CECO ENVIRONMENTAL CORP
Form 10-K
March 14, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2013

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.

Delaware	**13-2566064**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4625 Red Bank Road Cincinnati, Ohio	**45227**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (513) 458-2600

Securities registered under Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	**The NASDAQ Stock Market LLC**

Securities registered under Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 x

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 aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was $136.2 million based upon the closing market price and common shares outstanding as of June 28, 2013. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant and owners of more than 10% of the registrant s common stock are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily conclusive for any other purpose.

As of March 6, 2014, the registrant had 25,608,737 shares of common stock, par value $0.01 per share, outstanding.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, which is to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2013, are incorporated by reference into Part III of this Annual Report to the extent described herein.

Table of Contents

CECO Corporation and Subsidiaries

ANNUAL REPORT ON FORM 10-K

For the year ended December 31, 2013

TABLE OF CONTENTS

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Any statements contained in this Annual Report on Form 10-K, other than statements of historical fact, including statements about management s beliefs and expectations, are forward-looking statements and should be evaluated as such. These statements are made on the basis of management s views and assumptions regarding future events and business performance. Words such as estimate, believe, anticipate, expect, intend, plan, target, project, should, may, will and similar expressions are intended to identify f statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties include, but are not limited to: our ability to successfully integrate Met-Pro Corporation s (Met-Pro) operations and realize the synergies from the acquisition, as well as a number of factors related to our business, including economic and financial market conditions generally and economic conditions in our service areas; dependence on fixed price contracts and the risks associated therewith, including actual costs exceeding estimates and method of accounting for contract revenue; fluctuations in operating results from period to period due to seasonality of the business; the effect of growth on our infrastructure, resources, and existing sales; the ability to expand operations in both new and existing markets; the potential for contract delay or cancellation; changes in or developments with respect to any litigation or investigation; the potential for fluctuations in prices for manufactured components and raw materials; the substantial amount of debt in connection with the Met-Pro acquisition and our ability to repay or refinance it or incur additional debt in the future; the impact of federal, state or local government regulations; economic and political conditions generally; and the effect of competition in the air pollution control and industrial ventilation industry. These and other risks and uncertainties are discussed in more detail in our filings with the Securities and Exchange Commission, as described in greater detail in Item 1A. Risk Factors of this Annual Report on Form 10-K. Many of these risks are beyond management s ability to control or predict. Should one or more of these risks or uncertainties materialize, or should the assumptions prove incorrect, actual results may vary in material aspects from those currently anticipated. Investors are cautioned not to place undue reliance on such forward-looking statements as they speak only to our views as of the date the statement is made. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the Securities and Exchange Commission, we undertake no obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

Table of Contents

PART I

Item 1. Business

General

CECO Environmental Corp. and its consolidated subsidiaries (CECO, the Company, we, us, or our) is a leading environmental technology company focused on critical solutions in the product recovery, air pollution control, fluid handling and filtration segments. CECO was incorporated in the State of New York in 1966 and reincorporated in the State of Delaware in January 2002. The Company was taken public on January 1, 1978 and its common stock trades on the NASDAQ Stock Market LLC under the symbol CECE.

We operate as a leading global environmental technology company focused on critical solutions in the product recovery, air pollution control, fluid handling and filtration segments, through four principal groups. Prior to our internal reorganization effective January 1, 2014 (as described below), each of the following groups comprised our reportable segments: (i) Engineered Equipment Technology and Parts Group, which produces various types of air pollution control technology and equipment, (ii) Met-Pro Group (MP Group), which manufactures and sells product recovery and pollution control equipment for purification of air and liquids, fluid handling equipment for corrosive, abrasive and high temperature liquids, and filtration and purification products, (iii) Contracting/Services Group, which produces air pollution control and engineered industrial ventilation systems, and (iv) Component Parts Group, which manufactures products used by our other segments and other air pollution control companies and air system contractors. By combining the efforts of certain or all of these groups, we are able to offer complete full systems to our customers and leverage the operational efficiencies between our family of technology companies.

During 2013, the Company managed its business under the following four reportable segments:

Engineered Equipment Technology and Parts Group

Our Engineered Equipment Technology and Parts Group, located in the United States as well as the Netherlands, Canada, Brazil, China, and India, is comprised of Effox-Flextor, Aarding, AVC, Adwest, CECO Filter, Busch International, FKI and Buell. We enable our customers to meet Best Available Control Technologies Guidelines (BACT guidelines) and compliance targets for fumes, volatile organic compounds, process and industrial odors. Our services eliminate toxic emission fumes and volatile organic compounds from large-scale industrial processes. We have a presence in the chemical processing, ethanol, paint booth emissions, wastewater treatment and wood products industries.

MP Group

Our MP Group is comprised of our recent acquisition of Met-Pro, a global provider of a wide range of products and services for industrial, commercial, municipal and residential markets. These products and services include product recovery and pollution control technologies for purification of air and liquids; fluid handling technologies for corrosive, abrasive and high temperature liquids; and filtration and purification technologies, and filter products for air and liquid filtration. The MP Group includes Met-Pro s three main business areas: Product Recovery/Pollution Control Technologies, Fluid Handling Technologies and Filtration/Purification Technologies, each of which is comprised of a variety of business units and brands.

Contracting/Services Group

Our Contracting/Services Group is comprised of the contracting/services operations of our Kirk & Blum divisions located in the United States. We provide custom metal engineered fabrication services at our Kirk & Blum Columbia, Tennessee and Louisville, Kentucky locations. These facilities fabricate parts, engineered subassemblies and customized products for air pollution and non-air pollution systems from sheet, plates and structurals. These systems, primarily sold on a turnkey basis; include oil mist collection, dust collection, industrial exhaust, chip collection, make-up air, as well as automotive spray booth systems, industrial and process piping, and other industrial sheet metal work. We provide a cost-effective engineered solution to in-plant process problems in order to control airborne pollutants. North America is our principal market in this group, although we supply equipment and engineering services globally.

Component Parts Group

We market component parts for industrial air systems to contractors, distributors and dealers throughout the United States under the Kirk & Blum Parts division. The KB Duct product line provides a cost effective alternative to traditional duct. Primary users for this product line are those that generate dry particulate such as furniture manufacturers, metal fabricators, and any other users desiring flexibility in a duct system. Customers include end users, contractors, and dealers.

Table of Contents

Effective January 1, 2014, CECO implemented an internal reorganization related to the integration of recent acquisitions, which resulted in three reportable segments:

Air Pollution Control Segment, comprised of the following:
Adwest Technologies, Inc., Duall Air and Odor Technologies, Busch International, Buell Energy Cyclones,

Flex-Kleen Dust Collection Technologies, Fisher-Klosterman, Kirk & Blum, and KB Duct.

Energy Segment, comprised of the following:
Aarding Thermal Acoustics, Effox-Flextor and AVC Specialists, Inc.

Fluid Handling Filtration Segment, comprised of the following:
Met-Pro Global Pump Solutions, Mefiag Filtration Solutions, Keystone Filtration Solutions,

CECO Filters and Strobic Air Corporation.

The financial information presented in this Annual Report on Form 10-K does not give effect to the change in the composition of the Company s reportable segments as a result of the restructuring effective January 1, 2014.

Recent Company Developments

Our business is characterized by the breadth and diversity of our product and service offerings, customer base, and end-market applications. We market our products and services under multiple brands, including Effox-Flextor, Kirk & Blum, KB Duct, Fisher-Klosterman, FKI, Buell, AVC, Busch International, CECO Filters, Adwest, Flex-Kleen, Bio-Reaction, Dean Pump, Fybroc, Sethco, Mefiag Filtration, Keystone Filter, and Strobic A
end markets, a broad group of customers and for a wide range of applications.

We have established a family of companies, each playing a specialized role in the creation of product recovery, air pollution control, fluid handling and filtration solutions. Beginning in December 2012, we acquired Adwest Technologies, Inc. (Adwest), a designer and manufacturer of regenerative thermal oxidizers (RTOs). Domestic and international acquisition activity increased significantly during 2013. On February 28, 2013, we acquired Aarding Thermal Acoustics B.V., a Netherlands company (Aarding), a global provider of natural gas turbine exhaust systems and silencer applications, and in August 2013, we completed the acquisition of Met-Pro, a leading, niche-oriented, global provider, of product recovery, pollution control, fluid handling, and filtration systems. Because the Met-Pro acquisition closed on August 27, 2013, the Company s financial information does not include any of the results of operations from Met-Pro prior to the acquisition date. The financial results of Met-Pro are included in the MP Group segment as of the date of the acquisition.

Industry Overview

We serve a large industry that has grown steadily over the last several years. The market for product recovery, air pollution control, fluid handling and filtration is a highly fragmented, multi-billion dollar, global market.

We believe demand for our products and services in the United States and globally has recently and will continue to be driven by the following two factors:

Stringent Regulatory Environment. The adoption of increasingly stringent environmental regulations in the U.S. and globally requires businesses to pay strict attention to environmental protection. Businesses and industries of all types from refineries, power, chemical processes, metals and minerals, energy market and industrial manufacturing must comply with these various international, federal, state and local government environmental regulations or potentially face substantial fines or be forced to suspend production or alter their production processes. Regulations range from the air quality standards promulgated by the Environmental Protection Agency (EPA) to Occupational Safety and Health Administrative Agency (OSHA) standards regulating allowable contaminants in workplace environments, in addition to many local, state, and country level regulations on a worldwide basis. These increasingly stringent environmental regulations are the principal factors that drive our business.

Worldwide Industrialization. Global trade has increased significantly over the last decade driven by growth in emerging markets, including China and India, as well as other developing nations in Asia and Latin America. Furthermore, as a result of globalization, manufacturing that was historically performed domestically continues to migrate to lower cost countries. This movement of the manufacture of goods throughout the world increases demand for industrial ventilation products as new construction continues. We expect more rigorous environmental regulations will be introduced to create a cleaner working environment and reduce environmental emissions as these economies evolve.

Table of Contents

These factors, individually or collectively, tend to cause increases in industrial capital spending that is not directly impacted by general economic conditions, expansion, or capacity increases. In contrast, favorable conditions in the general economy generally lead to plant expansions and the construction of new industrial sites. However, in a weak economy, customers tend to lengthen the time from their initial inquiry to the purchase order, or defer purchases.

Strategy

Our goal is to become the global leader in product recovery, air pollution control, fluid handling and filtration products and services by delivering exceptional value for our customers, shareholders, and employees. Our core focus is:

Profitable Growth	-	Implementing profitable ways to grow globally, both organically and inorganically. with premiere technology and solutions in diverse industries
Product, Service and Project Excellence	-	Creating customer successes and building customer loyalty.
Operational Excellence	-	Running smart, lean, and best-in-class with innovative operating processes in all that we do.
Employee Development	-	Investing in the training and development of our employees and building world-class general management and leadership.
Global Market Coverage	-	Improving sales and manufacturing (internal and external) resources to expand our customer base and increase revenues. Uncover new customer opportunities in diverse industries.
Safety Leadership	-	Ensuring employee safety through preventative safety practices.

Our strategy utilizes all of our resource capabilities to help customers improve efficiencies and meet specific regulatory requirements within their business processes through optimal design and integration of full contaminant and pollution control systems. Our engineering and design expertise in product recovery, air pollution control, fluid handling and liquid filtration, combined with our comprehensive suite of product and service offerings allow us to provide customers with a one-stop, cost-effective solution, to meet their integrated abatement needs.

Competitive Strengths

Leading Market Position as a Complete Solution Provider. We believe we are a leading provider of critical solutions in the product recovery, air pollution control, fluid handling and filtration segments. The multi-billion dollar global market is highly fragmented with numerous small and regional contracting firms separately supplying engineering services, fabrication, installation, testing and monitoring, products and spare parts. Through the vertical integration of our family of companies, we offer our customers a complete end-to-end solution, including engineering and project management services, procurement and fabrication, construction and installation, aftermarket support and sale of consumables, which allows our customers to avoid dealing with multiple vendors when managing projects.

Long-standing experience and customer relationships in growing industry. We have serviced the environmental needs of our target markets for over 100 years. Our extensive experience and expertise in providing diversified solutions enhances our overall customer relationships, and provides us with a competitive advantage in our markets relative to other companies in the industry. We believe this is evidenced by strong relationships with many of our world-class customers. We believe no single competitor has the resources to offer a similar portfolio of product and service capabilities. Our family of companies offers the depth of a large organization, while our lean organizational structure keeps us close to our customers and markets, allowing us to offer rapid and complete solutions in each unique situation.

Global Diversification and Broad Customer Base. The global diversity of our operations and customer base provides us with multiple growth opportunities. As of December 31, 2013, we had a diversified customer base of more than 5,000 active customers across a range of industries. Our customers represent some of the largest refineries, power, chemical processes, metals and minerals, energy market and industrial manufacturing companies. We believe that the diversity of our customers and end markets mitigates our risk of a potential fluctuation or downturn in demand from any individual industry or particular customer. We believe we have the resources and capabilities to meet the needs of our customers as they upgrade and expand domestically as well as into new international markets. Once systems have been installed and a relationship has been established with the customer, we are often awarded repetitive service and maintenance business as the customers process changes and modifications or additions to their systems become necessary.

Table of Contents

Experienced Management and Engineering Team. Our senior management team has an average of 25 years of experience in the product recovery, air pollution control, fluid handling and filtration segments. Our Chief Executive Officer, Jeff Lang, has more than 30 years of executive operating management experience in manufacturing. The business experience of our management team enables us to pursue our strategy. Our senior management team is supported by a strong operating management team, which possesses extensive operational and managerial experience, averaging over 20 years of industry experience, most of which has been with us and our family of companies. Our workforce includes approximately 130 engineers, designers, and project managers whose significant specialized industry experience and technical expertise enables them to have a deep understanding of the solutions that will best suit the needs of our customers. The experience and stability of our management, operating and engineering team has been crucial to our growth, developing and maintaining customer relationships, and increasing our market share.

Disciplined Acquisition Program with Successful Integration. We believe that we have demonstrated an ability to successfully acquire and integrate companies with complementary product or service offerings. We will continue to seek and execute additional strategic acquisitions and focus on expanding our product service and breadth, as well as entering into new adjacent markets. We believe that the breadth and diversity of our products and services and our ability to deliver full solutions to various end markets provides us with multiple sources of stable growth and a competitive advantage relative to other players in the industry.

Expand Customer Base and Penetrate End Markets through Global Market Coverage. We constantly look for opportunities to gain new customers and penetrate geographic locations and end-markets with existing products and services or acquire new product or service opportunities. For example, our acquisition of Effox in 2007 allowed us to access the multi-billion dollar energy, power and utilities markets. The acquisition of Flextor in 2008 further expanded Effox s business internationally. Our acquisition of FKI in 2008 expanded our access to the petroleum and power markets and also provides us with a manufacturing facility in China. The acquisition of AVC in 2008 added additional replacement parts sales to FKI s business. The Adwest acquisition in 2012 expanded our abilities to design RTOs. The Aarding acquisition in 2013 increased our global access to natural gas turbine exhaust systems and silencer applications, and to lead our expanding global natural gas business including the Flextor division which provides complementary and integrated engineered solutions to those of Aarding. The Met-Pro acquisition in 2013 expanded our domestic and global penetration by providing niche-oriented product recovery, pollution control, fluid handling, and filtration systems.

We intend to continue to expand our sales force, customer base, and end markets, and have identified a number of potential attractive growth opportunities both domestically and globally, including international projects in China, India, Latin America, Europe and the Middle East.

Develop Innovative Solutions. We intend to continue to leverage our engineering and manufacturing expertise and strong customer relationships to develop new customized products to address the identified needs of our customers or a particular end market. We thoroughly analyze new product opportunities by considering projected demand for the product or service, price point, and expected operating costs, and only pursue those opportunities that we believe will contribute to earnings growth in the near term. In addition, we continually improve our traditional technologies and adapt them to new industries and processes.

Maintain Strong Customer Focus. We enjoy a diversified customer base of more than 5,000 active customers across a broad base of industries, including power, municipalities, chemical, industrial manufacturing, refining, petrochemical, metals, minerals and mining, hospitals and universities. We believe that there are multiple opportunities for us to expand our penetration of existing markets and customers.

Products and Services

We believe that we are a leading provider of critical solutions to the product recovery, air pollution control, fluid handling and filtration segments. We focus on engineering, designing, building, and installing systems that capture, clean and destroy airborne contaminants from industrial facilities as well as equipment that control emissions from such facilities, as well as fluid handling and filtration systems. We provide a wide spectrum of products and services including dampers and diverters, cyclonic technology, thermal oxidizers, filtration systems, scrubbers, fluid handling equipment and plant engineering services and engineered design build fabrication.

Table of Contents

The table below illustrates how our family of companies are spread over this diversified customer base, providing a broad range of applications.

Divisions	Capabilities (products and services)	Typical Industries	Typical Applications
Engineered Equipment Technology and Parts Group			
	Design and manufacture: Dampers Expansion Joints Gas Turbine Exhaust Systems & Silencer Applications Aftermarket Service	Coal-Fired and Natural Gas Power Plants Petro-chemical Chemical Processing Refining Metals Wood Products	Steam Heat Recovery Flue Gas Desulphurization Catalytic (NOx) Reduction Gas Turbine Exhaust
	Regenerative Thermal Oxidation Catalytic and Thermal Oxidation Selective and Regenerative Catalytic Reduction	Chemical Processing Ethanol Paint Booth Emissions Wastewater Treatment Wood Products Asphalt	High Efficiency Destruction: Volatile Organic Compounds Fumes Industrial Odors
	Fiber-Bed Filter Mist Collectors Catenary Grid and Narrow Gap Venturi Scrubbers Replacement Filters Repack Services	Asphalt Chemical Fertilizer Metals Semiconductors Aluminum	Acid/Caustic Mist Storage Tank Emissions Lubricant Emissions Nitric Acid Platinum Recovery Wet Bench Acid Mist

Heavy Duty Air Handling and Conditioning Fume Exhaust Systems Air-Curtain Hoods JET*STAR Strip/ Coil Coolers and Dryers	Chemical Paper Power Steel	Rolling Mill Oil Mist Collection Heavy Gauge Strip and Coil: Coolers Dryers General Ventilation
Design, Manufacture and/or Install: Industrial Cyclones FCC Cyclones Scrubbers Venturi Packed Bed Multiple Purpose Medial Filtration: Baghouse Fabric Filters Cartridge Collectors Pneumatic Conveying and Industrial Ventilation	Refineries Utilities Bio Fuels Petrochemicals Pharmaceutical Forest Products Manufacturing Food	Air Pollution Control Product Recovery and Capture Petroleum Refining Catalyst Recovery Manufactured Sand Protection of Downstream Process and Pollution Control Equipment Flyash Beneficiation

Table of Contents

Met-Pro Group	Chemical, Biological and Particulate Scrubbers Fabric Filters and Cartridge Collectors Wet Particulate Filters Air Strippers, Degasifiers and Carbon Absorbers Fans Laboratory Fume Hood Exhaust Systems Industrial Ventilation Systems Centrifugal Pumps Non Metallic Wafer Style Butterfly Valves Filters and Filter Systems Carbonate Precipitators	Municipal and Industrial Wastewater Treatment Metal Finishing and Plating Printed Circuits Fabrication Wood Products Food and Beverage Chemical Processing Pharmaceutical University, Public Health and Government Industrial Ventilation Refining, Oil Production and Petrochemical Aquarium and Aquaculture Desalination and Water Reuse	Product Recovery Pollution Control Purification of Air and Liquids Fluid Handling Filtration
Contracting / Services Group	Full Design, Build, Install: Dust Collectors Oil Mist Collectors Chip Conveyance Systems Custom Sheet Metal Fabrication	Aerospace Automotive Food Foundry Glass Primary Metals Printing	Collection: Dust Oil Mist Fume Exhaust Exhaust/Make-up Air Paint/Finishing Booths Pneumatic Conveying

Components Parts Group	Component Parts for Industrial Air Systems	Industrial Sheet Metal Contractors	Industrial Ventilation Systems
	Clamp-Together Componentized Ducting Systems	Industrial Sheet Metal Contractors	Capture in Moderately Abrasive Environments
		Chemical	Dust Particles
		Food	Fumes
		Furniture	Oil Mist
		Metals	
		Pharmaceuticals	

Project Design and Research and Development

We focus our development efforts on designing and introducing new and improved approaches and methodologies that produce better system performance for our customers, and often improve customer process performance. We produce specialized products that are often tailored to the specifications of a customer or application. We continually collaborate with our customers to develop the proper solution and ensure customer satisfaction.

We also specialize in the design, fabrication and installation of full ventilation systems and processes. The project development cycle may follow many different paths depending on the specifics of the job and end-market. The cycle normally takes between one and six months from concept and design to production, but may vary significantly depending on developments that occur during the process, including among others, the emergence of new environmental demands, changes in design specifications and ability to obtain necessary approvals.

Sales, Marketing and Support

Our global selling strategy is to provide a solutions-based approach by being a single source provider of technology products and services. The strategy involves expanding our scope of products and services through selective acquisitions and the formation of new business units that are then integrated into our growing family of technology and system providers. We believe this strategy provides a discernible competitive advantage. We execute this strategy by utilizing our portfolio of in-house technologies and those of third-party equipment suppliers. Many of these have been long standing relationships, which have evolved from pure supplier roles to value-added business partnerships. This enables us to leverage existing business with selective alliances of suppliers and application specific engineering expertise. Our products primarily compete on the basis of price, performance, speed of delivery, quality, customer support, and single source. Our value proposition to customers is to provide competitively priced, customized solutions. Our industry-specific knowledge, accompanied by our product and service offerings, provide valuable synergies for design innovation.

We sell and market our products and services with our own direct sales force, including employees in the United States, the Netherlands, Canada, India, Mexico, China, Singapore, and South America, in conjunction with outside sales representatives in North America, Latin America, Europe, the Middle East & Africa, Asia, and India. We expect to continue expanding our sales and support capabilities and our network of outside sales representatives in key regions domestically and internationally.

Much of our marketing effort consists of individual visits to customers, dissemination of sales and advertising materials, such as product announcements, brochures, magazine articles, advertisements and cover or article features in trade journals and other publications. We also participate in public relations and promotional events, including industry tradeshows and technical conferences. We have an internal marketing organization that is responsible for these initiatives.

Our customer service organization or sales force provides our customers with technical assistance, use and maintenance information as well as other key information regarding their purchase. We also actively provide our customers with access to key information regarding changes and pending changes in environmental regulations as well as new product or service developments. We believe that maintaining a close relationship with our customers and providing them with the support they request improves their level of satisfaction and enables us to foresee their potential future product needs or service demands. Moreover, they can lead to sales of service and support contracts as well as consumables. Our website (www.cecoenviro.com) also provides our customers with online tools and technical resources.

Quality Assurance

In engineered systems, quality is defined as system performance. We review with our customers, before the contract is signed, the level of pollutants capture required and the efficiency of the equipment that will remove the contaminant from the air stream prior to it being exhausted to the atmosphere. We then review these same parameters internally to assure that warranties will be met. Standard project management and production management tools are used to help ensure that all work is done to specification and, that project schedules are met. Equipment is tested at the site to ensure it is functioning properly. Historically, our warranty expense has been very low.

Customers

We are not dependent upon any single customer, and no customer comprised 10% or more of our consolidated revenues for 2013 or 2012. We do not believe the loss of any one of our customers would have a material adverse effect on us and our subsidiaries taken as a whole.

Suppliers and Subcontractors

We purchase our raw materials and supplies from a variety of global sources. When possible, we directly secure angle iron and sheet plate products from steel mills, whereas other materials are purchased from a variety of steel service centers. Steel prices have been volatile, but we typically mitigate the risk of higher prices by including a surcharge on our standard products. On contract work, we mitigate the risk of higher prices by including the current price in our estimate and generally include price inflation clauses for protection.

We believe we have a good relationship with our suppliers and do not anticipate any difficulty in continuing to purchase such items on terms acceptable to us. We have not experienced difficulty in procuring a sufficient supply of materials in the past. We typically agree to billing terms with our suppliers ranging from net 30 to 45 days. To the extent that our current suppliers are unable or unwilling to continue to supply us with materials, we believe that we would be able to obtain such materials from other suppliers on acceptable terms.

Table of Contents

Typically, on turnkey projects, we subcontract such things as electrical work, concrete work, controls, conveyors and insulation. We use subcontractors with whom we have good working relationships and review each project both at the beginning and on an ongoing basis to help ensure that all work is being done according to our specifications. Subcontractors are generally paid when we are paid by our customers according to the terms of our contract with the customer.

Backlog

Backlog is a representation of the amount of revenue expected from complete performance of firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 months. Our customers may have the right to cancel a given order, although historically cancellations have been rare. Backlog was approximately $98.5 million and $59.5 million as of December 31, 2013 and 2012, respectively. Substantially all 2012 backlog was completed in 2013. A substantial portion of the 2013 backlog is expected to be completed in 2014. Backlog is not defined by generally accepted accounting principles and our methodology for calculating backlog may not be consistent with methodologies used by other companies.

Competition

We believe that there are no singly dominant companies in the product recovery, air pollution control, fluid handling and filtration product and service industries. These markets are fragmented with numerous small and regional participants. Due to the size and shipping weight of many of our projects, localized manufacturing/fabrication capabilities is very important to our customers. As a result, competition varies widely by region and industry. The market for our engineered products is reasonably competitive and is characterized by technological change, continuously changing environment regulations, and evolving customer requirements. CECO offerings are engineered and differentiated. We believe that the additional competitive factors in our markets include:

- performance track record in difficult plant applications;
- comprehensive portfolio of products with leading technology;
- solid brand recognition in the fluid handling market;
- ability to design standard and custom products that meet customers needs;
- ability to provide reliable solutions in a timely manner;
- quality customer service and support; and
- financial and operational stability, including reputation.

We believe we compete favorably with respect to these factors.

Seasonality

Our business is subject to seasonal fluctuations. The fourth quarter of our fiscal year, which ends December 31, is typically our strongest quarter. This is due to a combination of factors. First, many of our customers attempt to complete major capital improvement projects before the end of the calendar year. Also, many customers shut down over the December holidays to perform maintenance services on their facilities, which often requires the use of our products and services. These factors create increased demand for our products and services during this period.

Conversely, the first quarter of our calendar fiscal year is typically our weakest quarter. This is caused to some extent by winter weather constraints on outside construction activity and by the seasonality of capital improvement projects as discussed relating to the fourth quarter.

Government Regulations

We believe our operations are in material compliance with applicable environmental laws and regulations. We believe that changes in environmental laws and regulations will not have a material adverse effect on our operations. Given the nature of our business, such changes create opportunity.

We are also subject to the requirements of OSHA and comparable state statutes. We believe we are in material compliance with OSHA and state requirements, including general industry standards, record keeping requirements and monitoring of occupational exposures. In general, we expect to increase our expenditures to comply with stricter industry and regulatory safety standards needed. Although such expenditures cannot be accurately estimated at this time, we do not believe that they will have a material adverse effect on our financial position, results of operations or cash flows.

Intellectual Property

Our business has historically relied on technical know-how and experience rather than patented technology. We hold patents at our Busch International, CECO Filters, Fisher-Klosterman and Met-Pro Technologies businesses. We do not view our patents to be material to our business.

Table of Contents

Financial Information about Geographic Areas

For 2013 and 2012, sales to customers outside the United States, including export sales, accounted for approximately 21% and 14%, respectively, of consolidated net sales. The largest portion of these sales was to Canadian, Asian and European customers.

With the February 2013 acquisition of Aarding and August 2013 acquisition of Met-Pro, both of which have operations in the Netherlands, along with our China operations, we anticipate that sales to customers outside of the United States are likely to increase.

Employees

We had 778 full-time and five part-time employees as of December 31, 2013. The facilities of Kirk & Blum and Dean Pump are unionized except for selling, engineering, design, administrative and operating management personnel. None of our other employees are subject to a collective bargaining agreements. We consider our relationship with our employees to be satisfactory. In total, as of December 31, 2013, approximately 222 employees were represented by international or independent labor unions under various union contracts that expire at various intervals.

Executive Officers of the Registrant

The following are the executive officers of the Company as of December 31, 2013. The terms of all officers expire at the next annual meeting of the board of directors and upon the election of the successors of such officers.

Name	**Age**	**Position with CECO**
Jason DeZwirek	43	Chairman of the Board of Directors
Jeffrey Lang	57	Chief Executive Officer and President, and Director
Neal E. Murphy	56	Chief Financial Officer and Secretary [1]
Edward J. Prajzner	47	Chief Accounting Officer and Vice President of Finance [1]
Benton L. Cook	51	Vice President and Controller [1]

[1] Neal E. Murphy gave notice of resignation on February 28, 2014 with an effective date of March 14, 2014. Edward J. Prajzner was appointed Chief Financial Officer effective March 14, 2014 , and Benton L. Cook was appointed Vice President of Finance and Controller, effective March 14, 2014.

Jason DeZwirek became the Chairman of Board in May 2013 and been a director of the Company since February 1994. He previously served as the Secretary of the Company since February 20, 1998. He also serves as a member of the boards of directors of the Company s subsidiaries. He was the founder (1999), Chairman and CEO of Kaboose, Inc., which was listed on the Toronto Stock Exchange and was the largest independent family focused online media company in the world. Kaboose Inc. was sold to Disney and Barclays Private Equity in 2009. Mr. DeZwirek also previously served as a director and the Secretary of API Technologies Corp., a publicly traded company engaged in the manufacture of electronic components and systems for the defense and communications industries from November 2006 through January 2011. Mr. DeZwirek is and has also been involved in private investments activities.

Jeffrey Lang has served as our Chief Executive Officer since February 15, 2010, our President since September 3, 2013, and as a director since May 20, 2010. Prior to joining the Company, Mr. Lang was the Executive Vice President, Operating Officer of McJunkin Red Man Corporation, a Goldman Sachs Capital Partners portfolio company, from 2007 to 2009, a $4.5 billion provider of pipe, valves and fittings, and related services serving the petrochemical, petroleum refining, pulp and paper, oil, gas industry and utilities. He was the Senior Vice President and Operating Officer of Red Man Pipe and Supply Company from 2006 to 2007, a $1.8 billion pipe, valve, fitting company, which merged with McJunkin Corporation to form McJunkin Red Man Corporation. Mr. Lang was employed by Ingersoll Rand Company, a global industrial company, for twenty-five years from 1980 to 2005. He started out as a sales engineer in 1980, became a Sales and Service Branch Manager in 1985, the Southeast U. S. Area Manager, Air Solutions in 1995, and by 1999 was the Director and General Manager, North American Distributor Division and from 2002 to 2005 served as the Director and General Manager, North American industrial Air Solutions Technology, reporting directly to the President of the Air Solutions Group.

Neal E. Murphy became our Chief Financial Officer and Secretary as of September 3, 2013. Mr. Murphy served as Vice President-Finance, Chief Financial Officer, Secretary and Treasurer, of Met-Pro from April 2012 until the closing of our acquisition of Met-Pro on August 27, 2013, having joined Met-Pro as Vice President in February 2012. Prior to joining Met-Pro, Mr. Murphy served as Vice President and Chief Financial Officer of Northern Tier Energy (an independent downstream energy company) from November 2010 to August 2011, Vice President and Chief Financial Officer of Sunoco Logistics Partners, L.P. (a crude oil and refined products pipeline company) from April 2007 to May 2010 and Vice President and Chief Financial Officer of Quaker Chemical Corporation (a specialty chemical, process fluid, coatings and lubricant company) from July 2004 to April 2007.

Edward J. Prajzner became our Chief Accounting Officer and Vice President of Finance as of September 11, 2013. Mr. Prajzner served as Corporate Controller and Chief Accounting Officer of Met-Pro from June 6, 2012 until its acquisition by the Company on August 27, 2013. Prior to joining Met-Pro on May 1, 2012, Mr. Prajzner served as Senior Vice President and Corporate Controller of CDI Corporation (an engineering and staffing company) from November 2010 to March 2012. From December 2008 to December 2010, he served as the Corporate Controller of American Infrastructure, Inc. (a heavy civil engineering company).

Table of Contents

Benton L. Cook became our Vice President and Controller as of September 11, 2013, which position Mr. Cook has held since 2008. Mr. Cook served as Interim Chief Financial Officer from September 28, 2011 through September 3, 2013. Mr. Cook joined CECO in 2004 as Project Manager for Sarbanes-Oxley implementation.

Where to Find More Information

We are subject to the reporting and other information requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Reports and other information filed with the SEC pursuant to the Exchange Act may be inspected and copied at the public reference facility maintained by the SEC in Washington, D.C. The SEC maintains a website at www.sec.gov containing our reports, proxy materials and other items. We also maintain a website at www.cecoenviro.com on which we provide a link to access CECO s SEC reports free of charge. The content of our website is available for information purposes only and is not incorporated by reference in this Annual Report on Form 10-K.

Table of Contents

Item 1A. Risk Factors

An investment in our securities involves a high degree of risk. You should carefully consider the risk factors described below, together with the other information included in this Annual Report on Form 10-K before you decide to invest in our securities. The risks described below are the material risks of which we are currently aware; however, they may not be the only risks that we may face. Additional risks and uncertainties not currently known to us or that we currently view as immaterial may also impair our business. If any of these risks develop into actual events, it could materially and adversely affect our business, financial condition, results of operations and cash flows, and the trading price of your shares could decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

Changes in current environmental legislation could have an adverse impact on the sale of our environmental control systems and products and on our financial condition, results of operations and cash flows.

Our environmental systems business is primarily driven by capital spending, clean air rules, plant upgrades by our customers to comply with laws and regulations governing the discharge of pollutants into the environment or otherwise relating to the protection of the environment or human health. These laws include U.S. federal statutes such as the Resource Conservation and Recovery Act of 1976, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Clean Water Act, the Clean Air Act, the Clean Air Interstate Rule, and the regulations implementing these statutes, as well as similar laws and regulations at state and local levels and in other countries. These U.S. laws and regulations may change and other countries may not adopt similar laws and regulations. Our business may be adversely impacted to the extent that environmental regulations are repealed, amended, implementation dates delayed, or to the extent that regulatory authorities reduce enforcement.

Our dependence upon fixed-price contracts could adversely affect our operating results.

The majority of our projects are currently performed on a fixed-price basis. Under a fixed-price contract, we agree on the price that we will receive for the entire project, based upon a defined scope, which includes specific assumptions and project criteria. If our estimates of our own costs to complete the project are below the actual costs that we incur, our margins will decrease, and we may incur a loss. The revenue, cost and gross profit realized on a fixed-price contract will often vary from the estimated amounts because of unforeseen conditions or changes in job conditions and variations in labor and equipment productivity over the term of the contract. If we are unsuccessful in mitigating these risks, we may realize gross profits that are different from those originally estimated and incur reduced profitability or losses on projects. Depending on the size of a project, these variations from estimated contract performance could have a significant effect on our operating results. In general, turnkey contracts to be performed on a fixed-price basis involve an increased risk of significant variations. This is a result of the long-term nature of these contracts and the inherent difficulties in estimating costs and of the interrelationship of the integrated services to be provided under these contracts whereby unanticipated costs or delays in performing part of the contract can have compounding effects by increasing costs of performing other parts of the contract.

If actual costs for our projects with fixed-price contracts exceed our original estimates, our profits will be reduced or we may suffer losses.

The majority of our contracts are fixed-priced contracts. Although we benefit from cost savings, we have limited ability to recover cost overruns. Because of the large scale and long-term nature of certain of our contracts, unanticipated cost increases may occur as a result of several factors, including:

Increases in cost or shortages of components, materials or labor;

Unanticipated technical problems;

Required project modifications not initiated by the customer; and

Suppliers or subcontractors failure to perform.

Any of these factors could delay delivery of our products. Our contracts often provide for liquidated damages in the case of late delivery. Unanticipated costs that we cannot pass on to our customers, for example the increases in steel prices or the payment of liquidated damages under fixed contracts, would negatively impact our profits.

Percentage-of-completion method of accounting for contract revenue may result in material adjustments that would adversely affect our financial condition, results of operations and cash flows.

We recognize contract revenue for a substantial component of our business using the percentage-of-completion method on fixed price contracts over $50,000. Under this method, for each contract, estimated contract revenue is calculated based generally on the percentage that actual direct costs to date are to total estimated direct costs. Estimated contract losses are recognized in full when determined. Accordingly, contract revenue and total direct cost estimates are reviewed and revised periodically as the work progresses

Table of Contents

and as change orders are approved, and adjustments based upon the percentage-of-completion are reflected in contract revenue in the period when these estimates are revised. These estimates are based on management s reasonable assumptions and our historical experience, and are only estimates. Variation of actual results from these assumptions, which are outside the control of management and can differ from our historical experience, could be material. To the extent that these adjustments result in an increase, a reduction or the elimination of previously reported contract revenue, we would recognize a credit or a charge against current earnings, which could be material.

We have recently made and may make future acquisitions, which involve numerous risks that could impact our financial condition, results of operations and cash flows.

Our operating strategy involves expanding our scope of products and services through selective acquisitions and the formation of new business units that are then integrated into our growing family of turnkey system providers. We have acquired, and may selectively acquire, other businesses, product or service lines, assets or technologies that are complementary to our business. We may be unable to find or consummate future acquisitions at acceptable prices and terms. We continually evaluate potential acquisition opportunities in the ordinary course of business. Acquisitions involve numerous risks, including among others:

- difficulties in integrating the acquired businesses, product or service lines, assets or technologies;
- diverting management s attention from normal daily operations of the business;
- entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- unanticipated costs and exposure to undisclosed or unforeseen liabilities;
- potential loss of key employees and customers of the acquired businesses, product or service lines, assets or technologies;
- our ability to properly establish and maintain effective internal controls over an acquired company; and
- increasing demands on our operational and information technology systems.

Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses, product or service lines, assets or technologies we purchase, an unavoidable level of risk remains regarding their actual operating and financial condition. Until we actually assume operating control of these businesses, product or service lines, assets or technologies, we may not be able to ascertain their actual value or understand potential liabilities. This is particularly true with respect to acquisitions outside the United States.

In addition, acquisitions of businesses may require additional debt or equity financing, resulting in additional leverage or dilution of ownership. Our credit agreement (Credit Agreement) contains certain covenants that limit, or which may have the effect of limiting, among other things acquisitions, capital expenditures, the sale of assets and the incurrence of additional indebtedness.

We may incur material costs as a result of existing or future product liability claims, or other claims and litigation that could adversely affect our financial condition, results of operations and cash flows; and our insurance coverage may not cover all claims or may be insufficient to cover the claims.

Despite our quality assurance measures, we may be exposed to product liability claims, other claims and litigation in the event that the use of our products results, or is alleged to result, in bodily injury and/or property damage or our products actually or allegedly fail to perform as expected. While we maintain insurance coverage with respect to certain product liability and other claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against product liability and other claims. Any future damages that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, product liability and other claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome.

An unsuccessful defense of a product liability or other claim could have an adverse effect on our financial condition, results of operations and cash flows. Even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and us.

We are party to asbestos-containing product litigation that could adversely affect our financial condition, results of operations and cash flows.

Our subsidiary, Met-Pro Technologies LLC, beginning in 2002 began to be named in asbestos-related lawsuits filed against a large number of industrial companies including, in particular, those in the pump and fluid handling industries. In management s opinion, the complaints typically have been vague, general and speculative, alleging that Met-Pro, along with the numerous other defendants, sold unidentified asbestos-containing products and engaged in other related actions that caused injuries (including death) and loss to the plaintiffs. Counsel has advised that more recent cases typically allege more serious claims of mesothelioma. The Company s insurers have hired attorneys who, together with the Company, are vigorously defending these cases. Many cases have been dismissed after the plaintiff fails to produce evidence of exposure to Met-Pro s products. In those cases where evidence has been produced, the Company s experience has been that the exposure levels are low and the Company s position has been that its products were not a cause of death, injury or loss. The Company has been dismissed from or settled a large number of these cases. Cumulative settlement payments from 2002 through December 31, 2013 for cases involving asbestos-related claims were $740,000, which together with all legal fees other than corporate counsel expenses have been paid by the Company s insurers. The average cost per settled claim, excluding legal fees, was approximately $25,000.

Based upon the most recent information available to the Company regarding such claims, there were a total of 173 cases pending against the Company as of December 31, 2013 (with Connecticut, New York, Pennsylvania and West Virginia having the largest number of cases), as compared with 157 cases that were pending as of December 31, 2012. During 2013, 48 new cases were filed against the Company, and the Company was dismissed from 32 cases and settled zero cases. Most of the pending cases have not advanced beyond the early stages of discovery, although a number of cases are on schedules leading to, or are scheduled for trial. The Company believes that its insurance coverage is adequate for the cases currently pending against the Company and for the foreseeable future, assuming a continuation of the current volume, nature of cases and settlement amounts. However, the Company has no control over the number and nature of cases that are filed against it, nor as to the financial health of its insurers or their position as to coverage. The Company also presently believes that none of the pending cases will have a material adverse impact upon the Company s results of operations, liquidity or financial condition.

Our business may be adversely affected by global economic conditions.

The continuation or resurgence of the recent global economic downturn and credit crisis may have a significant negative impact on our financial condition, future results of operations and cash flows. Specific risk factors related to these overall economic and credit conditions include the following: customer or potential customers may reduce or delay their procurement or new product development; key suppliers may become insolvent resulting in delays for our material purchases; vendors and other third parties may fail to perform their contractual obligations; customers may be unable to obtain credit to finance purchases of our products and services; and certain customers may become insolvent. These risk factors could reduce our product sales, increase our operating costs, impact our ability to collect customer receivables, lengthen our cash conversion cycle and increase our need for cash, which would ultimately decrease our profitability and negatively impact our financial condition. They could also limit our ability to expand through acquisitions due to the tightening of the credit markets.

Our ability to obtain financing for future growth opportunities may be limited.

Our ability to execute our growth strategies may be limited by our ability to secure and retain additional financing on terms reasonably acceptable to us or at all. Certain of our competitors are larger companies that may have greater access to capital, and therefore, may have a competitive advantage over us should our access to capital be limited.

Our inability to deliver our backlog on time could affect our future sales and profitability, and our relationships with our customers.

Our backlog has increased to $98.5 million at December 31, 2013 from $59.5 million at December 31, 2012. Our ability to meet customer delivery schedules for our backlog is dependent on a number of factors including, but not limited to, access to the raw materials required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects, sufficient manufacturing plant capacity and appropriate planning and scheduling of manufacturing resources. Our failure to deliver in accordance with customer expectations may result in damage to existing customer relationships and result in the loss of future business. Failure to deliver backlog in accordance with expectations could negatively impact our financial performance and cause adverse changes in the market price of our common stock.

Since our financial performance is seasonal, current results are not necessarily indicative of future results.

Our operating results may fluctuate significantly due to the seasonality of our business and these fluctuations make it more difficult for us to predict accurately in a timely manner factors that may have a negative impact on our business. The fourth quarter of our fiscal year, which ends December 31, is typically our strongest quarter. For example, many of our customers attempt to complete major capital improvement projects before the end of the calendar year. In addition, many customers shut down over the end of year holidays to perform maintenance services on their facilities. These factors create increased demand for our products and services during this period.

Conversely, the first quarter of our fiscal year is typically our weakest quarter. This is caused to some extent by winter weather constraints on outside construction activity but also by the seasonality of capital improvement projects as discussed relating to the fourth quarter. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

Table of Contents

Our financial performance may vary significantly from period to period, making it difficult to estimate future revenue.

Our annual revenues and earnings have varied in the past and are likely to vary in the future. Our contracts generally stipulate customer specific delivery terms and may have contract cycles of a year or more, which subjects these contracts to many factors beyond our control. In addition, contracts that are significantly larger in size than our typical contracts tend to intensify their impact on our annual operating results. Furthermore, as a significant portion of our operating costs are fixed, an unanticipated decrease in our revenues, a delay or cancellation of orders in backlog, or a decrease in the demand for our products, may have a significant impact on our annual operating results. Therefore, our annual operating results may be subject to significant variations and our operating performance in one period may not be indicative of our future performance.

A significant portion of our accounts receivable are related to larger contracts, which increases our exposure to credit risk.

We closely monitor the credit worthiness of our customers. Significant portions of our sales are to customers who place large orders for custom products and whose activities are related to the power and oil/gas industries. As a result, our exposure to credit risk is affected to some degree by conditions within these industries and governmental and/or political conditions. If any of these customers enter bankruptcy or liquidation it may have a material adverse effect on our revenues and accounts receivable. We frequently attempt to reduce our exposure to credit risk by requiring progress payments and letters of credit. However, the continuing economic climate and other unanticipated events that affect our customers could have a materially adverse impact on our operating results.

Our operations outside of the United States are subject to political, investment and local business risks.

For the year ended December 31, 2013, approximately 22% of our total revenue was derived from products or services ultimately delivered or provided to end-users outside the United States. As part of our operating strategy, we intend to expand our international operations through internal growth and selected acquisitions. Our goal is to balance revenues 50/50 between the United States and the rest of the world. Operations outside of the United States, particularly in emerging markets, are subject to a variety of risks that are different from or are in addition to the risks we face within the United States. Among others, these risks include:

- local, economic, political and social conditions, including potential hyperinflationary conditions and political instability in certain countries;
- imposition of limitations on the remittance of dividends and payments by foreign subsidiaries;
- adverse currency exchange rate fluctuations, including significant devaluations of currencies;
- tax-related risks, including the imposition of taxes and the lack of beneficial treaties, that result in higher effective tax rates for us;
- difficulties in enforcing agreements and collecting receivables through certain foreign local systems;

- domestic and foreign customs, tariffs and quotas or other trade barriers;
- increased costs for transportation and shipping;
- difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- managing and obtaining support and distribution channels for overseas operations;
- hiring and retaining qualified management personnel for our overseas operations;
- legal and regulatory requirements, including import, export, defense regulations and foreign exchange controls;
- imposition or increase of restrictions on investment;
- disadvantages of competing against companies from countries that are not subject to United States laws and regulations, including the Foreign Corrupt Practice Act (FCPA); and
- required compliance with a variety of local laws and regulations which may differ materially from those to which we are subject in the United States.

In addition, we could be adversely affected by violations of the FCPA and similar world-wide anti-bribery laws as well as export controls and economic sanction laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purposes of obtaining or retaining business. Our policies mandate compliance with these laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We cannot assure you that our internal controls and procedures will always protect us from reckless or criminal acts committed by our employees or agents. If we are found to be liable for FCPA, export control or sanction violations, we could suffer from criminal or civil penalties or other sanctions, including loss of export privileges or authorization needed to conduct aspects of our international business, which could have a material adverse effect on our business.

The occurrence of one or more of the foregoing factors could have a material adverse effect on our international operations or upon the financial condition, results of operations and cash flows.

Changes in billing terms can increase our exposure to working capital and credit risk.

Our products are generally sold under contracts that allow us to bill upon the completion of certain agreed upon milestones or upon actual shipment of the product, and certain contracts include a retention provision. We attempt to negotiate progress-billing milestones on all large contracts to help us manage the working capital and credit risk associated with these large contracts. Consequently, shifts in the billing terms of the contracts in our backlog from period to period can increase our requirement for working capital and can increase our exposure to credit risk.

Customers may cancel or delay projects. As a result, our backlog may not be indicative of our future revenue.

Customers may cancel or delay projects for reasons beyond our control. Our orders normally contain cancellation provisions that permit us to recover our costs, and, for most contracts, a portion of our anticipated profit in the event a customer cancels an order. If a customer elects to cancel an order, we may not realize the full amount of revenues included in our backlog. If projects are delayed, the timing of our revenues could be affected and projects may remain in our backlog for extended periods of time. Revenue recognition occurs over long periods of time and is subject to unanticipated delays. If we receive relatively large orders in any given quarter, fluctuations in the levels of our quarterly backlog can result because the backlog in that quarter may reach levels that may not be sustained in subsequent quarters. As a result, our backlog may not be indicative of our future revenues. With rare exceptions, we are not issued contracts until a customer is ready to start work on a project. Thus, it is our experience that the only relation between the length of a project and the possibility that a project may be cancelled is simply the fact that there is more time involved. In a year-long as opposed to a three-month project more time is available for the customer to experience a softening in their business, which may cause the customer to cancel a project.

Our gross margins are affected by shifts in our product mix.

Certain of our products have higher gross profit margins than others. Consequently, changes in the product mix of our sales from quarter-to-quarter or from year-to-year can have a significant impact on our reported gross profit margins. Certain of our products also have a much higher internally manufactured cost component. Therefore, changes from quarter-to-quarter or from year-to-year can have a significant impact on our reported gross margins. In addition, contracts with a higher percentage of subcontracted work or equipment purchases may result in lower gross profit margins.

If our goodwill or intangibles become impaired, we may be required to recognize charges that would reduce our net income or increase our net loss.

As of December 31, 2013, goodwill and indefinite lived intangibles represented approximately $150.6 million, or 43.2% of our total assets. Goodwill and indefinite lived intangible assets are not amortized, but instead are subject to annual impairment evaluations (or more frequently if circumstances require). Major factors that influence our evaluations are our estimates for future revenue and expenses associated with the specific intangible asset or the reporting unit in which our goodwill resides. This is the most sensitive of our estimates related to our evaluations. Other factors considered in our evaluations include assumptions as to the business climate, industry and economic conditions. These assumptions are subjective and different estimates could have a significant impact on the results of our analyses. While management, based on current forecasts and outlooks, believes that the assumptions and estimates are reasonable, we can make no assurances that future actual operating results will be realized as planned and that there will not be material impairment charges as a result. In particular, a prolonged continuation of the current economic downturn could continue to have a material adverse impact on our customers thereby forcing them to reduce or curtail doing business with us and such a result may materially affect the amount of cash flow generated by our future operations. Any write-down of goodwill or intangible assets resulting from future periodic evaluations would, as applicable, either decrease our net income or increase our net loss and those decreases or increases could be material.

We face significant competition in the markets we serve.

The industries in which we compete are all highly competitive and highly fragmented. We compete against a number of local, regional and national contractors and manufacturers in each of our product or service lines, many of which have been in existence longer than us and some of which have substantially greater financial resources than we do. Our products primarily compete on the basis of price, performance, speed of delivery, quality, customer support and single source. Any failure by us to compete effectively in the markets we serve could have a material adverse effect on our financial condition, results of operations and cash flows.

Table of Contents

Increasing costs for manufactured components, raw materials, transportation, health care and energy prices may adversely affect our profitability.

We use a broad range of manufactured components and raw materials in our products, including raw steel, steel-related components, filtration media, and equipment such as fans, motors, etc. Materials and subcontracting costs comprise the largest components of our total costs. Further increases in the price of these items could further materially increase our operating costs and materially adversely affect our profit margins. Similarly, transportation and health care costs have risen steadily over the past few years and represent an increasing burden for us. Although we try to contain these costs whenever possible, and although we try to pass along increased costs in the form of price increases to our customers, we may be unsuccessful in doing so, and even when successful, the timing of such price increases may lag significantly behind our incurrence of higher costs.

We rely on several key employees whose absence or loss could disrupt our operations or be adverse to our business.

We are highly dependent on the experience of our management in the continuing development of our operations. The loss of the services of certain of these individuals would have a material adverse effect on our business. Although we have employment and non-competition agreements with certain of our key employees, as a practical matter, those agreements will not assure the retention of our employees, and we may not be able to enforce all of the provisions in any employment or non-competition agreement. Our future success will depend in part on our ability to attract and retain qualified personnel to manage our development and future growth. We cannot guarantee that we will be successful in attracting and retaining such personnel. Our failure to recruit additional key personnel could have a material adverse effect on our financial condition, results of operations and cash flows.

Any incurrence of additional indebtedness could adversely affect our ability to operate our business, remain in compliance with debt covenants, make payments on our debt and limit our growth.

Outstanding indebtedness could have important consequences for investors, including the following:

- it may be more difficult for us to satisfy our obligations with respect to our Credit Agreement, and any failure to comply with the obligations of any of the agreements governing such indebtedness, including financial and other restrictive covenants, could result in an event of default under such agreements;

- the covenants contained in our debt agreements limit our ability to borrow money in the future for acquisitions, capital expenditures or to meet our operating expenses or other general corporate obligations;

- the amount of our interest expense may increase because our borrowings are at variable rates of interest, which, if interest rates increase, could result in higher interest expense;

- we may need to use a portion of our cash flows to pay principal and interest on our debt, which will reduce the amount of money we have for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other business activities;

- we may have a higher level of debt than some of our competitors, which could put us at a competitive disadvantage;

- we may be more vulnerable to economic downturns and adverse developments in our industry or the economy in general; and

- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We will not be able to control many of these factors. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our existing or future debt and meet our other obligations. If we do not have enough money to service our existing or future debt, we may be required to refinance all or part of our existing or future debt, sell assets, borrow more money or raise equity. We may not be able to refinance our existing or future debt, sell assets, borrow more money or raise equity on terms acceptable to us, if at all.

Our manufacturing operations are dependent on third-party suppliers.

Although we are not dependent on any one supplier, we are dependent on the ability of our third-party suppliers to supply our raw materials, as well as certain specific component parts. We purchase our entire chemical grade fiberglass from one domestic supplier, which we believe is the only domestic supplier of such fiberglass, and certain specialty items from only two domestic suppliers. These items also can be purchased from foreign suppliers. Failure by our third-party suppliers to meet our requirements could have a material adverse effect on us. We cannot assure you that our third-party suppliers will dedicate sufficient resources to meet our scheduled delivery requirements or that our suppliers will have sufficient resources to satisfy our requirements during any period of sustained demand. Failure of suppliers to supply, or delays in supplying, our raw materials or certain components, or allocations in the supply of certain high demand raw components could materially adversely affect our operations and ability to meet our own delivery schedules on a timely and competitive basis.

Table of Contents

Failure to maintain adequate internal controls could adversely affect our business.

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in each of our Annual Reports on Form 10-K, a report containing our management s assessment of the effectiveness of our internal control over financial reporting and an attestation report of our independent auditor. These laws, rules and regulations continue to evolve and could become increasingly stringent in the future. We have undertaken actions to enhance our ability to comply with the requirements of the Sarbanes-Oxley Act of 2002, including, but not limited to, the engagement of consultants, the documentation of existing controls and the implementation of new controls or modification of existing controls as deemed appropriate.

We continue to devote substantial time and resources to the documentation and testing of our controls, and to planning for and implementation of remedial efforts in those instances where remediation is indicated. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended in the future; we could be subject to regulatory actions, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition, results of operations and cash flows. We believe that the out-of-pocket costs, the diversion of management s attention from running our day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 will continue to be significant.

There are inherent limitations in all internal control systems over financial reporting, and misstatements due to error or fraud may occur and not be detected.

While we continue to take action to ensure compliance with the internal control, disclosure control and other requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder by the SEC, there are inherent limitations in our ability to control all circumstances. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and disclosure controls can prevent all errors and all frauds. A control system, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be evaluated in relation to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

If we do not develop improved products and new products in a timely manner in response to industry demands, our business and revenues will be adversely affected.

The air pollution control and filtration industry is characterized by ongoing technological developments and changing customer requirements. As a result, our success and continued growth depend, in part, on our ability in a timely manner to develop or acquire rights to, and successfully introduce into the marketplace, enhancements of existing products and new products that incorporate technological advances, meet customer requirements and respond to products developed by our competition. We cannot assure you that we will be successful in developing or acquiring such rights to products on a timely basis or that such products will adequately address the changing needs of the marketplace.

Our business can be significantly affected by changes in technology and regulatory standards.

The air pollution control and filtration industry is characterized by changing technology, competitively imposed process standards and regulatory requirements, each of which influences the demand for our products and services. Changes in legislative, regulatory or industrial requirements may render certain of our filtration products and processes obsolete. Acceptance of new products and services may also be affected by the adoption of new government regulations requiring stricter standards. Our ability to anticipate changes in technology and regulatory standards and to respond with new and enhanced products on a timely basis will be a significant factor in our ability to grow and to remain competitive. We cannot guarantee that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain of our products or services will not become obsolete.

Work stoppages or similar difficulties could significantly disrupt our operations.

As of December 31, 2013, 222 of our 778 employees are represented by international or independent labor unions under various union contracts that expire from May 1, 2014 to May 31, 2018. It is possible that our workforce will become more unionized in the future. Although we consider our employee relations to generally be good, our existing labor agreements may not prevent a strike or work stoppage at one or more of our facilities in the future and we may be affected by other labor disputes. A work stoppage at one or more of our facilities may have a material adverse effect on our business. Unionization activities could also increase our costs, which could have an adverse effect on our profitability.

Additionally, a work stoppage at one of our suppliers could adversely affect our operations if an alternative source of supply were not readily available. Work stoppages by employees of our customers also could result in reduced demand for our products.

Liability to customers under warranties may adversely affect our reputation, our ability to obtain future business and our earnings.

We provide certain warranties as to the proper operation and conformance to specifications of the products we manufacture or produce. Failure of our products to operate properly or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to customers. We have in the past received warranty claims, are currently subject to warranty claims, and we expect to continue to receive claims in the future. To the extent that we incur substantial warranty claims in any period, our reputation, our ability to obtain future business and our earnings could be adversely affected.

Our use of subcontractors could potentially harm our profitability and business reputation.

Occasionally we act as a prime contractor in some of the engineered projects we undertake. In our capacity as lead provider and when acting as a subcontractor, we perform a majority of the work on our projects with our own resources and typically subcontract only such specialized activities as electrical work, concrete work, insulation, conveyors and controls. In our industry, the lead contractor is normally responsible for the performance of the entire contract, including subcontract work. Thus, when acting as a prime contractor, we are subject to risk associated with the failure of one or more subcontractors to perform as anticipated.

We employ subcontractors at various locations around the world to meet our customers needs in a timely manner, meet local content requirements and reduce costs. Subcontractors generally perform the majority of our manufacturing for international customers. We also utilize subcontractors in North America. The use of subcontractors decreases our control over the performance of these functions and could result in project delays, escalated costs and substandard quality. These risks could adversely affect our profitability and business reputation. In addition, many of our competitors, who have greater financial resources and greater bargaining power than we have, use the same subcontractors that we use and could potentially influence our ability to hire these subcontractors. If we were to lose relationships with key subcontractors, our business could be adversely impacted.

Currency fluctuations may reduce profits on our foreign sales or increase our costs, either of which could adversely affect our financial results.

With the acquisitions of Aarding and Met-Pro, an increasing portion of our consolidated revenues have been and will be generated outside the United States. Consequently, we are subject to fluctuations in foreign currency exchange rates. Translation losses resulting from currency fluctuations may adversely affect the profits from our operations and have a negative impact on our financial results. Foreign currency fluctuations may also make our systems and products more expensive for our customers, which could have a negative impact on our sales. In addition, we purchase some foreign-made products directly from and through our subcontractors. Due to the multiple currencies involved in our business, foreign currency positions partially offset and are netted against one another to reduce exposure. We cannot assure that fluctuations in foreign currency exchange rates will not make these products more expensive to purchase. Increases in our direct or indirect cost of purchasing these products could negatively impact our financial results if we are not able to pass those increased costs on to our customers.

We might be unable to protect our intellectual property rights and our products could infringe the intellectual property rights of others, which could expose us to costly disputes.

Although we believe that our products do not infringe patents or violate the proprietary rights of others, it is possible that our existing patent rights may not be valid or that infringement of existing or future patents or proprietary rights may occur. In the event our products infringe patents or proprietary rights of others, we may be required to modify the design of our products or obtain a license for certain technology. We cannot guarantee that we will be able to do so in a timely manner, upon acceptable terms and conditions, or at all. Failure to do any of the foregoing could have a material adverse effect upon our business. Moreover, if our products infringe patents or proprietary rights of others, we could, under certain circumstances, become liable for damages, which also could have a material adverse effect on our business.

Risks related to our pension and other post-retirement plans may adversely impact our results of operations and cash flow.

Significant changes in actual investment return on pension assets, discount rates, and other factors may adversely affect our results of operations and pension contributions in future periods. U.S. generally accepted accounting principles (GAAP) require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial markets and interest rates. We establish the discount rate used to determine the present value of the projected and accumulated benefit obligation at the end of each year based upon the available market rates for high quality, fixed-income investments. An increase in the discount rate would increase future pension expense and, conversely, a decrease in the discount rate would decrease future pension expense. Funding requirements for our U.S. pension plans may become more significant. The ultimate amounts to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory changes related to pension funding obligations. For a discussion regarding the significant assumptions used to estimate pension expense, including discount rate and the expected long-term rate of return on plan assets, and how our financial statements can be affected by pension plan accounting policies, see Critical Accounting Policies included in this Annual Report on Form 10-K in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Risks Related to Our Common Stock

Our executive officers and directors are able to exercise significant influence over CECO, and their interests may conflict with those of our other stockholders.

As of March 1, 2014, our executive officers and directors beneficially own approximately 19% of our outstanding common stock, assuming the exercise of currently exercisable warrants and options beneficially held by them. The interests of management with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings and other corporate opportunities and attempts to acquire us, may conflict with the interests of our other stockholders. Management s continued concentrated ownership may have the effect of delaying or preventing a change of control of us, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

The market price of our common stock may be volatile or may decline regardless of our operating performance and investors may not be able to resell shares they purchase at their purchase price.

The stock market has experienced and may in the future experience volatility that has often been unrelated to the operating performance of particular companies. The market price of our common stock has experienced, and may continue to experience, substantial volatility. During the twelve-month period ended December 31, 2013, the sales price of our common stock on the NASDAQ Stock Market LLC has ranged from a low of $9.92 to a high of $19.42 per share. We expect our common stock to continue to be subject to fluctuations. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the common stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- the relatively low float of our common stock caused, among other reasons, by the holdings of our principal shareholders;
- adverse general economic conditions, such as those currently being experienced, including withdrawals of investments in the stock markets generally and a tightening of credit available to potential acquirers of businesses, that result in a lower average prices being paid for public company shares and lower valuations being placed on businesses;

- other domestic and international macroeconomic factors unrelated to our performance;
- our failure to meet the expectations of the investment community;
- industry trends and the business success of our customers;
- loss of key customers;
- announcements of technological advances by us or our competitors;
- current events affecting the political and economic environment in the United States;
- conditions or trends in our industry, including demand for our products and services, technological advances and governmental regulations;
- litigation or other proceedings involving or affecting us; and
- additions or departures of our key personnel.

The realization of any of these risks and other factors beyond our control could cause the market price of our common stock to decline significantly.

The number of shares of our common stock eligible for future sale could adversely affect the market price of our stock.

We have reserved 2.6 million shares of our common stock for issuance under our 2007 Equity Incentive Plan (the 2007 Plan), which may include option grants, stock grants and restricted stock grants. As of December 31, 2013, approximately 1.8 million options or shares of restricted stock have been issued under the 2007 Plan. Icarus, an affiliate of ours, also owns warrants to purchase 250,000 shares of common stock that have piggy-back rights granting it the right to require that we register such shares in the event we file any registration statements in the future.

Table of Contents

We had outstanding options to purchase approximately 155,000 shares of our common stock as of December 31, 2013 under our 1997 Stock Option Plan and outstanding options to purchase approximately 1,651,867 shares of our common stock under our 2007 plan. The shares under both plans are registered for resale on currently effective registration statements.

We may issue additional restricted securities or register additional shares of common stock under the Securities Act in the future. The issuance of a significant number of shares of common stock upon the exercise of stock options or warrants, or the availability for sale, or resale, of a substantial number of the shares of common stock under registration statements, under Rule 144 or otherwise, could adversely affect the market price of our common stock.

One or more issuances of shares of our common stock under our stock incentive plan or securities in connection with financing transactions or the conversion of warrants will dilute current stockholders.

Pursuant to our stock incentive plan, we may grant stock awards to our employees, directors and consultants. Dilution will occur upon exercise of any outstanding stock awards convertible into or exchangeable or exercisable for common stock . Moreover, if we raise additional funds by issuing additional common stock, or securities, further dilution to our existing stockholders will result. In addition, we have historically issued warrants to purchase common shares in conjunction with business acquisitions, debt issuances and employment contracts, of which 250,000 warrants are currently outstanding, which may cause dilution when exercised.

Our ability to issue preferred stock could adversely affect the rights of holders of our common stock.

Our certificate of incorporation authorizes us to issue up to 10,000 shares of preferred stock in one or more series on terms that may be determined at the time of issuance by our board of directors. Accordingly, we may issue shares of any series of preferred stock that would rank senior to our common stock as to voting or dividend rights or rights upon our liquidation, dissolution or winding up.

Certain provisions in our charter documents have anti-takeover effects.

Certain provisions of our certificate of incorporation and bylaws may have the effect of delaying, deferring or preventing a change in control of us. Such provisions, including those limiting who may call special stockholders meetings, together with the possible issuance of our preferred stock without stockholder approval, may make it more difficult for other persons, without the approval of our board of directors, to make a tender offer or otherwise acquire substantial amounts of our common stock or to launch other takeover attempts that a stockholder might consider to be in such stockholder s best interest.

Item 1B. Unresolved Staff Comments

Not Applicable.

Table of Contents

Item 2. Properties

The following facilities were owned or leased by the Company as of December 31, 2013.

Owned and Leased Locations	Type	Square Footage	Annual Rent	Expiration
Engineered Equipment Technology and Parts Group:				
Anaheim, California	Mfg.	17,200	$ 238,000	December 2016
Moorpark, California	Mfg.	4,300	$ 52,000	April 2015
Ventura, California	Sales	1,281	$ 15,000	April 2015
Louisville, Kentucky	Mfg.	61,095	$ 124,000	March 2018
Cincinnati, Ohio	Mfg.	96,400	$ 313,000	November 2016
Lebanon, Pennsylvania	Sales	6,800	$ 67,000	September 2014
Pittsburgh, Pennsylvania	Sales	4,000	$ 64,000	May 2015
Montreal, Canada	Sales	3,514	$ 34,000	October 2017
Shanghai, China	Mfg.	40,000	$ 209,000	March 2016
Pune, India	Sales	255	$ 4,000	December 2014
Nunspeet, the Netherlands	Office/Mfg.	58,125	$ 402,000	December 2016
Met-Pro Group:				
Harleysville, Pennsylvania (c)	Office/Mfg.	73,000	Owned	
Glendale Heights, Illinois	Mfg.	45,500	Owned	
Vaughan, Ontario, Canada	Sales	3,239		March 2014
Owosso, Michigan	Office/Mfg.	63,000	Owned	
Telford, Pennsylvania	Office/Mfg.	93,500	Owned	
Indianapolis, Indiana	Mfg.	66,000	Owned	
Heerenveen, the Netherlands	Office/Mfg.	34,000	Owned	
Guangzhou, People s Republic of China	Mfg.	17,168		July 2014
Hatfield, Pennsylvania	Mfg.	31,000	Owned	
Waukegan, Illinois	Mfg.	22,000	Owned	
Contracting / Services Group:				
Louisville, Kentucky	Mfg.	35,000	Owned	
Indianapolis, Indiana	Sales	5,000	$ 19,000	September 2014
Canton, Mississippi	Mfg.	20,100	$ 36,000	July 2016
Columbia, Tennessee	Mfg.	34,800	$ 127,000	August 2015
Component Parts Group:				
Greensboro, North Carolina	Mfg.	30,000	$ 102,000	August 2018
Cincinnati, Ohio (a)	Mfg.	53,210	$ 196,000	April 2018
Salt Lake City, Utah	Mfg.	13,600	$ 45,000	April 2014
Corporate segment:				
Cincinnati, Ohio (b)	Admin.	7,000	$ 99,000	June 2016
Toronto, Canada	Admin.	4,000	$ 181,000	August 2018
Wayne, Pennsylvania	Admin.	2,600	$ 26,000	June 2019

(a) Location is also used by the Contracting / Services Group as a Sales office.

(b) Location is also used by the Contracting / Services Group as a management office.
(c) Location was sold in January 2014.
It is anticipated that all leases coming due in the near future will be renewed at expiration.

The property we own is subject to collateral mortgages to secure the amounts owed under the Credit Agreement.

Our current capacity, with limited capital additions, is expected to be sufficient to meet production requirements for the near future. We believe our production facilities are suitable and can meet our future production needs.

Table of Contents

Item 3. Legal Proceedings

See Note 12 Commitments and Contingencies Legal Proceedings to the Consolidated Financial Statements contained in Part II, Item 8 of this Annual Report on Form 10-K for information regarding legal proceedings in which we are involved.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ Stock Market LLC under the symbol CECE. The following table sets forth the high and low sales prices of our common stock as reported by the NASDAQ Stock Market LLC during the periods indicated.

	2013				2012			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
High	$ 19.42	$ 14.16	$ 13.18	$ 14.32	$ 10.10	$ 10.20	$ 8.37	$ 8.65
Low	13.91	11.81	10.44	9.92	8.75	7.45	6.81	5.46

Dividends

Our dividend policy and the payment of cash dividends under that policy are subject to the Board of Director s continuing determination that the dividend policy and the declaration of dividends are in the best interest of our stockholders. Future dividends and the dividend policy may be changed or cancelled at the Board of Director s discretion at any time. Payment of dividends is also subject to the continuing compliance with our financial covenants under our Credit Agreement. During 2013 and 2012, our Board of Directors has declared the following quarterly cash dividends on our common stock:

Dividend Per Share	Record Date	Payment Date
$0.050	December 17, 2013	December 31, 2013
$0.050	September 16, 2013	September 30, 2013
$0.050	June 14, 2013	June 28, 2013
$0.050	March 18, 2013	March 28, 2013
$0.045	December 14, 2012	December 28, 2012
$0.045	September 14, 2012	September 28, 2012
$0.035	June 15, 2012	June 29, 2012
$0.035	March 20, 2012	March 30, 2012

On March 6, 2014, our Board of Directors announced a quarterly dividend of $0.05 per share. The dividend will be paid on March 31, 2014 to all shareholders of record at the close of business on March 21, 2014.

Holders

The approximate number of registered shareholders of record of our common stock as of March 1, 2014 was 319, although there are a larger number of beneficial owners.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not repurchase any shares of our common stock during the fourth quarter of 2013.

Recent Sales of Unregistered Securities

Not applicable.

Item 6. Selected Financial Data

We are not required to provide the information specified in this Item.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8 of this Annual Report on Form 10-K, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the reported amounts in our consolidated financial statements and the accompanying notes including various claims and contingencies related to lawsuits, taxes, environmental and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and actions that we may undertake in the future in determining the estimates that affect our consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates.

Overview

Business Overview

We are a leading global environmental technology company focused on critical solutions in the product recovery, air pollution control, fluid handling and filtration segments. Through our well-known brands including the Effox-Flextor, Kirk & Blum, KB Duct, Fisher-Klosterman, FKI, Buell, AVC, Busch International, CECO Filters, Ac Duall, Flex-Kleen, Bio-Reaction, Dean Pump, Fybroc, Sethco, Mefiag Filtration, Keystone Filter, and tradenames. We provide a wide spectrum of products and services including dampers & diverters, cyclonic technology, thermal oxidizers, filtration systems, scrubbers, exhaust systems, fluid handling equipment and plant engineered services and engineered design build fabrication. These products play a vital role in helping companies achieve exacting production standards, meeting increasing plant needs and stringent emissions control regulations around the globe. We globally serve the broadest range of markets and industries including power, municipalities, chemical, industrial manufacturing, refining, petrochemical, metals, minerals & mining, hospitals and universities. Therefore, our business is not concentrated in a single industry or customer. Demand for our products and services is created by increasingly strict EPA mandated industry Maximum Achievable Control Technology standards and OSHA established Threshold Limit Values, as well as existing pollution control and energy legislation.

Industry Trends and Corporate Strategy

We believe there will be an increase in the level of pollution control capital expenditures driven by an elevated focus on environmental issues such as global warming and energy saving alternatives, as well as a U.S. Government supported effort to reduce our dependence on foreign oil through the use of bio-fuels like ethanol and electrical energy generated by our abundant domestic supply of coal. We also feel that similar opportunities will continue to develop outside the United States. Much of our business is driven by various regulatory standards and guidelines governing air quality in and outside factories. Our Chinese operation is positioned to benefit from the tightening of air pollution standards by China s Ministry of Environmental Protection.

We continue to focus on increasing revenues and profitability globally while continuing to strengthen and expand our presence domestically. Our operating strategy has historically involved horizontally expanding our scope of technology, products, and services through selective acquisitions and the formation of new business units that are then vertically integrated into our growing group of turnkey system providers. Our continuing focus will be on global growth, market coverage, and specifically expansion of our China and India operations. Operational excellence, margin expansion, after-market growth, and safety leadership are also critical to our growth strategy.

Recent Developments

On February 28, 2013, the Company acquired Aarding, a global provider of natural gas turbine exhaust systems and silencer applications. We acquired Aarding to lead our expanding global natural gas business including the Flextor division, which provides complimentary and integrated engineered solutions to those of Aarding. The purchase price included cash of $24.4 million at closing and 763,673 shares of common stock. Additionally, the former owners of Aarding are entitled to earn-out payments of up to 5.5 million ($7.6 million as of December 31, 2013) upon the attainment of specified financial targets through December 31, 2017.

On August 27, 2013, we completed our acquisition of Met-Pro in a cash and stock transaction. In addition, holders of outstanding Met-Pro options and restricted stock units received an aggregate amount of cash equal to approximately $4.9 million as consideration for the cancellation of the options and restricted stock units held by them immediately prior to the closing of the acquisitions. The purchase price consisted of 7,726,235 shares of Company common stock and $104.4 million in cash. The cash portion of the purchase consideration was financed with borrowings from a new credit facility. See Liquidity and Capital Resources below.

Table of Contents

Effective January 1, 2014, CECO implemented an internal reorganization into three reportable segments:

Air Pollution Control Segment, comprised of the following:
Adwest Technologies, Inc., Duall Air and Odor Technologies, Busch International, Buell Energy Cyclones, Flex-Kleen Dust Collection Technologies, Fisher-Klosterman, Kirk & Blum, and KB Duct.

Energy Segment, comprised of the following:
Aarding Thermal Acoustics, Effox-Flextor and AVC Specialists, Inc.

Fluid Handling Filtration Segment, comprised of the following:
Met-Pro Global Pump Solutions, Mefiag Filtration Solutions, Keystone Filtration Solutions, CECO Filters and Strobic Air Corporation.

The financial information presented in this Annual Report on Form 10-K does not give effect to the change in the composition of the Company s reportable segments as a result of the restructuring effective January 1, 2014.

Operations Overview

We operate under a hub and spoke business model in which executive management, finance, administrative and marketing staff serves as the hub while the sales channels serve as spokes. We use this model throughout our operations. This has provided us with certain efficiencies over a more decentralized model. The Company s division presidents and general managers are responsible for successfully running their operations, that is, sales, gross margins, manufacturing, pricing, purchasing, safety, employee development, and customer service excellence. The presidents work closely with our CEO on global growth strategies, operational excellence, and employee development. The headquarters (hub) focuses on enabling the core back-office key functions for scale and efficiency, that is, accounting, payroll, human resources/benefits, IT, safety support, audit controls, and administration. We have excellent organizational focus from headquarters throughout our divisional businesses with clarity and minimal duplicative work streams. We are structured for growth and will do future bolt-on acquisitions.

Our four operating segments are: the Engineered Equipment Technology and Parts Group (the EET&P Group), which produces various types of air pollution control equipment, the MP Group, a global provider of a wide range of products and services for industrial, commercial, municipal and residential markets, the Contracting/Services Group (the C/S Group), which produces air pollution control and industrial ventilation systems, and the Component Parts Group (the CP Group), which manufactures products used by us and other air pollution control companies and contractors. It is through combining the efforts of some or all of these groups that we are able to offer complete turnkey systems to our customers and leverage the operational efficiencies between our family of companies.

Our contracts are obtained either through competitive bidding or as a result of negotiations with our customers. Contract terms offered by us are generally dependent on the complexity and risk of the project as well as the resources that will be required to complete the project. For example, a contract that can be performed primarily by subcontractors and that does not require us to use our fabrication and assembly facilities can be quoted at a lower gross margin than a more typical contract that will require additional factory overhead and administrative expenses.

Our focus is on increasing our operating margins as well as our gross margin percentage, which translates into higher net income. Our sales typically peak in the fourth quarter due to a tendency of customers to want to fully utilize annual capital budgets and due to the fact that many industrial facilities shut down for the holiday season and that creates demand for maintenance and renovation work that can be done at no other time.

Our cost of sales is principally driven by a number of factors including material prices and labor cost and availability. Changes in these factors may have a material impact on our overall gross profit margins. For example, in larger contracts, we may incur sub-contract work or direct equipment purchases, which may only be marked-up to a limited extent and consequently, the gross margins of the Company are affected. However, profitability is enhanced through the absorption of fixed operating costs, including selling, general and administrative and factory overhead.

We break down costs of sales into five categories. They are:

Labor- Our direct labor both in the shop and in the field;

Material- Raw material that we buy to build our products;

Equipment- Fans, motors, control panels and other equipment necessary for turnkey systems;

Subcontracts- Electrical work, concrete work and other subcontracts necessary for turnkey systems;

Factory overhead- Costs of facilities and supervision wages necessary to produce our products.

In general, labor provides us the most flexibility in margin followed by material and equipment and subcontracts. Across our various product lines, the relative relationships of these factors change and cause variations in gross margin percentage. Material costs have also increased faster than labor costs, which also reduces gross margin percentage.

Selling and administrative expense principally includes sales payroll and related fringes, advertising and marketing expenditures as well as all corporate and administrative functions and other costs that support our operations. The majority of these expenses are fixed. We expect to leverage our fixed operating structure as we continue to grow our revenue.

Note Regarding Use of Non-GAAP Financial Measures

The Company s audited consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (GAAP). These GAAP financial statements include certain charges the Company believes are not indicative of its ongoing operational performance.

As a result, the Company provides financial information in this MD&A that was not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. The Company provides this supplemental non-GAAP financial information, which the Company s management utilizes to evaluate its ongoing financial performance and which the Company believes provides greater transparency to investors as supplemental information to its GAAP results.

The Company has provided the non-GAAP financial measures of non-GAAP gross profit and gross profit margin, non-GAAP operating income, non-GAAP operating margin, and non-GAAP net income as a result of items that the Company believes are not indicative of its ongoing operations. These include charges associated with the Company s acquisition and integration of Adwest, Aarding, and Met-Pro and the items described below in Consolidated Results. The Company believes that evaluation of its financial performance compared with prior and future periods can be enhanced by a presentation of results that exclude the impact of these items. As a result of the Company s acquisition of Adwest, Aarding and Met-Pro, which closed on December 31, 2012, February 28, 2013 and August 27, 2013, respectively, the Company has incurred and expects to continue to incur substantial charges associated with the acquisition and integration of these companies. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat these charges as special items in its future presentation of non-GAAP results. See Note 16 to the audited consolidated financial statements for further information on the Met-Pro and Aarding acquisitions.

Results of Operations

Consolidated Results

Our consolidated statements of income for the years ended December 31, 2013 and 2012 are as follows:

	For the year ended December 31,	
($ in millions)	**2013**	**2012**
Net sales	$ 197.3	$ 135.1
Cost of goods sold	135.8	92.7

Gross profit	$ 61.5	$ 42.4
Percent of sales	*31.2%*	*31.4%*
Selling and administrative	$ 37.1	$ 25.4
Percent of sales	*18.8%*	*18.8%*
Acquisition and integration expense	$ 7.2	$
Percent of sales	3.6%	
Amortization and earn out expenses	$ 6.7	$ 0.3
Percent of sales	3.4%	0.2%
Legal reserves	$ 3.5	$
Percent of sales	1.8%	
Operating income	$ 7.0	$ 16.7
Percent of sales	*3.5%*	*12.4%*

Table of Contents

To compare operating performance between the year ended December 31, 2013 and 2012, the Company has adjusted GAAP operating income and GAAP net income to exclude (1) acquisition and integration related expenses, including legal, accounting, and banking expenses, (2) amortization and contingent acquisition expenses, including amortization of acquisition related intangibles, retention, severance, and earn-out expenses, (3) legal reserves, (4) inventory valuation and plant, property and equipment valuation adjustments related to the Met-Pro acquisition, and (5) with respect to net income, associated tax benefits of these charges. The Company has adjusted GAAP gross profit to exclude inventory valuation and plant, property and equipment valuation adjustments related to the Met-Pro acquisition. See Note Regarding Use of Non-GAAP Financial Measures above. The following tables present the reconciliation of GAAP gross profit and GAAP gross margin to non-GAAP gross profit and non-GAAP gross profit margin, GAAP operating income and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin, and GAAP net income to non-GAAP net income:

	Year Ended December 31,	
(dollars in millions)	2013	2012
Gross profit as reported in accordance with GAAP	$ 61.6	$ 42.4
Gross profit margin in accordance with GAAP	*31.2%*	*31.4%*
Inventory valuation adjustment	1.1	
Plant, property and equipment valuation adjustment	0.2	
Non-GAAP gross profit	$ 62.9	$ 42.4
Non-GAAP Gross profit margin	*31.9%*	*31.4%*

	Year Ended December 31,	
(dollars in millions)	2013	2012
Operating income as reported in accordance with GAAP	$ 7.0	$ 16.7
Operating margin in accordance with GAAP	*3.5%*	*12.4%*
Inventory valuation adjustment	1.1	
Plant, property and equipment valuation adjustment	0.2	
Acquisition and integration expenses	7.2	
Amortization and earn out expenses	6.8	0.3
Legal reserves	3.5	
Non-GAAP operating income	$ 25.8	$ 17.0
Non-GAAP Operating margin	*13.1%*	*12.6%*

	Year Ended December 31,	
(dollars in millions)	2013	2012
Net income as reported in accordance with GAAP	$ 6.6	$ 10.9
Inventory valuation adjustment	1.1	
Plant, property and equipment valuation adjustment	0.2	
Acquisition and integration expenses	7.2	
Amortization and earn out expenses	6.8	0.3
Legal reserves	3.5	
Tax benefit of expenses	(5.0)	(0.1)

Non-GAAP net income	$ 20.4	$ 11.1

28

Consolidated sales in 2013 were $197.3 million compared with $135.1 million in 2012, an increase of $62.2 million. The increase in sales was due to the acquisitions of Adwest at the end of 2012, Aarding at the end of February 2013 and Met-Pro at the end of August 2013. These acquisitions aggregated to $68.1 million of sales in 2013, and were partially offset by a decrease in the Contracting/Services Group in 2013 compared with 2012.

Gross profit increased by $19.1 million, or 45.0%, to $61.6 million in 2013 compared with $42.4 million in 2012. Gross profit as a percentage of sales was 31.2% in 2013 compared with 31.4% in 2012. The increase gross profit was the result of the Adwest, Aarding and Met-Pro acquisitions. On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP gross profit was $62.9 million or 31.9% for 2013, an increase of $20.5 million compared with non-GAAP gross margin of $42.4 million or 31.4% in 2012.

Selling and administrative expenses were $37.1 million in 2013 compared with $25.4 million in 2012. The increase in selling and administrative expenses were the result of the Adwest, Aarding and Met-Pro acquisitions.

Acquisition and integration expenses of $7.2 million in 2013 relate to acquisition activities, which include legal, accounting, and banking expenses.

Amortization and earn out expense was $6.8 million in 2013 and $0.3 million in 2012. This increase was the result of the Aarding and Met-Pro acquisitions.

Legal reserves of $3.5 million in 2013 relate to the settlement of the Sheet Workers   Local Union No. 80 claim.

Operating income for 2013 was $7.0 million, a decrease of $9.7 million from $16.7 million in 2012. Operating income as a percent of sales for 2013 was 3.5% compared with 12.4% for 2012. The decrease in operating income was attributable to acquisition and integration expenses, amortization and earn-out expenses and legal reserves. On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP operating income was $25.8 million for 2013, an increase of $8.8 million from 2012. Non-GAAP operating income as a percentage of sales for 2013 was 13.1% compared with 12.6% for 2012. Improved margins, changes in product mix, and manufacturing improvements were the primary factors for the increases in operating income and operating margin percentages.

Other income (expense) for 2013 was $1.0 million compared with $(0.2) million in 2012, and was comprised of foreign currency transaction gains in 2013 as compared with foreign currency losses in 2012. The increase in 2013 is primarily attributable to a translation remeasurement gain on U.S. Dollar denominated intercompany debt at Aarding.

Interest expense increased to $1.5 million in 2013 from $1.2 million in 2012, due to higher debt levels in the current period, which were incurred in connection with the Met-Pro acquisition.

Income tax (benefit) expense was ($0.1) million in 2013 compared to $4.5 million in 2012. The effective tax rate for 2013 was (1.6%) compared with 29.4% in 2012. Included in the income tax provision calculation for 2013 is a $2.4 million tax benefit, net of related uncertain tax position reserves, for research and development income tax credits earned during 2009 through 2013. This credit was not factored in the 2012 tax provision because it was not evaluated until 2013. Along with the tax benefit of research and development income tax credits, the effective tax rate is beneficially impacted by the domestic production activities deduction, offset by nondeductible deal costs related to the Met-Pro acquisition.

Table of Contents

Business Segments

The Company s operations in 2013 and 2012 are organized and reviewed by management along its product lines and presented in four reportable segments. The results of the segments are reviewed through to the Income from operations line on the Consolidated Statements of Income. The amounts presented in the Net Sales table below and in the following comments regarding our net sales at the reportable business segment level exclude both intra-segment and inter-segment net sales. The Income (loss) from Operations table and corresponding comments regarding operating income at the reportable segment level include both intra-segment and inter-segment operating income.

	2013	2012
	(in thousands)	
Net Sales (less intra-, inter-segment sales)		
Engineered Equipment Technology and Parts Group		
United States	$ 88,170	$ 75,824
Netherlands	25,588	
China	7,763	4,905
Canada	3,557	7,611
Brazil	170	121
India		218
Subtotal	125,248	88,679
Met-Pro Group (c)	30,526	
Contracting / Services Group	19,500	25,527
Component Parts Group	21,908	20,771
Corporate	135	75
Net sales	$ 197,317	$ 135,052

	2013	2012
	(in thousands)	
Income (Loss) from Operations		
Engineered Equipment Technology and Parts Group (a)	$ 18,652	$ 15,562
Met-Pro Group (a)	1,383	
Contracting / Services Group (a)	2,008	3,461
Component Parts Group (a)	4,172	4,198
Corporate(a) (b)	(17,754)	(6,474)
Eliminations	(1,473)	(64)
Income from operations	$ 6,972	$ 16,683

(a) The amounts presented above at the reportable business segment level include operating income (loss), as applicable. See Note 17 to the audited financial statements.

(b)

Includes corporate compensation, professional services, information technology, and other general and administrative corporate expenses.

(c) Met-Pro was acquired in August 2013.

Engineered Equipment Technology and Parts Group

Our EET&P Group net sales increased $36.6 million to $125.2 million in the year ended December 31, 2013 compared with $88.7 million in the year ended December 31, 2012, an increase of 41.2%. The increase is primarily due to the Adwest and Aarding acquisitions, which collectively accounted for $10.5 million and $27.0 million in net sales, respectively, for the year ended December 31, 2013. The year ended December 31, 2013 benefited from increased revenues at Effox, FKI, and Buell, but was partially offset by decreased revenues at Busch. For the year ended December 31, 2013, Effox continued to have increased revenues due to utilities investing in their systems, while Busch was impacted by the lack of demand from the metals industries.

Operating income from the EET&P Group increased $3.1 million to $18.7 million for the year ended December 31, 2013 compared with $15.6 million in the year ended December 31, 2012, an increase of 19.9%. The increase was due in part to the Adwest and Aarding acquisitions, which collectively accounted for $0.4 million and $(0.2) million, respectively, for the year ended December 31, 2013. We also benefited from increased operating income at Effox, FKI, and our China operations due to increased volume, while the remaining operations were comparable to the same period in 2012.

Table of Contents

MP Group

Our MP Group net sales for the year ended December 31, 2013 were $30.5 million, since its acquisition at the end of August 2013.

MP Group operating income for the year ended December 31, 2013 was $1.4 million, since its acquisition at the end of August 2013.

Contracting / Services Group

Our C/S Group net sales for the year ended December 31, 2013 were $19.5 million compared with $25.5 million for the same period in 2012. This decrease was primarily due to a decline in service work, which normally occurs in the middle to end-of-year time periods. In addition, other jobs were delayed or cancelled in 2013.

Operating income for the C/S Group was $2.0 million for the year ended December 31, 2013 compared with income of $3.5 million for the same period in 2012. This decrease is primarily due to the sales volume declines experienced in the current year period as described above.

Component Parts Group

Our CP Group net sales for the year ended December 31, 2013 were $21.9 million compared with $20.8 million for the same period in 2012. This increase is primarily due to increased demand for our component parts and clamp together duct products, which is the result of many smaller contractors buying these products instead of making them in-house.

Operating income for the CP Group was flat at $4.2 million for the years ended December 31, 2013 and 2012.

Backlog

Our backlog consists of the amount of revenue we expect from complete performance of uncompleted, signed, firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 months. Our backlog as of December 31, 2013 was $98.5 million compared with $59.5 million as of December 31, 2012. The increase in backlog at December 31, 2013 was primarily a result of the acquisitions of Aarding and Met-Pro, which in the aggregate represent $37.1 million of our backlog at December 31, 2013. There can be no assurances that backlog will be replicated, increased or translated into higher revenues in the future. The success of our business depends on a multitude of factors related to our backlog and the orders secured during the subsequent periods. Certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract s profitability.

Three Months Ended December 31, 2013

Our total net sales were $68.7 million for the three months ended December 31, 2013, compared with $34.3 million for the three months ended December 31, 2012, an increase of $34.4 million or 100.3%. Our total gross profit was $21.5 million for the three months ended December 31, 2013, compared with $11.2 million for the three months ended December 31, 2012, an increase of $10.3 million or 92.0%. These increases in net sales and gross profit respectively, are attributable to the Adwest, Aarding and Met-Pro acquisitions, which were included in our financial results from the inception of these acquisitions, in December 2012, February 2013 and August 2013, respectively.

As we did for our full year comparison in the preceding section, we have also adjusted our fourth quarter results for the three months ended December 31, 2013 and 2012 respectively, on a comparative non-GAAP basis. See Note Regarding Use of Non-GAAP Financial Measures above for further explanation.

Table of Contents

The following tables present the reconciliation of GAAP gross profit and GAAP gross margin to non-GAAP gross profit and non-GAAP gross profit margin, GAAP operating income and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin:

	Three Months Ended December 31,	
(dollars in millions)	2013	2012
Net sales as reported in accordance with GAAP	$ 68.7	$ 34.3
Gross profit as reported in accordance with GAAP	$ 21.5	$ 11.2
Gross profit margin in accordance with GAAP	*31.3%*	*32.6%*
Inventory valuation adjustment	0.7	
Plant, property and equipment valuation adjustment	0.1	
Non-GAAP gross profit	$ 22.3	$ 11.2
Non-GAAP gross profit margin	*32.4%*	*32.6%*

	Three Months Ended December 31,	
(dollars in millions)	2013	2012
Operating income as reported in accordance with GAAP	$ 3.7	$ 4.4
Operating margin in accordance with GAAP	*5.4%*	*12.8%*
Inventory valuation adjustment	0.7	
Plant, property and equipment valuation adjustment	0.1	
Acquisition and integration expenses	0.6	
Amortization and earn out expenses	3.3	0.1
Legal reserves	1.0	
Non-GAAP operating income	$ 9.4	$ 4.5
Non-GAAP operating margin	*13.6%*	*12.8%*

On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP gross profit was $22.3 million or 32.4% for the three months ended December 31, 2013, an increase of $11.1 million compared with non-GAAP gross margin of $11.2 million or 32.6% for the three months ended December 31, 2012. On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP operating income was $9.4 million or 13.6% for the three months ended December 31, 2013, an increase of $4.9 million compared with $4.5 million or 12.8% for the three months ended December 31, 2012.

Table of Contents

Liquidity and Capital Resources

Financing

On August 27, 2013, the Company entered into the Credit Agreement for various senior secured credit facilities (collectively, the Credit Facility) comprised of a $65.0 million senior secured term loan, a $70.5 million senior secured U.S. dollar revolving credit facility for U.S. dollar revolving loans with sub-facilities for letters of credit and swing-line loans, and a $19.5 million senior secured multi-currency revolving credit facility for U.S. dollar and specific foreign currency loans. The Company has the option to obtain additional commitments for either the U.S. dollar revolving credit facility or the term loan facility in an aggregate principal amount not to exceed $30.0 million.

Concurrent with the acquisition of Met-Pro, the Company borrowed $65.0 million in term loans and $52.0 million in U.S. dollar revolving loans and used the proceeds to (i) finance the cash portion of the acquisition, (ii) pay off certain outstanding indebtedness of the Company and its subsidiaries (including certain indebtedness of Met-Pro and its subsidiaries), and (iii) pay certain fees and expenses incurred in connection with the Credit Agreement. As of December 31, 2013, the aggregate principal amount of approximately $85.8 million was outstanding under the Credit Facility.

The term loans will be repaid quarterly at the end of each of the Company s fiscal quarters, in twelve installments of $1.2 million each, followed by four installments of $1.6 million each, followed by three installments of $2.0 million each, with the remaining balance being due and owing on August 27, 2018. The term loans are subject to mandatory prepayment under certain circumstances, including in connection with, and subject to certain reinvestment rights, the Company s or its subsidiaries receipt of net proceeds from certain issuances of indebtedness, sales of assets, and casualty events. The Company has granted a security interest in substantially all of its assets to secure its obligations pursuant to the Credit Agreement. The Credit Agreement is guaranteed by the Company s U.S. subsidiaries and such guaranty obligations are secured by a security interest on substantially all of the assets of such subsidiaries, including certain real property. The Credit Agreement may also be guaranteed by the Company s material foreign subsidiaries to the extent no adverse tax consequences would result to the Company.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit the ability of the Company and its subsidiaries to, among other things, grant liens, merge or consolidate, dispose of assets, pay certain dividends or distributions, repurchase stock, incur indebtedness, make loans, make investments or acquisitions, enter into certain transactions with affiliates, make capital expenditures, enter into certain restrictive agreements affecting its subsidiaries, and enter into certain negative pledge arrangements, in each case subject to customary exceptions for a Credit Agreement of this size and type. The Company is also required to maintain compliance with a consolidated leverage ratio of less than 2.75 and a consolidated fixed charge coverage ratio of more than 1.25.

The Credit Agreement includes customary events of default that include, among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross default to material indebtedness, bankruptcy and insolvency defaults, non- compliance with ERISA laws and regulations, defaults under the security documents or guaranties, material judgment defaults, invalidity of the Credit Agreement and related guarantee and security documents, change of management and a change of control default. Under certain circumstances, the occurrence of an event of default could result in an increased interest rate equal to 2.0% above the applicable interest rate for loans, the acceleration of the Company s obligations pursuant to the Credit Agreement and an obligation of the subsidiary guarantors to repay the full amount of the Company s borrowings pursuant to the Credit Agreement.

As of December 31, 2013, the Company was in compliance with all related financial and other restrictive covenants, and we expect continued compliance. In the future, if we cannot comply with the terms of the Credit Facility covenants it will be necessary for us to obtain a waiver or renegotiate our loan covenants, and there can be no assurance that such negotiations would be successful.

We have a $5.5 million credit agreement (Canadian $ denominated), originally dated November 28, 2007 (as amended from time to time), that is made between our Canadian subsidiary Flextor, Inc. as borrower and a lender. The facilities agreement includes (in Canadian $) a $2.5 million bank guarantee facility (under the PSG Program from Export Development Canada), a $0.5 million line of credit specific to forward exchange contracts, and a $2.5 million variable (subject to asset value limitations) line of credit for operations. The facility interest rate is the Caisse central Desjardins prime rate plus 0.5%. All of the borrowers assets are pledged for the facility, and the borrowers must have a working capital ratio of at least 1.25:1, working capital of at least $1.0 million, debt to adjusted tangible net worth ratio of less than 2.50:1, and minimum adjusted tangible net worth of $1.3 million. As of December 31, 2013 and December 31, 2012, the borrowers were in compliance with all related financial and other restrictive covenants, and expect continued compliance. As of December 31, 2013 and December 31, 2012, we have no outstanding borrowings under the Line of Credit. As of December 31, 2013, none of the bank guarantee facility was being used by the borrowers.

Table of Contents

We have a 7.0 million facilities agreement ($9.5 million as of December 31, 2013), originally dated August 17, 2012 (as amended from time to time), that is made between our Netherland s subsidiaries ATA Beheer B.V. and Aarding Thermal Acoustics B.V. as borrowers and ING Bank N.V. as the lender. The facilities agreement includes a 3.5 million bank guarantee facility and a 3.5 million overdraft facility. The bank guarantee and overdraft interest rate is three months Euribor plus 195 basis points. All of the borrowers assets are pledged for this facility, and the borrowers solvency ratio must be at least 30% and net debt/last twelve months EBITDA less than three. As of December 31, 2013, the borrowers were in compliance with all related financial and other restrictive covenants, and expect continued compliance. As of December 31, 2013, 2.5 million ($3.4 million as of December 31, 2013) of the bank guarantee and 3.5 million ($4.9 million as of December 31, 2013) of the overdraft facility are being used by the borrowers.

As of December 31, 2013, $17.6 million of our cash and cash equivalents were held by certain non-U.S. subsidiaries, as well as being denominated in foreign currencies.

Total unused credit availability under our existing Credit Agreement and other non-U.S. credit facilities and agreements, exclusive of any potential asset base limitations, is as follows:

	December 31,	
(dollars in millions)	**2013**	**2012**
Prior Bank facility borrowing base (replaced by Credit Agreement)	$	$ 16.5
Credit Agreement, U.S. Dollar revolving loans	70.5	
Draw down	(22.0)	
Letters of credit open	(1.3)	(1.9)
Credit Agreement, Multi-currency revolving facilities	19.5	
Netherlands facilities (7.0 million, in U.S. Dollar equivalent)	9.5	
Letters of credit open	(8.4)	
Canadian credit agreement (Canadian Dollar 5.5 million, in U.S. Dollar equivalent)	5.1	5.5
Total unused credit availability	$ 72.9	$ 20.1

Overview of Cash Flows and Liquidity

	For the year ended December 31,	
(dollars in thousands)	**2013**	**2012**
Total operating cash flow provided by operating activities	$ 24,181	$ 16,829
Acquisitions of property and equipment	(1,377)	(273)
Net cash paid for acquisition	(104,432)	(4,000)
Net proceeds from sale of equipment	215	382
Net cash used in investing activities	(105,594)	(3,891)

Net borrowings on credit lines	$	3,366	
Borrowings of long-term debt	$	100,000	
Repayments of long-term debt	$	(14,218)	
Deferred financing fees paid	$	(2,730)	
Proceeds from exercise of stock options	$	1,364	248
Cash paid for repurchase of common shares	$	(2,365)	(456)
Dividends paid to common shareholders	$	(4,337)	(2,460)
Net cash provided by (used in) financing activities	$	81,080	(2,668)
Net (decrease) increase in cash and cash equivalents	$	(333)	$ 10,270

In 2013, $24.2 million of cash was provided by operating activities as compared with $16.8 million provided by operating activities in 2012. The $7.4 million increase in cash flow from operating activities was due primarily to favorable net working capital improvements in 2013 compared to 2012, which more than offset the reduction in net income in 2013 compared to 2012. The incremental cash provided was comprised of $7.8 million in accounts receivable, $4.2 million in accounts payable and accrued expenses, and $1.4 million in prepaid expenses. The incremental cash used was comprised of $5.8 million in costs in excess of billings and $3.4 million in billings in excess of costs.