CECO ENVIRONMENTAL CORP
Form 10-Q/A
April 15, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

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

ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

Commission File No. 0-7099

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 is an accelerated filer (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 May 5, 2004 - 9,984,974

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Explanatory Note

This Form 10-Q/A amends our Quarterly Report on Form 10-Q, filed on May 17, 2004 (the Original Form 10-Q) to reflect the restatement of our consolidated financial statements for the period ended March 31, 2004 and 2003.

On February 8, 2005, the Company filed a Form 8-K with the Securities and Exchange Commission disclosing that the Company s management determined that a spreadsheet error existed affecting the manner in which revenue was calculated and subsequently recognized on small projects. While revenue recognized under the percentage of completion calculation on individual large projects was accurate, due to this spreadsheet error, the accumulation of revenue for small projects was incorrect. This error occurred from 2000 to 2003 and during the three quarters of 2004 and therefore, these periods have been restated to reflect the correction of this error.

This restatement affected the following previously reported amounts: costs and estimated earnings in excess of billings on uncompleted contracts, deferred income tax liability, and retained earnings in our consolidated balance sheets, and net sales, income tax (benefit) provision, and net loss in our consolidated statements of operations.

In addition, the Company detected an error in the classification of amortization of deferred financing costs as depreciation and amortization expense rather than interest expense. This error is also being corrected in connection with this filing.

Except as stated above, this Report speaks only as of the date of the Original Form 10-Q. Except as specified above, this filing does not reflect any events occurring after May 17, 2004.

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QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

MARCH 31, 2004

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CECO ENVIRONMENTAL CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share data

	MARCH 31, 2004	DECEMBER 31, 2003
	As restated (unaudited)	see note 8
ASSETS		
Current assets:		
Cash and cash equivalents	$ 265	$ 136
Accounts receivable, net	10,299	11,398
Costs and estimated earnings in excess of billings on uncompleted contracts	2,926	3,340
Inventories	1,556	1,575
Prepaid expenses and other current assets	2,208	1,983
Total current assets	17,254	18,432
Property and equipment, net	9,785	9,987
Goodwill, net	9,527	9,527
Intangibles finite life, net	796	816
Intangibles indefinite life	1,395	1,395
Deferred charges and other assets	798	997
	$ 39,555	$ 41,154
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt	$ 10,463	$ 2,094
Accounts payable and accrued expenses	9,636	11,309
Billings in excess of costs and estimated earnings on uncompleted contracts	1,215	1,320
Total current liabilities	21,314	14,723
Other liabilities	2,645	2,591
Debt, less current portion	0	7,863
Deferred income tax liability	2,390	2,422
Subordinated notes (related party - $5,157 and $5,093, respectively)	5,597	5,525
Total liabilities	31,946	33,124
Shareholders equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized, 10,786,194 shares issued in 2004 and 2003	108	108
Capital in excess of par value	16,329	16,329
Accumulated deficit	(6,130)	(5,709)
Accumulated other comprehensive loss	(894)	(894)

	9,413	9,834
Less treasury stock, at cost, 801,220 shares in 2004 and 2003	(1,804)	(1,804)
Total shareholders equity	7,609	8,030
	$ 39,555	$ 41,154

The notes to condensed consolidated financial statements

are an integral part of the above statements.

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CECO ENVIRONMENTAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

Dollars in thousands, except per share data

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	As restated	see note 8
Net sales	$ 14,074	$ 14,615
Costs and expenses:		
Cost of sales, exclusive of items shown separately below	11,341	12,132
Selling and administrative	2,575	2,542
Depreciation and amortization	327	319
	14,243	14,993
Income (loss) from operations before interest expense	(169)	(378)
Interest expense (including related party interest of $217 and $197, respectively)	(596)	(677)
Income (loss) from operations before income taxes	(765)	(1,055)
Income tax benefit	(344)	(374)
Net income (loss)	$ (421)	$ (681)
Per share data:		
Basic and diluted net income (loss)	$ (.04)	$ (.07)
Weighted average number of common shares outstanding:		
Basic and diluted	9,984,974	9,589,736

The notes to condensed consolidated financial statements are

an integral part of the above statements.

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CECO ENVIRONMENTAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Dollars in thousands

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	As restated	see note 8
Cash flows from operating activities:		
Net loss	$ (421)	$ (681)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	327	319
Changes in operating assets and liabilities:		
Accounts receivable	1,099	1,121
Inventories	19	52
Costs and estimated earnings in excess of billings on uncompleted contracts	414	1,122
Prepaid expenses and other current assets	(256)	(202)
Accounts payable and accrued expenses	(1,705)	(2,418)
Billings in excess of costs and estimated earnings on uncompleted contracts	(105)	(256)
Other	322	(18)
Net cash used in operating activities	(306)	(961)
Net cash used in investing activities	(71)	(36)
Net cash provided by financing activities - Long-term debt borrowings	506	906
Net increase (decrease) in cash	129	(91)
Cash and cash equivalents at beginning of the period	136	194
Cash and cash equivalents at end of the period	$ 265	$ 103

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid (refunded) during the period for:

Interest	$ 390	$ 501

Income taxes	$ (24)	$ 41

The notes to condensed consolidated financial statements are

an integral part of the above statements.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(Dollars in thousands)

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 March 31, 2004 and December 31, 2003 and the results of operations for the three-month periods ended March 31, 2004 and 2003 and of cash flows for the three-month periods ended March 31, 2004 and 2003. The results of operations for the three-month period ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year.

These financial statements should be read in conjunction with the audited financial statements and notes thereto in our 2003 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission.

Stock Based Compensation We apply Accounting Principles Board Opinion No. 25 and related interpretations in the accounting for stock option plans. Under such method, compensation is measured by the quoted market price of the stock at the measurement date less the amount, if any, that the employee is required to pay. The measurement date is the first date on which the number of shares that an individual employee is entitled to receive and the option or purchase price, if any, are known. We did not incur any compensation expense in 2004 or 2003 related to our stock option plans. We adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation and related pronouncements.

The following table compares 2004 and 2003 as reported to the pro forma results, considering both options and warrants discussed in Note 11 in our 2003 Annual Report filed on Form 10-K/A, had we adopted the expense recognition provision of SFAS No. 123:

	Three Months Ended March 31,	
	2004	**2003**
Net loss as reported	$ (421)	$ (681)
Deduct: compensation cost based on fair value recognition, net of tax	(24)	(82)
Pro forma net loss under SFAS No. 123	$ (445)	$ (763)

Basic and diluted loss per share:		
As reported	$ (0.04)	$ (0.07)
Pro forma under SFAS No. 123	$ (0.05)	$ (0.08)

2. New Accounting Standards

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure which we adopted in 2003. The Statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock options. At this time, we do not anticipate making any voluntary change.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

On April 30, 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain pre-existing contracts. We adopted SFAS No. 149 on a prospective basis at its effective date on July 1, 2003. The adoption of this statement did not have a material impact on our financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement was effective for financial instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003, except for mandatorily redeemable financial instruments. Mandatorily redeemable financial instruments are subject to the provisions of this statement beginning on January 1, 2004. We have not entered into or modified any financial instruments subsequent to May 31, 2003 affected by this statement nor do we have any mandatorily redeemable financial instruments. The adoption of this statement did not have a material impact on our financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45) Guarantor s Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee. However, the provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor s obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002 and had no effect on our financial statement disclosures.

In December 2003, the FASB issued a revised FASB Interpretation No. 46, entitled Consolidation of Variable Interest Entities. As revised, the new interpretation requires that the Company consolidate all variable interest entities in its financial statements under certain circumstances. We adopted the revised interpretation as of March 31, 2004 as required; however, the adoption of this interpretation did not affect our financial condition or results of operations, as we do not have any interests in variable interest entities.

In November 2002, the FASB s Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF No. 00-21 provided guidance for revenue arrangements that involve the delivery or performance of multiple products or services where performance may occur at different points or over different periods of time. EITF No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003 (i.e., our fiscal 2004). The adoption of this interpretation on January 1, 2004 did not have a material affect on our financial condition or results of operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

In December 2003, the FASB issued FASB Statement No. 132 (Revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits. The statement increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. We are required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. We have adopted the disclosure requirement of SFAS No. 132-R for our December 31, 2003 financial statements, as well as disclosure requirements for various elements of pension and postretirement benefit costs in interim period financial statements for quarters beginning with our first quarter ended March 31, 2004.

3. Inventories

Inventories consist of the following:

	March 31, 2004	December 31, 2003
Raw materials and subassemblies	$ 632	$ 816
Finished goods	317	213
Parts for resale	607	546
	$ 1,556	$ 1,575

4. Business Segment Information

Our structure and operational integration results in one 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 condensed consolidated financial statements herein reflect the operating results of the segment.

5. Earnings Per Share

For the three months ended March 31, 2004 and 2003, both basic weighted average common shares outstanding and diluted average common shares outstanding were 9,984,974 and 9,589,736, respectively. We consider outstanding options and warrants in computing diluted net loss per share only when they are dilutive. Options and warrants to purchase 3,453,700 and 3,451,700 shares for the three months ended March 31, 2004 and 2003, respectively, were not included in the computation of diluted earnings per share due to their having an anti-dilutive effect. There were no adjustments to net loss for the basic or diluted earnings per share computations.

6. Debt

Total bank and related debt as of March 31, 2004 was $10,463 and $9,957 at December 31, 2003. Unused credit availability under our $8 million revolving line of credit at March 31, 2004 was $2,667. Availability is limited as determined by a borrowing base formula contained in the credit agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The bank term loan and revolving line of credit are reported as current portion of debt in the balance sheet at March 31, 2004 since the loans mature in January 2005. The bank credit facility was amended in November 2003 by extending the maturities of the revolving line of credit and the final payment due under the term loan to January 2005. No extinguishment loss was recognized as a result of this amendment. The amendment also reduced minimum coverage requirements under several financial covenants through December 31, 2004.

We are currently evaluating, in light of the current market conditions and company performance, our options and seeking alternative financing. Our refinancing strategy for the existing revolving credit agreement and term loan is to obtain new financings that will extend the maturities and increase our cash flow by lengthening the scheduled principal amortization on term debt for our machinery, equipment and real estate, and reducing interest costs.

In November 2003, we accepted an offer to sell our Cincinnati property with a contemplated closing date of May 1, 2004 subject to various contingencies. The agreement was terminated due to the purchaser failing to close in accordance with the terms of the agreement. However, we are continuing discussions with a potential purchaser for the sale of the property.