

CECO ENVIRONMENTAL CORP
Form 10-Q
August 10, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For Quarterly period ended June 30, 2007

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. 0-7099

CECO ENVIRONMENTAL CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

3120 Forrer Street, Cincinnati, Ohio
(Address of principal executive offices)

513-458-2600

45209
(Zip Code)

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 Aug. 6, 2007 - 14,769,372

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CECO ENVIRONMENTAL CORP.

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

JUNE 30, 2007

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Certifications

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CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share data

	JUNE 30, 2007 (unaudited)	DECEMBER 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 586	\$ 445
Accounts receivable, net	33,052	26,925
Costs and estimated earnings in excess of billings on uncompleted contracts	15,137	10,766
Inventories	5,748	2,755
Prepaid expenses and other current assets	1,646	1,762
Total current assets	56,169	42,653
Property and equipment, net	8,766	8,530
Goodwill, net	13,593	9,527
Intangibles finite life, net	784	576
Intangibles indefinite life	1,395	1,395
Deferred charges and other assets	1,172	507
	\$ 81,879	\$ 63,188
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	\$	\$ 620
Accounts payable and accrued expenses	30,976	17,879
Billings in excess of costs and estimated earnings on uncompleted contracts	8,736	9,559
Accrued income taxes		284
Total current liabilities	39,712	28,342
Other liabilities	2,777	2,524
Debt, less current portion	1,624	9,971
Deferred income tax liability	2,865	2,527
Related party subordinated notes		4,901
Total liabilities	46,978	48,265
Shareholders' equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized, 14,762,084 and 11,622,729 shares issued in 2007 and 2006, respectively	148	116
Capital in excess of par value	38,732	20,421
Accumulated deficit	(2,340)	(3,978)
Accumulated other comprehensive loss	(1,283)	(1,280)
	35,257	15,279
Less treasury stock, at cost, 137,920 shares in 2007 and 2006	(356)	(356)

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Total shareholders' equity	34,901	14,923
	\$ 81,879	\$ 63,188

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

Dollars in thousands, except per share data

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
Net sales	\$ 59,247	\$ 31,745	\$ 102,710	\$ 56,127
Costs and expenses:				
Cost of sales, exclusive of items shown separately below	49,336	26,142	84,962	46,391
Selling and administrative	6,204	4,070	11,221	7,215
Depreciation and amortization	400	293	726	585
	55,940	30,505	96,909	54,191
Income from operations	3,307	1,240	5,801	1,936
Other income	6	1,374	9	294
Interest expense (including related party interest of \$864 and \$189, and \$1,101 and \$421, respectively)	(1,160)	(526)	(1,718)	(1,097)
Income from continuing operations before income taxes	2,153	2,088	4,092	1,133
Income tax provision	1,006	526	1,801	307
Net income	\$ 1,147	\$ 1,562	\$ 2,291	\$ 826
Per share data:				
Basic net income	\$ 0.09	\$ 0.14	\$ 0.19	\$ 0.07
Diluted net income	\$ 0.08	\$ 0.12	\$ 0.18	\$ 0.07
Weighted average number of common shares outstanding:				
Basic	13,000,124	11,225,038	12,251,694	11,070,131
Diluted	13,577,836	12,881,584	12,848,505	12,659,750

The notes to condensed consolidated financial statements are

an integral part of the above statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Dollars in thousands

	SIX MONTHS ENDED JUNE 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 2,291	\$ 826
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	726	585
Non cash interest expense included in net income	865	182
Non cash warrant valuation gain included in net income .		(307)
Non cash gains included in net loss		(29)
Compensation expense stock options	144	29
Deferred income taxes	337	
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(1,618)	(7,796)
Inventories	(1,724)	(90)
Costs and estimated earnings in excess of billings on uncompleted contracts	(3,625)	(4,169)
Prepaid expenses and other current assets	278	(300)
Deferred charges and other assets	72	
Accounts payable and accrued expenses	8,622	1,762
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,672)	4,875
Accrued income taxes	(284)	
Other	52	130
Net cash provided by (used in) operating activities	3,464	(4,302)
Cash flows from investing activities:		
Acquisition of property and equipment	(583)	(447)
Net cash paid for acquisition	(6,955)	
Net cash used in investing activities	(7,538)	(447)
Cash flows from financing activities:		
Proceeds from secondary stock offering	14,168	
Proceeds from exercise of warrants & options not under plan	4,687	2,705
Proceeds from exercise of stock options	70	207
Subordinated debt repayments	(5,743)	(1,988)
Short term debt (repayments) borrowings	(8,967)	3,895
Net cash provided by financing activities	4,215	4,819
Net increase in cash and cash equivalents	141	70
Cash and cash equivalents at beginning of the period	445	310
Cash and cash equivalents at end of the period	\$ 586	\$ 380

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Interest	\$ 1,035	\$ 2,186
Income taxes	\$ 2,850	\$ 166

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

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of reporting for condensed consolidated financial statements and significant accounting policies.

The accompanying unaudited condensed consolidated financial statements of CECO Environmental Corp. and subsidiaries (the Company, we, us, or our) have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2007 and December 31, 2006 and the results of operations for the three-month and six-month periods ended June 30, 2007 and 2006 and of cash flows for the six-month periods ended June 30, 2007 and 2006. The results of operations for the three-month period and six-month period ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2006 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, 2006.

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, 2006 with the Securities and Exchange Commission.

The Company adopted Financial Interpretation (FIN) 48 as of January 1, 2007, and has identified accounting for uncertain tax positions under this guidance as a critical accounting policy. Considering tax laws of the multiple jurisdictions in which we operate, we assess whether it is more likely than not that a tax position will be sustained upon examination and through any litigation and measure the largest amount of the benefit that is likely to be realized upon ultimate settlement. Consistent with our practice prior to adoption of FIN 48, we record related interest expense and penalties, if any, as a tax provision expense. Actual results may differ substantially from our estimates.

2. New Accounting Standards

FIN 48 In June 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 became effective for the Company on January 1, 2007. The adoption of FIN 48 included recognition of a liability for unrecognized tax obligations of \$653,000, which was accounted for as an increase to the January 1, 2007 balance of accumulated deficit. The Company recognizes penalties and interest, if any, related to unrecognized tax obligations as a tax provision expense. Actual results may differ substantially from our estimates. Additional details about the adoption of FIN 48 are provided in Note 11.

SFAS 157 In September 2006 the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value

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(unaudited)

measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for the Company's fiscal year beginning January 1, 2008, with early adoption permitted. The Company is in the process of evaluating SFAS No. 157.

SFAS 159 In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This Statement provides companies with an option to report selected financial assets and liabilities at fair value in an effort to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. The standard, which will be effective for the Company as of January 1, 2008, is currently under evaluation by the Company's management. At this time, we do not expect to elect the fair value option for any eligible items and did not early adopt the standard in the first quarter of 2007 as permitted.

3. Inventories*\$ in thousands*

	June 30, 2007	December 31, 2006
Raw materials and subassemblies	\$ 4,506	\$ 1,743
Finished goods	378	285