

CECO ENVIRONMENTAL CORP

Form 10-Q

November 10, 2011

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**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 September 30, 2011

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-2566064**  
(I.R.S. Employer  
Identification No.)

**4625 Red Bank Road, Suite 200, Cincinnati, Ohio 45227**  
(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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232, 405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

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

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 November 7, 2011 14,470,597

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**CECO ENVIRONMENTAL CORP.**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**SEPTEMBER 30, 2011**

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CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)**

Dollars in thousands, except per share data

	SEPTEMBER 30, 2011	DECEMBER 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,918	\$ 5,792
Accounts receivable, net	20,618	26,772
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 4)	10,268	8,345
Inventories, net (Note 3)	5,056	4,432
Prepaid expenses and other current assets	2,605	2,509
Assets held for sale (Note 17)	0	526
Current assets of discontinued operations (Note 16)	67	76
Total current assets	48,532	48,452
Property and equipment, net	5,679	5,880
Goodwill (Note 5)	14,628	14,713
Intangibles finite life, net (Note 5)	619	966
Intangibles indefinite life (Note 5)	3,214	3,225
Deferred income tax asset, net	602	602
Deferred charges and other assets	1,023	953
	\$ 74,297	\$ 74,791
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,000	\$ 17,041
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 4)	8,494	7,810
Accrued income taxes	475	1,646
Total current liabilities	20,969	26,497
Other liabilities	2,212	2,320
Convertible subordinated notes (including related parties notes of \$3,950) (Note 8)	10,100	10,800
Total liabilities	33,281	39,617
Shareholders' equity:		
Preferred stock, \$.01 par value; 10,000 shares authorized, none issued		
Common stock, \$.01 par value; 100,000,000 shares authorized, 14,617,417 and 14,456,659 shares issued in 2011 and 2010, respectively	146	144

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Capital in excess of par value	44,155	43,237
Accumulated deficit	(1,076)	(6,243)
Accumulated other comprehensive loss	(1,801)	(1,608)
	41,424	35,530
Less treasury stock, at cost, 146,820 and 137,920 shares in 2011 and 2010, respectively	(408)	(356)
Total shareholders' equity	41,016	35,174
	\$ 74,297	\$ 74,791

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

**Table of Contents****CECO ENVIRONMENTAL CORP.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(unaudited)**

Dollars in thousands, except per share data

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2011	2010	2011	2010
Net sales	\$ 32,947	\$ 33,860	\$ 101,440	\$ 103,657
Cost of sales	23,249	26,132	74,571	79,513
Gross profit	9,698	7,728	26,869	24,144
Selling and administrative	6,270	6,648	17,958	20,786
Amortization	118	118	341	378
Gain on sale of operating equipment	0	(608)	0	(608)
Income from operations	3,310	1,570	8,570	3,588
Other income (expense), net	103	(68)	436	(121)
Interest expense (including related party interest of \$59 and \$58, and \$177 and \$171, respectively)	(296)	(341)	(870)	(942)
Income from continuing operations before income taxes	3,117	1,161	8,136	2,525
Income tax expense	798	488	2,606	1,008
Income from continuing operations	2,319	673	5,530	1,517
Income (loss) from discontinued operations, net of tax (Note 16)	0	10	0	(155)
Net income	\$ 2,319	\$ 683	\$ 5,530	\$ 1,362
Per share data:				
Basic income from continuing operations	\$ 0.16	\$ 0.05	\$ 0.39	\$ 0.11
Basic income (loss) from discontinued operations	0.00	0.00	0.00	(0.01)
Basic net income	\$ 0.16	\$ 0.05	\$ 0.39	\$ 0.10
Diluted income from continuing operations	\$ 0.14	\$ 0.05	\$ 0.34	\$ 0.10
Diluted income (loss) from discontinued operations	0.00	0.00	0.00	(0.01)
Diluted net income	\$ 0.14	\$ 0.05	\$ 0.34	\$ 0.09
Weighted average number of common shares outstanding:				
Basic	14,371,752	14,320,188	14,340,119	14,304,554
Diluted	17,157,305	17,128,215	17,130,767	14,396,965

The notes to condensed 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

	<b>NINE MONTHS ENDED</b>	
	<b>SEPTEMBER 30,</b>	
	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net income	\$ 5,530	\$ 1,362
Net loss from discontinued operations	0	(155)
Net income from continuing operations	5,530	1,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,086	1,322
Amortization of deferred financing fees	68	86
Gain on sale of operating equipment	0	(608)
Share based compensation expense	538	790
Bad debt expense	212	163
Provision for inventory obsolescence	196	100
Changes in operating assets and liabilities:		
Accounts receivable	5,942	3,023
Inventories	(820)	(309)
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,923)	1,094
Prepaid expenses and other current assets	(96)	(101)
Deferred charges and other assets	(138)	239
Accounts payable and accrued expenses	(5,041)	(3,847)
Billings in excess of costs and estimated earnings on uncompleted contracts	684	(3,108)
Accrued income taxes	(1,171)	314
Other liabilities	(197)	193
Net cash provided by continuing operating activities		