CECO ENVIRONMENTAL CORP
Form 10-Q
August 10, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from ______ to ______

Commission File No. 000-07099

CECO ENVIRONMENTAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**13-2566064**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3120 Forrer Street, Cincinnati, Ohio 45209

(Address of principal executive offices) (Zip Code)

513-458-2600

(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 and (2) has been subject to such filing requirements for the past 90 days. x 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 (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer	¨	Accelerated Filer	x
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 x No

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of latest practical date.

Class: Common, par value $.01 per share outstanding at August 3, 2009 14,289,331

Table of Contents

CECO ENVIRONMENTAL CORP.

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

JUNE 30, 2009

TABLE OF CONTENTS

Table of Contents

CECO ENVIRONMENTAL CORP.

Part I. Financial Information

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share data

	JUNE 30, 2009 (unaudited)	DECEMBER 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,121	$ 1,169
Accounts receivable, net of allowance for doubtful accounts of $550 and $251 respectively	18,257	47,574
Costs and estimated earnings in excess of billings on uncompleted contracts	9,818	12,687
Inventories, net	5,521	6,169
Prepaid expenses and other current assets	2,283	2,220
Total current assets	37,000	69,819
Property and equipment, net	12,155	12,205
Goodwill	31,323	31,116
Intangibles finite life, net	1,727	2,190
Intangibles indefinite life	3,180	3,165
Deferred charges and other assets	1,458	1,522
	$ 86,843	$ 120,017
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt	$ 1,021	$ 1,474
Accounts payable and accrued expenses	15,686	33,153
Billings in excess of costs and estimated earnings on uncompleted contracts	6,925	8,058
Accrued income taxes	59	2,291
Total current liabilities	23,691	44,976
Other liabilities	3,036	3,017
Debt, less current portion	8,567	21,111
Deferred income tax liability	2,311	2,311
Related party subordinated notes	4,162	4,089
Total liabilities	41,767	75,504
Shareholders equity:		

Common stock, $0.01 par value; 100,000,000 shares authorized, 15,045,372 and 15,087,272 shares issued in 2009 and 2008, respectively	150	150
Capital in excess of par value	43,397	42,924
Accumulated earnings	6,414	6,684
Accumulated other comprehensive loss	(2,943)	(3,303)
	47,018	46,455
Less treasury stock, at cost, 764,041 shares in 2009 and 2008	(1,942)	(1,942)
Total shareholders equity	45,076	44,513
	$ 86,843	$ 120,017

The notes to consolidated financial statements are an integral part of the above statements.

Table of Contents

CECO ENVIRONMENTAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

Dollars in thousands, except per share data

	THREE MONTHS ENDED JUNE 30, 2009	THREE MONTHS ENDED JUNE 30, 2008	SIX MONTHS ENDED JUNE 30, 2009	SIX MONTHS ENDED JUNE 30, 2008
Net sales	$ 33,547	$ 57,446	$ 73,298	$ 104,308
Cost of sales	25,952	46,989	57,036	87,556
Gross profit	7,595	10,457	16,262	16,752
Selling and administrative	7,803	8,007	15,316	14,823
Amortization	166	392	479	606
(Loss) income from operations	(374)	2,058	467	1,323
Other expense, net	(261)		(172)	
Interest expense (including related party interest of $78 and $0, and $187 and $0, respectively)	(347)	(370)	(709)	(579)
(Loss) income before income taxes	(982)	1,688	(414)	744
Income tax (benefit) expense	(343)	659	(144)	290
Net (loss) income	$ (639)	$ 1,029	$ (270)	$ 454
Per share data:				
Basic net (loss) income	$ (0.04)	$ 0.07	$ (0.02)	$ 0.03
Diluted net (loss) income	$ (0.04)	$ 0.07	$ (0.02)	$ 0.03
Weighted average number of common shares outstanding:				
Basic	14,204,447	14,918,888	14,200,072	14,873,554
Diluted	14,204,447	15,299,944	14,200,072	15,274,513

The notes to consolidated financial statements are

an integral part of the above statements.

Table of Contents

CECO ENVIRONMENTAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Dollars in thousands

	SIX MONTHS ENDED JUNE 30, 2009	2008
Cash flows from operating activities:		
Net (loss) income	$ (270)	$ 454
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,336	1,386
Non cash interest expense included in net (loss) income	6	31
Non cash loss on remeasurement of subordinated debt	73	
Compensation expense stock awards	473	558
Bad debt expense	300	
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	29,017	11,627
Inventories	648	(1,086)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,869	(2,824)
Prepaid expenses and other current assets	(63)	(11)
Deferred charges and other assets	58	(101)
Accounts payable and accrued expenses	(17,455)	(10,197)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,133)	1,910
Accrued income taxes	(2,232)	
Other liabilities	130	(90)
Net cash provided by operating activities	13,757	1,657
Cash flows from investing activities:		
Acquisition of property and equipment	(807)	(1,274)
Net cash paid for acquisition		(15,347)
Net cash used in investing activities	(807)	(16,621)
Cash flows from financing activities:		
Net (repayments) borrowings on revolving credit lines	(11,498)	10,378
Proceeds from exercise of stock options		43
Subordinated debt borrowings	3,000	
Subordinated debt repayments	(3,000)	
Proceeds from term debt		5,000
Repayment of term debt	(1,500)	(250)
Net cash (used in) provided by financing activities	(12,998)	15,171

Net (decrease) increase in cash and cash equivalents	(48)	207
Cash and cash equivalents at beginning of the period	1,169	656
Cash and cash equivalents at end of the period	$ 1,121	$ 863
Supplemental Schedule of Non-Cash Activities:		
Stock based consideration for acquisition	$	$ 898

Table of Contents

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:		
Interest	$ 862	$ 582
Income taxes	$ 2,209	$ 447

The notes to consolidated financial statements are

an integral part of the above statements.

5

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of reporting for consolidated financial statements

The accompanying unaudited, condensed consolidated financial statements of CECO Environmental Corp. and subsidiaries (the Company , we , us , or our) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2009 and December 31, 2008 and the results of operations for the three-month and six-month periods ended June 30, 2009 and 2008 and of cash flows for the six-month periods ended June 30, 2009 and 2008. The results of operations for the three-month period and six-month period ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Use of estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company has evaluated subsequent events through August 10, 2009, the date these financial statements were issued.

These financial statements and accompanying notes should be read in conjunction with the audited financial statements and the notes thereto included in the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2008 with the Securities and Exchange Commission.

2. New Accounting Pronouncements

New Financial Accounting Pronouncements Adopted

Statement of Financial Accounting Standard (SFAS) 165 In May 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 165, Subsequent Events. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

FSP FAS 107-1 and APB 28-1 In April 2009, the FASB issued Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This FSP is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for interim and annual periods ending after March 15, 2009 subject to certain restrictions. The Company did not elect early adoption in the quarter ended March 31, 2009 and, therefore, has applied the provisions of this FSP for the quarter ending June 30, 2009. See Note 14.

SFAS 141(R) In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

141(R)). This statement defines the acquirer in a business combination as the entity that obtains control of one or more businesses, and establishes the acquisition date as the date the acquirer achieves this control. This statement also refines the application of the purchase method by requiring the acquirer to recognize assets acquired and liabilities assumed at fair value and replacing the cost-allocation process previously required under SFAS 141. Furthermore, acquisition-related costs and restructuring costs that are expected but not obligatory are required to be recognized separately from the business combination. SFAS 141(R) is effective prospectively for business combinations with acquisition dates on or after January 1, 2009. There was no material impact to the Company s consolidated financial position, results of operations, or cash flows as a result of the adoption of SFAS 141(R). However, management believes this statement could have a material impact on the Company s future financial statements depending on its acquisition plans.

In April 2009, the FASB released FSP FAS 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies . The FSP amends Statement No. 141R related to the accounting for assets and liabilities arising from contingencies in a business combination. The FSP requires that an asset or a liability arising from a contingency in a business combination be recognized at fair value if fair value can be reasonably determined and provides guidance on how to make that determination. If the fair value of an asset or liability cannot be reasonably determined, the FSP requires that an asset or liability be recognized at the amount that would be recognized in accordance with FASB Statement No. 5, Accounting for Contingencies , and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss , for liabilities and an amount using similar criteria for assets. The FSP is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. There was no material impact to the Company s consolidated financial position, results of operations, or cash flows as a result of the adoption of SFAS 141(R)-1. However, management believes this statement could have a material impact on the Company s future financial statements depending on its acquisition plans.

EITF No. 07-05 During June 2008, the FASB issued EITF Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock became effective for the Company on January 1, 2009. This Issue addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock, which is the first part of the scope exception in paragraph 11(a) of Statement 133. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under paragraphs 6 9 of Statement 133 is indexed to an entity s own stock, it is still necessary to evaluate whether it is classified in stockholders equity (or would be classified in stockholders equity if it were a freestanding instrument). Other applicable authoritative accounting literature, including Issues EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company Own Stock, and EITF 05-2, The Meaning of Conventional Debt Instrument in Issue No. 00-19, provides guidance for determining whether an instrument (or an embedded feature) is classified in stockholders equity (or would be classified in stockholders equity if it were a freestanding instrument). This Issue did not have a material impact to the Company s consolidated financial position, results of operations, or cash flows upon its effective date.

FSP 142-3 In April 2008, the FASB issued Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets. FSP 142-3 provides guidance on the determination of useful lives of intangible assets in accordance with FASB Statement No. 142, Goodwill and Other Intangible Assets . For intangible assets acquired after the effective date, a company is not

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

required to consider renewal or extension at substantial cost or with material modification of existing terms to be factors that limit the useful life of the asset. Rather the Company must consider its own historical experience in renewing or extending similar arrangements. FSP 142-3 became effective on January 1, 2009 and did not have a material impact to the Company s consolidated financial position, results of operations, or cash flows.

FSP EITF 03-6-1 In June 2008, the FASB issued Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. FSP EITF 03-6-1 concludes that non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to SFAS 128, Earnings per Share , when computing basic and diluted EPS. FSP EITF 03-6-1 became effective for the Company on January 1, 2009. Because the Company s Restricted Share awards contain non-forfeitable dividend rights, the provisions of this FSP must be applied. Upon adoption, the Company was required to adjust all prior period EPS data on a retrospective basis to conform with the provisions of this FSP. Due to the net loss incurred for the quarter ended March 31, 2008, the Company s previously-reported basic and diluted weighted average shares outstanding, and earnings (loss) per share, for this period were not affected by the adoption of this FSP. There is no impact on previously reported basic and diluted earnings (loss) per share for any reported period during 2008 or for the year ended December 31, 2007. Periods prior to 2007 were not impacted as the Company had not issued Restricted Share awards in such periods. The impact on basic and diluted weighted average shares outstanding for the remaining quarters and year to date periods in 2008 and for the year ended December 31, 2007 is as follows:

	Basic Weighted Average Common Shares Outstanding		Diluted Weighted Average Common Shares Outstanding	
	Previously Reported	Adjusted upon adoption of FSP EITF 03-6-1	Previously Reported	Adjusted upon adoption of FSP EITF 03-6-1
Quarter ended June 30, 2008	14,780,369	14,918,888	15,207,924	15,299,944
Six months ended June 30, 2008	14,735,290	14,873,554	15,186,105	15,274,513
Quarter ended September 30, 2008	14,821,253	14,949,352	15,593,959	15,722,058
Nine months ended September 30, 2008	14,764,154	14,899,005	15,304,657	15,434,682
Quarter ended December 31, 2008	14,243,221	14,370,871	15,242,537	15,370,187
Year ended December 31, 2008	14,633,209	14,766,250	15,275,690	15,405,221
Year ended December 31, 2007	13,456,580	13,512,963	14,042,324	14,087,992

SFAS 157 Effective January 1, 2008, the Company partially adopted SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 applies to most current accounting pronouncements that require or permit fair value measurements. SFAS 157 provides a framework for measuring fair value and requires expanded disclosures about fair value methods and inputs by establishing a hierarchy for ranking the quality and reliability of the information used by management to measure and report amounts at fair value.

The Company had only partially applied the provisions of SFAS 157 as management elected the deferral provisions of FASB

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Staff Position (FSP) SFAS 157-2 as it applies to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP SFAS 157-2 delayed the effective date of SFAS 157 for non-financial assets and liabilities which are not measured at fair value on a recurring basis (at least annually) until January 1, 2009 for the Company. The major categories of assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis include certain amounts of property and equipment, intangibles and goodwill reported at fair value as a result of impairment testing, and certain other assets, liabilities and equity instruments recognized as a result of prior business combinations. There was no impact to the Company s consolidated financial position, results of operations, or cash flows as a result of the adoption of SFAS 157 for non-financial assets and liabilities.

Recently Issued Accounting Pronouncements

SFAS 167 On June 12, 2009, the Financial Accounting Standards Board (FASB) published two new accounting standards (Statement of Financial Accounting Standard [SFAS] 166 and SFAS 167) that determine whether securitizations and other transfers of financial instruments are given off-balance sheet treatment. The revisions to the standards, expected to be effective January 1, 2010 for issuers with calendar year ends, will result in many existing off-balance sheet securitizations being treated as secured financing and returning on-balance sheet. SFAS 166, Accounting for Transfers of Financial Assets, will amend SFAS 140 and SFAS 167, Amendments to FASB Interpretation (FIN) No. 46(R), will amend FIN 46(R). The adoption of SFAS 167 will not have an impact on the Company s consolidated financial position, results of operations or cash flows.

SFAS 168 In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. SFAS 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles, superseding existing accounting literature. While not intended to change U.S. GAAP, the Codification significantly changes the way in which accounting literature is organized. SFAS 168 is effective for interim or annual reporting periods ending after September 15, 2009. The adoption of SFAS 168 will not have an impact on the Company s consolidated financial position, results of operations or cash flows. However, because the Codification completely replaces existing standards, it will affect the way U.S. GAAP are disclosed in our consolidated financial statements.

FSP 132(R)-1 In December 2008, the FASB issued Staff Position No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets . FSP 132(R)-1 amends FASB Statement No. 132 (Revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosure requirements addressed by FSP 132(R)-1 provide for greater transparency surrounding the types of assets and associated risks in a plan, events in the economy and markets that could have a significant effect on the value of plan assets, and information about fair value measurements similar to those required by SFAS 157. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company does not expect that the adoption of this standard will have a material effect on the Company s consolidated results of operations, financial position or cash flows.

3. Inventories

$ *in thousands*

	June 30, 2009	December 31, 2008
Raw materials and subassemblies	$ 4,011	$ 4,272
Finished goods	818	932
Parts for resale	767	965
Reserve for obsolescence	(75)	
	$ 5,521	$ 6,169

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

4. Costs and Estimated Earnings on Uncompleted Contracts

$ *in thousands*	**June 30, 2009**	**December 31, 2008**
Costs incurred on uncompleted contracts	$ 108,077	$ 203,500
Estimated earnings	23,963	28,450
	132,040	231,950
Less billings to date	(129,147)	(227,321)
	$ 2,893	$ 4,629
Included in the accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 9,818	$ 12,687
Billings in excess of costs and estimated earnings on uncompleted contracts	(6,925)	(8,058)
	$ 2,893	$ 4,629

5. Goodwill and Intangible Assets

$ in thousands	**Six months ended June 30, 2009**		**Year ended December 31, 2008**	
Goodwill / Tradename	**Goodwill**	**Tradename**	**Goodwill**	**Tradename**
Beginning balance	$ 31,116	$ 3,165	$ 14,761	$ 2,095
Acquisitions			16,355	1,070
Foreign currency adjustments	207	15		
	$ 31,323	$ 3,180	$ 31,116	$ 3,165

	As of June 30, 2009		**As of December 31, 2008**	
Intangible assets finite life	**Cost**	**Accum. Amort.**	**Cost**	**Accum. Amort**
Patents	$ 1,412	$ 978	$ 1,412	$ 932

Backlog	565	565	1,451	1,249
Customer Lists	1,612	515	1,595	352
Employment contracts	414	233	410	163
Other	118	103	111	93
	$ 4,121	$ 2,394	$ 4,979	$ 2,789

Amortization of finite life intangibles is on a straight line basis and amortization expense for the three months ended June 30, 2009 and 2008 was $166,000 and $393,000 respectively and for the six months ended June 30, 2009 and 2008 was $479,000 and $606,000 respectively. Over the next five years amortization expense for these finite life intangible assets will be $271,000 for the remainder of 2009, $494,000 in 2010, $424,000 in 2011, $316,000 in 2012 and $130,000 in 2013.

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

6. Business Segment Information

Our structure and operational integration results in one reportable segment that focuses on engineering, designing, building and installing systems that remove airborne contaminants from industrial facilities, as well as equipment that controls emissions from such facilities. Accordingly, the consolidated financial statements herein reflect the operating results of the reportable segment.

7. Earnings Per Share

Effective January 1, 2009, the Company adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. As a result of the adoption of FSP EITF 03-6-1, non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to SFAS 128, Earnings per Share , when computing basic and diluted EPS. Losses are only allocable to participating securities if the holder has the contractual obligation to share in the losses of the Company as further defined in EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128. The Company s restricted stock awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted earnings per share. During periods of net loss, these shares are excluded from both basic and diluted earnings per share. For the three and six month periods ended June 30, 2009, 102,022 non-vested restricted share awards were excluded from the computation of basic and diluted weighted average common shares outstanding due to the reported net loss for the periods. For the three and six month periods ended June 30, 2008, the weighted average number of non-vested restricted share awards which were included in the basic weighted average common shares outstanding totaled 138,519 and 138,264, respectively. We consider outstanding options and warrants in computing diluted net income per share only when they are dilutive. For the three and six month periods ended June 30, 2009, 1,283,105 and 485,000, respectively, outstanding options and warrants were excluded from the computation of diluted weighted average common shares outstanding as their effect would have been anti-dilutive. Additionally, pursuant to the if-converted method, net income used for purposes of computing diluted earnings per share is adjusted for the net impact of interest and other items related to the Convertible Subdebt Note (see Note 8) unless the effect is anti-dilutive. The net impact of interest and other items related to the convertible Subdebt Note for the three and six month periods ended June 30, 2009 was income of approximately $73,000 and $99,000, respectively. Because of an anti-dilutive effect, net income (loss) was not adjusted for this net impact for the three and six month periods ended June 30, 2009. The convertible Subdebt Note was not outstanding during the three and six month periods ended June 30, 2008 and, accordingly, there was no adjustment to net income for the diluted earnings per share computation for those periods.

8. Debt

Total bank debt at June 30, 2009 was $9.6 million and $22.6 million at December 31, 2008. The bank debt at June 30, 2009 includes $6.8 million due on the revolving line of credit. Unused credit availability under our $30.0 million revolving line of credit at June 30, 2009 was $1.6 million. Availability is limited as determined by a borrowing base formula contained in the credit agreement.

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

We entered into our current credit facility (the Bank Facility) on December 29, 2005 with Fifth Third Bank. The Bank Facility was amended on various dates and fees paid for these amendments were deferred and are being amortized over the remaining term of the Bank Facility.

On May 1, 2009, the Company entered into a Sixth Amendment to the Bank Facility effective as of March 31, 2009. The Amendment amends the Bank Facility to extend the termination date of the line of credit from January 31, 2010 to April 1, 2011, make certain changes to the interest rates applicable to the obligations under the Bank Facility, including the implementation of a daily reset, one-month LIBOR-based rate and the unavailability of a prime-based rate except in certain circumstances, which results in an increase of the borrowing rates by one percent, consent to a one-time payment of principal on the Subordinated Convertible Promissory Note of Icarus Investment Corp. in an amount not to exceed $3,000,000, and consent to an extension fee of CAD $38,000 payable to Icarus.

As of June 30, 2009, the Bank Facility, as amended, includes a revolving line of credit of up to $30 million, including letters of credit, limited to a borrowing base amount computed as 70% of eligible accounts receivable plus 50% of eligible inventories. The loan covenants currently require a ratio of funded debt to adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) of not greater than 3.2 to 1.0, a ratio of fixed charges to adjusted EBITDA of not less than 1.25 to 1.0 and a requirement to attain $5.0 million of loan availability on or before June 1, 2009. As of June 30, 2009, we are in compliance with all covenants.

Interest on the outstanding borrowings is charged at the daily LIBOR rate plus 3.5% or the tranche LIBOR rate plus 3.0% for the revolver and the daily LIBOR rate plus 3.75% or the tranche LIBOR rate plus 3.25% for the term note. The weighted average interest rate under the Bank Facility as of June 30, 2009 was 3.95%.

On August 14, 2008, the Company issued a Subordinated Convertible Promissory Note (the Convertible Subdebt Note) in the amount of Canadian $5,000,000 to Icarus Investment Corp., an Ontario corporation (Icarus), which is controlled by Phillip DeZwirek, our Chairman and CEO, and Jason DeZwirek, our Secretary and one of our Directors. The Convertible Subdebt Note provides for interest to accrue at the rate of 10% per annum in 2008, 11% per annum in 2009, and 12% per annum commencing January 1, 2010 until paid. The holder of the Convertible Subdebt Note may convert at any time, the outstanding principal and accrued interest under the Convertible Subdebt Note into common stock of the Company at a per share price of $4.75, which was the closing consolidated bid price immediately preceding the entering into of the Convertible Subdebt Note. The Convertible Subdebt Note was amended in February 2009 to provide for interest payments to be payable monthly, instead of semi-annually, subject to the Subordination Agreement between Fifth Third Bank and Icarus Investment Corp. The Convertible Subdebt Note was further amended on May 1, 2009 to extend its maturity date to October 1, 2011 from July 31, 2010. Fees of Canadian $38,000 were paid for this amendment and are being deferred and amortized over the remaining term of the Subdebt. The Convertible Subdebt Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of $5 million. To the extent that the Company completes an equity financing in excess of $10 million, 25% of the amounts in excess of the $10 million are required to be used

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

to repay the Convertible Subdebt Note, provided that the Company is not in default under the Bank Facility. We repaid Canadian $3,726,000 under the Convertible Subdebt Note on March 31, 2009 and the outstanding balance of the Convertible Subdebt Note at June 30, 2009, as translated into U.S. dollars was $1.1 million. A foreign exchange translation loss of $82,550 was recognized during the quarter as other expense.

On May 15, 2009, the Company issued a Promissory Note (Note) to Icarus in the amount of $3,000,000. The Note, which is subordinated to the Company s Facility with Fifth Third, bears interest at 12% per annum with interest payable monthly. The maturity date of the note is the earlier of May 15, 2012 or six months after repayment of the Bank Facility. The Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of $5 million. To the extent that the Company completes an equity financing in excess of $10 million, 25% of the amount in excess of the $10 million is required to be used to repay the Note, provided that the Company is not in default under its Bank Facility. At the option of Icarus, the note is repayable in Canadian funds with a stated conversion rate of 1.1789, or CAD $3,536,700, representing the conversion rate at the issuance date of the Note. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , this option has been bifurcated and recorded at fair value. The liability of $0.1 million is included in the corresponding debt balance in the Company s condensed consolidated balance sheet as of June 30, 2009. Gains and losses resulting from the revaluation of this liability are included in other income (expense) in the condensed consolidated statements of operations.

The Company may repay the Note at any time with no prepayment penalty. The outstanding balance of the Note at June 30, 2009, was $3.1 million in U.S. dollars and the total subordinated debt was $4.2 million in U.S. dollars.

9. Employee Benefit Plans

We sponsor a non-contributory defined benefit pension plan for certain union employees. The plan is funded in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

We also sponsor a post-retirement health care plan for office employees retiring before January 1, 1990. The plan allows retirees who have attained the age of 65 to elect the type of coverage desired.

Retirement and health care plan expense is based on valuations performed by plan actuaries as of the beginning of each fiscal year. The components of the expense consisted of the following:

$ in thousands	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Retirement plan:				
Service cost	$ 44	$ 44	$ 88	$ 88
Interest cost	95	91	190	182
Expected return on plan assets	(80)	(105)	(160)	(210)
Amortization of prior service cost	2	2	4	4
Amortization of net actuarial loss	61	35	122	70

Net periodic benefit cost	$ 122	$ 67	$ 244	$ 134
Health care plan:				
Interest cost	$ 4	$ 4	$ 8	$ 8
Amortization of gain	(1)	(1)	(2)	(3)
Net periodic benefit cost	$ 3	$ 3	$ 6	$ 5

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

As of June 30, 2009 we have made contributions to our defined benefit plans totaling $255,000. We anticipate contributing $231,000 to fund the pension plan during the remainder of fiscal 2009.

10. Stock-Based Compensation

The Company recognizes compensation expense for stock-based awards, measured at the fair value of the awards at the grant date. The Company recognized expense of approximately $239,000 and $304,000 during the quarters ended June 30, 2009 and 2008, respectively and $473,000 and $558,000 for the six months ended June 30, 2009 and 2008, respectively.

During 2009, the Company awarded 138,400 shares of performance-based, restricted stock with a fair value of $3.50 per share which vest subject to attainment of predetermined Company performance goals by fiscal year end 2009. These shares will vest on March 31, 2010, if certain minimum financial targets are attained. If the minimum level of performance is not attained by the end of 2009, these stock awards will be forfeited and any expense recognized to date will be reversed. Currently no expense has been recorded due to the expectation that the related financial objectives will not be met.

Additionally, on May 21, 2009, a total of 8,000 shares of restricted stock with a fair value of $3.50 per share were granted to four independent directors. These shares vest over a one year period.

On May 21, 2009, at the 2009 Annual Meeting (the Annual Meeting) of Stockholders of CECO Environmental Corp. (the Company), the Company s stockholders approved the CECO Environmental Corp. Employee Stock Purchase Plan (the ESPP). The ESPP is administered by the Compensation Committee. The aggregate maximum number of shares of the Company s common stock that may be granted under the ESPP is one million five hundred shares over the ten year term of the ESPP, subject to adjustment in the event there is a reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, or similar transaction with respect to the common stock. The plan will become effective on August 1, 2009.

11. Income Taxes

The Company files income tax returns in various federal, state and local jurisdictions. The Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2004.

Table of Contents

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

As of June 30, 2009 and December 31, 2008, the liability for uncertain tax benefits totaled approximately $432,000 and $420,000 respectively. Included in these balances is a $178,000 tax position for which the ultimate outcome is highly certain. The Company included interest and penalties in the unrecognized tax benefit as of June 30, 2009 and December 31, 2008.

12. Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss), changes in the pension liability that do not directly impact net earnings, if any during the period, and translation gains and losses for foreign operations.

Comprehensive loss of $(132,000) included net loss of $(639,000) and a translation gain of $507,000 for the three month period ended June 30, 2009, and comprehensive income of $1,038,000 for the three month period ended June 30, 2008 included net income of $1,029,000 and a translation gain of $9,000.

Comprehensive income of $90,000 included net loss of $(270,000) and a translation gain of $360,000 for the six month period ended June 30, 2009, and comprehensive income of $465,000 for the six month period ended June 30, 2008 included net income of $454,000 and a translation gain of $11,000.

13. Product Warranties

The Company s warranty reserve is to cover the products sold and is principally at our Effox subsidiary. The warranty accrual is based on historical claims information. The warranty reserve is reviewed and adjusted as necessary on a quarterly basis. Warranty accrual is not significant at the Company s other operations due to the nature of the work of including installation. The change in accrued warranty expense is summarized in the following table:

$ in thousands	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Beginning balance	$ 553	$ 578	$ 574	$ 605
Provision	43	25	81	50
Payments	(85)	(29)	(144)	(81)
Ending balance	$ 511	$ 574	$ 511	$ 574

14. Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets, such as cash surrender life insurance, as well as obligations under accounts payable, long-term debt and subordinated notes. The carrying values of these financial instruments approximate fair value at June 30, 2009 and December 31, 2008, except for subordinated notes for which fair value was $4.2 million.

Most of the debt obligations approximate their reported carrying amounts based on future payments discounted at current interest rates for similar obligations or interest rates which fluctuate with the market.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Concentrations of credit risk:

Financial instruments that potentially subject us to credit risk consist principally of cash and accounts receivable. We maintain cash and cash equivalents with various major financial institutions.

We perform periodic evaluations of the financial institutions in which our cash is invested. Concentrations of credit risk with respect to trade and contract receivables are limited due to the large number of customers and various geographic areas. Additionally, we perform ongoing credit evaluations of our customers financial condition.

15. Acquisitions

On February 29, 2008, the Company, through its wholly owned subsidiary FKI Acquisition Corp., purchased substantially all of the assets of Fisher-Klosterman, Inc. (FKI). We acquired FKI to obtain air pollution and particulate recovery products in the fields of petroleum refinery, power production, petrochemicals, and manufacturing. The acquisition also expands our operations into China with FKI s 40,000 square foot facility in Shanghai, China. The purchase price was approximately $23.3 million, consisting of net cash paid plus transaction costs totaling approximately $15.3 million (funded under the amended Bank Facility), liabilities assumed of approximately $7.1 million and 98,580 shares of restricted common stock valued at $0.9 million. Additionally, the former owners of FKI are entitled to earn-out payments payable in shares of common stock of up to $3.5 million upon the attainment of specified gross profit amounts through February 28, 2011. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

$ *in thousands*

Current assets	$ 6,934
Other assets	41
Property and equipment	1,823
Intangible assets finite life	1,634
Intangible assets indefinite life	800
Goodwill	12,087
Total assets acquired	23,319
Current liabilities assumed	(7,074)
Net assets acquired	$ 16,245

The purchase price allocation is preliminary and subject to further refinement based upon completion of asset valuations.

On August 1, 2008, the Company, through a subsidiary, acquired all of the stock of Flextor Inc., a Quebec company (Flextor), pursuant to the terms of a Stock Purchase Agreement dated August 1, 2008, among the Company, 9199-3626 Quebec Inc., Michael dos Santos, The Dos Santos Family Trust, Thierry Allegrucci, The Allegrucci Family Trust, Francois Rouviere and Antandamy Investments Inc. Additionally, the former owners are entitled to earn-out payments of up to $.5 million upon the attainment of specified gross profit amounts through July 31, 2011.

Table of Contents

Flextor is a provider of engineered-to-order dampers and expansion joints for the power, natural gas, cement, smelting, incineration, and other industries. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

$ *in thousands*

Current assets	$ 5,247
Property and equipment	286
Intangible assets finite life	16
Goodwill	5,058
Total assets acquired	10,607
Current liabilities assumed	(3,769)
Net assets acquired	$