

CECO ENVIRONMENTAL CORP

Form 10-Q

August 11, 2008

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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 June 30, 2008

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.)

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. 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
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 August 4, 2008 14,949,352

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CECO ENVIRONMENTAL CORP.

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

JUNE 30, 2008

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CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share data

	JUNE 30, 2008 (unaudited)	DECEMBER 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 863	\$ 656
Accounts receivable, net	40,712	47,736
Costs and estimated earnings in excess of billings on uncompleted contracts	15,905	11,541
Inventories	6,376	4,694
Prepaid expenses and other current assets	3,256	2,907
Total current assets	67,112	67,534
Property and equipment, net	11,601	9,284
Goodwill, net	26,791	14,761
Intangibles finite life, net	2,508	1,480
Intangibles indefinite life	2,895	2,095
Deferred charges and other assets	1,378	1,381
	\$ 112,285	\$ 96,535
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt	\$ 1,000	\$ 278
Accounts payable and accrued expenses	32,516	38,012
Billings in excess of costs and estimated earnings on uncompleted contracts	12,255	8,024
Total current liabilities	45,771	46,314
Other liabilities	2,102	2,178
Debt, less current portion	18,835	4,429
Deferred income tax liability	2,688	2,688
Total liabilities	69,396	55,609
Shareholders equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized, 15,087,272 and 14,927,292 shares issued in 2008 and 2007, respectively	150	149
Capital in excess of par value	42,293	40,796
Accumulated earnings	2,128	1,674
Accumulated other comprehensive loss	(1,326)	(1,337)
	43,245	41,282
Less treasury stock, at cost, 137,920 shares in 2008 and 2007	(356)	(356)

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Total shareholders' equity	42,889	40,926
	\$ 112,285	\$ 96,535

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

Dollars in thousands, except per share data

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2008	2007	2008	2007
Net sales	\$ 57,446	\$ 59,247	\$ 104,308	\$ 102,710
Costs and expenses:				
Cost of sales, exclusive of items shown separately below	46,616	49,336	86,836	84,962
Selling and administrative	7,977	6,204	14,763	11,221
Depreciation and amortization	795	400	1,386	726
	55,388	55,940	102,985	96,909
Income from operations	2,058	3,307	1,323	5,801
Other income		6		9
Interest expense (including related party interest of \$0 and \$864, and \$0 and \$1,101, respectively)	(370)	(1,160)	(579)	(1,718)
Income from continuing operations before income taxes	1,688	2,153	744	4,092
Income tax provision	659	1,006	290	1,801
Net income	\$ 1,029	\$ 1,147	\$ 454	\$ 2,291
Per share data:				
Basic net income	\$ 0.07	\$ 0.09	\$ 0.03	\$ 0.19
Diluted net income	\$ 0.07	\$ 0.08	\$ 0.03	\$ 0.18
Weighted average number of common shares outstanding:				
Basic	14,780,369	13,000,124	14,735,290	12,251,694
Diluted	15,207,924	13,577,836	15,186,105	12,848,505

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Dollars in thousands

	SIX MONTHS ENDED	
	JUNE 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 454	\$ 2,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,386	726
Non cash interest expense included in net income	31	865
Compensation expense stock awards	558	144
Deferred income taxes		337
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	11,627	(1,618)
Inventories	(1,086)	(1,724)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,824)	(3,625)
Prepaid expenses and other current assets	(11)	278
Deferred charges and other assets	(101)	72
Accounts payable and accrued expenses	(10,197)	8,622
Billings in excess of costs and estimated earnings on uncompleted contracts	1,910	(2,672)
Accrued income taxes		(284)
Other	(90)	52
Net cash provided by operating activities	1,657	3,464
Cash flows from investing activities:		
Acquisition of property and equipment	(1,274)	(583)
Net cash paid for acquisition	(15,347)	(6,955)
Net cash used in investing activities	(16,621)	(7,538)
Cash flows from financing activities:		
Net borrowings (repayments) on revolving credit line	10,378	(8,967)
Proceeds from secondary stock offering		14,168
Proceeds from exercise of warrants & options not under plan		4,687
Proceeds from exercise of stock options	43	70
Subordinated debt repayments		(5,743)
Term debt borrowings	5,000	
Term debt repayments	(250)	
Net cash provided by financing activities	15,171	4,215

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Net increase in cash and cash equivalents	207	141
Cash and cash equivalents at beginning of the period	656	445
Cash and cash equivalents at end of the period	\$ 863	\$ 586
Supplemental Schedule of Non-Cash Activities:		
Stock based consideration for acquisition	\$ 898	\$

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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:		
Interest	\$ 582	\$ 1,035
Income taxes	\$ 447	\$ 2,850

The notes to 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 consolidated financial statements and significant accounting policies.

The accompanying unaudited 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 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, 2008 and December 31, 2007 and the results of operations for the three-month and six-month periods ended June 30, 2008 and 2007 and of cash flows for the six-month periods ended June 30, 2008 and 2007. The results of operations for the three-month period and six-month period ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2007 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, 2007.

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, 2007 with the Securities and Exchange Commission

2. New Accounting Pronouncements

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement 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 has only partially applied the provisions of SFAS 157 as management has elected the deferral provisions of FASB 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. 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 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.

The Company does not have any financial instruments that required a cumulative-effect adjustment to beginning accumulated earnings upon adoption. 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 157.

Financial instruments and fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the inputs used in the valuation techniques,

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

the Company classifies the inputs under a fair value hierarchy that ranks the inputs based on their quality and reliability. Financial instruments carried at fair value will be classified and disclosed in one of the following three categories: