

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES INC
Form 10-Q
November 07, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

Commission File Number 1-10367

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

Delaware
(State or other jurisdiction of
incorporation or organization)

71-0675758
(I.R.S. Employer Identification No.)

914 N. Jefferson Street
Springdale, Arkansas
(Address of principal executive offices)

72764
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of September 30, 2013, the number of shares outstanding of the Registrant's Class A common stock, which is the class registered under the Securities Exchange Act of 1934, was 88,165,632 and the number of shares outstanding of the Registrant's Class B Common Stock was 1,465,530.

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

BALANCE SHEETS

(in thousands)

Assets	September 30, 2013 (unaudited)	December 31, 2012
Current assets:		
Cash	\$ 45	\$ 346
Trade accounts receivable, net of allowance of \$69 and \$46 at September 30, 2013 and December 31, 2012, respectively	3,614	3,747
Accounts receivable -- related party	18	-
Insurance proceeds receivable	2,500	-
Inventories	10,057	9,468
Prepaid expenses	857	557
Total current assets	17,091	14,118
Land, buildings and equipment:		
Land	2,220	1,989
Buildings and leasehold improvements	16,995	16,995
Machinery and equipment	48,170	47,179
Construction in progress	3,238	1,719
Total land, buildings and equipment	70,623	67,882
Less accumulated depreciation	41,584	38,145
Net land, buildings and equipment	29,039	29,737
Other assets:		
Debt issuance costs, net of accumulated amortization of \$541 and \$262 at September 30, 2013 and December 31, 2012, respectively	946	1,193
Other assets	434	413
Total other assets	1,380	1,606
Total assets	\$ 47,510	\$ 45,461

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

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

Liabilities and Stockholders' Deficit	September 30, 2013 (unaudited)	December 31, 2012
Current liabilities:		
Accounts payable – trade	\$ 3,873	\$ 4,105
Accounts payable – related parties	-	591
Current maturities of long-term debt	1,495	1,195
Accruals related to expected settlement of class action lawsuit	305	1,268
Other accrued liabilities	4,586	4,422
Working capital line of credit	2,201	2,327
Total current liabilities	12,460	13,908
Long-term debt, less current maturities	34,660	33,800
Commitments and Contingencies (See Note 9)		
Series E cumulative convertible preferred stock, \$0.01 par value; 30,000 shares authorized, 20,524 shares issued and outstanding at September 30, 2013 and December 31, 2012, including accrued unpaid dividends of \$3,351 and \$2,308 at September 30, 2013 and December 31, 2012, respectively		
	23,875	22,832
Stockholders' deficit:		
Class A common stock, \$.01 par value; 525,000,000 shares authorized; 88,165,632 shares issued and outstanding at September 30, 2013 and December 31, 2012		
	882	882
Class B convertible common stock, \$.01 par value; 7,500,000 shares authorized; 1,465,530 shares issued and outstanding at September 30, 2013 and December 31, 2012		
	15	15
Additional paid-in capital	53,660	53,660
Accumulated deficit	(78,042)	(79,636)
Total stockholders' deficit	(23,485)	(25,079)
Total liabilities and stockholders' deficit	\$ 47,510	\$ 45,461

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net sales	\$14,705	\$ 17,803	\$57,588	\$ 63,125
Cost of goods sold	14,362	14,193	46,353	50,131
Gross margin	343	3,610	11,235	12,994
Selling and administrative costs	2,772	2,069	8,867	8,459
Gain from asset disposition	(3)	-	(4)	(24)
Operating income (loss)	(2,426)	1,541	2,372	4,559
Other income (expense):				
Income from insurance proceeds	2,500	-	2,500	-
Other income (expense)	(76)	17	(61)	47
Net interest expense	(726)	(752)	(2,174)	(2,232)
Net income (loss)	(728)	806	2,637	2,374
Dividends on preferred stock	(353)	(332)	(1,043)	(983)
Net income (loss) applicable to common stock	\$(1,081)	\$ 474	\$1,594	\$ 1,391
Income (loss) per share of common stock (basic and diluted)				
	\$(0.01)	\$ 0.00	\$0.00	\$ 0.00
Weighted average common shares outstanding (basic and diluted)				
	89,631,162	89,631,162	89,631,162	89,631,162

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

STATEMENT OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended	
	September 30, 2013	September 30, 2012
Cash flows from operating activities:		
Net income applicable to common stock	\$1,594	\$ 1,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,726	4,244
Dividends on preferred stock	1,043	983
Accrued interest converted to long-term debt	1,751	1,599
Gain from fixed asset disposition	(4)	(24)
Income from insurance proceeds	(2,500)	-
Increase (decrease) in accounts receivable allowance	23	(108)
Changes in other assets	(20)	554
Changes in other current assets and current liabilities	(1,693)	(4,704)
Net cash provided by operating activities	3,920	3,935
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(2,756)	(2,835)
Proceeds from disposition of equipment	11	4
Net cash used in investing activities	(2,745)	(2,831)
Cash flows from financing activities:		
Proceeds from the issuance of notes	-	426
Net payments on line of credit	(126)	(1,250)
Payments on notes	(1,318)	(742)
Releases from restricted cash	-	881
Decrease in restricted cash for payment of debt and construction costs	-	(426)
Debt issuance costs	(32)	-
Net cash used in financing activities	(1,476)	(1,111)
Decrease in cash	(301)	(7)
Cash, beginning of period	346	1,083
Cash, end of period	\$45	\$ 1,076

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

NOTES TO FINANCIAL STATEMENTS

Note 1: Unaudited Information

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

Note 2: Description of the Company

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

The Company currently manufactures all of its composite products at extrusion facilities in Springdale, Arkansas. The Company operates a plastic recycling, blending and storage facility in Lowell, Arkansas, where it also leases warehouses and land for inventory storage. The Company operates a plastic recycling, cleaning and reformulation facility at Watts, Oklahoma. The Company also leases a warehouse in Westville, Oklahoma for inventory storage.

Note 3: Statements of Cash Flows

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

	Nine Months Ended	
	September	September 30,
	30,	2012
	2013	2012
	(unaudited)	(unaudited)
Receivables	\$74	\$ (730)
Inventories	(589)	1,421
Prepaid expenses	426	-
Accounts payable - trade and related parties	(805)	396
Accrued liabilities	(799)	(5,791)