

American Electric Technologies Inc  
Form 10-Q  
November 14, 2016

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 September 30, 2016

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)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of November 7, 2016 the registrant had 8,335,968 shares of its Common Stock outstanding.

AMERICAN ELECTRIC TECHNOLOGIES, INC. AND SUBSIDIARIES

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For the Quarterly Period Ended September 30, 2016

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## 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)

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,903	\$ 7,989
Restricted short-term investments	507	507
Accounts receivable-trade, net of allowance of \$233 and \$225 at September 30, 2016 and December 31, 2015	7,272	6,853
Inventories, net of allowance of \$78 and \$60 at September 30, 2016 and December 31, 2015	1,472	1,325
Cost and estimated earnings in excess of billings on uncompleted contracts	5,339	2,302
Prepaid expenses and other current assets	205	324
Total current assets	17,698	19,300
Property, plant and equipment, net	7,453	7,915
Advances to and investments in foreign joint ventures	10,805	11,104
Intangibles	529	218
Other assets	18	49
Total assets	\$ 36,503	\$ 38,586
Liabilities, Convertible Preferred Stock and Stockholders' Equity		
Current liabilities:		
Revolving line of credit	\$ 1,500	\$ 1,043
Current portion of long-term note payable	300	300
Accounts payable and other accrued expenses	8,965	4,907
Accrued payroll and benefits	879	476
Billings in excess of costs and estimated earnings on uncompleted contracts	341	1,629
Total current liabilities	11,985	8,355
Long-term note payable	4,050	4,200
Deferred compensation	272	305
Deferred income taxes	2,913	3,064
Total liabilities	19,220	15,924
Convertible preferred stock:		
Redeemable convertible preferred stock, Series A, net of discount of \$631 at September 30, 2016 and \$671 at December 31, 2015; \$0.001 par value, 1,000,000 shares authorized, issued and outstanding at September 30, 2016 and December 31, 2015	4,369	4,329
Stockholders' equity:		
Common stock; \$0.001 par value, 50,000,000 shares authorized, 8,480,118 and 8,385,929 shares issued and 8,292,753 and 8,254,001 shares outstanding at	8	8

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September 30, 2016 and December 31, 2015

Treasury stock, at cost 145,877 shares at September 30, 2016 and 131,928 shares at December 31, 2015	(863 )	(792 )
Additional paid-in capital	12,411	12,032
Accumulated other comprehensive income	204	310
Retained earnings; including accumulated statutory reserves in equity method investments of \$2,809 and \$2,722 at September 30, 2016 and December 31, 2015	1,154	6,775
Total stockholders' equity	12,914	18,333
Total liabilities, convertible preferred stock and stockholders' equity	\$ 36,503	\$ 38,586

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

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American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

Unaudited

(in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales	\$8,673	\$13,780	\$28,415	\$41,393
Cost of sales	9,124	11,219	27,549	34,505
Gross margin	(451 )	2,561	866	6,888
Operating expenses:				
Research and development	145	276	864	504
Selling and marketing	466	546	1,759	1,642
General and administrative	1,587	1,523	3,914	4,046
Total operating expenses	2,198	2,345	6,537	6,192
Income (loss) from operations	(2,649 )	216	(5,671 )	696
Net equity income (loss) from foreign joint ventures' operations:				
Equity income (loss) from foreign joint ventures' operations	215	225	367	625
Foreign joint ventures' operations related expenses	(53 )	(103 )	(202 )	(310 )
Net equity income (loss) from foreign joint ventures' operations	162	122	165	315
Income (loss) from operations and net equity income from foreign joint ventures' operations	(2,487 )	338	(5,506 )	1,011
Other income (expense):				
Interest expense and other, net	(78 )	(93 )	200	(157 )
Foreign transaction gain	-	(134 )	-	-
Income (loss) before income taxes	(2,565 )	111	(5,306 )	854
Provision for (benefit from) income taxes	59	(93 )	50	(171 )
Net income (loss) before dividends on redeemable convertible preferred stock	(2,624 )	204	(5,356 )	1,025
Dividends on redeemable convertible preferred stock	(89 )	(87 )	(265 )	(261 )
Net income (loss) attributable to common stockholders	\$(2,713 )	\$117	\$(5,621 )	\$764
Earnings (loss) per common share:				
Basic	\$(0.33 )	\$0.01	\$(0.68 )	\$0.09
Diluted	\$(0.33 )	\$0.01	\$(0.68 )	\$0.08
Weighted - average number of common shares outstanding:				
Basic	8,327,009	8,252,396	8,294,268	8,236,212
Diluted	8,327,009	8,252,396	8,294,268	9,277,929

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

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American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands)

	Three Months Ended September 30, 2016    2015	
Net income (loss) before dividends on redeemable convertible		
preferred stock	\$(2,624)	\$204
Other comprehensive income:		
Foreign currency translation gain (loss), net of deferred income taxes of		
\$21 and \$117 for the three months ended September 30, 2016 and 2015	(41 )	(315 )
Total comprehensive income (loss)	\$(2,665)	\$(111 )
	Nine Months Ended September 30, 2016    2015	
Net income (loss) before dividends on redeemable convertible		
preferred stock	\$(5,356)	\$1,025
Other comprehensive income:		
Foreign currency translation gain (loss), net of deferred income taxes of		
\$54 and \$166 for the nine months ended September 30, 2016 and 2015	(106 )	(410 )
Total comprehensive income (loss)	\$(5,462)	\$615

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



American Electric Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Unaudited

(in thousands)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income (loss)	\$ (5,356 )	\$ 1,025
Adjustments to reconcile net income (loss) to net cash provided by		
operating activities:		
Deferred income tax provision (benefit)	(97 )	(171 )
Equity income (loss) from foreign joint ventures' operations	(367 )	(625 )
Depreciation and amortization	660	673
Stock based compensation	366	302
Gain on fixed asset disposal	(75 )	84
Bad debt expense	100	(55 )
Obsolete inventory expense	35	47
Deferred compensation costs	(33 )	12
Change in operating assets and liabilities:		
Accounts receivable	(360 )	3,915
Inventories	(180 )	1,252
Costs and estimated earnings in excess of billings on uncompleted contracts	(3,049 )	142
Prepaid expenses and other current assets	79	707
Accounts payable	3,817	(1,752 )
Billings in excess of costs and estimated earnings on	(1,288 )	(969 )

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uncompleted contracts		
Accrued liabilities and other current liabilities	188	(393 )
Foreign currency translation adjustment	-	(410 )
Net cash provided by (used in) operating activities	(5,560 )	3,784
Cash flows from investing activities:		
Proceeds from sale of property and equipment	309	-
Purchases of property, plant and equipment and other assets	(572 )	(559 )
Proceeds from foreign joint ventures' operations dividends	589	1,170
Net cash provided by (used in) from investing activities	326	611
Cash flows from financing activities:		
Proceeds from sale of common stock, preferred stock, and warrants	13	22
Treasury stocks purchase	(71 )	(70 )
Preferred stock cash dividend	(150 )	(75 )
Proceeds from long-term notes payable	-	4,000
Advances from revolving credit facility (repayments)	457	(2,500 )
Payments on long-term notes payable	(150 )	(154 )
Net cash provided by (used in) financing activities	99	1,223
Effect of exchange rate on cash	49	-
	(5,086 )	5,618

Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents, beginning of period	7,989		3,550
Cash and cash equivalents, end of period			
	2,903		9,168
Supplemental disclosures of cash flow information:			
Interest paid	\$ 162	\$	137
Income taxes paid	\$ -	\$	-

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 a fair presentation of financial position as of September 30, 2016 and December 31, 2015 and results of operations for the three and nine months ended September 30, 2016 and 2015. 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, 2015, which was filed on March 30, 2016. 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 nine months ended September 30, 2016 and 2015.

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 nine months ended September 30, 2016, 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 tables set forth the computation of basic and diluted common shares.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average basic shares	8,327,009	8,252,396	8,294,268	8,236,212
Dilutive effect of preferred stock, warrants, stock options and restricted stock units	-	-	-	1,041,717
Total weighted average diluted shares	8,327,009	8,252,396	8,294,268	9,277,929

### 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). We are currently evaluating the future impact of our pending adoption of ASU No. 2014-09 on our consolidated financial statements and have not yet determined the method with which we will adopt the standard in 2018.

In June 2014, the FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in this ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target

becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in ASU No. 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The adoption of ASU No. 2014-12 did not have a significant impact on the Company's consolidated financial position, results of operations and disclosures.

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

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. ASU No. 2015-02 focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification™ and improves current U.S. GAAP by: (1) Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met; (2) Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity; and (3) Changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or variable interest entities. ASU No. 2015-02 is effective for periods beginning after December 15, 2015. The adoption of ASU No. 2015-02 did not have a significant impact on the Company's consolidated financial position, results of operations and disclosures.

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. The amendments in ASU No. 2015-11 are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is currently evaluating the future impact of ASU No. 2015-11 on the Company's consolidated financial position, results of operations and disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU No. 2015-16 requires that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU No. 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU No. 2015-16 also requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU No. 2015-16 is effective for fiscal years beginning after December 15, 2015. ASU No. 2015-16 should be applied retrospectively and early adoption is permitted. The adoption of ASU No. 2015-16 did not have a significant impact on the Company's consolidated financial position, results of operations and disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance will be effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Company has elected to early adopt this pronouncement and has reflected the change on the consolidated balance sheet for all periods presented.

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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 expired 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.

#### 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. The business is currently inactive and the investment in MIEFE was written down to zero in the first quarter of 2016.

Sales to joint ventures totaled \$0.02 million and \$0.03 million for the three months ended September 30, 2016 and 2015. Sales to joint ventures totaled \$0.07 million and \$0.19 million for the nine months ended September 30, 2016 and 2015.

Summary (unaudited) financial information of our foreign joint ventures in U.S. dollars was as follows at September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	BOMAY		MIEFE	
	2016	2015	2016	2015
Assets:				
Total current assets	\$62,856	\$68,151	\$788	\$2,365



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Total non-current assets	3,804	4,131	22	70
Total assets	\$66,660	\$72,282	\$810	\$2,435
Liabilities and equity:				
Total liabilities	\$39,265	\$44,415	\$787	\$1,930
Total joint ventures' equity	27,395	27,867	23	505
Total liabilities and equity	\$66,660	\$72,282	\$810	\$2,435

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	Three Months Ended September 30,			
	BOMAY		MIEFE	
	2016	2015	2016	2015
Revenue	\$5,557	\$13,533	\$307	\$1,282
Gross Profit	\$1,582	\$1,996	\$133	\$214
Earnings	\$537	\$755	\$121	\$(187 )

	Nine Months Ended September 30,			
	BOMAY		MIEFE	
	2016	2015	2016	2015
Revenue	\$29,544	\$35,761	\$1,147	\$4,717
Gross Profit	\$4,844	\$5,830	\$451	\$901
Earnings	\$1,602	\$1,894	\$(498 )	\$(324 )

The following is a summary of activity in investments in foreign joint ventures for the nine months ended September 30, 2016 (unaudited):

	September 30, 2016		
	BOMAY*	MIEFE	TOTAL
	(in thousands)		
Investments in foreign joint ventures:			
Balance at December 31, 2015	\$10,896	\$ 208	\$11,104
Equity in earnings (loss) in 2016	641	(3 )	\$638
Dividend distributions in 2016	(589 )	-	\$(589 )
Foreign currency translation adjustment	(356 )	8	\$(348 )
Investments, end of period	\$10,592	\$ 213	\$10,805
Components of investments in foreign joint ventures:			
Investment in joint ventures	\$2,033	\$ 15	\$2,048
Undistributed earnings	8,150	(15 )	\$8,135
Foreign currency translation	409	213	\$622
Investments, end of period	\$10,592	\$ 213	\$10,805

\*\* Accumulated statutory reserves of \$2.81 and \$2.72 million in equity method investments at September 30, 2016 and December 31, 2015, 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. During the nine months ended September 30, 2016, the Company recognized losses from its investment in MIEFE of \$0.27 million. Losses were applied to the investment balance to the extent of the Company's initial investment, with the remaining \$0.27 million accrued in other current liabilities to reflect the Company's intention to fund their share of

losses.

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.

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## 5. Notes Payable

## Revolving Credit Agreement

On December 29, 2015, the Company entered into a Loan Agreement (the “Loan Agreement”) with Frost Bank (the “Bank”). The Loan Agreement provides two separate revolving credit facilities to the Company. The first facility (“Facility A”) provides the Company with a \$4.00 million revolving line of credit with a two-year term maturing December 29, 2017, subject to a maximum loan amount (the “Borrowing Base”) based on a formula related to the value of certain of the Company’s accounts receivable, inventories and equipment totaling \$3.29 million at September 30, 2016. Under Facility A, the Company may borrow, repay and reborrow, up to the Borrowing Base. At September 30, 2016, the outstanding balance of Facility A is \$1.50 million.

The second facility (“Facility B”) provides the Company with a \$4.50 million declining revolving line of credit. The Company may borrow, repay and reborrow from the line. The amount available to borrow under Facility B declines from the initial \$4.50 million by \$0.15 million each six months. Facility B’s maturity date is December 29, 2020 when all outstanding principal and unpaid accrued interest is due and payable. At September 30, 2016, the outstanding balance is \$4.35 million.

Under the Loan Agreement, the interest rate on both facilities is LIBOR (0.85% at September 30, 2016) plus 4.00% per year. The Loan Agreement also provides for usual and customary covenants and restrictions including that the borrower must maintain a fixed charge coverage ratio of no less than 1.25 to 1.00, and a ratio of consolidated total liabilities to consolidated net worth not to exceed 1.25. The Company was not in compliance with the fixed charge coverage ratio as of September 30, 2016 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 return, Facility A is capped at \$1.50 million of availability until the Company is back in compliance. As of September 30, 2016, there was no additional borrowing capacity available under Facility A.

The Company had a total of \$5.85 million of borrowings outstanding under the Bank Loan Agreement at September 30, 2016 and \$5.54 million at December 31, 2015.

## 6. Inventories

Inventories consisted of the following at September 30, 2016 (unaudited) and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
	(in thousands)	
Raw materials	\$ 636	\$ 594
Work-in-process	914	791
	1,550	1,385
Less: allowance	(78 )	(60 )
Total inventories	\$ 1,472	\$ 1,325

## 7. Income Taxes

The tax provision for the three and nine months ended September 30, 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 3% and 1%, respectively. The tax benefit for the three and nine months ending September 30, 2015 reflects a 34% U.S. tax rate related to the equity in foreign joint ventures' operations, net of dividends received and taxes paid on dividends from China, for an effective rate of (84)% and (20)%, 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 September 30, 2016 and December 31, 2015 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 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 nine months ended September 30, 2016 and 2015 totaled \$0.04 million, each period. Discount accretion for the three months ended September 30, 2016 and 2015 totaled \$0.01 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 value of the Series A Convertible Preferred 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 September 30, 2016 and December 31, 2015, the company had accrued but unpaid dividends totaling \$0.08 million and \$0.23 million, respectively, which is included in the accounts payable and other accrued expenses in the condensed consolidated balance sheet. On or before 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 September 30, 2016 and 2015, 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%.

#### 10. Sale of South Coast Electric Assets

On June 24, 2016, the Company sold its Bay St. Louis, MS manufacturing facility and related assets including fixed assets, work in process, and inventory to an unrelated party. The sale resulted in a gain of \$0.18 million, of which \$0.07 million is in relation to the gain on sale of fixed assets and reported in other income, and \$0.11 million is related to inventory and is reflected in income from operations.

## 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 2015 Annual Report on Form 10-K filed on March 30, 2016. Historical results and percentage relationships set forth in the condensed consolidated statements of operations and cash flows, including trends that might appear, are not necessarily indicative of future operations or cash flows.

### FORWARD-LOOKING STATEMENTS

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

These statements, including statements regarding our capital needs, business strategy, expectations and intentions, are subject to numerous risks and uncertainties, many of which are beyond our control, including our ability to maintain key products' sales or effectively react to other risks including those discussed in Part I, Item 1A, Risk Factors, of our 2015 Annual Report on Form 10-K filed on March 30, 2016. 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 will retain the entity along with the existing service organization.

## Overview

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

## Products and Services

We have provided sophisticated 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 the source of the power being generated (e.g. a diesel generator or the utility grid) to whatever mechanical device needs to use the power (drilling machinery, motors, other process equipment, 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, as well as a variety of arc-managed and arc-resistant switchgear to increase end-user safety in case of an arc-flash explosion. Our products are suitable for both 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 bundle third party products per our customer specifications including items such as battery backup power systems and transformers.

The Company’s new IntelliSafe™ medium voltage Arc-resistant switchgear product line is designed for the refining petrochemical and process industries and the power generation market. IntelliSafe is built with the goal of being the safest arc-resistant product on the market, and meets key industry specifications and certifications.

Our power conversion solutions include analog, digital silicon controlled rectifier (“SCR”) and alternating current variable frequency drive (“AC VFD”) systems, that are used to adjust the speed and torque of an electric motor to match various user applications, primarily in the land and offshore drilling and marine vessel markets.

Our automation and control solutions are programmable logic controllers (“PLC”) based systems designed for the management and control of power in a user’s application. Our DrillAssist™ for land and offshore drilling are control systems that enable the management of an entire drilling rig’s operations. DrillAssist™ includes auto-drill capabilities and a driller’s chair and cabin where the drilling rig operator manages the rig.

Our Power Distribution Centers (“PDC”) are a critical element of our turnkey solution set and 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 have the technical expertise to provide these 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 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 offer a full range of electrical and instrumentation services to our markets. We provide services to commission and maintain our customers’ electrical power conversion and controls systems. We also provide low and medium voltage start-up/commissioning, preventative maintenance, emergency call out services, and breaker and switchgear refurbishment services. 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 designs, optimizes, manufactures, commissions, and maintains our equipment for implementation in base-load, peaking power, cogeneration, and substation transmission facilities worldwide.

• The Company sells power delivery solutions to Original Equipment Manufacturers (OEM) such as natural gas and steam turbine manufacturers, and diesel and natural engine-generator (gen-set) manufacturers and dealers for deployment with the OEM power generation products.

• The Company sells our power delivery products and solutions to Power Generation and Distribution oriented Engineering Procurement and Construction (EPC) firms, and to high voltage service companies for the projects they have under contract.

• The Company also participates in renewable power generation projects including biomass power generation, geothermal power generation and other renewable energy related businesses.

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

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

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

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

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 and other river and inland water vessels.

Industrial projects include non-oil & gas chemicals, as well as steel, paper, heavy commercial, and other industrial applications.

Foreign Operations

We have three primary models for conducting our international business.

First, the Company uses a network of 3rd party representatives and local agents to sell our products in certain geographic markets. Many of those international partners also provide local service and support for our products in those overseas markets.

Second, where local market conditions dictate, we have expanded internationally by forming joint venture operations with local partners in key markets such as China and Singapore, where we can partner with the key local players in the 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. The business is currently inactive and the investment in MIEFE was written down to zero in the first quarter of 2016.

Finally, 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.

Locations

Our Company headquarters are located in Houston, Texas. We have domestic facilities and sales offices in Houston and Beaumont, Texas.

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

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”.

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**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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, management believes the carrying value of investments in foreign joint ventures is recoverable.

## Business Outlook

As previously described, the Company participates in the oil & gas, power generation and distribution and the marine and industrial markets. Beginning in December of 2014, the global energy market started to experience a significant decline in the price of oil. This oil price decline has had a significant impact on new projects for the land and offshore drilling market in North America and globally. In 2015, the Company started to see an impact in the midstream portion of the oil & gas market including reduced order flow from oil and natural gas infrastructure projects such as pipelines and gas processing projects.

In addition to capital spending delays from our customers and the cancellation of several projects in the industry, the Company has also experienced significant pricing pressures which could lead to continued margin erosion. As these conditions continue in the fourth quarter of 2016, the Company is maintaining its focus on more marketing efforts in the power generation and distribution market. The Company believes there are drivers underpinning market potential in this sector, including the need for further power generation capacity in the United States, the desire to move away from coal to natural gas for base load power due to environmental reasons and the need for the U.S. to upgrade its aging power distribution infrastructure.

The Company believes that the refining and petrochemical markets which benefit from low oil & natural gas prices will remain a focus for the Company in 2016. We are also looking to our new IntelliSafe™ arc-resistant switchgear which offers significant safety features and benefits to increase market share in this sector over time.

Additionally, the Company continues to implement cost reduction actions, when necessary, to manage the company's cost profile during this challenging period.

In Brazil, although the market is flat, the company believes that its breadth of services and technical capabilities position the company for growth.

In China, market demand is down and the local management teams is taking actions to manage through this period.

## 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$8,673	\$13,780	\$28,415	\$41,393
Cost of sales	9,124	11,219	27,549	34,505
Gross margin	(451 )	2,561	866	6,888
Operating expenses:				
Research and development	145	276	864	504
Selling and marketing	466	546	1,759	1,642
General and administrative	1,587	1,523	3,914	4,046
Total operating expenses	2,198	2,345	6,537	6,192
Income (loss) from operations	(2,649)	216	(5,671 )	696

Net equity income (loss) from foreign joint ventures' operations:				
Equity income (loss) from foreign joint ventures' operations	215	225	367	625
Foreign joint ventures' operations related expenses	(53 )	(103 )	(202 )	(310 )
Net equity income (loss) from foreign joint ventures' operations	162	122	165	315

Income (loss) from operations and net equity income from foreign joint ventures' operations \$ (2,487) \$ 338 \$ (5,506) \$ 1,011

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 2015 filed on March 30, 2016 for a more in-depth discussion of this indicator, earnings before interest, taxes, depreciation and amortization ("EBITDA").

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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 nine months ended September 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss) attributable to common stockholders	\$(2,713)	\$117	\$(5,621)	\$764
Add: Depreciation and amortization	216	214	660	673
Interest expense	70	93	173	157
Provision for (benefit from) income taxes	59	(93)	50	(171)
Dividend on redeemable preferred stock	89	87	265	261
EBITDA	\$(2,279)	\$418	\$(4,473)	\$1,684

#### Backlog

The order backlog at September 30, 2016 and June 30, 2016 was \$10.93 million and \$11.60 million, respectively. The backlog at September 30, 2016 is comprised of \$4.33 million oil and gas orders, \$5.61 million power generation & distribution orders and \$0.99 million marine & other industrial orders. We expect the majority of our backlog to be realized in the balance of the 2016 fiscal year.

#### Business Sector Disclosures

Our financial results are reported in our three major market sectors. These sectors are Oil and 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. The Company revised the breakout of the sector information for the nine months ended September 30, 2016 to properly reflect actual classification.

For the Three Months Ended September 30, 2016 and 2015  
(in thousands)

	Oil & Gas	Power Generation & Distribution	Marine & Other Industrial	Total
2016				
Revenue	\$3,639	\$ 3,275	\$ 1,759	\$8,673
Gross Profit	292	(942)	199	(451)
Gross Profit as % of Revenue	8 %	-29 %	11 %	-5 %

2015

Revenue	\$11,462	\$ 689	\$ 1,629	\$13,780
Gross Profit	2,053	121	387	2,561
Gross Profit as % of Revenue	18 %	18 %	24 %	19 %

For the Nine Months Ended September 30, 2016 and 2015  
(in thousands)

	Oil & Gas	Power Generation & Distribution	Marine & Other Industrial	Total
2016				
Revenue	\$14,376	\$ 9,184	\$ 4,855	\$28,415



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Gross Profit	1,080	(735	)	521	866			
Gross Profit as % of Revenue	8	%	-8	%	11	%	3	%

2015

Revenue	\$33,554	\$	3,389	\$	4,450	\$41,393		
Gross Profit	5,461	699	728	6,888				
Gross Profit as % of Revenue	16	%	21	%	16	%	17	%

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Three Months Ended September 30, 2016 as Compared with the Three Months Ended September 30, 2015

### Revenue and Gross Profit

Revenues decreased 37%, or \$5.11 million, to \$8.67 million in the three months ended September 30, 2016, compared to the three months ended September 30, 2015, primarily due to a decline in technical product sales in our oil and gas and power generation sector. The declines were partially offset by \$1.28 million in revenue from our Brazilian subsidiary.

Gross profit decreased 118%, or \$3.01 million, to (\$0.45) million for the three months ended September 30, 2016, compared to the three months ended September 30, 2015. Gross profit as a percentage of revenues decreased to (5%) in the three months ended September 30, 2016, compared to 19% in the three months ended September 30, 2015. The decrease in profitability was primarily attributable to competitive pricing pressure and overall lower revenue levels along with a \$1.20 million of costs overruns associated with a large power generation project.

### Research and Development Costs

Research and development costs decreased by 47%, or \$0.13 million, to \$0.15 million for the three months ended September 30, 2016, compared to the three months ended September 30, 2015.

### Selling and Marketing Expenses

Selling and marketing costs decrease by 15%, or \$0.08 million, to \$0.47 million for the three months ended September 30, 2016, compared to the three months ended September 30, 2015, due to expense management for both advertising and marketing. Selling and marketing expenses, as a percentage of revenues, increased to 5% during the three months ended September 30, 2016, compared to 4% during the three months ended September 30, 2015.

### General and Administrative Expenses

General and administrative expenses increased by 4%, or \$0.06 million, to \$1.59 million during the three months ended September 30, 2016, when compared to the three months ended September 30, 2015, primarily due to costs associated with increase employee benefits. General and administrative expenses, as a percentage of revenues, increased to 18% during the three months ended September 30, 2016, compared to 11% during the three months ended September 30, 2015.

### Foreign Joint Venture Equity

Net equity from foreign joint venture operations increased by 33%, or \$0.04 million, to \$0.16 million during the three months ended September 30, 2016, when compared to the three months ended September 30, 2015. The increase is primarily due to a strong performance by our BOMAY joint venture in China and a reduction of losses from our MIEFE joint venture in Singapore. The investment in MIEFE was written down to zero in the first quarter of 2016.

### Other Income (Expense)

Interest expense and other income decreased by 66%, or \$0.15 million, to \$0.08 million during the three months ended September 30, 2016, when compared to the three months ended September 30, 2015, due to reduced foreign exchange losses from the Brazilian subsidiary. Interest expense and other income, as a percentage of revenues, decreased to 1% during the three months ended September 30, 2016 compared to 2% during the three months ended September 30, 2015.

### Income Tax Provision

The provision for income taxes for the three months ended September 30, 2016 was \$0.06 million which primarily was a result of the taxes paid on dividends from China.

#### Income from Operations

In the three months ended September 30, 2016, we recorded a net loss attributable to common stockholders of (\$2.71) million, or (\$0.33) of basic earnings per common share, compared to income of \$0.12 million or \$0.01 of basic earnings common share, in the three months ended September 30, 2015. See Note 2. Earnings per Common Share.

#### Nine Months Ended September 30, 2016 as Compared with the Three Months Ended September 30, 2015

##### Revenue and Gross Profit

Revenues decreased 31%, or \$12.98 million, to \$28.42 million in the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, primarily due to the decline in our oil and gas sector. The declines were partially offset by \$3.13 million in revenue from our Brazilian subsidiary.

Gross profit decreased 87%, or \$6.02 million, to \$0.87 million for the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015. Gross profit as a percentage of revenues decreased to 3% in the nine months ended September 30, 2016, compared to 17% in the nine months ended September 30, 2015. The decrease in profitability was primarily

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attributable to competitive pricing pressure and overall lower revenue levels along with \$1.20 million of costs overruns associated with a single power generation project.

### Research and Development Costs

Research and development costs increased by 71%, or \$0.36 million, to \$0.86 million for the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015.

### Selling and Marketing Expenses

Selling and marketing costs increased by 7%, or \$0.12 million, to \$1.76 million for the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, due to severance payments related to reductions in force in our sales team. Selling and marketing expenses, as a percentage of revenues, increased to 6% during the nine months ended September 30, 2016, compared to 4% during the nine months ended September 30, 2015.

### General and Administrative Expenses

General and administrative expenses decreased by 3%, or \$0.13 million, to \$3.91 million during the nine months ended September 30, 2016, when compared to the nine months ended September 30, 2015, primarily due to lower operating cost including reduction in force. General and administrative expenses as a percentage of revenues, increased to 14% during the nine months ended September 30, 2016, compared to 10% during the nine months ended September 30, 2015.

### Foreign Joint Venture Equity

Net equity from foreign joint venture operations decreased by 48%, or \$0.15 million, to \$0.17 million during nine months ended September 30, 2016, when compared to the nine months ended September 30, 2015. The decrease is primarily due to significant reduction in market demand in our Southeast Asia joint venture, MIEFE, and the resulting losses. The investment in MIEFE was written down to zero in the first quarter of 2016.

### Other Income (Expense)

Interest expense and other income decreased by 227% or \$0.36 million, to \$0.20 million during the nine months ended September 30, 2016, when compared to the nine months ended September 30, 2015, primarily due to the gain on sale of South Coast Electric Systems manufacturing operations and the BP settlement from the 2010 gulf oil spill. Interest expense and other income, as a percentage of revenues, increased to 1% during the nine months ended September 30, 2016 compared to 0.38% during the nine months ended September 30, 2015.

### Income Tax Provision

The provision for income taxes for the nine months ended September 30, 2016 was \$0.05 million which primarily was a result of the taxes paid on dividends from China, calculated using a tax rate of 34%.

### Income from Operations

In the nine months ended September 30, 2016, we recorded a net loss attributable to common stockholders of (\$5.62) million, or (\$0.68) of basic earnings per common share, compared to income of \$0.76 million, or \$0.09 of basic earnings per common share, in the nine months ended September 30, 2015. See Note 2. Earnings per Common Share.

## LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2016		December 31, 2015	
	(in thousands except percentages and ratios)			
Working capital	\$ 5,713		\$ 10,945	
Current ratio	1.5 to 1		2.3 to 1	
Debt as a percent of total capitalization	24	%	19	%

## Notes Payable

At September 30, 2016 and June 30, 2016 the Company had total borrowings of \$5.85 million and \$5.25 million, respectively. As of September 30, 2016, there was no additional borrowing capacity available under Facility A. The Company was also not in compliance with the fixed charge coverage ratio as of September 30, 2016 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, that waivers will be granted. In return, Facility A is capped at \$1.50 million of availability until the Company is back in compliance. As of September 30, 2016, there was no additional borrowing capacity available under Facility A.

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 nine months ended September 30, 2016, the Company used cash of \$5.56 million from operations as compared to providing \$3.78 million for the same period in 2015. This was primarily the result of the net loss from operations and a net increase in cost in excess of billings.

#### Investing Activities

During the nine months ended September 30, 2016, the Company's investing activities provided cash of \$0.33 million compared to \$0.61 million for the comparable period in 2015. The decrease in 2016 is mainly attributed to a lower dividend received from our joint venture, partially offset by proceeds from the sale of property and equipment.

#### Financing Activities

During the nine months ended September 30, 2016, the Company's financing activities provided cash of \$0.10 million compared to providing \$1.22 million in the comparable period in 2015 which included \$1.50 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 under our existing credit facility 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 September 30, 2016, we had cash and cash equivalents of \$2.90 million and total outstanding debt of \$5.85 million and no availability for additional borrowings under our revolving credit facilities. Under the original terms of the credit facilities, the lender is committed to \$8.35 million, however, failure to comply with certain financial covenants has resulted in a cap on Facility A until such time that we are compliant with the financial covenant.

#### Interest Rate Risk

Our interest rate sensitive items do not subject us to material risk exposures. Our revolving credit facility remains available through December 29, 2017. The revolving promissory note, effective in December 2015, has a similar interest rate exposure, with semi-annual payments of \$0.15 million. The outstanding balance is due December 2020. At September 30, 2016, the Company had \$5.85 million of variable-rate term debt outstanding. At this borrowing level, a hypothetical relative increase of 10% in interest rates would have an unfavorable but insignificant impact on the Company's pre-tax earnings and cash flows. The primary interest rate exposure on variable-rate debt is based on the LIBOR rate (0.85% at September 30, 2016) plus 2.75% per year. The loan agreements are collateralized by real estate, trade accounts receivable, equipment, inventory and work-in-process, and guaranteed by our operating subsidiaries.

#### 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 nine months, this item decreased from \$0.31 million at December 31, 2015 to \$0.20 million at September 30, 2016 due principally to the strengthening of the United States Dollar against the Chinese Yuan.

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 September 30, 2016. Based on this evaluation, our Principal Executive Officer and Principal Accounting Officer concluded that the disclosure controls and procedures were effective as of September 30, 2016.

There were no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2016 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 September 30, 2016 in the risk factors as set forth in item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015.

### 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: November 14, 2016

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)