operations	\$(784)	\$(119)	\$(3,161)	\$(3,019)

Sales to foreign joint ventures are made on an arm's length basis. See Footnote 4 in notes to condensed consolidated financial statements for detailed financial information on the foreign joint ventures.

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 U.S. GAAP measure. Please see the Company's Annual Report on Form 10-K for 2016 filed on March 30, 2017 for a more in-depth discussion of this indicator, earnings before interest, taxes, depreciation and amortization ("EBITDA"). Management believes it is useful in evaluating operating performance.

Non-U.S. GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our financial results prepared in accordance with U.S. GAAP.

The table below shows the reconciliation of net income (loss) attributable to common stockholders to "EBITDA" for the three and six months ended June 30, 2017 and 2016 (dollars in thousands):

18

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
Net income (loss) attributable to common stockholders	\$(1,148)	\$63	\$(3,732)	\$(2,908)
Add: Depreciation and amortization	218	223	436	444
Interest expense	238	64	338	103
Provision for (benefit from) income taxes	(90)	47	(72)	(9)
Dividend on redeemable preferred stock	89	88	178	176
EBITDA	\$(693)	\$485	\$(2,852)	\$(2,194)

Backlog

The order backlog at June 30, 2017 and March 31, 2017 was \$22.67 million and \$26.64 million, respectively. We expect the majority of our backlog to be realized as revenue the remainder of the 2017 fiscal year.

Business Sector Disclosures

Our financial results are reported in our three major market sectors. These sectors are Oil & Gas; Power Generation & Distribution and Marine & Other Industrial. The products we manufacture and the services we provide are consistent in application within all the sectors. This information is supplemental and provided to allow investors to follow our future trends in marketing to various customer groups.

For the Three Months Ended June 30, 2017 and 2016 (in thousands)

	Oil & Gas	Power Generation & Distribution	Marine & Other Industrial	Total
2017				
Revenue	\$10,517	\$ 1,293	\$ 1,150	\$12,960
Gross Profit	900	(96)	12	816
Gross Profit as % of Revenue	9 %	-7 %	1 %	6 %

2016				
Revenue	\$4,682	\$ 5,295	\$ 1,467	\$11,444
Gross Profit	460	587	179	1,226
Gross Profit as % of Revenue	10 %	11 %	12 %	11 %

For the Six Months Ended June 30, 2017 and 2016 (in thousands)

	Oil & Gas	Power Generation & Distribution	Marine & Other Industrial	Total
2017				
Revenue	\$14,430	\$ 4,148	\$ 2,412	\$20,990
Gross Profit	788	(298)	(230)	260
Gross Profit as % of Revenue	5 %	-7 %	-10 %	1 %

2016				
Revenue	\$10,654	\$ 6,428	\$ 2,660	\$19,742
Gross Profit	486	609	222	1,317
Gross Profit as % of Revenue	5 %	9 %	8 %	7 %

Three Months Ended June 30, 2017 as Compared with the Three Months Ended June 30, 2016

Revenue and Gross Profit

Revenues increased 13%, or \$1.52 million, to \$12.96 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016, primarily due to a 125% increase in technical product revenues resulting from the increased backlog in the midstream oil & gas sector and due to increased orders for the company's IntelliSafe™ medium voltage arc-resistant switchgear but were offset by a 76% decrease in the power generation sector revenue.

Gross profit decreased 33%, or \$0.41 million, to \$0.82 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016. Gross profit as a percentage of revenues decreased to 6% in the three months ended June 30, 2017, compared to 11% in the three months ended June 30, 2016. This decrease was primarily attributable to continued competitive pricing pressure impacting our booked margins, along with a \$0.20 million of costs overruns associated with power generation projects.

Research and Development Costs

Research and development costs decreased by 60%, or \$0.12 million, to \$0.08 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016. This reduction is primarily related to the completion of the IntelliSafe™ medium voltage arc resistant switchgear product R&D efforts during 2016.

Selling and Marketing Expenses

Selling and marketing costs increased by 67%, or \$0.27 million, to \$0.69 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016, due to expanded sales and marketing efforts in the oil and gas sector. Selling and marketing expenses, as a percentage of revenues, increased to 5% during the three months ended June 30, 2017, compared to 4% during the three months ended June 30, 2016.

General and Administrative Expenses

General and administrative expenses decreased by 9%, or \$0.08 million, to \$0.90 million during the three months ended June 30, 2017, when compared to the three months ended June 30, 2016, primarily due to the reversal of bad debt reserves previously accrued. General and administrative expenses, as a percentage of revenues, decreased to 8% during the three months ended June 30, 2017, compared to 10% during the three months ended June 30, 2016.

Foreign Joint Venture Equity Income

Net equity from foreign joint venture operations decreased by 72%, or \$0.18 million, to \$0.07 million during the three months ended June 30, 2017, when compared to the three months ended June 30, 2016. The increase is primarily due to a decrease in performance by our BOMAY joint venture in China.

Other Income (Expense)

Interest expense and other income (expense) increased \$0.68 million to \$0.37 million during the three months ended June 30, 2017, when compared to the three months ended June 30, 2016, due to increase interest expense of \$0.17 million from new financing in 2017 and offset by a gain of \$0.08 million from the sale of the fixed assets in Bay St. Louis, Mississippi and \$0.32 million from the settlement of a claim associated with the 2010 British Petroleum Gulf of Mexico oil spill, both in 2016. Interest expense and other income (expense), as a percentage of revenues, decreased to 2% during the three months ended June 30, 2017 compared to 3% during the three months ended June 30, 2016.

Income Tax Provision

The benefit from income taxes for the three months ended June 30, 2017 was \$0.09 million which reflects the provision from taxes on our earnings from our foreign joint ventures net of dividends received, calculated using a tax rate of 34%.

Income from Operations

In the three months ended June 30, 2017, we recorded a net loss attributable to common stockholders of (\$1.06) million, or (\$0.12) of basic earnings per common share, compared to net income attributable to common stockholders of \$0.06 million or \$0.01 of basic earnings common share, in the three months ended June 30, 2016. See Note 2, Earnings per Common Share, in the accompanying notes to condensed consolidated financial statements.

Six Months Ended June 30, 2017 as Compared with the Six Months Ended June 30, 2016

Revenue and Gross Profit

Revenues increased 6%, or \$1.25 million, to \$20.99 million for the six months ended June 30, 2017, compared to the six months ended June 30, 2016, primarily due to a 35% increase in technical product revenues resulting from the increased backlog in the midstream oil & gas sector and due to increased orders for the company's IntelliSafe™ medium voltage arc-resistant switchgear but were offset by a 35% decrease in the power generation sector revenue.

Gross profit decreased 80%, or \$1.06 million, to \$0.26 million for the six months ended June 30, 2017, compared to the six months ended June 30, 2016. Gross profit as a percentage of revenues decreased to 1% in the six months ended June 30, 2017, compared to 7% in the six months ended June 30, 2016. This decrease was primarily attributable to continued competitive pricing pressure impacting our booked margins, along with a \$0.41 million of costs overruns associated with power generation projects.

Research and Development Costs

Research and development costs decreased by 75%, or \$0.54 million to \$0.18 million for the six months ended June 30, 2017, compared to the six months ended June 30, 2016. This reduction is primarily related to the completion of the IntelliSafe™ medium voltage arc resistant switchgear product R&D efforts during 2016.

Selling and Marketing Expenses

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

Selling and marketing costs increased by 1%, or \$0.02 million to \$1.31 million for the six months ended June 30, 2017, compared to the six months ended June 30, 2016, due to expanded sales and marketing efforts in the oil and gas sector. Selling and marketing expenses as a percentage of revenues, decreased to 6% during the six months ended June 30, 2017, compared to 7% during the six months ended June 30, 2016.

General and Administrative Expenses

General and administrative expenses decreased by 14%, or \$0.34 million, to \$1.99 million during the six months ended June 30, 2017, when compared to the six months ended June 30, 2016, primarily due to the reversal of bad debt reserves previously accrued. General and administrative expenses as a percentage of revenues, decreased to 9% during the six months ended June 30, 2017, compared to 12% during the six months ended June 30, 2016.

Foreign Joint Venture Equity Income

Net equity from foreign joint venture operations increased \$0.06 million to \$0.06 million during six months ended June 30, 2017, when compared to the six months ended June 30, 2016. The increase is due to a reduction in losses from MIEFE prior to its shutdown in the third quarter of 2016.

Other Income (Expense)

Interest expense and other income increased \$0.74 million to \$0.47 million during the six months ended June 30, 2017, when compared to the six months ended June 30, 2016, primarily due to the gain on sale of South Coast Electric Systems manufacturing operations and the BP settlement from the 2010 gulf oil spill during 2016. Interest expense increased of \$0.24 million from new financing in 2017. Interest expense and other income, as a percentage of revenues, increased to 2% during the six months ended June 30, 2017 compared to 1% during the six months ended June 30, 2016.

Income Tax Provision

The benefit from income taxes for the six months ended June 30, 2017 was \$0.07 million which reflects the net benefit from taxes on our earnings from our foreign joint ventures net of dividends received, calculated using a tax rate of 34% and taxes paid on dividends from China.

Income from Operations

In the six months ended June 30, 2017, we recorded a net loss attributable to common stockholders of (\$3.65) million, or (\$0.43) of basic earnings per common share, compared to loss of (\$2.91) million, or (\$0.35) of basic earnings per common share, in the six months ended June 30, 2016. See Note 2, Earnings per Common Share, in the accompanying notes to the condensed consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

	June 30, 2017	December 31, 2016
	(in thousands except percentages and ratios)	
Working capital	\$ 2,849	\$ 3,302
Current ratio	1.2 to 1	1.3 to 1
Debt as a percent of total capitalization	43 %	26 %

Notes Payable

On March 23, 2017 the Company entered into a \$7.00 million Senior Secured Term Note with a third-party lender. The Note is payable in monthly interest only payments in arrears at a fixed rate of 11.5%. Principal of \$0.50 million was paid on June 30, 2017 with the balance due March 23, 2021.

The Company continues to monitor its liquidity position closely and depending on the business needs may raise cash in the form of debt, equity or a combination of both.

Operating Activities

During the six months ended June 30, 2017, the Company provided cash of \$0.43 million from operations as compared to using \$4.22 million for the same period in 2016. This was primarily the result of advanced payments on two uncompleted projects at June 30, 2017.

Investing Activities

During the six months ended June 30, 2017, the Company's investing activities provided cash of \$0.65 million compared to providing \$0.53 million for the comparable period in 2016. This was primarily the result of lower capital expenditures and offset by a reduction in sales of capital expenditures.

Financing Activities

During the six months ended June 30, 2017, the Company's financing activities provided cash of \$0.55 million compared to using \$0.40 million in the comparable period in 2016. The increase is primarily attributable to \$0.97 million in net proceeds from the issuance of debt.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The markets in which we participate are capital intensive and cyclical in nature. The volatility in customer demand in several of these markets is greatly driven by the change in the price of oil and gas. These factors influence the release of new capital projects by our customers, which are traditionally awarded in competitive bid situations. Coordination of project start dates is matched to the customer requirements and projects may take a number of months to complete. Schedules also may change during the course of any particular project. For more information please see Item 2 of the Management Discussion and Analysis – Business Outlook.

Liquidity Risk

Our inability to borrow additional funds could negatively impact future working capital, capital expenditures, and acquisitions in addition to fulfilling our obligations and operating the business. While we would seek alternative funding sources through both debt and equity raises, there is no assurance that additional capital can be obtained or that it can be obtained at terms that are favorable to us and our existing stockholders.

As of June 30, 2017, we had cash and cash equivalents of \$3.24 million and total outstanding debt of \$6.10 million. The Company had no availability for additional borrowings under our credit agreements. In the event that the Company fails to meet covenants in the future, the Company may not be able to obtain the necessary waivers or amendments to remain in compliance with the Purchase Agreement and the Purchaser may declare a default and cause all of the Company's outstanding indebtedness under the Purchase Agreement to become immediately due and payable.

Interest Rate Risk

Our interest rate sensitive items do not subject us to material risk exposures. Our senior secured term Note has a fixed interest rate of 11.50%.

Foreign Currency Transaction Risk

The Company operates a subsidiary in Brazil and maintains equity method investments in its Singapore and Chinese joint ventures, MIEFE and BOMAY, respectively. The functional currencies of the Brazil subsidiary and the joint ventures are the Brazilian Real, 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 quarterly reporting period. The resulting translation adjustment is recorded as accumulated other comprehensive income, net of tax, in our condensed consolidated balance sheets. In the current six months, this item increased from \$0.00 million at December 31, 2016 to \$0.10 million at June 30, 2017 due principally to the strengthening of the Brazilian Real and the Chinese Yuan versus the United States Dollar.

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 commodity price 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 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Accounting Officer, of the effectiveness of our disclosure controls and procedures as of June 30, 2017. Based on this evaluation, our Principal Executive Officer and Principal Accounting Officer concluded that the disclosure controls and procedures were effective as of June 30, 2017.

There were no changes in our internal controls over financial reporting that occurred during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes during the period ended June 30, 2017 in the risk factors as set forth in item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Our loan agreement prohibits the payment of cash dividends on our common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Index to Exhibits

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

SIGNATURES

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

Date: August 8, 2017

AMERICAN ELECTRIC TECHNOLOGIES, INC.

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

By: /s/ William B. Brod
William B. Brod
Chief Financial Officer
(Principal Financial Officer)