ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES INC
Form DEF 14A
May 01, 2006

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Advanced Environmental Recycling Technologies, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

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ADVANCED ENVIRONMENTAL
RECYCLING TECHNOLOGIES, INC.
914 N Jefferson Street (72764)
Post Office Box 1237
Springdale, Arkansas 72765
(479) 756-7400

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held Thursday, June 8, 2006

To our Stockholders:

The annual meeting of stockholders of Advanced Environmental Recycling Technologies, Inc. will be held at the Northwest Arkansas Holiday Inn Convention Center, Springdale, Arkansas at 7:00 p.m., local time, Thursday, June 8, 2006, to consider and act upon the following matters, all as more fully described in the accompanying proxy statement which is incorporated herein by this reference:

1. To elect eleven members to the eleven-person board of directors to serve until the next annual meeting of stockholders and until their respective successors shall be elected and qualify.

2. To ratify the appointment of Tullius Taylor Sartain & Sartain LLP as independent public accountants of the company for the year ending December 31, 2006; and

3. To transact such other business and to consider and take action upon any and all matters that may properly come before the annual meeting or any adjournment thereof.

The board of directors has fixed the close of business on April 12, 2006, as the record date for the determination of the stockholders entitled to notice of and to vote at the annual meeting and any adjournment thereof.

Sincerely,

Marjorie S. Brooks
Secretary

April 28, 2006

A proxy card and annual report of the company for the year ended December 31, 2005, are enclosed. It is important that your shares be represented whether or not you attend the meeting. Registered stockholders can vote their shares via the Internet or by using a toll-free telephone number. Instructions for using these convenient services appear on the proxy card. You can also vote your shares by marking your votes on the proxy card, signing and dating it and mailing it promptly using the envelope provided. Proxy votes are tabulated by an independent agent and reported at the annual meeting. The tabulating agent maintains the confidentiality of the proxies throughout the voting process. We hope that you can attend this meeting in person, but if you cannot do so please vote your proxy now.

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ADVANCED ENVIRONMENTAL
RECYCLING TECHNOLOGIES, INC.
914 N Jefferson Street (72764)
Post Office Box 1237
Springdale, Arkansas 72765
(479) 756-7400
Annual Meeting of Stockholders
June 8, 2006

PROXY STATEMENT

SOLICITATION AND REVOCABILITY OF PROXIES

The enclosed proxy is solicited on behalf of the board of directors of Advanced Environmental Recycling Technologies, Inc., a Delaware corporation (the Company), for use at the annual meeting of stockholders to be held at the Northwest Arkansas Holiday Inn Convention Center, Springdale, Arkansas, at 7:00 p.m. local time, Thursday, June 8, 2006, and at any adjournments thereof. The notice of meeting, proxy statement, and form of proxy are being mailed to stockholders on or about May 1, 2006.

A proxy may be revoked by delivering a written notice of revocation to the principal office of the Company or in person at the meeting at any time prior to the voting thereof.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

At April 12, 2006, the record date, there were 38,237,812 shares of Class A common stock and 1,465,530 shares of Class B common stock issued and outstanding. Each outstanding share of Class A common stock entitles the holder thereof to one vote on matters submitted to the stockholders and each share of Class B common stock entitles the holder thereof to five votes on matters submitted to the stockholders. As of April 12, 2006, the holders of the Class B common stock are entitled to an aggregate of 7,327,650 votes. The holders of record of the Class A common stock and Class B common stock outstanding on April 12, 2006, will vote together as a single class on all matters submitted to stockholders and such other matters as may properly come before the annual meeting and any adjournments.

The enclosed form of proxy provides a method for stockholders to withhold authority to vote for any one or more nominees (See Election of Directors for the method of withholding authority to vote for directors). By withholding authority, shares will not be voted either for or against a particular matter but will be counted for quorum purposes. Abstentions and brokers non-votes , if any, are counted for purposes of determining a quorum but will have no effect on the election of directors or other matters intended to be submitted to a vote of the stockholders.

As of the record date, the Company s executive officers and directors beneficially owned approximately 37.5% of the currently outstanding shares of Class A common stock and 93.9% of the shares of Class B common stock, and collectively beneficially owned shares representing approximately 44.8% of the votes entitled to be cast upon matters submitted at the annual meeting. As of the record date, Marjorie S. Brooks and corporations controlled by her beneficially owned shares representing approximately 31.1% of the votes entitled to be cast and may be in a position to control the Company.

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The following table sets forth, as of April 12, 2006, certain information with regard to the beneficial ownership of the Company s capital stock by each holder of 5% or more of the outstanding stock, by each named executive officer and director of the Company, and by all officers and directors as a group:

Name and Address of Beneficial Owner	Title of Class(1)	Number of Shares of Common Stock(2)	Percentage of Class Outstanding(2)(17)	Percentage of Total Voting Power(2)(18)
Marjorie S. Brooks	Class A	12,186,833(3)	26.9%	31.1%
	Class B	837,588(4)	57.2%	
Joe G. Brooks	Class A	896,772(5)	2.3%	5.1%
	Class B	284,396	19.4%	
J. Douglas Brooks	Class A	919,065(6)	2.4%	3.4%
	Class B	131,051	8.9%	
Jerry B. Burkett	Class A	325,848(7)	*	1.1%
	Class B	33,311	2.3%	
Sal Miwa	Class A	489,811(8)	1.3%	1.1%
Stephen W. Brooks	Class A	821,112(9)	2.1%	2.8%
	Class B	89,311	6.1%	
Jim Robason	Class A	221,142(10)	*	*
Melinda Davis	Class A	257,326(11)	*	*
Michael M. Tull	Class A	1,028,362(12)	2.6%	2.2%
Samuel L. Milbank	Class A	578,165(13)	1.5%	1.3%
Tim W. Kizer	Class A	26,278(14)	*	*
Edward P. Carda	Class A	26,278(14)	*	*
Robert A. Thayer	Class A	150,000(8)	*	*
Jim Precht	Class A	407,700(15)	1.1%	*
Alford Drinkwater	Class A	10,000(16)	*	*
Officers and directors as a group (fifteen persons)	Class A	18,344,692	37.5%	44.8%
P. O. Box 1237 Springdale, Arkansas 72765	Class B	1,375,657	93.9%	

* Less than 1%

(1) The Class B common stock is substantially identical to the Class A common stock, except that each share of Class B common stock has five votes per share and each share of Class A common stock has one vote per share. Each share of Class B common stock is convertible into one share of Class A common stock.

(2) Beneficial ownership of shares was determined in accordance with Rule 13d-3(d)(1) of the Exchange Act and included shares underlying outstanding warrants and options which the named individual had the right to acquire within sixty days (June 11, 2006) of April 12, 2006.

(3) Includes 4,042,323 shares owned directly, 1,121,457 in trusts or corporations controlled by Mrs. Brooks, 35,848 shares issuable pursuant to restricted stock awards, 425,000 shares issuable upon exercise of stock

options, 3,974,080 shares issuable upon exercise of Class F and Class G Warrants issued in connection with a private placement of Class A common stock in May of 1994, 1,771,792 shares issuable upon exercise of Class H Warrants, 323,000 shares issuable upon exercise of Series X and Y warrants owned directly and 493,333 shares issuable upon exercise of Series X and Series Y Warrants owned indirectly through two corporations controlled by Mrs. Brooks (Razorback Farms, Inc. and Brooks Investment Company).

(4) Includes 403,946 shares owned directly by Mrs. Brooks and 433,642 shares owned by two corporations controlled by Mrs. Brooks. (Razorback Farms, Inc. is the record owner of 312,320 shares and Southern Mineral and Fibers, Inc. is the record owner of 121,322 shares, representing approximately 21.3% and 8.3%, respectively, of the Class B common stock). Excludes additional shares owned by adult children

of Mrs. Brooks, including Joe G. Brooks, Stephen W. Brooks and J. Douglas Brooks, as to which she disclaims a beneficial interest.

(5) Includes 607,400 shares owned directly, 4,500 shares owned as custodian for Joe G. Brooks minor child, 38,205 shares owned as custodian for Brooks Children s Trust and 246,667 shares issuable upon exercise of stock options.

(6) Includes 434,324 shares owned directly, 84,741 shares owned indirectly and 400,000 shares issuable upon exercise of stock options.

(7) Includes 63,000 shares owned directly, 2,000 shares owned by Mr. Burkett as custodian for his minor child, 10,000 shares owned by a partnership controlled by Mr. Burkett, 35,848 shares issuable pursuant to restricted stock awards, and 215,000 shares issuable upon exercise of stock options.

(8) Includes 35,848 shares issuable pursuant to restricted stock awards and 453,496 shares issuable upon exercise of stock options.

(9) Includes 296,112 shares owned directly and 525,000 shares issuable upon exercise of stock options.

(10) Includes 99,494 shares owned directly, 35,848 shares issuable pursuant to restricted stock awards, 60,800 shares issuable upon exercise of Series X and Series Y warrants, and 25,000 shares issuable upon exercise of stock options.

(11) Represents 19,012 shares owned directly, 66,666 shares in a trust controlled by Ms. Davis, 35,848 shares issuable pursuant to restricted stock awards, 75,000 shares issuable upon exercise of stock options, and 60,800 shares issuable upon exercise of Series X and Series Y warrants.

(12) Includes 449,181 shares owned directly, 35,848 shares issuable pursuant to restricted stock awards, 100,000 shares issuable upon exercise of stock options, and 443,333 shares issuable upon exercise of Series X and Series Y warrants.

(13) Includes 281,130 shares owned directly, 35,848 shares issuable pursuant to restricted stock awards, 112,697 shares issuable upon exercise of Series X Warrants, 41,604 shares issuable upon exercise of Series Y Warrants, 31,886 shares issuable upon exercise of Class I Warrants, and 75,000 shares issuable upon exercise of stock options.

(14) Includes shares issuable pursuant to restricted stock awards.

(15) Includes 7,700 shares owned directly and 400,000 shares issuable upon the exercise of stock options.

(16) Includes shares owned directly.

(17) Class A common stock beneficial ownership was calculated by dividing the beneficial ownership of each individual by the sum of: (i) the total shares of Class A common stock outstanding at April 12, 2006, and (ii) the total shares underlying outstanding warrants and options which the named individual had the right to acquire within 60 days (June 11, 2006) of April 12, 2006. Class B common stock beneficial ownership is calculated based on 1,465,530 shares outstanding on April 12, 2006.

(18) Calculated by dividing the voting rights of the beneficial ownership of each individual by the sum of: (i) the total votes available to be cast at April 12, 2006, and (ii) in footnote (16) above.

At April 12, 2006, there were 38,237,812 shares of Class A common stock and 1,465,530 shares of Class B common stock issued and outstanding. The previous table indicates that those directors, officers and 5% shareholders, as a group, beneficially owned shares representing approximately 44.8% of the votes entitled to be cast upon matters submitted to a vote of the Company s stockholders, and Marjorie S. Brooks and corporations controlled by her beneficially owned shares representing approximately 31.1% of the votes entitled to be cast and may be in a position to control the Company.

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DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors and executive officers of the Company as of April 12, 2006, are as follows:

Name	Age	Position
Joe G. Brooks	50	Chairman of the board of directors, co-chief executive officer and president
Sal Miwa	49	Vice-chairman of the board of directors
Stephen W. Brooks	49	Co-chief executive officer and director
Marjorie S. Brooks	70	Secretary, treasurer and director
J. Douglas Brooks	46	Senior vice-president raw materials
Alford Drinkwater	54	Senior vice president plastic operations
Jim Precht	60	Senior vice-president sales and marketing
Robert A. Thayer	54	Senior vice-president and chief financial officer
Eric E. Barnes	32	Controller and chief accounting officer
Jerry B. Burkett	49	Director
Edward P. Carda	65	Director
Melinda Davis	63	Director
Tim W. Kizer	40	Director
Samuel L. Milbank	65	Director
Jim Robason	68	Director
Michael M. Tull	51	Director

The Company s board of directors elected **Joe G. Brooks** as its chairman and the Company s co-chief executive officer in December 1998, and he has served as president since February 2000. Mr. Brooks has served as president or in other executive office capacities and has been a director since the Company s inception in December 1988, including service as chairman and CEO from inception until August 1993. He was a member of Clean Texas 2000, appointed by then Governor George W. Bush in 1995.

Sal Miwa has been an outside director of the Company since January 1994. He served as chairman of the board between December 1995 and December 1998, and as vice chairman from December 1998 through July 2005. From January 2005 to present, Mr. Miwa has been CEO and chairman of Greenstone Holdings, Inc. (OTC GSHG), a chemical technology company located in New York City primarily serving the building and construction industry. From July 2004 to December 2005, he was CEO of Greenstone Inc. of Delaware, a predecessor of Greenstone Holdings, Inc. From April 2000 to June 2004, he was COO and director of RealRead Inc., an online document service company. For more than 20 years Mr. Miwa has been engaged in various international businesses and serves on boards of several closely held family businesses around the world. He received his master s degree in Aerospace Engineering from the Massachusetts Institute of Technology in 1981.

The Company s board of directors elected **Stephen W. Brooks** as co-chief executive officer in December 1998. Mr. Brooks has served as its chief executive officer and has been a director since January 1996. Mr. Brooks has served as CEO and chairman of the board of Razorback Farms, Inc. from January 1996 to the present. Razorback Farms is a Springdale, Arkansas based firm that specializes in vegetables processing. Mr. Brooks also serves on the board of the Ozark Food Processors Association.

Marjorie S. Brooks has been secretary, treasurer and a director since the Company s inception in December 1988. Mrs. Brooks has served as secretary and treasurer of Brooks Investment Co., a holding company for the Brooks family investments, for more than thirty years.

J. Douglas Brooks has served as senior vice-president from inception to September 2003, has been in charge of raw material sourcing and strategic relationships since 1998, and has been a senior vice president since September 2003. Mr. Brooks was vice-president of plastics from 1995 through 1998, was previously

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project manager for AERT s polyethylene recycling program with The Dow Chemical Company, and is a joint inventor on several of AERT s process patents for recycling polyethylene film for composites.

Robert A. Thayer was named by the board of directors to succeed Edward J. Lysen as chief financial officer and senior vice-president in September 2005. Since October 2002, Mr. Thayer has served as the assistant to AERT chairman Joe G. Brooks, during which time he has had executive assignments in all aspects of AERT s business including finance, operations, and administration. From January 1997 to October 2002, Mr. Thayer was a principal at Madison Research, Denison, Texas where he conducted independent financial research under contract to banks and financial publishers. From January 2001 to July 2002 he also served as Vice President of Finance for Asia Teletech Company, Ltd., a Thailand headquartered voice-over-internet company where he was responsible for raising the company s startup capital. Prior to 1997, Mr. Thayer spent twenty-one years in the software and investment banking industries with financial, systems and executive responsibilities. He received a BA in Economics from the University of Colorado and studied graduate economics at the University of Wisconsin, Madison. Mr. Thayer is a Chartered Financial Analyst.

Alford Drinkwater has served as senior vice president of logistics, laboratories, and plastic operations since September 2003. Prior to joining the Company in May 2000, Mr. Drinkwater had been the Assistant Director for the Established Industries Division of the Arkansas Department of Economic Development and was on the Advocacy Team from November 1988 until January 2000. From September 1986 until July 1988, he owned and operated Town and Country Waste Services, Inc. a waste services company engaging in the development of waste recycling, energy recovery, and disposal systems. From April 1981 until January 1987, Mr. Drinkwater was the Resource Recovery Manager for Metropolitan Trust Company, and was primarily involved in waste-to-energy systems development. From July 1974 until April 1981, Mr. Drinkwater worked for the State of Arkansas as Assistant to the Chief of the Solid Waste Control Division of the Arkansas Department of Pollution Control & Ecology and as the Manager of the Biomass and Resource Recovery Program of the Arkansas Department of Energy.

Jim Precht has served as senior vice-president of sales and marketing for the Company since February 2001, and senior vice president since September 2003. Mr. Precht was formerly general manager of Weyerhaeuser Building Materials Pittsburgh Customer Service Center with 32-years of industry experience.

Eric E. Barnes was appointed by the board of directors as chief accounting officer in September 2005. Mr. Barnes joined AERT s accounting department in November 1997 after graduating from the University of Arkansas with a BS in Accounting and an MA in Economics. He was named AERT s controller in January 2000. Mr. Barnes is a Certified Public Accountant.

Jerry B. Burkett has served on the board of directors of the Company since May 1993. Mr. Burkett has been a rice and grain farmer since 1979 and has been a principal in other closely held businesses. He is the past president of the Arkansas County Farm Bureau. In April 2002, Mr. Burkett was elected to serve as a director of the Ag Heritage Farm Credit Services board.

Edward P. Carda was elected to the board of directors in July 2005. Mr. Carda began his 37-year business career with Weyerhaeuser Company in June 1967, ending with his retirement in December 2003. While at Weyerhaeuser, he served in various management positions, including statutory reporting, heading large accounting departments, interacting with external and internal auditors and all types of management. Mr. Carda spent the last 10 years of his career as the business controller for the distribution business of Weyerhaeuser. While in this capacity, he received many awards for his performance for profit and working capital improvement initiatives. Mr. Carda attended the University of Montana and graduated with a degree in accounting. He has served for 25 years on the board of directors of the Woodstone Credit Union in Federal Way, Washington and is currently its Vice Chairman. He also serves on the credit union s audit committee.

Melinda Davis has served on the board of directors since July 2001. From December 2000 to the present, Ms. Davis has provided professional consulting services in the areas of financial management and cost accounting for manufacturing operations. Ms. Davis retired as senior vice-president and treasurer from Allen Canning Co. in December 2000, after serving for 39 years in various accounting and financial management positions.

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Tim W. Kizer was elected to the board of directors in July 2005. Since December 2004, Mr. Kizer has served as president and partner of Bentonville Global Associates, a global consultancy firm specializing in collaborative commerce. Mr. Kizer is executive director of the *Doing Business in Bentonville Series* seminar level program series in Bentonville Arkansas. From April 2001 to December 2004, Mr. Kizer was director of the Center for Management and Executive Development and the Donald W. Reynolds Center for Enterprise Development, Sam M. Walton College of Business, University of Arkansas. From January 2000 to April 2001, Mr. Kizer was managing director of Information Technology Research Center, Sam M. Walton College of Business, University of Arkansas. Mr. Kizer was a business and industry specialist for the Division of Continuing Education at the University of Arkansas from October 1996 until January 2000. He has a BA from the University of Louisville and is a member of the Board of Advisors of RFID Global Solution in Bentonville, Arkansas.

Samuel L. Milbank has served on the board of directors since July 2000. Mr. Milbank is a co-founder and owner of Milbank Roy and Co., LLC, an investment bank founded in February 2005 and focused on M&A, advisory as well as funding of middle market companies. Prior to that, from April 1997 to February 2005, Mr. Milbank was a managing director of Zanett Securities Corporation, a company also focusing on investment banking services to the middle market. From February 1992 to January 1996, Mr. Milbank was a senior vice-president and sales manager with Lehman Brothers, Inc. in New York, where he managed a team that provided interest rate and currency risk management for central banks and other official institutions. From March 1973 to February 1992, Mr. Milbank worked with Salomon Brothers, Inc. as a director and manager of the international department. Since January 1990, Mr. Milbank has served as chairman of Milbank Memorial Fund, a private operating foundation (established in 1905), concerned with environmental and public health issues. He has a BS from Columbia University and a MBA in Finance from The Amos Tuck School of Business Administration at Dartmouth College.

Jim Robason has served on the board of directors since July 2003. Since January 2005, Mr. Robason has been a consultant to and supervisor of the Company s plant operations on an interim basis. Mr. Robason joined Allen Canning Co. in 1967. Mr. Robason served as senior vice-president operations of Allen Canning Co. from 1974 until his retirement in 2002. As senior vice-president of operations with Allen Canning Co., he was responsible for the operation of twelve plants with plant managers and raw product procurement managers, as well as special projects engineering, reporting to him. He has a vast amount of knowledge in all phases of manufacturing including infrastructure, building, equipment, and engineering; with a focus on the full production arena from product procurement through the production process. Mr. Robason is a graduate of West Texas State University. He has served on Allen Canning s executive committee and profit sharing/retirement plan committee in addition to his operations responsibilities.

Michael M. Tull has served on the board of directors of the Company since December 1998. Mr. Tull has served since 1990 as the president and majority owner of Tull Sales Corporation, a manufacturer s representative company, which professionally represents eight manufacturing companies and is responsible for the sales and marketing of those companies window and door related components in the southeastern United States. Mr. Tull serves on boards of several closely held family businesses and is the chairman and a board of director member of the National Wild Turkey Federation, which is one of the largest North American conservation organizations.

Joe G. Brooks, Stephen W. Brooks, and J. Douglas Brooks are brothers and sons of Marjorie S. Brooks. There are no other familial relationships between the current directors and executive officers.

Each of the Company s directors has been elected to serve until the next annual meeting of stockholders or until their successors are elected and qualified. Officers serve at the discretion of the Board of Directors.

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CORPORATE GOVERNANCE

Independence of Directors

The board of directors has determined that Jerry B. Burkett, Edward P. Carda, Melinda Davis, Tim W. Kizer, Samuel L. Milbank, and Sal Miwa are independent under the NASDAQ Stock Market s (NASDAQ) corporate governance listing standards, and that Marjorie S. Brooks, secretary and treasurer, Joe G. Brooks, chairman, co-ceo and president, Stephen W. Brooks, co-ceo, Michael M. Tull and Jim Robason are not independent under such listing standards.

During fiscal 2005, the Company held four executive sessions of the board of directors in which only independent members of the board were present. The chairpersons of the audit committee, compensation committee and nominating and corporate governance committee each presided over the meetings on a rotating basis.

The Company encourages, but does not require, directors to attend annual meetings of stockholders. All members of the board attended the Company s 2005 stockholder meeting.

Board Meeting and Certain Committees Reports and Meetings

During the Company s fiscal year ended December 31, 2005, the board of directors held eight meetings. All directors attended 75% or more of the total number of meetings of the board of directors and its committees on which he or she served.

From January 1, 2005 through July 28, 2005, the audit committee of the board of directors consisted of three independent directors under NASDAQ s director and audit committee independence standards: Jerry B. Burkett, Melinda Davis (chairperson), and Sal Miwa. On July 28, 2005, Edward P. Carda, also an independent director, was elected to the board of directors and joined the audit committee. The composition of the audit committee has not changed since July 28, 2005. The audit committee is directly responsible for the engagement of the Company s independent accountants and is responsible for approving the services performed by the Company s independent accountants and for reviewing and evaluating the Company s accounting principles and its system of internal accounting controls. The audit committee met four times in 2005. Melinda Davis serves as the financial expert of the audit committee.

From January 1, 2005 through July 28, 2005, the compensation committee consisted of Samuel L. Milbank (chairperson), Sal Miwa and Jim Robason. On July 28, 2005, Edward P. Carda joined the committee and Jim Robason left the committee. The compensation committee establishes and administers the Company s compensation plans on behalf of the board of directors and makes recommendations to the board of directors as to stock options, restricted stock awards or other awards granted thereunder and other compensation matters. The compensation committee met five times in 2005.

From January 1, 2005 through July 28, 2005, the nominating and corporate governance committee consisted of Jerry B. Burkett (chairperson), Melinda Davis, and Jim Robason. On June 21, 2005, the nominating and corporate governance committee was revised to consist of Jerry B. Burkett (chairperson) and Melinda Davis. On July 28, 2005, Tim W. Kizer joined the committee. The nominating and corporate governance committee evaluates the efforts of AERT and its board of directors to maintain effective corporate governance practices and identifies candidates for election to the board of directors. The nominating and corporate governance committee met two times in 2005.

The nominating and corporate governance committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements and having the highest personal integrity and ethics. The committee also considers such factors as relevant expertise and experience, ability to devote sufficient time to the affairs of the Company, demonstrated excellence in his or her field, the ability to exercise sound business judgment and the commitment to rigorously represent the long-term interests of the Company s stockholders. Candidates for director will be reviewed in the context of the current composition of the board, the operating requirements of the Company and the long-term interests of stockholders.

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The nominating and corporate governance committee does not have a formal process for identifying and evaluating nominees for directors. Instead, it uses its network of contacts to identify potential candidates. The committee will conduct any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the board. The committee will meet to discuss and consider such candidates qualifications and then select a nominee for recommendation to the board by majority vote.

Although the nominating and corporate governance committee has not established procedures for considering nominees recommended by stockholders, the committee will consider director candidates recommended by stockholders, and those candidates will receive substantially the same consideration that candidates recommended by the nominating and corporate governance committee receive. Stockholders wishing to recommend director candidates for consideration by the committee may do so in writing to the corporate secretary at least 180 days in advance of the annual meeting, giving the recommended nominee s name, biographical data, and qualifications, accompanied by the written consent of the recommended nominee.

The charters of the audit, compensation, and nominating and corporate governance committees are available on the corporate website at *www.aertinc.com*. The Company has implemented a Corporate Hotline through which the audit committee, the board of directors, and the corporate compliance officer may be contacted, as appropriate. This service and number is available on our corporate website.

AUDIT COMMITTEE REPORT

The following report of the audit committee for fiscal year 2005 does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this report by reference therein.

The audit committee of the Company is composed of four non-employee directors, and each member of the committee is independent in accordance with the policy of the National Association of Security Dealers applicable to NASDAQ listed companies. The committee operates under a written charter adopted by the board of directors.

Management is responsible for the Company s internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company s financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The committee s responsibility is to engage independent public accountants for the Company and to monitor and oversee the Company s financial reporting process and report its findings to the board of directors.

The committee fulfills its responsibilities through periodic meetings with management and independent auditors. The committee reviewed and discussed with management and independent auditors the audited financial statements in the Company s annual report on Form 10-K for the year ended December 31, 2005. The committee also discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61. In addition, the committee has received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with the auditors the auditor s independence.

On the basis of these reviews and discussions, the audit committee recommended to the board of directors that the board approve the inclusion of the Company s audited financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission (SEC).

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The audit committee has also considered whether the provision of non-audit services by the independent registered public accounting firm, Tullius Taylor Sartain & Sartain LLP (TTS&S), is compatible with maintaining auditor independence. TTS&S performed tax preparation services for the Company during 2005. No other non-audit related services were provided by TTS&S during 2005.

Submitted by the audit committee,

Jerry B. Burkett	Edward P. Carda	Melinda Davis, chairperson	Sal Miwa

COMPENSATION COMMITTEE REPORT

The following report of the compensation committee for fiscal year 2005 does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this report by reference therein.

The compensation committee of the board of directors is responsible for administering incentive plans and reviewing and making recommendations to the board of directors with respect to the compensation of AERT executive officers and key executives.

The following is the compensation committee s report to shareholders on the Company s executive compensation policies with respect to compensation reported for the fiscal year ended December 31, 2005.

Compensation Committee Report on Executive Compensation

Key compensation-related responsibilities of the Compensation Committee of the Board of Directors:

To establish and periodically review AERT s compensation philosophy and the adequacy of compensation plans and programs for directors, executive officers and other AERT employees and make recommendations to the board of directors with respect thereto;

To establish compensation arrangements and incentive goals for executive officers and to administer compensation plans and make recommendations to the board of directors with respect thereto;

To review the performance of the executive officers and award incentive compensation and adjust compensation arrangements as appropriate based upon performance;

To review and monitor management development and succession plans and activities; and

To prepare the report on executive compensation for inclusion in AERT s annual proxy statement in accordance with Securities Exchange Commission rules and regulations.

For the fiscal year ended December 31, 2005, the Committee s activity focused on the key elements of the total direct compensation program for executive officers, which included base pay, quarterly incentive awards, discretionary incentive awards, and long-term incentives. Elements reviewed as part of the long-term incentives to executive officers included type and level of award distribution.

The Company s executive compensation program is designed to:

Attract, motivate and retain executive officers who can make significant contributions to the Company s long-term success;

Align the interests of executive officers with those of shareholders; and

Place a significant portion of an executive officer s total compensation at risk by tying it to the Company s financial performance.

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The primary components of the Company s executive compensation programs are: base salary, quarterly incentive awards, discretionary awards, and long-term incentive awards:

Base Salary

Base salaries are generally targeted at the middle of the competitive marketplace (the median).

The market rate for an executive position is determined through an assessment by the Company s human resources personnel under the guidance and supervision of the compensation committee. This assessment considers relevant industry salary practices, the position s complexity, and level of responsibility, its importance to the Company in relation to other executive positions, and the competitiveness of an executive s total compensation.

Subject to the Committee s approval, the level of an executive officer s base pay is determined on the basis of:

- Relevant comparative compensation data; and

- The Chief Executive Officer s assessment of the executive s performance, experience, demonstrated leadership, job knowledge and management skills.

Quarterly Incentive Awards

These awards were discontinued on October 1, 2005. The awards were intended to provide a linkage among executive performance, quarterly performance measures, and long-term shareholder value.

During 2005, quarterly incentive awards were earned as the Company met specific objectives for cash flow and net income. The quarterly incentive awards were designed to reward executive performance with cash incentive awards comparable to those found in the marketplace in which the Company competes for executive talent.

Discretionary Awards

The compensation committee may, at its discretion, authorize periodic cash awards to executives. Discretionary awards are designed to give the compensation committee the flexibility to provide incentives that are comparable to those found in the marketplace in which the Company competes for executive talent. In determining the extent and nature of discretionary awards, the compensation committee considers the Company s cash flow, net income, progress toward short and long-term business objectives, and competitive compensation programs.

When considering discretionary awards, the compensation committee identifies the employees who are eligible to participate and computes and certifies the size of the discretionary pool based on financial information supplied by the Company s officers. The award made to each eligible participant is based on the opportunity level assigned to the participant and an assessment of his or her performance and the performance of their business unit versus corporate objectives.

Long-Term Incentive Awards

Long-term executive incentives are designed to promote the interests of AERT and its shareholders by attracting and retaining eligible directors, executives and other key employees.

The compensation committee has the authority to determine the participants to whom awards shall be granted. The awards under prior Company plans could be made in the form of stock options, restricted stock units, performance awards and other stock-based awards. Consistent with the views of the board of directors and compensation committee that the interests of employees and directors are more likely to be aligned with stockholders to the extent that such employees and directors are stockholders of the Company, the Company has determined for the foreseeable future to provide incentive equity compensation in the form of restricted stock awards rather than options or other forms of equity compensation. The 2005 Key Associate and

Management Equity Incentive Plan and the 2005 Non-Employee Director Equity Incentive Plan are reflective of this shift in compensation policy.

2005 Awards

Chief Executive Officer compensation

In determining CEO compensation, the Committee considered:

- The Company s financial performance and peer group compensation data; and

- CEO leadership, decision-making skills, experience, knowledge, communication with the Board and strategic recommendations, as well as the Company s positioning for future performance.

The Committee considered many factors and did not place any particular relative weight on one over another, but the Company s financial performance is generally given the most weight.

The Committee s recommendations regarding CEO compensation and other related matters are reported to the Board and, in the case of each specific recommendation during 2005, were approved by the Board.

For fiscal year ended December 31, 2005, the Committee s decisions regarding CEO compensation included the following:

Co-ceo Joe G. Brooks was awarded cash bonuses totaling $45,000 under the quarterly incentive plan.

During 2005, Co-ceo Joe G. Brooks took overall responsibility for planning and execution of the Company s strategic direction. He was awarded a cash bonus of $125,000 under the Discretionary Awards plan. Co-ceo Stephen W. Brooks undertook primary responsibility for day-to-day operations at the Company and he was awarded a $75,000 cash bonus under the Discretionary Awards plan.

Before arriving at its final decision regarding the amount of CEO annual incentive award, the Committee confirmed that the Company s compensation program is consistent with marketplace practices linking pay for performance.

Deductibility of Compensation:

Under Section 162(m) of the Internal Revenue Code, AERT may not deduct compensation in excess of $1,000,000 paid to AERT s Chief Executive Officer or to each of the named executive officers unless the compensation meets specific criteria for performance-based compensation. Awards under the short-term incentive compensation plan do not meet the criteria of being performance-based awards under Section 162(m) of the Internal Revenue Code of 1986, as amended, and, therefore, would not qualify as a deduction to the extent in excess of Section 162(m) limits. Certain awards under the long-term incentive plan, such as stock options or restricted stock awards could satisfy the criteria of being performance based under Section 162(m) to qualify as deductible under the Internal Revenue Code of 1986, as amended. The Company s historical levels of compensation have not presented issues of deductibility under Section 162(m) of the Internal Revenue Code of 1986. The compensation committee reserves the right to approve non-deductible compensation if the Committee believes it is in the best interests of the shareholders.

2005 Key Associate and Management Equity Incentive Plan

The compensation committee has reviewed and approved a compensation plan for the Company s management and associates that is designed to reward focus on increasing throughputs, reducing costs, and increasing efficiencies. The Key Associate and Management Equity Incentive plan, which is administered by the committee, gives the Company flexibility to provide incentives that are comparable to those found in the marketplace in which the Company competes for management and associate talent. In determining the extent and nature of awards, the compensation committee considers the Company s cash flow, net income, progress toward short and long term business objectives, and competitive compensation programs.

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Conclusion Regarding Executive Compensation:

Based upon its review of the Company s executive compensation program, the Committee has concluded that the program s basic structure is appropriate, competitive, and effective to serve the purposes for which it was established.

MEMBERS OF THE COMMITTEE:

Edward P. Carda
Samuel L. Milbank, chairperson
Sal Miwa

Employment Agreements

The Company has no written employment agreements with its key executives.

DIRECTOR COMPENSATION

Directors who are also employees of the Company are not entitled to any additional compensation by virtue of service as a director, except for reimbursement of any specific expenses attributable to such service. Non-employee directors receive annual compensation for board service of $15,000 in cash plus annual restricted stock awards of shares with a market value of $30,000 measured on an average closing sale price basis over a 50-business day period preceding the award. Newly elected directors are initially granted restricted stock equal to a prorated portion of the yearly $30,000 award based on their period of service in their initial fiscal year as a director. Such restricted stock awards vest over a three-year period, with 20% of a particular award vesting on the first anniversary thereof, an additional 30% of such award (50% cumulatively) vesting on the second anniversary of the award, and the 50% balance of the award vesting on the third anniversary of the award. In addition, non-employee board committee members receive annual cash compensation as follows: audit committee: $8,000 (chairperson) and $3,000 (other members); compensation committee: $5,000 (chairperson) and $3,000 (other members); and nominating committee: $4,000 (chairperson) and $2,000 (other members). Directors are also reimbursed for out-of-pocket expenses in connection with their attendance at meetings.

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EXECUTIVE OFFICER COMPENSATION

The following table sets forth the aggregate compensation paid by the Company during the three years ended December 31, 2005, to the co-chief executive officers and to each of the next four most highly compensated executive officers of the Company whose aggregate annual salary and bonus in 2005 exceeded $100,000.

Summary Compensation Table

		Annual Compensation		
(a) Name and Principal Position	(b) Year	(c) Salary($)	(d) Bonus($)	(e) Other Annual Compensation($)(1)
Stephen W. Brooks	2005	76,423	75,000	
Co-ceo	2004	52,000(2)	0	
	2003	52,000(2)	0	
Joe G. Brooks	2005	165,625	170,000	12,786(8)
Co-ceo	2004	157,500	193,500(3)	48,775(4)
	2003	157,500	15,000	
Robert A. Thayer	2005	132,500	85,000	
Senior-vice president	2004	124,423	30,000	
and chief financial officer	2003	119,123	25,000	
Jim Precht	2005	122,500	70,000	