

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

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

For Quarter Ended JUNE 30, 1997 Commission file number 0-7099  
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CECO ENVIRONMENTAL CORP.  
-----

NEW YORK  
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13-2566064  
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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

505 UNIVERSITY AVENUE, SUITE 1400, TORONTO, ONTARIO, CANADA  
-----

M5G 1X3  
-----

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code 416-593-6543  
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111 ELIZABETH STREET, SUITE 600, TORONTO, ONTARIO, CANADA M5G 1P7  
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Former name, former address and former fiscal year,  
if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months and (2) has been subject to such filing requirements for  
the past 90 days.

X Yes No  
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Indicate the number of shares outstanding of each of the issuer's classes of  
common stock as of the close of the period covered by this report.

Class: COMMON, PAR VALUE \$.01 PER SHARE  
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OUTSTANDING at June 30, 1997 7,386,628

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
JUNE 30, 1997

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## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET  
(unaudited)

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 994,620	\$ 412,174
Marketable securities - trading	913,346	1,015,521
Accounts receivable	806,845	2,077,045
Inventories	490,816	565,371
Prepaid expenses and other current assets	47,125	45,464
Deferred income taxes	58,735	58,735
	-----	-----
Total current assets	3,311,487	4,174,310
Property and equipment, at cost, net	1,798,831	1,806,126
Intangible assets, at cost, net	107,484	36,031
Goodwill	3,324,668	3,184,810
	-----	-----
Total assets	\$ 8,542,470	\$ 9,201,277
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term obligations	\$ -	\$ 400,000
Current portion of long-term debt	66,959	83,100
Current portion of capital lease obligation	6,043	6,043
Accounts payable and accrued expenses	716,764	1,220,595
Income taxes payable	32,686	276,976
	-----	-----
Total current liabilities	822,452	1,986,714
Long-term debt, less current portion	1,094,336	1,132,869
Capital lease obligation, less current portion	6,262	9,882
	-----	-----
Total liabilities	1,923,050	3,129,465
	-----	-----
Minority interest	1,038,451	964,203
	-----	-----
Shareholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, none issued	-	-
Common stock, \$.01 par value; 100,000,000 shares authorized, 7,524,548 and 7,338,548 shares issued, respectively	75,245	73,385
Capital in excess of par value	8,409,638	8,178,998
Accumulated deficit	( 2,555,245)	( 2,796,105)
	-----	-----
Less treasury stock, at cost	5,929,638	5,456,278
	( 348,669)	( 348,669)
	-----	-----
Net shareholders' equity	5,580,969	5,107,609
	-----	-----
Total liabilities and shareholders' equity	\$8,542,470	\$9,201,277
	=====	=====

See accompanying notes to condensed consolidated financial statements.



CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
Net sales	\$2,927,091	\$1,874,440	\$5,467,487	\$4,025,097
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	1,482,156	964,867	2,797,027	2,105,189
Selling and administrative	1,059,297	795,282	1,975,761	1,623,354
Depreciation and amortization	120,423	103,562	239,789	215,906
	-----	-----	-----	-----
	2,661,876	1,863,711	5,012,577	3,944,449
	-----	-----	-----	-----
Income from operations	265,215	10,729	454,910	80,648
Investment income	48,581	22,889	70,576	22,889
Interest expense (net)	( 20,745)	( 40,591)	( 49,378)	( 84,050)
	-----	-----	-----	-----
Income (loss) before provision (credit) for income taxes	293,051	( 6,973)	476,108	19,487
Provision (credit) for income taxes	97,400	( 2,000)	161,000	8,000
	-----	-----	-----	-----
Income (loss) before minority interest	195,651	( 4,973)	315,108	11,487
Minority interest	( 43,769)	2,808	( 74,248)	( 2,820)
	-----	-----	-----	-----
Net income (loss)	\$ 151,882	(\$ 2,165)	\$ 240,860	\$ 8,667
	=====	=====	=====	=====
Net income (loss) per share, primary and fully diluted	\$ .02	(\$ .00)	\$ .03	\$ .00
	=====	=====	=====	=====
Weighted average number of common shares outstanding	7,262,628	6,913,228	7,231,628	6,902,228
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(unaudited)

	SIX MONTHS ENDED JUNE 30,	
	1997	1996
	-----	-----
INCREASE (DECREASE) IN CASH		
Cash flows from operating activities:		
Net income	\$ 240,860	\$ 8,667
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	199,260	179,318
Goodwill amortization	40,529	36,588
Amortization of deferred charges	-	50,000
Accrued bond interest		( 18,989)
Minority interest	74,248	2,820
Noncash expenses, officer's compensation	17,500	-
(Increase) decrease in operating assets:		
Accounts receivable	1,270,200	887,826
Inventories	74,555	( 29,032)
Prepaid expenses and other current assets	( 1,661)	( 56,587)
Purchases of marketable securities	( 515,054)	( 841,586)
Proceeds from sales of marketable securities	617,229	-
(Decrease) in operating liabilities:		
Accounts payable and accrued expenses	( 521,331)	( 483,896)
Income taxes payable	( 244,290)	( 5,901)
	-----	-----
Net cash provided by (used in) operating activities	1,252,045	( 270,772)
	-----	-----
Cash flows from investing activities:		
Additions to property and equipment and intangible assets	( 211,305)	( 65,926)
Advances to officers	-	( 32,000)
	-----	-----
Net cash (used in) investing activities	( 211,305)	( 97,926)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	27,500
Net repayments of short-term obligations	( 400,000)	( 300,000)
Repayments of long-term debt and capital lease obligation	( 58,294)	( 152,128)
	-----	-----
Net cash (used in) financing activities	( 458,294)	( 424,628)
	-----	-----
Net increase (decrease) in cash	582,446	( 793,326)
Cash at beginning of period	412,174	1,043,011
	-----	-----
Cash at end of period	\$ 994,620	\$ 249,685
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:		
Interest	\$ 20,745	\$ 84,050
	-----	-----
Income taxes	\$ 373,850	\$ 23,800
	-----	-----

See accompanying notes to condensed consolidated financial statements.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position as of June 30, 1997 and the results of operations for the three-month and six-month periods ended June 30, 1997 and 1996 and cash flows for the six-month periods ended June 30, 1997 and 1996. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's 1996 Annual Report to stockholders. The results of operations for the six-month period ended June 30, 1997 are not necessarily indicative of the results to be expected for the full year, or any future interim period.

2. Inventories consisted of the following:

	June 30, 1997	December 31, 1996
	-----	-----
Raw materials	\$369,095	\$410,949
Finished goods	121,721	154,422
	-----	-----
	\$490,816	\$565,371
	=====	=====

3. Other Assets

Investment in CECO Filters, Inc.

Pursuant to a Stock Exchange Agreement dated May 30, 1992, between the Company and IntroTech Investments, Inc. ("IntroTech"), a privately-held Ontario corporation, the Company exchanged 1,666,666 newly issued shares of its common stock for 1,666,666 shares of CECO Filters, Inc. ("CECO") owned by IntroTech. CECO is a Delaware corporation engaged in the pollution controls industry. It is a manufacturer of industrial air filters, with its corporate headquarters located in Conshohocken, Pennsylvania. The 1,666,666 shares of CECO common stock acquired by the Company are restricted. Those shares represented 24.51% of the outstanding shares of common stock of CECO.

During 1993 through 1996, the Company exchanged 2,953,964 additional shares of its common stock for 2,953,964 shares of CECO's common stock with unrelated third parties. Also, during 1993, the Company acquired, for cash, an additional 21,100 shares of CECO's common stock from unrelated third parties. In June, 1997, the Company exchanged 186,000 additional shares of its common stock for 186,000 shares of CECO's common stock with unrelated third parties. As of June 30, 1997, the Company owned 70.3% of CECO's common stock.

Summarized financial information of CECO as of and for its six months ended June 30, 1997, is as follows:

Financial position:	
Working capital	\$1,332,720
	=====
Total assets	\$4,235,148
	=====
Net shareholders' equity	\$2,344,398
	=====
Results of operations:	
Net sales	\$5,467,487
	=====
Income before income taxes	\$ 404,056
	=====
Net income	\$ 243,056
	=====

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(unaudited)

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Financial Condition, Liquidity and Capital Resources - The Company

The Company's consolidated cash and marketable securities position increased from \$1,427,695 at December 31, 1996 to \$1,907,966 at June 30, 1997. This increase of \$480,271 is attributable principally to the source of cash from operating activities of \$1,149,870 (excluding activities involving marketable securities) during the six months ended June 30, 1997. The cash generation is the result of a substantial increase in net income compared to the same period in the previous year and the collection of accounts receivable offset by payments for accounts payable, accrued expenses and income taxes. A portion of this increase was offset by the use of \$211,305 of cash in investing activities for the acquisition of equipment and intangible assets and the use of \$458,294 in financing activities to repay debt.

Management believes that CECO's expected revenues from operations, supplemented by the available line of credit, will be sufficient to provide adequate cash to fund anticipated working capital and other cash needs during the remainder of the year.

The Company and CECO have entered into a five-year management and consulting agreement during 1994 pursuant to which the Company provides management and financial consulting services to CECO for a monthly fee of \$20,000 until the agreement expires in December, 1998. The Company believes its consulting agreement with CECO and investment income from its investment in marketable securities should provide sufficient revenue to meet its general and administrative expenses.

Results of Operations - The Company

The Company's consolidated statement of operations for the six-month periods ended June 30, 1997 and 1996 reflects the operations of the Company consolidated with the operations of CECO. As a result of multiple stock acquisitions, the Company, effective April 7, 1993, owned a greater than 50% interest in CECO. Minority interest in the consolidated statement of operations has been presented as a reduction in net income or loss.

The Company received \$60,000 during each quarter for management and financial consulting services provided to CECO. This amount is not reflected in the consolidated results of operations since it is eliminated in consolidation.

Except as set forth above, the Company has no other income, revenues or expenses other than as a result of its investment in CECO and its investment in marketable securities and except for its investment activities the Company does not engage in operations other than through its operating subsidiary, CECO.

CECO is comprised of the CECO Group of companies - CECO Filters, Inc., Air Purator Corporation, Compliance Systems International, Inc., and U.S. Facilities Management Company, Inc. - which provide innovative solutions to air quality problems through particle and chemical control technologies and services.



CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED  
(unaudited)

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CECO manufactures and markets filters known as fiber bed mist eliminators, designed to trap, collect and remove solid soluble and liquid particulate matter suspended in an air or other gas stream whether generated from a point source emission or otherwise. Air Purator Corporation ("APC"), designs and manufactures high performance filter media and bags for use in high temperature pulse-jet baghouses, the most effective type of baghouse for capturing submicron particulate from gas streams. Compliance Systems International ("CSI") offers innovative patented technologies, Catenary Grid(R) and Narrow Gap Venturi(TM), designed for use with heat and mass transfer operations and particulate control. CSI also offers a complete range of air quality consulting services using a proprietary network of industry experts with years of air quality and purification system knowledge. U.S. Facilities Management Company, Inc. ("USFM") provides facilities management and software, as well as outsourced plant-wide maintenance management to help customers achieve their performance goals.

Results of Operations - CECO (Company's Subsidiary)

Comparison of Six Months ended June 30, 1997 to Six Months ended June 30, 1996

Sales were approximately \$5.5 million and \$4.0 million for the six-month periods ended June 30, 1997 and 1996, respectively, an increase of 35.8% from 1996 to 1997. The increase in sales from 1996 to 1997 resulted primarily from more sales orders and higher backlog at the end of 1996. APC's sales increased by 71% compared to the same period in the previous year. Sales of our core CECO filter media benefited from contractual supply agreements in the private sector. These increases were offset by a reduction of new system sales of CSI scrubbers and CECO mist eliminators caused by capital spending constraints in our targeted market segments.

CECO's backlog of orders at June 30, 1997 was approximately \$1.5 million as compared to \$3.3 million at June 30, 1996. There can be no assurance that order backlog will be replicated, or increased or that it will translate into higher revenues in the future. The success of CECO's operating results can be significantly impacted by the introduction of new products and/or new manufacturing technologies by competitors, rapid change in the demand for its products, decrease in the average selling price over the life of a product as competition increases, and CECO's implementation of its target marketing approach.

CECO's overall cost of sales slightly decreased as a percentage of sales for the six months ended June 30, 1997 (51.2%) compared to the six months ended June 30, 1996 (52.3%). The decrease can be attributed to decreases in raw material costs as well as lower costs incurred to service CECO's products.

CECO's selling and administrative expenses amounted to \$1,897,766 for the six-month period ended June 30, 1997 compared to \$1,520,748 for the six-month period ended June 30, 1996, representing an increase of \$377,018 or 24.8%. A substantial portion of the selling and administrative expenses are fixed in nature. However, sales and customer service positions were increased as part of CECO's overall restructuring to strengthen marketing approach and accommodate anticipated growth. In addition, a portion of this increase in selling and administrative expenses resulted from the newly formed subsidiary, USFM.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED  
(unaudited)

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During 1994, CECO entered into a management and consulting agreement with the Company, a majority shareholder of CECO. The terms of the agreement require payment of fees of \$20,000 per month from January, 1995 through December, 1998 in exchange for management and financial consulting services involving corporate policies; marketing; strategic and financial planning; and mergers, acquisitions and related matters. CECO incurred management fees to the Company of \$120,000 during each of the six-month periods ended June 30, 1997 and 1996.

Interest expense decreased during the six-month period ended June 30, 1997, when compared to the same period in 1996. The decrease in interest expense can be attributed to non-utilization of the line of credit.

CECO generated pre-tax income of \$404,056 for the six-month period ended June 30, 1997 as compared to pre-tax income of \$15,792 for the six-month period ended June 30, 1996. This change is attributed principally to the increase in sales as well as the increase in gross margins for the six-month period ended June 30, 1997 compared to same period in 1996.

The provision for federal and state tax income taxes for the six-month period ended June 30, 1997 amounted to \$161,000 compared to \$8,000 for the six-month period ended June 30, 1996.

Comparison of Three Months ended June 30, 1997 to Three Months ended June 30, 1996

Sales were approximately \$2.9 million and \$1.9 million for the three-month periods ended June 30, 1997 and 1996, respectively. This represents an increase of 56.2% compared to the three months ended June 30, 1996.

CECO's overall cost of sales slightly decreased as a percentage of sales for the three months ended June 30, 1997 compared to the three months ended June 30, 1996. The decrease can be attributed to lower raw material costs as well as lower costs incurred to service CECO's products. CECO continues to use the latest technology available in an effort to reduce both cost of sales (and the maintenance of optimal inventory levels) and operating expenses, and ultimately increase overall company profits.

CECO's selling and administrative expenses amounted to \$1,019,619 for the three-month period ended June 30, 1997 compared to \$733,168 for the three-month period ended June 30, 1996, representing an increase of \$286,451 or 39%, for the same reasons described in the six-month comparison described previously.

CECO paid the Company \$60,000 during each of the three-months periods ended June 30, 1997 and 1996 in connection with its management consulting agreement.

Interest expense decreased during the three-month period ended June 30, 1997, when compared to the same period in 1996, due to lower utilization of the line of credit.

CECO generated pre-tax income of \$244,941 for the three-month period ended June 30, 1997, as compared to a pre-tax loss of \$9,454 for the three-month period ended June 30, 1996. This change is attributed principally to the increase in sales along with the increase in gross margins.

The provision for federal and state income taxes for the three-month period ended June 30, 1997 amounted to \$97,400 as compared to the credit for federal and state income taxes of \$2,000 for the three-month period ended June 30, 1996.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CECO ENVIRONMENTAL CORP.

-----  
Phillip DeZwirek  
Chief Financial Officer  
Chief Executive Officer

Date: July 31, 1997

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## APPENDIX A TO ITEM 601(c) OF REGULATION S-B

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

ITEM NUMBER	AMOUNT	ITEM DESCRIPTION
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5-02(1)	\$ 994,620	Cash and cash items
5-02(2)	913,346	Marketable securities
5-02(3)(a)(1)	806,845	Notes and accounts receivable, trade
5-02(4)	0	Allowances for doubtful accounts
5-02(6)	490,816	Inventories
5-02(9)	3,311,487	Total current assets
5-02(13)	3,530,823	Property, plant and equipment
5-02(14)	1,731,992	Accumulated depreciation
5-02(18)	8,542,470	Total assets
5-02(21)	822,452	Total current liabilities
5-02(22)	1,161,295	Bonds, mortgages and similar debt
5-02(28)	-	Preferred stock, mandatory redemption
5-02(29)	-	Preferred stock, no mandatory redemption
5-02(30)	75,245	Common stock
5-02(31)	5,505,724	Other stockholders' equity
5-02(32)	8,542,470	Total liabilities and stockholders' equity
5-03(b)1(a)	5,467,487	Net sales of tangible products
5-03(b)1	5,467,487	Total revenues
5-03(b)2(a)	2,797,027	Cost of tangible goods sold
5-03(b)2	5,012,577	Total costs and expenses applicable to sales and revenues
5-03(b)3	49,378	Other costs and expenses
5-03(b)5	0	Provision for doubtful accounts and notes
5-03(b)(8)	70,576	Interest and amortization of debt discount
5-03(b)(10)	476,108	Income (loss) before taxes and other items
5-03(b)(11)	161,000	Income tax expense (credit)
5-03(b)(14)	240,860	Income (loss) continuing operations
5-03(b)(15)	0	Discontinued operations
5-03(b)(17)	0	Extraordinary items
5-03(b)(18)	0	Cumulative effect, changes in accounting principles
5-03(b)(19)	240,860	Net income or loss
5-03(b)(20)	.03	Earnings (loss) per share, primary
5-03(b)(20)	.03	Earnings (loss) per share, fully diluted