

American Electric Technologies Inc  
Form 10-Q  
May 17, 2010  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

## FORM 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_ TO \_\_\_\_**

**Commission File No. 000-24575**

# **AMERICAN ELECTRIC TECHNOLOGIES, INC.**

**(Exact name of registrant as specified in its charter)**

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**Florida**  
(State or other jurisdiction)

**59-3410234**  
(I.R.S. Employer

of incorporation)

**6410 Long Drive, Houston, TX 77087**

Identification No.)

(Address of principal executive offices)

**(713) 644-8182**

(Registrant's telephone number)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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

As of May 17, 2010, the registrant had 7,745,621 shares of its Common Stock outstanding.

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AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

	(Unaudited) March 31, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 993,372	\$ 1,497,305
Accounts receivable-trade, net of allowance of \$498,510 and \$438,900, respectively	10,646,179	10,368,351
Accounts receivable-other	356,103	349,094
Income taxes receivable	208,119	207,119
Inventories, net	3,713,815	3,563,481
Costs and estimated earnings in excess of billings on uncompleted contracts	3,337,299	3,750,367
Prepaid expenses and other current assets	394,756	327,428
Due from employees	58,923	36,282
Deferred income taxes	583,271	541,894
Total current assets	20,291,837	20,641,321
Property, plant and equipment, net	5,218,498	5,193,897
Other assets, net	127,119	132,764
Advances to and investments in joint ventures	7,102,222	6,447,558
Deferred tax asset	1,280,703	1,106,023
Total assets	\$ 34,020,379	\$ 33,521,563
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,237,735	\$ 3,573,477
Accrued payroll and benefits	960,355	995,309
Other accrued expenses	166,304	244,213
Billings in excess of costs and estimated earnings on uncompleted contracts	1,243,425	953,474
Short-term notes payable	134,992	134,992
Total current liabilities	6,742,811	5,901,465
Notes payable	3,340,322	3,375,911
Deferred compensation	365,965	330,215
Total liabilities	10,449,098	9,607,591
Stockholders equity:		
Common stock; \$0.001 par value, 50,000,000 shares authorized, 7,741,782 and 7,700,875 shares issued and outstanding March 31, 2010 and December 31, 2009, respectively	7,741	7,701
Additional paid-in capital	7,653,372	7,594,491
Accumulated other comprehensive income	245,457	237,270
Retained earnings	15,664,711	16,074,510

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Total stockholders' equity	23,571,281	23,913,972
Total liabilities and stockholders' equity	\$ 34,020,379	\$ 33,521,563

See the accompanying notes to the condensed unaudited consolidated financial statements.

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## AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

### Condensed Consolidated Statements of Operations

#### Unaudited

	Three Months Ended March 31,	
	2010	2009
Net sales	\$ 9,657,960	\$ 15,978,166
Cost of sales	9,194,501	13,750,083
Gross profit	463,459	2,228,083
Operating expenses:		
General and administrative	1,142,195	1,283,573
Selling	551,262	527,251
Total operating expenses	1,693,457	1,810,824
Income (loss) from operations	(1,229,998)	417,259
Other income (expense):		
Equity in income of joint ventures	635,621	704,398
Interest expense	(29,298)	(34,625)
Other, net	(6,785)	(73,741)
Total other income (expense)	599,538	596,032
Income (loss) before income tax expense	(630,460)	1,013,291
Income tax expense (benefit)	(220,661)	361,705
Net income (loss)	\$ (409,799)	\$ 651,586
Net income (loss) per common share:		
Basic	\$ (0.05)	\$ 0.08
Diluted	\$ (0.05)	\$ 0.08
Weighted-average shares:		
Basic	7,718,656	7,674,406
Diluted	7,888,957	7,757,927

See the accompanying notes to the condensed unaudited consolidated financial statements.

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## AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

### Condensed Consolidated Statements of Cash Flows

#### Unaudited

	For the Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (409,799)	\$ 651,586
Adjustments to reconcile net income to net cash provided by operating activities, net of assets and liabilities acquired:		
Provisions for bad debt	59,610	52,626
Depreciation and amortization	248,311	265,983
Gain on sale of property and equipment	(300)	(650)
Allowance for obsolete inventory	25,839	8,925
Deferred compensation	79,094	23,792
Equity income from joint venture	(635,621)	(704,398)
Deferred federal income tax expense (benefit)	(220,662)	
Change in operating assets and liabilities:		
Accounts receivable (including other)	(367,089)	3,313,424
Income taxes receivable/payable	(1,000)	359,288
Inventories	(176,173)	110,052
Costs and estimated earnings in excess of billings on uncompleted contracts	413,068	(1,392,029)
Prepaid expenses and other assets	(67,328)	(127,868)
Accounts payable and accrued liabilities	551,395	(355,992)
Billings in excess of costs and estimated earnings on uncompleted contracts	289,951	(1,290,574)
Net cash provided by (used in) operating activities	(210,704)	914,165
Cash flows from investing activities:		
Purchases of property, plant and equipment	(267,267)	(206,325)
Proceeds from disposal of property, plant and equipment	300	650
Net cash used in investing activities	(266,967)	(205,675)
Cash flows from financing activities:		
Proceeds from sale of common stock	9,327	11,807
Capital lease obligation payment	(35,589)	(33,538)
Net cash used in financing activities	(26,262)	(21,731)
Net increase (decrease) in cash and cash equivalents	(503,933)	686,759
Cash and cash equivalents, beginning of period	1,497,305	148,598
Cash and cash equivalents, end of period	\$ 993,372	\$ 835,357
Supplemental disclosures of cash flow information:		
Interest paid	\$ 28,277	\$ 24,035
Income taxes paid	\$ 1,000	\$ 9,490

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Supplemental disclosures of non-cash activities:

Reclassification of deferred compensation to paid-in-capital	\$	\$	115,766
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See the accompanying notes to the condensed unaudited consolidated financial statements

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**AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES**

Notes to Condensed Unaudited Consolidated Financial Statements

March 31, 2010

**1. Basis of Presentation**

The accompanying condensed unaudited consolidated financial statements of American Electric Technologies, Inc. and Subsidiaries ( AETI , the Company , our , we , us ) as of March 31, 2010 and for the three months then ended have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and include all adjustments which, in the opinion of management, are necessary for a fair presentation of financial position as of March 31, 2010 and results of operations for the three months ending March 31, 2010. 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 accounting principles generally accepted in the United States of America have been condensed or omitted. The statements should be read in conjunction with the Company's financial statements filed on our Annual Report on Form 10-K for the year ended December 31, 2009 which was filed on March 26, 2010.

**2. Merger**

American Electric Technologies, Inc. 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 15, 2007. Immediately upon the completion of the reverse acquisition, American Access Technologies, Inc. changed its name to American Electric Technologies, Inc.

**3. Net Income (loss) per Common Share**

Basic earnings per common share is based on the weighted average number of common shares outstanding for the three months ended March 31, 2010 and 2009. Diluted earnings per share is based on the weighted average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed exercise of all potentially dilutive stock options and other stock units subject to anti-dilution limitations.

**4. Recent Accounting Pronouncements**

**Fair Value Measurements** In January 2010, the Financial Accounting Standards Board ( FASB ) issued accounting guidance to improve disclosures of fair value measurements. This guidance requires an entity to: (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separate information for Level 3 activity pertaining to gross purchases, sales, issuances, and settlements. This update became effective for us in the quarter ended March 31, 2010, except that the disclosure on the roll forward activities for Level 3 fair value measurements will become

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effective for us with the reporting period beginning January 1, 2011. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on our financial statements.

**Subsequent Events** In May 2009, the FASB issued accounting guidance on subsequent events that establishes standards of accounting for and disclosure of subsequent events. In addition, it requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This new guidance was adopted for our financial statements for the quarterly period ending June 30, 2009. The adoption of this guidance did not have a material impact on our financial statements.

In February 2010, the FASB issued new accounting guidance that amends the May 2009 subsequent events guidance described above to (i) eliminate the requirement for an SEC filer to disclose the date through which it has evaluated subsequent events, (ii) clarify the period through which conduit bond obligors must evaluate subsequent events, and (iii) refine the scope of the disclosure requirements for reissued financial statements. We adopted this new accounting guidance for our financial statements for the quarterly period ended March 31, 2010. The adoption of this guidance did not have a material impact on our financial statements.

## **5. Segment Information**

Management has organized the Company around products and services and has three reportable segments: Technical Products and Services ( TP&S ), Electrical and Instrumentation Construction ( E&I ) and American Access Technologies ( AAT ). TP&S develops, manufactures, provides and markets switchgear and variable speed drives. The service component of this segment includes retrofitting equipment upgrades, startups, testing and troubleshooting electrical substations, switchgear, drives and control systems. Additionally, joint venture equity income is included in TP&S income before income taxes because their operations are exclusively involved in TP&S activities. The E&I segment installs electrical equipment for the energy, water, industrial, marine, data center and commercial markets. The AAT segment manufactures and markets zone cabling products and manufactures formed metal products of varying designs.

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

	Three Months Ended March 31,	
	2010	2009
<b>Revenue</b>		
Technical Products and Services	\$ 5,641,663	\$ 9,657,404
Electrical and Instrumentation Const.	2,693,220	4,985,682
American Access Technologies	1,323,077	1,335,080
<b>Total</b>	<b>\$ 9,657,960</b>	<b>\$ 15,978,166</b>
<b>Gross Profit (loss)</b>		
Technical Products and Services	\$ 90,265	\$ 2,237,350
Electrical and Instrumentation Const.	151,333	(88,378)
American Access Technologies	221,861	79,111
<b>Total</b>	<b>\$ 463,459</b>	<b>\$ 2,228,083</b>
<b>Income (loss) before Income taxes:</b>		
Technical Products and Services	\$ (18,595)	\$ 2,128,594
Electrical and Instrumentation Const.	(204,069)	(472,720)
American Access Technologies	(100,675)	(308,019)
Corporate and Other Unallocated	(307,121)	(334,564)
<b>Total</b>	<b>\$ (630,460)</b>	<b>\$ 1,013,291</b>

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 unallocated expenses include compensation costs and other expenses that cannot be meaningfully associated with the individual segments, i.e. except for equity in joint venture income attributable to TP&S, all other costs, expenses and other income have been allocated to the segments based on sales, which management believes is the best available basis to apportion these elements of income and expense to the segments.

## 6. Advances to and Investment in Joint Ventures

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

a 49% interest in M&I Electric Far East, Ltd. ( MIEFE ), a joint venture with Oakwell Engineering, Ltd., in Singapore, and;

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

The carrying value of these equity method investments as of March 31, 2010 and 2009 were:

	2010	2009
BOMAY	\$ 5,889,663	\$ 5,521,009
MIEFE	1,212,559	1,108,161

\$ 7,102,222	\$ 6,629,170
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Under the equity method, the Company's share of the joint ventures' earnings or loss is recognized in our Statement of Operations as Other Income (Expense) - Equity in income (loss) of joint ventures. 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.

During 2007, the Company's equity income in the reported results of BOMAY was net of certain expense adjustments totaling approximately \$660,000 that were recorded to reflect management's estimate of warranty costs and management's estimate of a provision for doubtful accounts for contractual amounts due from BOMAY. In recording these adjustments, a variety of factors were considered by management including local operating conditions, potential warranty costs associated with introduction of new products in the Chinese market and uncertainty regarding the collectibility of amounts due from BOMAY arising from certain contractual obligations. Based on the evaluation in the three months ended March 31, 2010, management determined that the reserves are no longer necessary.

This determination was based on a number of changed circumstances including the satisfaction of all past contractual obligations by BOMAY, good historical performance of its manufactured products and positive relationship built with local management that the Company believes have eliminated any collection issues on the contractual obligations. This change in estimate increased the carrying value of the investment by \$660,000 and was reflected in our Statement of Operations as Other Income (Expense) - Equity in income of joint ventures.

BOMAY's Board of Directors declared a dividend in April, 2010 from which AETI expects to receive approximately \$1,000,000 during the second quarter.

Subsequent to the end of the quarter, a company was formed in Brazil called the AETI Alliance Group do Brazil ( AAG ) in which the Company will hold a 49% interest. AAG plans to provide electrical products and services to the Brazilian energy industries. The Company will provide initial capital and working capital of \$196,000 during the initial year of operation.

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### **7. Revolving Credit Agreement**

As of the period ending March 31, 2010 AETI was unable to satisfy the net profit covenant on its revolving credit agreement with JP Morgan Chase Bank, N.A. Under the agreement AETI is required to maintain profitability for the trailing four calendar quarters. The Company requested and received from the bank a waiver of this covenant violation. In the event that this waiver had not been received from the bank, the amount due under the loan, \$3,000,000, would be callable and reclassified as a current liability. In addition, the interest payable on the loan would be increased by 3% above the base rate of LIBOR (0.24% at March 31, 2010) plus 2.25% per annum.

### **8. Inventories**

Inventories consisted of the following at March 31, 2010 and December 31, 2009:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Raw materials	\$ 953,836	\$ 899,696
Work-in-process	2,165,195	2,060,077
Finished goods	806,402	806,402
Allowance	(211,618)	(202,694)
<b>Total inventories</b>	<b>\$ 3,713,815</b>	<b>\$ 3,563,481</b>

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

The following discussion should be read in conjunction with the financial statements and notes thereto included elsewhere in this Form 10-Q and the financial statements in the 2009 Annual Report on Form 10-K filed on March 26, 2010. Historical results and percentage relationships set forth in the statement of operations, including trends that might appear, are not necessarily indicative of future operations.

### **FORWARD-LOOKING STATEMENTS**

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

These statements, including statements regarding our capital needs, business strategy, expectations and intentions, are subject to numerous risks and uncertainties, many of which are beyond our control, including our ability to maintain key products sales or effectively react to other risks including those discussed in Part I, Item 1A, Risk Factors, of our 2009 Annual Report on Form 10-K filed on March 26, 2010. We urge you to consider that statements that use the terms believe, do not believe, anticipate, expect, plan, estimate, intend and similar expressions are

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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**

American Electric Technologies, Inc. is comprised of three segments: Technical Products and Services ( TP&S ), Electrical and Instrumentation Construction ( E&I ) and American Access Technologies ( AAT ). 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 generator control and distribution switchgear, motor control centers, powerhouses, bus duct, analog drives, digital SCR drives, AC variable frequency drives, program logic control ( PLC ) based automation systems, human machine interface ( HMI ) and specialty panels. Our products are built for application voltages from 480 volts to 40,000 volts and are used in a wide variety of industries. 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, the water and wastewater facilities industry and other commercial and industrial markets. The segment's services include new construction as well as electrical and instrumentation turnarounds, maintenance, and renovation projects. Applications include installation of switchgear, AC and DC motors, drives, motor controls, lighting systems, 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. We have the technical expertise to provide these services in compliance with a number of applicable industry standards such as NEMA ( National Electrical Manufacturers Association ), ANSI ( American National Standards Institute ), IEC ( International Electrotechnical Commission ), ABS ( American Bureau of Shipping ), USCG ( United States Coast Guard ), Lloyd's Register, a provider of marine certification services, and DNV ( Det Norske Veritas ) standards, a leading certification body/registrar for management systems certification services standards.

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

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The Company has facilities and sales offices in Texas, Mississippi and Florida. We have minority interests in joint ventures which have facilities in Singapore, Xian, China and Jakarta, Indonesia.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Our significant accounting policies are more fully described in the financial statements filed in our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2010. Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. Management believes the following critical accounting policies reflect its most significant estimates and assumptions used in the presentation of our 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 (SPEs), nor do we have any variable interest entities (VIEs).

**Inventory Valuation** - 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 indirect overhead is apportioned to work in process based on direct cost incurred. AAT production overhead, including indirect labor, is allocated to finished goods and work-in-process based on material consumption which is an estimate that could be subject to change in the near term as additional information is obtained and as our operating environment changes.

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

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

**Revenue Recognition** - The Company recognizes earnings from both fixed price and modified fixed price contracts. Earnings on certain contracts are recognized on the percentage-of-completion

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method. The Company follows accounting guidance in the Codification for accounting policies relating to our use of the percentage-of-completion method, estimating costs and revenue recognition, including the recognition of profit incentives, combining and segmenting contracts, and unapproved change order/claim recognition. Due to the various estimates inherent in contract accounting, actual results could differ from those estimates. The Company recognizes revenue from product sales at the time the product is shipped and title passes to the customer. The Company believes that recognizing revenue at time of shipment is appropriate because the Company's sales are to recognize revenue once each of the following four criteria have been met: (i) persuasive evidence that an arrangement exists, (ii) delivery has occurred, (iii) the seller's price to the buyer is fixed and determinable, and (iv) collectability is reasonably assured.

**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 to be the functional currency. The assets and liabilities of our foreign equity investees, denominated in foreign currency, are translated into United States dollars at exchange rates in effect at the consolidated balance sheet date; revenue and expenses are translated at the average exchange rate for the period. Related translation adjustments are reported as comprehensive income (loss) 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 asset and liability method is used in accounting for federal income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases 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 estimated value of deferred tax assets are reviewed 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 our tax returns.

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

**Equity in Joint Venture Income (Note 6)** - The Company accounts for its investments in the joint ventures using the equity method. Under the equity method, the Company records its pro-rata share of joint venture 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.

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 national and local economic, political and market conditions, industry trends and prospects, liquidity and capital resources and other pertinent factors.

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### **THE THREE MONTHS ENDED MARCH 31, 2010 AS COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2009 (in thousands)**

#### **OVERALL RESULTS OF OPERATIONS**

**Revenue and Gross Profit.** Total consolidated net sales decreased \$6,320.2 or 40.0%, to \$9,658.0 for the three months ended March 31, 2010 over the comparable period in 2009. The decrease occurred across all business segments and is attributable to the overall decline in the global economy. Total consolidated gross profit declined by \$1,764.6. Gross profit as a percentage of sales declined from 13.9% to 4.8% as a result of higher fixed and indirect costs as a percentage of sales.

**Selling, General and Administrative Expenses.** Total consolidated selling, general and administrative expenses were \$1,693.5 during the three month period ended March 31, 2010, a decrease of \$117.4 or 6.5% from the prior year period expense level. The improvement is primarily attributable to reduced compensation costs and sales commissions and is partially offset by increases in promotional expenses.

**Other Income and Expense.** Consolidated net other income increased by \$3.5 from the prior year period reflecting the decrease of \$728.8 in equity income from joint ventures, offset by a valuation adjustment to the carrying value of the investment in BOMAY (see Note 6) and by reduced interest and other expenses.

**Provision for Income Taxes.** Provision for income tax changed from a tax expense of \$361.7 for the first quarter of 2009 to a tax benefit of \$220.7 in the first quarter of 2010. The effective tax rate of 35.0% was slightly lower than the prior year rate of 35.7% due to higher deemed foreign tax credits in the current period.

**Net Income (loss).** Net loss for the three months ended March 31, 2010 was \$409.8, as compared to net income of \$651.6 for the prior year period. The decrease in net income is a result of a loss before income taxes partially offset by the tax benefit during the first quarter of 2010 as compared to a tax expense in the first quarter of 2009. The lower income before income taxes is associated with reduced gross profit (\$1,764.6) and changes in equity income (\$68.8) partially offset by improved selling, general and administrative expenses (\$117.4). Equity income includes a change in accounting estimate related to the Chinese joint venture (see Note 6).

#### **SEGMENT COMPARISON:**

**Technical Products and Services.** The TP&S segment revenue decreased \$4,015.7 from \$9,657.4 for the first quarter of 2009 to \$5,641.7 for the first quarter of 2010. The 41.6% decrease in revenue for this segment reflects a reduced demand for the company's products and services, given the current weakness in the domestic traditional energy markets.

Gross profit for the TP&S segment for the first quarter of 2010 was \$90.3, a decrease of \$2,147.1 over the prior year level of \$2,237.4 due primarily to the revenue impact noted above. TP&S loss before taxes for the first quarter of 2010 was \$18.6, compared to income before tax of \$2,128.6 for the comparable period in 2009 resulted from the decreased gross profits and reduced joint venture income.

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The backlog for the TP&S segment was approximately \$3,700.0 as of March 31, 2010, a decrease of approximately \$2,200.0 since the beginning of the fiscal year. Substantially all of this backlog should be realized as revenue during the remainder of the fiscal year. The reduction in backlog is attributable to the decline in the North American drilling market and the reduced global economic activity.

**Electrical & Instrumentation Construction.** The E&I segment reported sales of \$2,693.2 in the first quarter of 2010, a decline of \$2,292.5 or 46.0 %, over the first quarter of 2009.

Gross profit for the E&I segment during the first quarter of 2010 was \$151.3, compared to a loss of \$88.4 in the prior period. Gross profit as a percentage of sales improved by 7.4% for the comparable periods. The E&I segment's loss before taxes for the first quarter of 2010 was \$204.1, compared to a loss of \$472.7 in 2009. This improvement coincides with the segment's focus on traditional industrial, commercial energy and data center markets.

The backlog for the E&I segment was approximately \$9,700.0 as of March 31, 2010, an increase \$1,800.0 since the beginning of the fiscal year. The increase in backlog is attributable to the recent contract signings in the water and wastewater market. Approximately 80% of this backlog should be realized in revenue for the remainder of the fiscal year.

**American Access Technologies.** The American Access segment reported sales of \$1,323.1 in the first quarter of 2010, essentially unchanged from the comparable prior year reporting period. Gross profits and gross profit percentage improved by \$142.8 and 10.8%, respectively, as a result of reduced fixed and indirect manufacturing cost. Net loss before income taxes improved by \$207.3 due to the improved gross profits.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2010, AETI's cash and cash equivalents were \$993.4 compared to \$1,497.3 as of December 31, 2009. Working capital was approximately \$13,549.0 and \$14,739.9 as of March 31, 2010 and December 31, 2009, respectively. As of March 31, 2010, AETI's current ratio and long-term debt to total capitalization ratios were 3.0:1 and 12.4%, respectively. The comparable ratios at December 31, 2009 were 3.5:1 and 12.4%.

AETI's long-term debt as of March 31, 2010 was \$3,340.3 on which interest payments are current. This amount includes the long-term portion of a capitalized lease obligation.

## **Operating Activities**

During the three months ended March 31, 2010, AETI utilized cash flows from operations of \$210.7 as compared to generating cash flows from operations of \$914.2 for the same period in 2009. The net cash used from operating activities is primarily the result of the net loss from operations and changes in operating assets and liabilities. For the same period in 2009, operating cash flow from net income adjusted for depreciation was partially offset by equity income from joint ventures and changes in operating assets and liabilities.

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### **Investing Activities**

During the three months ending March 31, 2010, the Company utilized \$267.0 in cash from investing activities compared to \$205.8 in 2009, as a result of capital expenditures which is comprised primarily of equipment and maintenance capital.

### **Financing Activities**

During the three months ending March 31, 2010 the Company paid \$35.6 in financing costs under a finance lease and received \$9.3 in connection with stock purchases under its employee stock purchase plan. In 2009 the Company paid \$33.5 in financing costs under a financing lease and received \$11.8 in connection with stock purchases under its stock purchase plan.

The Company believes its existing cash, working capital and unused credit facility combined with operating earnings will be sufficient to meet its working capital needs for the next twelve months.

### **Near Term Strategy**

There is a high degree of uncertainty regarding the company's revenue levels for the remainder of the current fiscal year and as a result, the primary management focus is on increasing our sales levels. Management will continue to monitor the company's sales levels and cost structure and take additional actions as appropriate to maintain AETI's strong financial position.

The Company has experienced a pronounced decline in its backlog as a result of reduced demand occasioned by the recent volatility in the financial, commodity and energy markets. Management cannot predict when demand for its traditional products and services will begin to increase so as a result we will continue to adjust base costs and conserve working capital. The Company believes these actions will sustain its strong financial position. In addition, we will maintain our recent product development activities in alternative energy in order to augment the revenue from our traditional markets. AAT's sales levels continue to be affected by soft zone cabling market. Accordingly, no increase in sales levels in the near term are forecast for this unit.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Interest Rates**

Our market risk sensitive items do not subject us to material risk exposures. Our revolving credit facility remains available through July 1, 2011, subject to optional prepayment in accordance with its terms. At March 31, 2010, the Company had \$3,000,000 of variable-rate debt outstanding. At this borrowing level, a hypothetical 10 percent increase 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 floating-rate debt is based on LIBOR (0.24% at March 31, 2010) plus 2.25% per year. The agreement is collateralized by trade accounts receivable, inventory and work-in-process.

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### **Foreign Currency Transaction Risk**

AETI maintains an investment in its Singapore joint venture, MIEFE. The functional currency of this joint venture is the Singapore dollar. The amount of its investment is translated into United States dollars at the exchange rate in effect at the end of each quarterly reporting period. The resulting translation adjustment is recorded as accumulated other comprehensive income in AETI's consolidated balance sheet.

The Company has an investment in its Chinese joint venture, BOMAY. The functional currency of this joint venture is the Chinese Yuan. BOMAY's financial statements are translated into United States dollars at the rate prevailing at the end of each quarterly reporting period and any resulting adjustment will be recorded as accumulated other comprehensive income in the Company's consolidated balance sheet.

Other than the aforementioned items, the Company does not believe it is exposed to foreign currency exchange risk because all of its sales and purchases are denominated in United States dollars.

### **Commodity Price Risk**

The Company is 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 our 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 can reduce our estimated operating margins if we are unable to recover such increases from customer revenues.

### **ITEM 4T. CONTROLS AND PROCEDURES**

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer ( CEO ) and our Chief Financial Officer ( CFO ), of the effectiveness of our disclosure controls and procedures as of March 31, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of March 31, 2010.

No change in internal control over financial reporting occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

(a) Index to Exhibits

<b>Exhibit No.</b>	<b>Exhibit Description</b>
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer.
32.1	Section 1350 Certifications of Principal Executive Officer and Principal Financial Officer.

**SIGNATURES**

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

Date: May 17, 2010

AMERICAN ELECTRIC TECHNOLOGIES, INC.

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

By: /s/ John H. Untereker  
John H. Untereker  
Senior Vice President, Chief Financial Officer and Secretary  
(Principal Financial Officer)