UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2015

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. 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** **(IRS Employer** **Identification No.)**
4625 Red Bank Road, Cincinnati, Ohio **(Address of principal executive offices)**	**45227** **(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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. (check one)

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 ¨ No x

The number of shares outstanding of each of the issuer s classes of common equity, as of the latest practical date: 26,442,164 shares of common stock, par value $0.01 per share, as of August 3, 2015.

Table of Contents

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

For the quarter ended June 30, 2015

Table of Contents

Table of Contents

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)	(unaudited) JUNE 30, 2015	DECEMBER 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,089	$ 19,362
Accounts receivable, net	65,767	58,394
Costs and estimated earnings in excess of billings on uncompleted contracts	31,810	24,371
Inventories, net	22,752	23,416
Prepaid expenses and other current assets	8,185	9,046
Prepaid income taxes	4,870	4,190
Assets held for sale	1,544	4,188
Total current assets	152,017	142,967
Property, plant and equipment, net	17,165	18,961
Goodwill	169,324	167,547
Intangible assets-finite life, net	52,420	58,398
Intangible assets-indefinite life	19,528	19,766
Deferred charges and other assets	6,287	6,726
	$ 416,741	$ 414,365
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt	$ 12,317	$ 8,887
Accounts payable and accrued expenses	56,504	51,462
Billings in excess of costs and estimated earnings on uncompleted contracts	14,177	14,597
Income taxes payable	759	405
Total current liabilities	83,757	75,351
Other liabilities	27,584	27,884
Debt, less current portion	99,373	103,541
Deferred income tax liability, net	25,471	26,365
Total liabilities	236,185	233,141

Commitments and contingencies

Shareholders equity:		
Preferred stock, $.01 par value; 10,000 shares authorized, none issued		
Common stock, $.01 par value; 100,000,000 shares authorized, 26,432,447 and 26,404,869 shares issued in 2015 and 2014, respectively	264	264
Capital in excess of par value	169,935	168,886
Accumulated earnings	17,863	19,051
Accumulated other comprehensive loss	(7,150)	(6,621)
	180,912	181,580
Less treasury stock, at cost, 137,920 shares in 2015 and 2014	(356)	(356)
Total shareholders equity	180,556	181,224
	$ 416,741	$ 414,365

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

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)	THREE MONTHS ENDED JUNE 30, 2015	THREE MONTHS ENDED JUNE 30, 2014	SIX MONTHS ENDED JUNE 30, 2015	SIX MONTHS ENDED JUNE 30, 2014
Net sales	$ 86,961	$ 66,641	$ 167,946	$ 123,811
Cost of sales	60,333	45,192	120,343	82,633
Gross profit	26,628	21,449	47,603	41,178
Selling and administrative expenses	14,443	11,685	28,104	23,364
Acquisition and integration expenses	962	170	1,293	240
Amortization and earn-out expenses	6,735	2,406	10,739	4,894
Income from operations	4,488	7,188	7,467	12,680
Other income (expense), net	562	(121)	(1,174)	(227)
Interest expense	(1,174)	(746)	(2,134)	(1,488)
Income before income taxes	3,876	6,321	4,159	10,965
Income tax expense	1,772	1,828	1,857	3,451
Net income	$ 2,104	$ 4,493	$ 2,302	$ 7,514
Earnings per share:				
Basic	$ 0.08	$ 0.18	$ 0.09	$ 0.29
Diluted	$ 0.08	$ 0.17	$ 0.09	$ 0.29
Weighted average number of common shares outstanding:				
Basic	26,283,529	25,643,508	26,277,456	25,625,033
Diluted	26,627,051	26,107,648	26,643,857	26,111,683

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

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(dollars in thousands)	THREE MONTHS ENDED JUNE 30, 2015	THREE MONTHS ENDED JUNE 30, 2014	SIX MONTHS ENDED JUNE 30, 2015	SIX MONTHS ENDED JUNE 30, 2014
Net income	$ 2,104	$ 4,493	$ 2,302	$ 7,514
Other comprehensive income (loss):				
Foreign currency translation	356	126	(529)	(112)
Other comprehensive income (loss)	356	126	(529)	(112)
Comprehensive income	$ 2,460	$ 4,619	$ 1,773	$ 7,402

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

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)	SIX MONTHS ENDED JUNE 30, 2015	2014
Cash flows from operating activities:		
Net income	$ 2,302	$ 7,514
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,943	5,389
Loss (gain) on sale of property and equipment	225	(13)
Non-cash interest expense included in net income	323	275
Share-based compensation expense	854	750
Bad debt expense	69	82
Inventory reserve expense	256	308
Deferred income taxes	(894)	
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(7,442)	2,984
Costs and estimated earnings in excess of billings on uncompleted contracts	(7,439)	(4,105)
Inventories	408	794
Prepaid expense and other current assets	181	(1,560)
Deferred charges and other assets	361	80
Accrued litigation settlement		(2,536)
Accounts payable and accrued expenses	2,704	(5,263)
Billings in excess of costs and estimated earnings on uncompleted contracts	(420)	(2,167)
Income taxes payable	354	(794)
Other liabilities	1,165	33
Net cash (used in) provided by operating activities	(50)	1,771
Cash flows from investing activities:		
Acquisitions of property and equipment	(341)	(711)
Proceeds from sale of property and equipment	2,396	7,124
Net cash provided by investing activities	2,055	6,413
Cash flows from financing activities:		
Net borrowings (repayments) on revolving credit lines	3,469	(4,675)
Repayments of debt	(4,452)	(5,427)
Proceeds from employee stock purchase plan and exercise of stock options	195	844
Repurchases of common stock		(973)
Dividends paid to common shareholders	(3,490)	(2,826)
Net cash used in financing activities	(4,278)	(13,057)

Net decrease in cash and cash equivalents	(2,273)	(4,873)
Cash and cash equivalents at beginning of period	19,362	22,661
Cash and cash equivalents at end of period	$ 17,089	$ 17,788
Cash paid during the period for:		
Interest	$ 1,785	$ 1,505
Income taxes	$ 595	$ 5,903

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

5

Table of Contents

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Reporting for Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements of CECO Environmental Corp. and its subsidiaries (the Company , we , us , or our) have been prepared pursuant to the rules and regulations of the Securitie and Exchange Commission (the SEC). 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 condensed 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, 2015 and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2015 and 2014. The results of operations for the three-month and six-month periods ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2014 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, 2014 filed with the SEC.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

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 for the year ended December 31, 2014 filed with the SEC.

Unless otherwise indicated, all balances within tables are in thousands, except per share amounts.

During 2014, the Company completed four acquisitions, including i) in August 2014, HEE Environmental Engineering (HEE), ii) in September 2014, SAT Technology, Inc. (SAT), iii) in November 2014, Emtrol LLC (Emtrol), and iv) in December 2014, Jiangyin Zhongli Industrial Technology Co. Ltd. (Zhongli). The results of their operations have been consolidated with our results following the acquisition dates. For a more complete discussion of the transactions, refer to Note 16.

2. New Financial Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). ASU 2015-07 requires investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy as defined under FASB Topic 820, Fair Value Measurements. The FASB issued the ASU to eliminate the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, and also to ensure that all investments categorized in the fair value hierarchy are classified using a consistent approach. ASU 2015-07 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The adoption of this standard is not expected to have a significant impact on the Company s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The FASB issued the ASU to simplify the presentation of debt issuance costs, and to align with other existing FASB guidance. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The adoption of this standard is not expected to have a significant impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue From Contracts With Customers. ASU 2014-09 supersedes nearly all existing revenue recognition principles under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services using a defined five step process. More judgment and estimates may be required to achieve this principle than under existing GAAP. ASU 2014-09 is effective for annual periods beginning after December 15, 2017, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption, which includes additional footnote disclosures. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements and has not yet determined the method of adoption.

Table of Contents

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. Accounts Receivable

(Table only in thousands)	**June 30, 2015**	**December 31, 2014**
Trade receivables	$ 11,562	$ 15,875
Contract receivables	55,125	43,218
Allowance for doubtful accounts	(920)	(699)
	$ 65,767	$ 58,394

The provision for doubtful accounts was $24,000 and $25,000 for the three-month periods ended June 30, 2015 and 2014, respectively, and $0.1 million and $0.1 million for the six-month periods ended June 30, 2015 and 2014, respectively.

4. Costs and Estimated Earnings on Uncompleted Contracts

Revenues from contracts are recognized on the percentage of completion method, measured by the percentage of contract costs incurred to date compared to estimated total contract costs for each contract. This method is used because management considers contract costs to be the best available measure of progress on these contracts. Revenues are also recognized on a completed contract basis, when risk and title passes to the customer, which is generally upon shipment of product.

Our contracts have various lengths to completion ranging from a few days to several months. We anticipate that a majority of our current contracts will be completed within the next twelve months.

(Table only in thousands)	**June 30, 2015**	**December 31, 2014**	
Costs incurred on uncompleted contracts	$ 114,248	$ 97,979	
Estimated earnings	29,890	28,328	
	144,138	126,307	
Less billings to date	(126,505)	(116,533)	
	$ 17,633	$ 9,774	(a)

Broker

or dealer registered under Section 15 of the Exchange Act.

(b) o Bank as defined in Section 3(a)(6) of the Exchange Act.

(c) o Insurance company as defined in Section 3(a)(19) of the Exchange Act.

(d) o Investment company registered under Section 8 of the Investment Company Act.

(e) o An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);

(f) o An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);

(g) o A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);

(h) o A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act;

(i) o A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act;

(j) o Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

7

Item 4. Ownership.

The filing of this statement should not be construed as an admission by any person that such person is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of any securities covered by this statement, other than the securities set forth opposite such person s name in the table in Item 4(c) below.

(a) Amount beneficially owned:

As of December 31, 2009, Morgan Stanley Dean Witter Capital Partners IV, L.P. (MSCP IV, L.P.) owned directly 2,557,999 shares and MSDW IV 892 Investors, L.P. (MSCP IV 892, L.P.) owned directly 217,961 shares. An affiliate of Metalmark is the subadvisor to MSCP IV, L.P. and MSCP IV 892, L.P. and, as such, has the sole power to vote or direct the vote and to dispose or direct the disposition of all shares held by MSCP IV, L.P. and MSCP IV 892, L.P.

As of December 31, 2009, MSCI IV, L.P. owned directly 69,909 shares. MSCP IV, LLC is the general partner of MSCI IV, L.P. and, as such, has the power to vote or direct the vote and to dispose or direct the disposition of all shares held by MSCI IV, L.P. MSCP IV, Inc. is the managing member of MSCP IV, LLC and, as such, shares the power to direct the actions of MSCI IV, LLC. MS, as sole shareholder of MSCP IV, Inc., controls the actions of MSCP IV, Inc. Therefore, MSCP IV, LLC and MSCP IV, Inc. each may be deemed to have beneficial ownership of all the shares held by MSCI IV, L.P.

Therefore, MS may be deemed to have beneficial ownership of all the shares held by MSCI IV, LP.

MS is filing solely in its capacity as parent company of, and indirect beneficial owner of securities held by, one of its business units.

By virtue of a subadvisory arrangement, Metalmark may be deemed to have sole power to vote or direct the vote and to dispose or direct the disposition of the shares held by MSCP IV, L.P. and MSCP IV 892, L.P. In addition, under the subadvisory arrangement, MSCI IV, L.P. is effectively obligated to vote or direct the vote and to dispose or direct the disposition of any shares owned directly by it on the same terms and conditions as MSCP IV, L.P. and MSCP IV 892, L.P. Metalmark also beneficially owns 26,236 shares, 12,500 shares issuable upon exercise of stock options and 5,454 restricted stock units payable in the form of Common Stock on or after September 10, 2010.

(b) Percent of class: (1)

Metalmark Capital LLC	5.8% of the Common Stock
Morgan Stanley	0.1% of the Common Stock
MSDW Capital Partners IV, Inc.	0.1% of the Common Stock
MSDW Capital Partners IV, LLC	0.1% of the Common Stock
Morgan Stanley Dean Witter Capital Investors IV, L.P.	0.1% of the Common Stock

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(1) Based on the Common Stock outstanding on December 27, 2009.
(c) Number of shares as to which such person has:

	(i) Sole power to vote or to direct the vote	**(ii) Shared power to vote or to direct the vote**	**(iii) Sole power to dispose or to direct the disposition of**	**(iv) Shared power to dispose or to direct the disposition of**
Metalmark Capital LLC	2,820,150	- 0 -	2,820,150	- 0 -
Morgan Stanley		69,909		69,909
MSDW Capital Partners IV, Inc.	- 0 -	69,909	- 0 -	69,909
MSDW Capital Partners IV, LLC	- 0 -	69,909	- 0 -	69,909
Morgan Stanley Dean Witter Capital Investors IV, L.P.	- 0 -	69,909	- 0 -	69,909

8

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following o

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

N/A

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.

N/A

Item 8. Identification and Classification of Members of the Group.

Metalmark and the MSCP Funds have entered into a 2004 Securityholder Agreement dated as of July 26, 2004, which governs certain relationships among such parties as stockholders.

Metalmark and the MSCP Funds may be deemed to be a group for purposes of Section 13(d)(3) or Section 13(g)(3) of the Act and Rule 13d-5(b)(1) thereunder.

Item 9. Notice of Dissolution of Group.

N/A

Item 10. Certifications.

Not Applicable to filings pursuant to Rule 13d-1(d).

9

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct. On executing the statement, the undersigned agrees, to the extent required by Rule 13d-1(k)(1), that this statement is being filed on behalf of each of the Reporting Persons herein.

Dated: February 11, 2010

Metalmark Capital LLC

/s/ Kenneth F. Clifford

Name: Kenneth F. Clifford

Title: Managing Director

Morgan Stanley

/s/ Christopher L. O'Dell

Name: Christopher L. O'Dell

Title: Authorized Signatory

MSDW Capital Partners IV, Inc.

By: METALMARK SUBADVISOR LLC,

as attorney-in-fact
/s/ Kenneth F. Clifford

Name: Kenneth F. Clifford

Title: Managing Director

MSDW Capital Partners IV, LLC

By: MSDW Capital Partners IV, Inc., as Member

By: METALMARK SUBADVISOR LLC,

as attorney-in-fact
/s/ Kenneth F. Clifford

Name: Kenneth F. Clifford

Title: Managing Director

Morgan Stanley Dean Witter Capital Investors IV, L.P.

By: MSDW Capital Partners IV, LLC, as General Partner

By: MSDW Capital Partners IV, Inc., as Member

By: METALMARK SUBADVISOR LLC,

as attorney-in-fact
/s/ Kenneth F. Clifford

Name: Kenneth F. Clifford

Title: Managing Director

10
