

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark one)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended **September 30, 2020**

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. **0-07099**



**CECO ENVIRONMENTAL CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
Incorporation or organization)  
  
**14651 North Dallas Parkway**  
**Suite 500**  
**Dallas, Texas**  
(Address of principal executive offices)

**13-2566064**  
(IRS Employer  
Identification No.)

**75254**  
(Zip Code)

**Registrant's telephone number, including area code: (214) 357-6181**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	CECE	The NASDAQ Stock Market LLC

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: 35,504,757 shares of common stock, par value \$0.01 per share, as of October 30, 2020.

**CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES**  
QUARTERLY REPORT ON FORM 10-Q  
For the quarter ended September 30, 2020

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PART I – FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)	(unaudited)	
	SEPTEMBER 30, 2020	DECEMBER 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,537	\$ 35,602
Restricted cash	1,811	1,356
Accounts receivable, net	58,274	68,434
Costs and estimated earnings in excess of billings on uncompleted contracts	41,014	34,805
Inventories, net	18,550	20,578
Prepaid expenses and other current assets	12,773	9,899
Prepaid income taxes	6,664	8,231
Assets held for sale	467	593
Total current assets	184,090	179,498
Property, plant and equipment, net	15,774	15,274
Right-of-use assets from operating leases	12,053	13,607
Goodwill	161,352	152,020
Intangible assets – finite life, net	31,477	31,283
Intangible assets – indefinite life	13,694	14,291
Deferred charges and other assets	3,650	2,664
Total assets	\$ 422,090	\$ 408,637
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of debt	\$ 2,812	\$ 2,500
Accounts payable and accrued expenses	82,550	78,319
Billings in excess of costs and estimated earnings on uncompleted contracts	24,673	34,369
Total current liabilities	110,035	115,188
Other liabilities	19,720	20,372
Debt, less current portion	73,626	63,001
Deferred income tax liability, net	7,268	5,943
Operating lease liabilities	9,845	11,116
Total liabilities	220,494	215,620
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value; 10,000 shares authorized, none issued	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 35,504,757 and 35,275,465 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	355	353
Capital in excess of par value	254,771	253,869
Accumulated loss	(39,921)	(46,344)
Accumulated other comprehensive loss	(14,234)	(14,505)
	200,971	193,373
Less treasury stock, at cost, 137,920 shares at September 30, 2020 and December 31, 2019	(356)	(356)
Total CECO shareholders' equity	200,615	193,017
Noncontrolling interest	981	—
Total shareholders' equity	201,596	193,017
Total liabilities and shareholders' equity	\$ 422,090	\$ 408,637

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

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

(dollars in thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net sales	\$ 77,425	\$ 85,266	\$ 233,081	\$ 252,456
Cost of sales	52,615	56,489	154,176	168,400
Gross profit	24,810	28,777	78,905	84,056
Selling and administrative expenses	18,989	21,823	59,374	65,573
Amortization and earnout expenses	2,050	2,166	5,546	6,480
Restructuring expenses	871	729	1,753	968
Acquisition and integration expenses	368	—	1,067	—
Executive transition expenses	1,514	—	1,514	—
Loss on divestitures, net of selling costs	—	—	—	70
Income from operations	1,018	4,059	9,651	10,965
Other (expense) income, net	(290)	(73)	1,057	95
Interest expense	(772)	(1,316)	(2,739)	(4,319)
(Loss) income before income taxes	(44)	2,670	7,969	6,741
Income tax expense (benefit)	206	739	1,549	(2,569)
Net (loss) income	(250)	1,931	6,420	9,310
Noncontrolling interest	11	—	11	—
Net (loss) income attributable to CECO Environmental Corp.	\$ (239)	\$ 1,931	\$ 6,431	\$ 9,310
(Loss) earnings per share:				
Basic	\$ (0.01)	\$ 0.06	\$ 0.18	\$ 0.27
Diluted	\$ (0.01)	\$ 0.05	\$ 0.18	\$ 0.26
Weighted average number of common shares outstanding:				
Basic	35,358,913	35,070,449	35,263,688	34,944,056
Diluted	35,358,913	35,624,590	35,471,551	35,522,568

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(unaudited)

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (250)	\$ 1,931	\$ 6,420	\$ 9,310
Other comprehensive income (loss), net of tax:				
Interest rate swap loss	—	—	—	(506)
Foreign currency translation gain (loss)	1,365	(1,169)	271	(935)
Comprehensive income	\$ 1,115	\$ 762	\$ 6,691	\$ 7,869
Noncontrolling interest	11	—	11	—
Comprehensive income attributable to CECO Environmental Corp.	\$ 1,126	\$ 762	\$ 6,702	\$ 7,869

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

**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(unaudited)

	Common Stock		Capital in excess of par value	Accumulated Loss	Accumulated Other Comprehensive Loss	Treasury Stock		Noncontrolling Interest	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
Balance December 31, 2018	34,954	\$ 349	\$ 251,409	\$ (59,427)	\$ (13,415)	(138)	\$ (356)	\$ —	\$ 178,560
Net income for the three-months ended March 31, 2019				1,864					1,864
Cumulative effect adjustment upon adoption of new accounting standards (ASU 2017-12) and (ASU 2016-02)				(4,602)	12				(4,590)
Restricted stock units issued	12	—	(8)	—					(8)
Share based compensation earned	14	—	798	—					798
Adjustment for interest rate swap					(213)				(213)
Translation gain					978				978
Balance March 31, 2019	<u>34,980</u>	<u>\$ 349</u>	<u>\$ 252,199</u>	<u>\$ (62,165)</u>	<u>\$ (12,638)</u>	<u>(138)</u>	<u>\$ (356)</u>	<u>\$ —</u>	<u>\$ 177,389</u>
Net income for the three-months ended June 30, 2019				5,515					5,515
Restricted stock units issued	200	3	(314)	(18)					(329)
Share based compensation earned	—	—	1,031	—					1,031
Adjustment for interest rate swap					(293)				(293)
Translation loss					(744)				(744)
Balance June 30, 2019	<u>35,180</u>	<u>\$ 352</u>	<u>\$ 252,916</u>	<u>\$ (56,668)</u>	<u>\$ (13,675)</u>	<u>(138)</u>	<u>\$ (356)</u>	<u>\$ —</u>	<u>\$ 182,569</u>
Net income for the three-months ended September 30, 2019				1,931					1,931
Restricted stock units issued	35	1	(103)	1					(101)
Share based compensation earned	29	—	944	—					944
Translation loss					(1,169)				(1,169)
Balance September 30, 2019	<u>35,244</u>	<u>\$ 353</u>	<u>\$ 253,757</u>	<u>\$ (54,736)</u>	<u>\$ (14,844)</u>	<u>(138)</u>	<u>\$ (356)</u>	<u>\$ —</u>	<u>\$ 184,174</u>

	Common Stock		Capital in excess of par value	Accumulated Loss	Accumulated Other Comprehensive Loss	Treasury Stock		Noncontrolling Interest	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
Balance December 31, 2019	35,275	\$ 353	\$ 253,869	\$ (46,344)	\$ (14,505)	(138)	\$ (356)	\$ —	\$ 193,017
Net income for the three-months ended March 31, 2020				3,412					3,412
Restricted stock units issued	63	1	(153)	—					(152)
Share based compensation earned	—	—	597	—					597
Translation loss					(2,268)				(2,268)
Balance March 31, 2020	<u>35,338</u>	<u>\$ 354</u>	<u>\$ 254,313</u>	<u>\$ (42,932)</u>	<u>\$ (16,773)</u>	<u>(138)</u>	<u>\$ (356)</u>	<u>\$ —</u>	<u>\$ 194,606</u>
Net income for the three-months ended June 30, 2020				3,258					3,258
Restricted stock units issued	155	1	(144)	(8)					(151)
Share based compensation earned	—	—	154	—					154
Translation gain					1,174				1,174
Balance June 30, 2020	<u>35,493</u>	<u>\$ 355</u>	<u>\$ 254,323</u>	<u>\$ (39,682)</u>	<u>\$ (15,599)</u>	<u>(138)</u>	<u>\$ (356)</u>	<u>\$ —</u>	<u>\$ 199,041</u>
Net loss for the three-months ended September 30, 2020				(239)				(11)	(250)
Restricted stock units issued	12	—	(38)	—					(38)
Share based compensation earned	—	—	486	—					486
Translation gain					1,365				1,365
Noncontrolling interest acquired (see Note 14)								992	992
Balance September 30, 2020	<u>35,505</u>	<u>\$ 355</u>	<u>\$ 254,771</u>	<u>\$ (39,921)</u>	<u>\$ (14,234)</u>	<u>(138)</u>	<u>\$ (356)</u>	<u>\$ 981</u>	<u>\$ 201,596</u>

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

(dollars in thousands)	Nine months ended September 30,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,431	\$ 9,310
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,224	8,153
Unrealized foreign currency loss	302	496
Net gain on interest rate swaps	—	(248)
Loss on sale of property and equipment	104	58
Loss on divestitures	—	70
Debt discount amortization	311	928
Share-based compensation expense	1,237	2,684
Bad debt expense	625	710
Inventory reserve expense	453	454
Deferred income tax benefit	13	(595)
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	12,705	(6,090)
Costs and estimated earnings in excess of billings on uncompleted contracts	(5,714)	(5,196)
Inventories	2,568	527
Prepaid expense and other current assets	(1,713)	(3,853)
Deferred charges and other assets	(2,858)	(1,628)
Accounts payable and accrued expenses	443	(4,217)
Billings in excess of costs and estimated earnings on uncompleted contracts	(13,504)	2,879
Income taxes payable	21	(1,679)
Other liabilities	467	(3,396)
Net cash provided by (used in) operating activities	9,115	(633)
Cash flows from investing activities:		
Acquisitions of property and equipment	(2,875)	(3,746)
Net cash paid for acquisition	(5,895)	—
Proceeds from sale of property and equipment	605	509
Net cash used in by investing activities	(8,165)	(3,237)
Cash flows from financing activities:		
Borrowings on revolving credit lines	87,000	38,300
Repayments on revolving credit lines	(74,500)	(44,447)
Repayments of long-term debt	(4,384)	(2,325)
Deferred financing fees paid	—	(1,117)
Payments on finance leases and financing liability	(333)	(368)
Proceeds from employee stock purchase plan and exercise of stock options	—	76
Net cash provided by (used in) financing activities	7,783	(9,881)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	657	(448)
Net increase (decrease) in cash, cash equivalents and restricted cash	9,390	(14,199)
Cash, cash equivalents and restricted cash at beginning of period	36,958	44,438
Cash, cash equivalents and restricted cash at end of period	\$ 46,348	\$ 30,239
Cash paid (received) during the period for:		
Interest	\$ 2,450	\$ 2,651
Income taxes	\$ (112)	\$ 5,234

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

**1. Basis of Reporting for Consolidated Financial Statements**

The accompanying unaudited condensed consolidated financial statements of CECO Environmental Corp. and its subsidiaries (the “Company”, “we”, “us”, or “our”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of September 30, 2020 and the results of operations, cash flows and shareholders’ equity for the three-month and nine-month periods ended September 30, 2020 and 2019. The results of operations for the three-month and nine-month periods ended September 30, 2020 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2019 has been derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”) as filed with the SEC.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These financial statements and accompanying notes should be read in conjunction with the audited financial statements and the notes thereto included in the 2019 Form 10-K.

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

*COVID-19*

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. As of September 30, 2020, the virus continues to spread and has had a significant impact on worldwide economic activity and on macroeconomic conditions and the end markets of our business. No vaccine is currently available. The Company has instituted some and may take additional temporary precautionary measures to comply with government directives and guidelines and minimize business disruption.

The outbreak and a continued spread of COVID-19 has resulted in a substantial curtailment of business activities worldwide and has caused weakened economic conditions, both in the United States and abroad. COVID-19 has had, and may continue to have, a negative impact on the Company’s ongoing operations and the end markets in which it serves. However, the full impact of the COVID-19 pandemic continues to evolve as of the date of this filing, and as such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the pandemic on its financial condition, liquidity, operations, suppliers, industry, and workforce.



## 2. New Financial Accounting Pronouncements

### Accounting Standards Yet to be Adopted

In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,” that makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The new guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. ASU 2018-14 is effective for the Company January 1, 2021. The Company is evaluating the impact of the adoption of ASU 2018-14 on its consolidated financial statements.

## 3. Accounts Receivable

(table only in thousands)	September 30, 2020	December 31, 2019
Contract receivables	\$ 49,826	\$ 58,881
Trade receivables	11,409	12,135
Allowance for doubtful accounts	(2,961)	(2,582)
Total accounts receivable	<u>\$ 58,274</u>	<u>\$ 68,434</u>

Balances billed but not paid by customers under retainage provisions in contracts within the Condensed Consolidated Balance Sheets amounted to approximately \$1.4 million and \$0.9 million at September 30, 2020 and December 31, 2019, respectively. Retainage receivables on contracts in progress are generally collected within a year after contract completion.

Bad debt expense was approximately \$0.1 million and \$0.3 million for the three-month periods ended September 30, 2020 and 2019, respectively, and \$0.6 million and \$0.7 million for the nine-month periods ended September 30, 2020 and 2019, respectively.

## 4. Inventories

(table only in thousands)	September 30, 2020	December 31, 2019
Raw materials	\$ 14,544	\$ 15,218
Work in process	6,688	7,328
Finished goods	437	654
Obsolescence allowance	(3,119)	(2,622)
Total inventories	<u>\$ 18,550</u>	<u>\$ 20,578</u>

Amounts credited to the allowance for obsolete inventory and charged to cost of sales amounted to \$0.2 million and \$0.1 million for the three-month periods ended September 30, 2020 and 2019, respectively and \$0.5 million for the nine-month periods ended September 30, 2020 and 2019.

## 5. Goodwill and Intangible Assets

(table only in thousands) Goodwill / Tradename	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Goodwill	Tradename	Goodwill	Tradename
Beginning balance	\$ 152,020	\$ 14,291	\$ 152,156	\$ 18,258
Transfers to finite life classification	—	(700)	—	(3,904)
Acquisitions	9,017	—	—	—
Foreign currency translation	315	103	(136)	(63)
	<u>\$ 161,352</u>	<u>\$ 13,694</u>	<u>\$ 152,020</u>	<u>\$ 14,291</u>

(table only in thousands) Intangible assets – finite life	As of September 30, 2020		As of December 31, 2019	
	Cost	Accum. Amort.	Cost	Accum. Amort.
Technology	\$ 14,457	\$ 12,425	\$ 14,457	\$ 10,686
Customer lists	73,199	47,754	68,943	44,484
Tradename	6,578	1,582	5,294	1,154
Foreign currency adjustments	(2,388)	(1,392)	(1,869)	(782)
	<u>\$ 91,846</u>	<u>\$ 60,369</u>	<u>\$ 86,825</u>	<u>\$ 55,542</u>

Activity for the nine-months ended September 30, 2020 and 2019 is as follows:

(table only in thousands)	2020	2019
Intangible assets – finite life, net at beginning of period	\$ 31,283	\$ 35,959
Amortization expense	(5,448)	(6,479)
Transfers from indefinite life classification	700	3,904
Acquisition	4,840	—
Foreign currency adjustments	102	(132)
Intangible assets – finite life, net at end of period	<u>\$ 31,477</u>	<u>\$ 33,252</u>

Amortization expense of finite life intangible assets was \$1.9 million and \$2.2 million for the three-month periods ended September 30, 2020 and 2019, respectively and \$5.4 million and \$6.5 million for the nine-month periods ended September 30, 2020 and 2019, respectively. Amortization over the next five years for finite life intangibles is expected to be \$2.0 million for the remainder of 2020, \$6.4 million in 2021, \$5.5 million in 2022, \$4.6 million in 2023, and \$3.9 million in 2024.

During the nine-month periods ended September 30, 2020 and 2019, the Company reassessed the useful lives of certain tradenames and determined that \$0.7 million and \$3.9 million, respectively of their tradenames would have useful lives of 10 years now versus indefinite.

The Company completes an annual (or more often if circumstances require) goodwill and indefinite life intangible asset impairment assessment on October 1. As a part of its impairment assessment, the Company first qualitatively assesses whether current events or changes in circumstances lead to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of a reporting unit or indefinite life intangible asset is less than its carrying amount. If there is a qualitative determination that the fair value is more likely than not greater than carrying value, the Company does not need to quantitatively test for impairment. If this qualitative assessment indicates a more likely than not potential that the asset may be impaired, the estimated fair value is calculated. If the estimated fair value is less than carrying value, an impairment charge is recorded.

In 2019, we performed a quantitative assessment and concluded each of our reporting units and indefinite life intangible assets had excess fair value over their carrying value. We determined negative macroeconomic factors resulting from the COVID-19 pandemic constituted a triggering event as of March 31, 2020 and based on a qualitative assessment determined that our goodwill and indefinite life intangible assets were not impaired. The Company did not identify any triggering events during either of the three month periods ended June 30, 2020 and September 30, 2020 that would require an interim impairment assessment of goodwill or intangible assets. The Company's assumptions about future conditions important to its assessment of potential impairment of its goodwill and indefinite life intangible assets, including the impacts of the COVID-19 pandemic, are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available, and will update its analyses accordingly.

## 6. Accounts Payable and Accrued Expenses

(table only in thousands)	September 30, 2020	December 31, 2019
Trade accounts payable, including amounts due to subcontractors	\$ 54,994	\$ 48,762
Compensation and related benefits	5,472	5,712
Accrued warranty	4,463	4,664
Contract liabilities	4,937	5,666
Short-term lease liability	2,471	2,610
Other	10,213	10,905
Total accounts payable and accrued expenses	<u>\$ 82,550</u>	<u>\$ 78,319</u>

## 7. Senior Debt

Debt consisted of the following:

(table only in thousands)	September 30, 2020	December 31, 2019
Outstanding borrowings under the Credit Facility (defined below).		
Term loan payable in quarterly principal installments of \$0.6 million through June 2021, \$0.9 million through June 2023, and \$1.3 million thereafter with balance due upon maturity in June 2024.		
- Term loan	\$ 46,875	\$ 48,750
- Revolving Credit Loan	31,000	18,500
- Unamortized debt discount	(1,437)	(1,749)
Total outstanding borrowings under the Credit Facility	76,438	65,501
Less: current portion	(2,812)	(2,500)
Total debt, less current portion	\$ 73,626	\$ 63,001

Scheduled principal payments under our Credit Facility are \$0.6 million remaining in 2020, \$3.1 million in 2021, \$3.7 million in 2022, \$4.4 million in 2023, and \$66.1 million in 2024.

### United States Debt

As of September 30, 2020 and December 31, 2019, \$6.9 million and \$11.0 million of letters of credit were outstanding, respectively. Total unused credit availability under the Company's senior secured term loan and senior secured revolver loan with sub-facilities for letters of credit, swing-line loans and senior secured multi-currency loans (collectively, the "Credit Facility") was \$75.8 million and \$82.3 million at September 30, 2020 and December 31, 2019, respectively. Revolving loans may be borrowed, repaid and reborrowed until June 11, 2024, at which time all outstanding balances of the Credit Facility must be repaid.

The weighted average stated interest rate on outstanding borrowings was 2.31% and 3.80% at September 30, 2020 and December 31, 2019, respectively.

Under the terms of the Credit Facility, the Company is required to maintain certain financial covenants, including the maintenance of a Consolidated Net Leverage Ratio. Through September 30, 2020, the maximum Consolidated Net Leverage Ratio is 3.75, after which time it will decrease to 3.50 through September 30, 2021. The Consolidated Net Leverage Ratio will then decrease to 3.25 until the end of the term of the Credit Facility.

As of September 30, 2020 and December 31, 2019, the Company was in compliance with all related financial and other restrictive covenants under the Credit Facility.

### Foreign Debt

The Company has a number of bank guarantee facilities and bilateral lines in various countries currently supported by cash, letters of credit or pledged assets and collateral under the Credit Facility. The Credit Facility allows letters of credit and bank guarantee issuances of up to \$50.0 million from the bilateral lines secured by pledged assets and collateral under the Credit Facility. As of September 30, 2020, \$18.0 million in bank guarantees were outstanding. In addition, a subsidiary of the Company located in the Netherlands has a Euro-denominated bank guarantee agreement secured by local assets under which \$3.1 million in bank guarantees were outstanding as of September 30, 2020. As of September 30, 2020, the borrowers of these facilities and agreements were in compliance with all related financial and other restrictive covenants.

## 8. Earnings per Share

The computational components of basic and diluted earnings per share for the three-month periods ended September 30, are below.

	<u>2020</u>	<u>2019</u>
<i>(table only in thousands)</i>		
<b>Numerator</b> (for basic and diluted earnings per share)		
Net (loss) income	\$ (239)	\$ 1,931
<b>Denominator</b>		
Basic weighted-average shares outstanding	35,359	35,070
Common stock equivalents arising from stock options and restricted stock awards	—	555
Diluted weighted-average shares outstanding	<u>35,359</u>	<u>35,625</u>

The computational components of basic and diluted earnings per share for the nine-month periods ended September 30, are below.

	<u>2020</u>	<u>2019</u>
<i>(table only in thousands)</i>		
<b>Numerator</b> (for basic and diluted earnings per share)		
Net income	\$ 6,431	\$ 9,310
<b>Denominator</b>		
Basic weighted-average shares outstanding	35,264	34,944
Common stock equivalents arising from stock options and restricted stock awards	208	579
Diluted weighted-average shares outstanding	<u>35,472</u>	<u>35,523</u>

Options and restricted stock units included in the computation of diluted earnings per share are calculated using the treasury stock method. For the three-month periods ended September 30, 2020 and 2019, zero and 0.4 million, respectively, and during each of the nine-month periods ended September 30, 2020 and 2019, 0.9 million and 0.5 million, respectively of outstanding options and restricted stock units were excluded from the computation of diluted earnings per share due to their having an anti-dilutive effect.

Once a restricted stock unit vests, it is included in the computation of weighted average shares outstanding for purposes of basic and diluted earnings per share.

## 9. Share-Based Compensation

The Company accounts for share-based compensation in accordance with Accounting Standards Codification (“ASC”) Topic 718, “Compensation – Stock Compensation,” which requires the Company to recognize compensation expense for share-based awards, measured at the fair value of the awards at the grant date. The Company recognized \$0.5 million and \$1.0 million of share-based compensation related expense during the three-month periods ended September 30, 2020 and 2019, respectively, and \$1.2 million and \$2.8 million during the nine-month periods ended September 30, 2020 and 2019, respectively.

The Company granted approximately 1.2 million options during the three and nine month periods ended September 30, 2020 and zero options during the three and nine-month periods ended September 30, 2019.

The weighted-average fair value of stock options granted during the three and nine months ended September 30, 2020 was estimated at \$1.98 per option, using the Black-Scholes option-pricing model based on the following assumptions:

*Expected Volatility:* The Company utilizes a volatility factor based on the Company’s historical stock prices for a period of time equal to the expected term of the stock option utilizing weekly price observations. For the three and nine months ended September 30, 2020, the Company utilized a weighted-average volatility factor of 52.5%.

*Expected Term:* For the three and nine months ended September 30, 2020, the Company utilized a weighted-average expected term factor of 5.0 years.

*Risk-Free Interest Rate:* The risk-free interest rate factor utilized is based upon the implied yields currently available on U.S. Treasury zero-coupon issues over the expected term of the stock options. For the three and nine months ended September 30, 2020, the Company utilized a weighted-average risk-free interest rate factor of 0.3%.

The Company granted approximately 144,000 and zero restricted stock units during the three-month periods ended September 30, 2020 and 2019, respectively, and approximately 648,000 and 464,000 restricted stock units during the nine-month periods ended September 30, 2020 and 2019, respectively. The weighted-average fair value of restricted stock units granted was estimated at \$6.35 and \$7.49 per unit during the nine-months ended September 30, 2020 and 2019, respectively. The fair value of time-based and 2019 performance-based restricted stock units was determined by using the value of stock in the open market on the date of grant. The fair value of 2020 performance-based restricted stock units was determined by using the Monte Carlo valuation model.

The fair value of the stock-based awards granted is recorded as compensation expense on a straight-line basis over the vesting periods of the awards.

There were zero and approximately 1,000 options exercised during the nine-months ended September 30, 2020 and 2019, respectively. The amount the Company received from employees exercising options and the intrinsic value of options exercised during the nine-months ended September 30, 2020 and 2019 was nominal.

## 10. Pension and Employee Benefit Plans

We sponsor a non-contributory defined benefit pension plan for certain union employees. The plan is funded in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

We also sponsor a postretirement health care plan for office employees retired before January 1, 1990. The plan allowed retirees who attained the age of 65 to elect the type of coverage desired.

We present the components of net periodic benefit cost (gain) within “Other income” on the Condensed Consolidated Statements of Operations.

Retirement and health care plan expense is based on valuations performed by plan actuaries as of the beginning of each fiscal year. The components of the expense consisted of the following:

(table only in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Pension plan:				
Interest cost	\$ 259	\$ 326	\$ 775	\$ 977
Expected return on plan assets	(443)	(313)	(1,151)	(940)
Amortization of net actuarial loss	67	65	199	198
Net periodic benefit (gain) cost	\$ (117)	\$ 78	\$ (177)	\$ 235
Health care plan:				
Interest cost	\$ 1	\$ 1	\$ 2	\$ 2
Amortization of loss	2	2	6	6
Net periodic benefit cost	\$ 3	\$ 3	\$ 8	\$ 8

We made contributions to our defined benefit plans of approximately \$0.1 million and \$0.4 million during the nine-months ended September 30, 2020 and 2019, respectively. For the remainder of 2020, we expect to make contributions totaling \$1.8 million. The unfunded liability of the plans of \$8.6 million and \$8.9 million as of September 30, 2020 and December 31, 2019, respectively, is included in “Other liabilities” on our Condensed Consolidated Balance Sheets.

## 11. Income Taxes

We file income tax returns in various federal, state and local jurisdictions. Tax years from 2016 forward remain open for examination by federal authorities. Tax years from 2014 forward remain open for all significant state and foreign authorities.

We account for uncertain tax positions pursuant to ASC Topic 740, “Income Taxes.” As of September 30, 2020 and December 31, 2019, the liability for uncertain tax positions totaled approximately \$0.1 million and \$0.3 million, respectively, which is included in “Other liabilities” on our Condensed Consolidated Balance Sheets. We recognize accrued interest related to

uncertain tax positions and penalties, if any, in income tax expense within the Condensed Consolidated Statements of Operations.

Certain of the Company's undistributed earnings of our foreign subsidiaries are not permanently reinvested. Since foreign earnings have already been subject to United States income tax in 2017 as a result of the 2017 Tax Cuts and Jobs Act, we intend to repatriate foreign-held cash as needed. We record deferred income tax attributable to foreign withholding taxes that would become payable should we decide to repatriate cash held in our foreign operations. As of September 30, 2020, and December 31, 2019, we have recorded deferred income taxes of approximately \$0.5 million and \$0.7 million, respectively, on the undistributed earnings of our foreign subsidiaries. A significant portion of the previously undistributed earnings to which the deferred income taxes were attributable were repatriated in 2019.

Income tax expense was \$0.2 million for the third quarter of 2020 and \$1.5 million for the first nine months of 2020 compared with income tax expense (benefit) of \$0.7 million for the third quarter of 2019 and \$(2.6) million for the first nine months of 2019. The effective income tax rate for the third quarter of 2020 was (468.2)% compared with 27.7% for the third quarter of 2019. The effective income tax rate for the first nine months of 2020 was 19.4% compared with (38.1%) for the first nine months of 2019. Our effective tax rate is affected by certain other permanent differences, including state income taxes, non-deductible incentive stock-based compensation, the Global Intangible Low-Taxed Income inclusion and Foreign-Derived Intangible Income deduction, tax credits, and differences in tax rates among the jurisdictions in which we operate. The effective income tax rate for the nine months ended September 30, 2019 was negative (i.e. income tax benefits), despite pre-tax income, due primarily to a tax benefit of \$4.4 million from a tax position related to the 2018 divestiture of Jiangyin Zhongli Industrial Technology Co. Ltd.

## 12. Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets, foreign debt and accounts payable, which approximate fair value at September 30, 2020 and December 31, 2019, due to their short-term nature or variable, market-driven interest rates.

The fair value of the debt issued under the Credit Facility was \$77.9 million and \$69.4 million at September 30, 2020 and December 31, 2019, respectively.

At September 30, 2020 and December 31, 2019, the Company had cash and cash equivalents of \$44.5 million and \$35.6 million, respectively, of which \$34.1 million and \$27.0 million, respectively, was held outside of the United States, principally in the Netherlands, United Kingdom, China, and Canada.

## 13. Commitments and Contingencies – Legal Matters

### *Asbestos cases*

Our subsidiary, Met-Pro Technologies LLC ("Met-Pro"), 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 which 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 September 30, 2020 for cases involving asbestos-related claims were \$3.1 million, of which, together with all legal fees other than corporate counsel expenses, \$2.9 million has been paid by the Company's insurers. The average cost per settled claim, excluding legal fees, was approximately \$34,000.

Based upon the most recent information available to the Company regarding such claims, there were a total of 201 cases pending against the Company as of September 30, 2020 (with Illinois, New York, Pennsylvania and West Virginia having the largest number of cases), as compared with 209 cases that were pending as of December 31, 2019. During the nine-months ended September 30, 2020, 61 new cases were filed against the Company, and the Company was dismissed from 65 cases and settled four 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 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.

#### *Other*

The Company is also a party to routine contract and employment-related litigation matters, warranty claims and routine audits of state and local tax returns arising in the ordinary course of its business.

The final outcome and impact of open matters, and related claims and investigations that may be brought in the future, are subject to many variables, and cannot be predicted. In accordance with ASC 450, "Contingencies", and related guidance, we record accruals for estimated losses relating to claims and lawsuits when available information indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. The Company expenses legal costs as they are incurred.

We are not aware of any pending claims or assessments, other than as described above, which may have a material adverse impact on our liquidity, financial position, results of operations, or cash flows.

## **14. Acquisitions and Joint Ventures**

### *Environmental Integrated Solutions*

On June 4, 2020, the Company acquired 100% of the equity interests of Environmental Integrated Solutions ("EIS") for \$10.3 million in cash, which was financed with an additional draw on our revolving credit facility. As additional consideration, the former owners are entitled to earn-out payments based upon a multiple of specified financial results through December 31, 2021. Based on projections at the acquisition date, the Company estimated the fair value of the earn-out to be \$0.6 million; the earn-out liability is recorded in "Accounts payable and accrued expenses" on the Condensed Consolidated Balance Sheets.

EIS engineers products that clean air through a variety of technologies including volatile organic compounds ("VOC") abatement, odor control, regenerative thermal oxidizers, and other air pollution control solutions, which complements our Industrial Solutions Segment businesses. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

<b>(table only in thousands)</b>	
Current assets (including cash of \$4,212)	\$ 6,416
Property and equipment	26
Other assets	44
Goodwill	7,022
Intangible - finite life	4,840
Total assets acquired	<u>18,348</u>
Current liabilities assumed	(6,514)
Deferred income tax liability	(920)
Net assets acquired	<u>\$ 10,914</u>

Goodwill recognized represents value the Company expects to be created by combining the various operations of the acquired businesses with the Company's operations, including the expansion into markets within existing business segments, access to new customers and potential cost savings and synergies. Goodwill related to this acquisition is not deductible for tax purposes.

The Company acquired customer lists and tradename intangible assets valued at \$4.2 million and \$0.6 million, respectively. These assets were determined to have useful lives of 10 years.

Acquisition and integration expenses on the Condensed Consolidated Statements of Operations are related to acquisition activities, which include retention, legal, accounting, banking, and other expenses. For the three and nine months ended September 30, 2020, EIS accounted for \$5.3 and \$5.8 million in revenue, respectively and \$0.4 million and \$0.6 million of net income included in the Company's results, respectively.

On July 31, 2020, the Company entered into a joint venture agreement (“JV Agreement”) with Mader Holdings L.P. (“Mader”) in which CECO contributed the net assets of its Effox-Flextor damper business and Mader contributed the net assets of their damper business. Under the terms of the JV Agreement, CECO will hold 70% of the equity in the joint venture, and 50% voting interest. We determined CECO was the primary beneficiary of this variable interest entity and therefore the 30% noncontrolling equity interest is in the Condensed Consolidated Balance Sheet. The results of the joint venture are included in our Energy Segment. The fair value of Mader’s net assets contributed was \$1.0 million. As of September 30, 2020, there were \$6.2 million in current assets, \$8.7 million in long-lived assets, and \$7.3 million in total liabilities related to the Effox-Mader joint venture included in our Condensed Consolidated Balance Sheets.

The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the JV agreement date.

(table only in thousands)

Current assets (including cash of \$229)	\$	2,040
Property and equipment		103
Goodwill		2,000
Deferred income tax asset		287
Total assets assumed		4,430
Current liabilities assumed		(430)
Other liabilities		(500)
Long term debt		(2,508)
Fair value of 30% noncontrolling equity interest in Mader	\$	992

Goodwill recognized represents value the Company expects to be created by combining the various operations of the acquired businesses with the Company’s operations, including the expansion into markets within existing business segments, access to new customers and potential cost savings and synergies. Goodwill related to this joint venture is not deductible for tax purposes.

The approximate fair values of the assets acquired and liabilities assumed related to the above acquisition and joint venture are based on preliminary estimates and assumptions. These preliminary estimates and assumptions could change significantly during the purchase price measurement period as we finalize the valuations of the assets acquired and liabilities assumed. Such changes could result in material variances between the Company’s future financial results, including variances in the estimated purchase price, fair values recorded and expenses associated with these items.

The following unaudited pro forma financial information represents the Company’s results of operations as if the EIS acquisition and the joint venture with Mader had occurred on January 1, 2019:

(table in thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net Sales	\$ 77,943	\$ 91,099	\$ 246,550	\$ 269,982
Net (loss) income attributable to CECO Environmental Corp.	(222)	2,468	7,975	10,788
(Loss) earnings per share:				
Basic	\$ (0.01)	\$ 0.07	\$ 0.23	\$ 0.31
Diluted	\$ (0.01)	\$ 0.07	\$ 0.22	\$ 0.30

The pro forma results have been prepared for informational purposes only and include adjustments to amortize acquired intangible assets with finite life, reflect additional interest expense on debt used to fund the acquisition, and to record the income tax consequences of the pro forma adjustments. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchase been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

## 15. Business Segment Information

The Company’s operations are organized and reviewed by management along its product lines or end market that the segment serves and are presented in three reportable segments. The results of the segments are reviewed through the “Income from operations” line on the Condensed Consolidated Statements of Operations.



The Company's reportable segments are organized as groups of similar products and services, as described as follows:

**Energy Solutions segment:** Our Energy Solutions segment serves the Energy market, where we are a key part of helping meet the global demand for Clean Energy through our highly engineered and tailored emissions management, silencers and separation solutions and services. Our offerings improve air quality and solves fluid handling needs with market leading technologies, efficiently designed, and customized solutions for the power generation, oil & gas, and petrochemical industries.

**Industrial Solutions segment:** Our Industrial Solutions segment serves the Air Pollution Control market where our aim is to address the growing need to protect the air we breathe and help our customers' desires for sustainability upgrades beyond carbon footprint issues. Our clean air pollution control, collection and ventilation technologies improve air quality with a compelling solution that enable our customers to reduce their carbon footprint, lower energy consumption, minimize waste and meet compliance targets for toxic emissions, fumes, volatile organic compounds, and industrial odors.

**Fluid Handling Solutions segment:** Our Fluid Handling Solutions segment offers unique pump and filtration solutions that maintain safe and clean operations in some of the most harsh and toxic environments. In this market, we provide solutions for mission-critical applications to a wide variety of industries including, but not limited to, plating and metal finishing, automotive, food and beverage, chemical, petrochemical, pharmaceutical, wastewater treatment, desalination and the aquarium & aquaculture markets.

The financial segment information is presented in the following tables:

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net Sales (less intra-, inter-segment sales)</b>				
Energy Solutions Segment	\$ 49,709	\$ 48,847	\$ 149,429	\$ 154,606
Industrial Solutions Segment	18,716	26,983	55,736	65,920
Fluid Handling Solutions Segment	9,000	9,436	27,916	31,930
<b>Net sales</b>	<b>\$ 77,425</b>	<b>\$ 85,266</b>	<b>\$ 233,081</b>	<b>\$ 252,456</b>

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Income from Operations</b>				
Energy Solutions Segment	\$ 7,276	\$ 7,633	\$ 24,479	\$ 23,275
Industrial Solutions Segment	101	2,794	1,593	3,911
Fluid Handling Solutions Segment	1,438	818	4,878	4,657
Corporate and Other <sup>(1)</sup>	(7,797)	(7,186)	(21,299)	(20,878)
Income from operations	<b>\$ 1,018</b>	<b>\$ 4,059</b>	<b>\$ 9,651</b>	<b>\$ 10,965</b>

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

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Property and Equipment Additions</b>				
Energy Solutions Segment	\$ 148	\$ 57	\$ 446	\$ 218
Industrial Solutions Segment	—	59	215	222
Fluid Handling Solutions Segment	132	2,135	686	2,624
Corporate and Other	603	293	1,528	682
Property and equipment additions	<b>\$ 883</b>	<b>\$ 2,544</b>	<b>\$ 2,875</b>	<b>\$ 3,746</b>

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Depreciation and Amortization</b>				
Energy Solutions Segment	\$ 1,245	\$ 1,544	\$ 3,690	\$ 4,684
Industrial Solutions Segment	475	327	1,123	998
Fluid Handling Solutions Segment	679	668	1,942	2,140
Corporate and Other	177	94	469	331
Depreciation and amortization	<u>\$ 2,576</u>	<u>\$ 2,633</u>	<u>\$ 7,224</u>	<u>\$ 8,153</u>

(dollars in thousands)	September 30, 2020	December 31, 2019
<b>Identifiable Assets</b>		
Energy Solutions Segment	\$ 265,858	\$ 254,752
Industrial Solutions Segment	72,931	64,725
Fluid Handling Solutions Segment	67,118	71,572
Corporate and Other <sup>(2)</sup>	16,183	17,588
Identifiable assets	<u>\$ 422,090</u>	<u>\$ 408,637</u>

(2) Corporate and Other assets consist primarily of cash and income tax related assets.

(dollars in thousands)	September 30, 2020	December 31, 2019
<b>Goodwill</b>		
Energy Solutions Segment	\$ 99,317	\$ 97,007
Industrial Solutions Segment	30,458	23,436
Fluid Handling Solutions Segment	31,577	31,577
Goodwill	<u>\$ 161,352</u>	<u>\$ 152,020</u>

### Intra-segment and Inter-segment Revenues

The Company has multiple divisions that sell to each other within segments (intra-segment sales) and between segments (inter-segment sales) as indicated in the following tables:

(dollars in thousands)	Three months ended September 30, 2020					
	Total Sales	Intra-Segment Sales	Less Inter-Segment Sales			Net Sales to Outside Customers
			Industrial	Energy	Fluid	
<b>Net Sales</b>						
Energy Solutions Segment	\$ 51,203	\$ (1,071)	\$ (217)	\$ —	\$ (206)	\$ 49,709
Industrial Solutions Segment	21,741	(2,914)	—	(111)	—	18,716
Fluid Handling Solutions Segment	9,203	(185)	(18)	—	—	9,000
<b>Net Sales</b>	<u>\$ 82,147</u>	<u>\$ (4,170)</u>	<u>\$ (235)</u>	<u>\$ (111)</u>	<u>\$ (206)</u>	<u>\$ 77,425</u>

(dollars in thousands)	Three months ended September 30, 2019					
	Total Sales	Intra-Segment Sales	Less Inter-Segment Sales			Net Sales to Outside Customers
			Industrial	Energy	Fluid	
<b>Net Sales</b>						
Energy Solutions Segment	\$ 51,083	\$ (2,134)	\$ (102)	\$ —	\$ —	\$ 48,847
Industrial Solutions Segment	29,269	(2,227)	—	(59)	—	26,983
Fluid Handling Solutions Segment	9,823	(362)	(25)	—	—	9,436
<b>Net Sales</b>	<u>\$ 90,175</u>	<u>\$ (4,723)</u>	<u>\$ (127)</u>	<u>\$ (59)</u>	<u>\$ —</u>	<u>\$ 85,266</u>

**Nine months ended September 30, 2020**

**Less Inter-Segment Sales**

(dollars in thousands)	<b>Total Sales</b>	<b>Intra-Segment Sales</b>	<b>Less Inter-Segment Sales</b>			<b>Net Sales to Outside Customers</b>
			<b>Industrial</b>	<b>Energy</b>	<b>Fluid</b>	
<b>Net Sales</b>						
Energy Solutions Segment	\$ 159,181	\$ (8,861)	\$ (446)	\$ —	\$ (445)	\$ 149,429
Industrial Solutions Segment	66,691	(10,038)	—	(902)	(15)	55,736
Fluid Handling Solutions Segment	28,581	(633)	(32)	—	—	27,916
<b>Net Sales</b>	<b>\$ 254,453</b>	<b>\$ (19,532)</b>	<b>\$ (478)</b>	<b>\$ (902)</b>	<b>\$ (460)</b>	<b>\$ 233,081</b>

**Nine months ended September 30, 2019**

**Less Inter-Segment Sales**

(dollars in thousands)	<b>Total Sales</b>	<b>Intra-Segment Sales</b>	<b>Less Inter-Segment Sales</b>			<b>Net Sales to Outside Customers</b>
			<b>Industrial</b>	<b>Energy</b>	<b>Fluid</b>	
<b>Net Sales</b>						
Energy Solutions Segment	\$ 158,888	\$ (3,998)	\$ (272)	\$ —	\$ (12)	\$ 154,606
Industrial Solutions Segment	73,794	(6,204)	—	(1,617)	(53)	65,920
Fluid Handling Solutions Segment	33,189	(1,096)	(163)	—	—	31,930
<b>Net Sales</b>	<b>\$ 265,871</b>	<b>\$ (11,298)</b>	<b>\$ (435)</b>	<b>\$ (1,617)</b>	<b>\$ (65)</b>	<b>\$ 252,456</b>

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The Company's Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2020 and 2019 reflect the consolidated operations of the Company and its subsidiaries.

CECO is a global leader in industrial air quality and fluid handling serving the energy, industrial and other niche markets through an attractive asset-light business model. CECO provides innovative technology and application expertise that helps companies grow their businesses with safe, clean, and more efficient solutions to help protect our shared environment.

CECO serves diverse industries globally by working to improve air quality, optimize the energy value chain, and provide customized engineered solutions in our customer's mission critical applications. The secular growth industries CECO serves include oil & gas, power generation, water and wastewater, battery production, poly silicon fabrication, and chemical and petrochemical processing, along with a wide range of other industries.

***COVID-19***

On January 30, 2020, the WHO announced a global health emergency because of a new strain of coronavirus ("COVID-19") originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. On March 11, 2020, the WHO characterized COVID-19 as a pandemic. As of September 30, 2020, the virus continues to spread and has had a significant impact on worldwide economic activity and on macroeconomic conditions and the end markets of our business. No vaccine is currently available. Several countries, including the United States, have taken steps to restrict travel, temporarily close businesses and issue quarantine orders, and it remains unclear how long such measures will remain in place or whether efforts to contain the spread of COVID-19 will continue to intensify.

Within the United States, certain portions of our business have been designated an essential business, and we continue to operate our business in compliance with applicable state and local laws. This allows us to continue to serve our customers, however, the COVID-19 pandemic has also disrupted our global operations. The COVID-19 pandemic has heightened the risk of work stoppages at our facilities or those of our suppliers. Certain of our facilities and our suppliers have experienced temporary disruptions as a result of the COVID-19 pandemic, and we cannot predict whether our facilities will experience more significant disruptions in the future or the impact on our suppliers.

CECO has undertaken necessary measures in compliance with government directives to remain open across its business and continues to work closely with its global supply chain to proactively support customers during this critical time. As a key supplier to critical infrastructure projects, CECO has worked to maintain ongoing essential operations while observing recommended CDC guidelines to minimize the risk of spreading the COVID-19 virus including implementing, where possible, work-from-home procedures and additional sanitization efforts where facilities remain open to provide necessary services. Additionally, CECO has taken several proactive cost reduction measures in response to the economic pressures brought on by the COVID-19 pandemic, including: headcount reductions, lower discretionary spend, the senior management team's temporary salary reduction, elimination or reduction of certain corporate-level costs, travel restrictions across all segments, and a rolling 2-week furlough of United States-based employees during the 6-week period beginning the week of April 6, 2020.

The senior management team meets regularly to review and assess the status of the Company's operations and the health and safety of its employees. The senior management team continues to monitor and manage the Company's ability to operate effectively and, to date, the Company has not experienced any significant disruptions within its supply chain as a result of the COVID-19 pandemic. Notwithstanding the Company's continued efforts, COVID-19 has had and may have further negative impacts on its operations, customers and supply chain despite the preventative and precautionary measures being taken. COVID-19 began to impact the Company during the first quarter of 2020 and the impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore, we cannot currently predict the extent to which our business, results of operations, financial condition or liquidity will ultimately be impacted.

## CEO Succession

### Appointment of Chief Executive Officer

On July 6, 2020, Mr. Todd Gleason started serving as Chief Executive Officer and as a member of the Board of Directors of the Company, succeeding Dennis Sadlowski. Mr. Gleason, age 49, most recently served, from April 2015 to July 2020, as President and Chief Executive Officer of Scientific Analytics Inc., a predictive analytic technologies and services company. Prior to that position, Mr. Gleason served from June 2007 to March 2015 in a number of senior officer and executive positions for Pentair plc, a water treatment company. During his tenure with Pentair, Mr. Gleason served as Senior Vice President and Corporate Officer from January 2013 to March 2015, President, Integration and Standardization from January 2010 to January 2013, and Vice President, Global Growth and Investor Relations from June 2007 to January 2010. Before joining Pentair, Mr. Gleason served as Vice President, Strategy and Investor Relations for American Standard Companies Inc. (later renamed to Trane Inc. prior to its acquisition by Ingersoll-Rand Company Limited), a global, diversified manufacturing company, and in a number of different roles (including as Chief Financial Officer, Honeywell Process Solutions) at Honeywell International Inc., a diversified technology and manufacturing company. Mr. Gleason's qualifications to sit on the Board include his financial and business background, as well as his extensive executive and leadership experience. As the Company's new Chief Executive Officer, Mr. Gleason will provide the Board with insight on the day-to-day operations of the Company and the issues it faces.

### **Note Regarding Use of Non-GAAP Financial Measures**

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

As a result, the Company provides financial information in this Management's Discussion and Analysis 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 because the Company's management utilizes it to evaluate its ongoing financial performance and the Company believes it provides greater transparency to investors as supplemental information to its GAAP results.

The Company has provided the non-GAAP financial measures of non-GAAP operating income and non-GAAP operating margin as a result of items that the Company believes are not indicative of its ongoing operations. These include transactions associated with the Company's acquisitions, divestitures 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. The Company has incurred substantial expense and income associated with the acquisition and divestitures. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat the financial impact of these transactions as special items in its future presentation of non-GAAP results.

## **Results of Operations**

### ***Consolidated Results***

Our Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

(dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net sales	\$ 77.4	\$ 85.3	\$ 233.1	\$ 252.5
Cost of sales	52.6	56.5	154.2	168.4
Gross profit	\$ 24.8	\$ 28.8	\$ 78.9	\$ 84.1
<i>Percent of sales</i>	<i>32.0%</i>	<i>33.8%</i>	<i>33.8%</i>	<i>33.3%</i>
Selling and administrative expenses	18.9	21.8	59.3	65.5
<i>Percent of sales</i>	<i>24.4%</i>	<i>25.6%</i>	<i>25.4%</i>	<i>25.9%</i>
Amortization and earnout expenses	2.1	2.2	5.5	6.5
Restructuring expenses	0.9	0.7	1.8	1.0
Acquisition and integration expenses	0.4	—	1.1	—
Executive transition expenses	1.5	—	1.5	—
Loss on divestitures, net of selling costs	—	—	—	0.1
Operating income	\$ 1.0	\$ 4.1	\$ 9.7	\$ 11.0
<i>Operating margin</i>	<i>1.3%</i>	<i>4.8%</i>	<i>4.2%</i>	<i>4.4%</i>

To compare operating performance between the three-month and nine-month periods ended September 30, 2020 and 2019, the Company has adjusted GAAP operating income to exclude (1) amortization and contingent acquisition expenses, including amortization for acquisition related intangible assets, retention and earnout expenses, (2) restructuring expenses primarily relating to severance, facility exits, and associated legal expenses, (3) acquisition and integration expenses, which include legal, accounting, and other expenses, (4) executive transition expenses, including severance for its former Chief Executive Officer, fees and expenses incurred in the search, for and hiring, of a new Chief Executive Officer and (5) loss on divestitures, net of selling costs necessary to complete the divestiture such as legal, accounting and compliance. See “Note Regarding Use of Non-GAAP Financial Measures” above. The following table presents the reconciliation of GAAP operating income and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin:

(dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Operating income as reported in accordance with GAAP	\$ 1.0	\$ 4.1	\$ 9.7	\$ 11.0
<i>Operating margin in accordance with GAAP</i>	<i>1.3%</i>	<i>4.8%</i>	<i>4.2%</i>	<i>4.4%</i>
Amortization and earnout expenses	2.1	2.2	5.5	6.5
Restructuring expenses	0.9	0.7	1.8	1.0
Acquisition and integration expenses	0.4	—	1.1	—
Executive transition expenses	1.5	—	1.5	—
Loss on divestitures, net of selling costs	—	—	—	0.1
Non-GAAP operating income	\$ 5.9	\$ 7.0	\$ 19.6	\$ 18.6
<i>Non-GAAP operating margin</i>	<i>7.6%</i>	<i>8.2%</i>	<i>8.4%</i>	<i>7.4%</i>

Net sales for the third quarter of 2020 decreased as the COVID-19 pandemic continued to impact lower backlog and customer delays by \$7.9 million, or 9.3%, to \$77.4 million compared with \$85.3 million in the third quarter of 2019. The decrease is primarily attributable to decreases of \$13.7 million in our Industrial Solutions air pollution control technologies and \$4.2 million in the Company’s midstream oil & gas equipment sales period over period, partially offset by increases of \$3.8 million in our selective catalytic reduction (“SCR”) technologies, \$5.3 million in VOC abatement solutions from the Environmental Integrated Solutions (“EIS”) acquisition and \$0.6 million in net sales from the Mader Holding L.P. (“Mader”) joint venture.

Net sales for the first nine months of 2020 decreased \$19.4 million, or 7.7%, to \$233.1 million compared with \$252.5 million in the first nine months of 2019. The decrease is primarily attributable to decreases of \$16.6 million in our Industrial Solutions air pollution control technologies, \$14.3 million in custom-designed FCC cyclone systems serving the refinery markets, and \$4.0 million in volume decreases in the Company’s filtration and pump solutions sales. These decreases in net sales are partially offset by increases of \$9.6 million in the Company’s custom acoustical technologies and SCR technologies that serve the natural gas power generation markets, \$5.8 million in VOC abatement solutions from the EIS acquisition and \$0.6 million in net sales from the Mader joint venture.

Gross profit decreased \$4.0 million, or 13.9%, to \$24.8 million in the third quarter of 2020 compared with \$28.8 million in the third quarter of 2019. The decrease in gross profit is primarily due to the decrease in net sales as noted above and unfavorable product mix. Gross profit as a percentage of sales decreased to 32.0% in the third quarter of 2020 compared with 33.8% in the third quarter of 2019 due to product mix.

Gross profit decreased \$5.2 million, or 6.2%, to \$78.9 million in the first nine months of 2020 compared with \$84.1 million in the first nine months of 2019. The decrease in gross profit is primarily due to decrease in sales as noted above, partially offset by product mix and cost reduction actions. Gross profit as a percentage of sales increased to 33.8% in the first nine months of 2020 compared with 33.3% in the first nine months of 2019 due to product mix and cost reduction actions including an employee furlough.

Orders booked were \$66.8 million during the third quarter of 2020 and \$202.4 million for the first nine months of 2020 as compared with \$115.7 million during the third quarter of 2019 and \$316.0 million during the first nine months of 2019. The decrease is primarily attributable to decreases in the refinery, midstream oil and gas and pollution control end markets due to the COVID-19 pandemic impacting our customers starting in March 2020.

Selling and administrative expenses were \$18.9 million for the third quarter of 2020 compared with \$21.8 million for the third quarter of 2019. The decrease is primarily attributable to proactive cost reduction measures taken in response to the COVID-19 pandemic including: headcount reductions, lower discretionary spend, the senior management team’s temporary salary reduction, elimination or reduction of certain corporate-level costs, and travel restrictions across all segments. Selling and administrative expenses decreased as a percentage of sales to 24.4% in the third quarter of 2020 compared with 25.6% in the third quarter of 2019. The decrease in selling and administrative expenses as a percentage of sales is primarily attributable to cost reduction measures.

Selling and administrative expenses were \$59.3 million for the first nine months of 2020 compared with \$65.5 million for the first nine months of 2019. The decrease is primarily attributable to proactive cost reduction measures taken in response to the COVID-19 pandemic including: headcount reductions, lower discretionary spend, the senior management team's temporary salary reduction, elimination or reduction of certain corporate-level costs, a 2-week furlough of United States-based employees, and travel restrictions across all segments. Selling and administrative expenses decreased as a percentage of sales to 25.4% in the first nine months of 2020 compared with 25.9% in the first nine months of 2019. The decrease in selling and administrative expenses as a percentage of sales is primarily attributable to the items described above.

Amortization and earnout expenses were \$2.1 million for the third quarter of 2020 compared with \$2.2 million for the third quarter of 2019. The decrease in expense is attributable to a \$0.2 million decrease in definite lived asset amortization.

Amortization and earnout expenses were \$5.5 million for the first nine months of 2020 compared with \$6.5 million for the first nine months of 2019. The decrease in expense is attributable to a \$1.1 million decrease in definite lived asset amortization.

Operating income decreased \$3.1 million to \$1.0 million in the third quarter of 2020 compared with \$4.1 million during the third quarter of 2019. The decrease in operating income is primarily attributable to \$1.5 million in executive transition expenses which did not occur in 2019, \$0.8 million increase in restructuring expenses, \$0.4 million increase in acquisition and integration expenses in connection to the Mader joint venture, and decrease in net sales as noted above, partially offset by the decrease in selling and administration expenses due to the cost reduction measures taken in response to the COVID-19 pandemic.

Operating income decreased \$1.3 million to \$9.7 million in the first nine months of 2020 compared with \$11.0 million during the first nine months of 2019. The decrease in operating income is primarily attributable to \$1.5 million in executive transition expenses which did not occur in 2019, \$1.1 million increase in acquisition and integration expenses in connection to the EIS acquisition and the Mader joint venture, and decrease in net sales as noted above, partially offset by the decrease in selling and administration expenses due to the cost reduction measures taken in response to the COVID-19 pandemic.

Non-GAAP operating income was \$5.9 million for the third quarter of 2020 compared with \$7.0 million for the third quarter of 2019. The decrease in non-GAAP operating income is primarily attributable to the decrease in net sales, partially offset by decreases in selling and administrative expenses, as a result of cost reduction measures taken in response to the COVID-19 pandemic. Non-GAAP operating income as a percentage of sales decreased to 7.6% for the third quarter of 2020 from 8.2% for the third quarter of 2019.

Non-GAAP operating income was \$19.6 million for the first nine months of 2020 compared with \$18.6 million for the first nine months of 2019. The increase in non-GAAP operating income is primarily attributable to the decrease in selling and administrative expenses, as a result of the proactive cost reduction measures taken in response to the COVID-19 pandemic, partially offset by decrease in gross profit. Non-GAAP operating income as a percentage of sales increased to 8.4% for the first nine months of 2020 from 7.4% for the first nine months of 2019.

Interest expense decreased to \$0.8 million in the third quarter of 2020 and \$2.7 million for the first nine months of 2020 compared with \$1.3 million in the third quarter of 2019 and \$4.3 million for the first nine months of 2019. The decrease in interest expense is primarily due to lower interest rates, and a reduced average debt balance compared to 2019. During the first nine months of 2020 the Company had net borrowings of \$12.5 million on its revolving credit facility, of which \$10.3 million was used to fund the EIS acquisition on June 4, 2020 and \$2.6 million was used to pay term debt assumed in connection with the Mader joint venture on July 31, 2020.

Income tax expense was \$0.2 million for the third quarter of 2020 and \$1.5 million for the first nine months of 2020 compared with income tax expense (benefit) of \$0.7 million for the third quarter of 2019 and \$(2.6) million for the first nine months of 2019. The effective income tax rate for the third quarter of 2020 was (468.2)% compared with 27.7% for the third quarter of 2019. The effective income tax rate for the first nine months of 2020 was 19.4% compared with (38.1%) for the first nine months of 2019. Our effective tax rate is affected by certain other permanent differences, including state income taxes, non-deductible incentive stock-based compensation, the Global Intangible Low-Taxed Income inclusion and Foreign-Derived Intangible Income deduction, tax credits, and differences in tax rates among the jurisdictions in which we operate. The effective income tax rates for the three and nine months ended September 30, 2019 was negative (i.e. income tax benefits), despite pre-tax income, due primarily to a tax benefit of \$4.4 million from a tax position related to the 2018 divestiture of Jiangyin Zhongli Industrial Technology Co. Ltd.

## Business Segments

The Company's operations are organized and reviewed by management along its product lines or end market that the segment serves and are presented in three reportable segments. The results of the segments are reviewed through "Income from operations" on the unaudited Condensed Consolidated Statements of Operations.

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net Sales (less intra- and inter-segment sales)</b>				
Energy Solutions Segment	\$ 49,709	\$ 48,847	\$ 149,429	\$ 154,606
Industrial Solutions Segment	18,716	26,983	55,736	65,920
Fluid Handling Solutions Segment	9,000	9,436	27,916	31,930
<b>Net sales</b>	<b>\$ 77,425</b>	<b>\$ 85,266</b>	<b>\$ 233,081</b>	<b>\$ 252,456</b>

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Income from Operations</b>				
Energy Solutions Segment	\$ 7,276	\$ 7,633	\$ 24,479	\$ 23,275
Industrial Solutions Segment	101	2,794	1,593	3,911
Fluid Handling Solutions Segment	1,438	818	4,878	4,657
Corporate and Other <sup>(1)</sup>	(7,797)	(7,186)	(21,299)	(20,878)
Income from operations	<b>\$ 1,018</b>	<b>\$ 4,059</b>	<b>\$ 9,651</b>	<b>\$ 10,965</b>

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

### Energy Solutions Segment

Our Energy Solutions segment net sales increased \$0.9 million to \$49.7 million for the third quarter of 2020 compared with \$48.8 million in the same period of 2019. The increase is primarily attributable to increases of \$3.8 million in SCR technologies, \$1.8 million increase in custom acoustical technologies that serve the natural gas and power generation markets and \$0.6 million in net sales from the Mader joint venture, partially offset by a decrease of \$5.1 million in the Company's midstream oil & gas equipment sales period over period.

Our Energy Solutions segment net sales decreased \$5.2 million to \$149.4 million in the first nine months of 2020 compared with \$154.6 million in the same period of 2019. The decrease is primarily attributable to decreases of \$14.3 million in the Company's custom-designed FCC cyclone systems that serve the refinery markets, partially offset by increases of \$9.6 million in the Company's custom acoustical technologies and SCR technologies that serve the natural gas power generation markets.

Operating income for the Energy Solutions segment decreased \$0.4 million to \$7.3 million in the third quarter of 2020 compared with \$7.6 million in the same period of 2019. The operating income decrease is primarily attributable to a decrease in gross profit of \$1.1 million, primarily attributable to product mix partially offset by continued decreases in selling and administrative expenses of \$0.2 million related to cost reductions described above and decrease of \$0.3 million in amortization expenses.

Operating income for the Energy Solutions segment increased \$1.2 million to \$24.5 million in the first nine months of 2020 compared with \$23.3 million in the same period of 2019. The operating income increase is primarily attributable to the decrease of \$1.5 million in selling and administrative expenses related to the cost reductions as described above and decrease in amortization expenses of \$0.9 million partially offset by decrease in gross profit of \$1.3 million due to lower net sales and product mix.

### Industrial Solutions Segment

Our Industrial Solutions segment net sales decreased \$8.3 million to \$18.7 million in the third quarter of 2020 compared with \$27.0 million in the third quarter of 2019. The decrease is primarily attributable to decreases of \$13.7 million in our Industrial Solutions air pollution control technologies, partially offset by \$5.3 million in net sales from the EIS acquisition.

Our Industrial Solutions segment net sales decreased \$10.2 million to \$55.7 million in the first nine months of 2020 compared with \$65.9 million in the first nine months of 2019. The decrease is primarily attributable to decreases of \$16.6 million in our Industrial Solutions air pollution control technologies. As a result of the COVID-19 pandemic field service, short cycle and consulting services are down as we cannot be onsite with customers. The decreases noted above are partially offset by \$5.8 million in net sales from the EIS acquisition.



Operating income for the Industrial Solutions segment decreased \$2.7 million to \$0.1 million in the third quarter of 2020 compared with \$2.8 million in the third quarter of 2019. The decrease is primarily attributable to a \$2.9 million decrease in gross profit due to lower net sales, increase of \$0.3 million in amortization and earnout expenses and increase of \$0.5 million restructuring expenses, partially offset by \$1.0 million decrease in selling and administration related to cost reductions described above.

Operating income for the Industrial Solutions segment decreased \$2.3 million to \$1.6 million in the first nine months of 2020 compared with \$3.9 million in the first nine months of 2019. The decrease is primarily attributable to a \$3.0 million decrease in gross profit due to lower net sales, an increase of \$0.3 million in amortization and earnout expenses, an increase of \$0.8 million in restructuring expenses, and \$0.5 million in expenses related to the EIS acquisition, offset by \$2.1 million decrease in selling and administration related to cost reductions described above.

#### Fluid Handling Solutions Segment

Our Fluid Handling Solutions segment net sales decreased \$0.4 million to \$9.0 million in the third quarter of 2020 compared with \$9.4 million in the third quarter of 2019. Net sales decreased \$4.0 million to \$27.9 million in the first nine months of 2020 compared with \$31.9 million in the first nine months of 2019. The decrease is primarily attributable to volume decreases in the Company's filtration and pump solutions product line driven by oil & gas and automotive end market softness.

Operating income for the Fluid Handling Solutions segment increased \$0.6 million to \$1.4 million in the third quarter of 2020 compared with \$0.8 million in the third quarter of 2019. The \$0.6 million increase is primarily attributable to current year decreases in selling and administration expenses related to cost reductions described above and improved efficiency due to capital investments.

Operating income for the Fluid Handling Solutions segment increased \$0.2 million to \$4.9 million in the first nine months of 2020 compared with \$4.7 million in the first nine months of 2019. The increase is primarily attributable to a \$1.4 million decrease in selling and administration expenses primarily related to cost reductions described above, partially offset by a \$1.2 million decrease in gross profit due to lower net sales.

#### Corporate and Other Segment

Operating expense for the Corporate and Other segment increased \$0.6 million to \$7.8 million for the third quarter of 2020 compared with \$7.2 million for the third quarter of 2019. The increase is primarily attributable to a \$1.5 million increase in executive transition expenses and \$0.3 million increase in acquisition and integration expenses, partially offset by a \$1.2 million decrease in selling and administration expenses related to cost reductions described above.

Operating expense for the Corporate and Other segment increased \$0.4 million to \$21.3 million for the first nine months of 2020 compared with \$20.9 million for the first nine months of 2019. The increase is primarily attributable to a \$1.5 million increase in executive transition expenses, a \$0.4 million increase in acquisition and integration expenses, and \$0.2 million increase in restructuring expenses, partially offset by a \$1.7 million decrease in selling and administration expenses related to cost reductions described above.

#### **Backlog**

Backlog (i.e., unfulfilled or remaining performance obligations) represents the sales we expect to recognize for our products and services for which control has not yet transferred to the customer. Backlog decreased to \$189.1 million as of September 30, 2020 from \$216.6 million as of December 31, 2019, \$9.8 million of backlog in total was acquired from the EIS acquisition and Mader joint venture. During the first nine months of 2020, the Company removed \$7.4 million of orders that were previously disclosed as backlog in prior quarters, due to cancellations by industrial customers with exposure to aerospace end markets. Backlog is adjusted on a quarterly basis for adjustments in foreign currency exchange rates. Substantially all backlog is expected to be delivered within 12 to 18 months. Backlog is not defined by GAAP and our methodology for calculating backlog may not be consistent with methodologies used by other companies.

#### **New Accounting Pronouncements**

For information regarding recent accounting pronouncements, see Note 2 to the unaudited condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q.

## Liquidity and Capital Resources

Our principal sources of liquidity are cash flow from operations and available borrowings under our Credit Facility (as defined below). Our principal uses of cash are operating costs, payment of principal and interest on our outstanding debt, working capital and other corporate requirements.

When we undertake large jobs, our working capital objective is to make these projects self-funding. We work to achieve this by obtaining initial down payments, progress billing contracts, utilizing extended payment terms from material suppliers when possible, and paying sub-contractors after payment from our customers, which is an industry practice. Our investment in net working capital is funded by cash flow from operations and by our revolving line of credit.

At September 30, 2020, the Company had working capital of \$74.1 million, compared with \$64.3 million at December 31, 2019. The ratio of current assets to current liabilities was 1.67 to 1.00 on September 30, 2020, as compared with a ratio of 1.56 to 1.00 at December 31, 2019. The increase to the Company's working capital is primarily attributable to increased cash and cash equivalents balance of \$8.9 million, increase of \$8.0 million in costs and estimated earnings in excess of billings on uncompleted contracts and decrease of \$6.3 million in billings in excess of costs and estimated earnings on uncompleted contracts offset by a decrease of \$10.8 million in accounts receivable.

At September 30, 2020 and December 31, 2019, cash and cash equivalents totaled \$44.5 million and \$35.6 million, respectively. As of September 30, 2020 and December 31, 2019, \$34.1 million and \$27.0 million, respectively, of our cash and cash equivalents were held by certain non- United States subsidiaries, as well as being denominated in foreign currencies.

Debt consisted of the following:

(table only in thousands)	September 30, 2020	December 31, 2019
Outstanding borrowings under the Credit Facility (defined below).		
Term loan payable in quarterly principal installments of \$0.6 million through June 2021, \$0.9 million through June 2023, and \$1.3 million thereafter with balance due upon maturity in June 2024.		
- Term loan	\$ 46,875	\$ 48,750
- Revolving Credit Loan	31,000	18,500
- Unamortized debt discount	(1,437)	(1,749)
Total outstanding borrowings under Credit Facility	\$ 76,438	\$ 65,501
Less: current portion	(2,812)	(2,500)
Total debt, less current portion	\$ 73,626	\$ 63,001

### Credit Facility

The Company's outstanding borrowings in the United States consist of senior secured term loan and a senior secured revolver loan with sub-facilities for letters of credit, swing-line loans and multi-currency loans (collectively, the "Credit Facility"). As of September 30, 2020 and December 31, 2019, the Company was in compliance with all related financial and other restrictive covenants under the Credit Facility.

See Note 7 to the unaudited condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q for further information on the Company's debt facilities.

Total unused credit availability under our existing Credit Facility is as follows:

(dollars in millions)	September 30, 2020	December 31, 2019
Credit Facility, revolving loans	\$ 140.0	\$ 140.0
Draw down	(31.0)	(18.5)
Letters of credit open	(6.9)	(11.0)
Total unused credit availability	\$ 102.1	\$ 110.5
Amount available based on borrowing limitations	\$ 75.8	\$ 82.3

## Overview of Cash Flows and Liquidity

(dollars in thousands)	For the nine months ended September 30,	
	2020	2019
Net cash provided by (used in) operating activities	\$ 9,115	\$ (633)
Net cash used in investing activities	(8,165)	(3,237)
Net cash provided by (used in) financing activities	7,783	(9,881)
Effect of exchange rate changes on cash and cash equivalents	657	(448)
Net increase (decrease) in cash	<u>\$ 9,390</u>	<u>\$ (14,199)</u>

### Operating Activities

For the nine-months ended September 30, 2020, \$9.1 million of cash was provided by operating activities compared with \$(0.6) million used in operating activities in the prior year period, a \$9.7 million increase. Cash flow from operating activities in the first nine months of 2020 had a favorable impact year-over-year primarily due to improved accounts receivable management and collections rates resulting in a decrease in accounts receivable partially offset by decreases in billings in excess of costs and estimated earnings on uncompleted contracts as reflected in the Condensed Consolidated Statements of Cash Flows.

### Investing Activities

For the nine-months ended September 30, 2020, net cash used in investing activities was \$8.2 million compared with \$3.2 million in the prior year period, an increase of \$5.0 million. During the first nine months of 2020, net cash used in investing activities was primarily related to \$6.1 million, net of cash acquired, used for the EIS acquisition, \$(0.2) million provided from the Mader joint venture, \$2.9 million used for the acquisition of property and equipment and cash provided by proceeds from the sale of property and equipment totaling \$0.6 million. In the prior year period, cash flow used in investing activities was primarily the result of cash used for the acquisition of property and equipment totaling \$3.7 million and cash provided by proceeds from the sale of property and equipment totaling \$0.5 million.

### Financing Activities

For the nine-months ended September 30, 2020, \$7.8 million was provided by financing activities compared with \$(9.9) million used in financing activities in the previous year period, an increase of \$17.7 million. During the first nine months of 2020, the Company had net borrowings of \$12.5 million on its revolving credit facility, of which \$10.3 million was used to fund the EIS acquisition on June 4, 2020, compared with net repayments of \$6.1 million the previous year period. Additionally, for the first nine-months ended September 30, 2020, \$(1.8) million was used in financing activities for repayments on the Company's Term loan and \$(2.6) million was used for repayments of the Term debt assumed from Mader joint venture compared with \$(2.3) million for repayments on the Company's note payable in the first nine-months of 2019. Further, in the first nine-months of 2019, the company paid financing fees related to the new Credit Facility of \$1.1 million.

### Critical Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's condensed consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. Such estimates include revenue recognition, the valuation of trade receivables, inventories, goodwill, intangible assets, other long-lived assets, legal contingencies, guarantee obligations and assumptions used in the calculation of income taxes, assumptions used in business combination accounting and related balances, and pension and post-retirement benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors. Management monitors the economic conditions and other factors and will adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Management believes there have been no changes during the nine-month period ended September 30, 2020, other than disclosed in Note 2 to the condensed consolidated financial statements within Item 1 of this quarterly Report on Form 10-Q, to the items that the Company disclosed as its critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Securities Act of 1933 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”) which are intended to be covered by the safe harbor for “forward-looking statements” provided by the Private Securities Litigation Reform Act of 1995. Any statements other than statements of historical fact, including statements regarding industry prospects or future results of operations or financial position made in this Quarterly Report on Form 10-Q 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. We use words such as “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “will,” “plan,” “should” and similar expressions to identify forward-looking 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. Potential risks and uncertainties, among others, that could cause actual results to differ materially are discussed under “Part I – Item 1A. Risk Factors” of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and “Part II – Item 1.A. Risk Factors” of the Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2020 and June 30, 2020 and of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, and include, but are not limited to: the sensitivity of our business to economic and financial market conditions generally and economic conditions in CECO’s service areas; dependence on fixed price contracts and the risks associated therewith, including actual costs exceeding estimates and method of accounting for revenue; the effect of growth on CECO’s infrastructure, resources, and existing sales; the ability to expand operations in both new and existing markets; the potential for contract delay or cancellation; liabilities arising from faulty services or products that could result in significant professional or product liability, warranty, or other claims; changes in or developments with respect to any litigation or investigation; failure to meet timely completion or performance standards that could result in higher cost and reduced profits or, in some cases, losses on projects; the potential for fluctuations in prices for manufactured components and raw materials, including as a result of tariffs and surcharges; the substantial amount of debt incurred in connection with our strategic transactions 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; our ability to successfully realize the expected benefits of our restructuring program; our ability to successfully integrate acquired businesses and realize the synergies from strategic transactions; unpredictability and severity of catastrophic events, including cyber security threats, acts of terrorism or outbreak of war or hostilities or public health crises, such as uncertainties regarding the extent and duration of impacts of matters associated with the novel coronavirus (“COVID-19”), as well as management’s response to any of the aforementioned factors. 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 SEC, we undertake no obligation to update or review any forward-looking statements, whether as a result of new information, future events or otherwise.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks, primarily changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. For the Company, these exposures are primarily related to changes in interest rates. We do not currently hold any derivatives or other financial instruments purely for trading or speculative purposes.

The carrying value of the Company’s long-term debt and current maturities of long-term debt was \$77.9 million at September 30, 2020. Market risk was estimated as the potential decrease (increase) in future earnings and cash flows resulting from a hypothetical 10% increase (decrease) in the Company’s estimated weighted average borrowing rate at September 30, 2020. Most of the interest on the Company’s debt is indexed to either the LIBOR or EURIBOR market rates. The estimated impact of a hypothetical 10% change in the estimated weighted average borrowing rate at September 30, 2020 is \$0.2 million on an annual basis.

The Company has wholly-owned subsidiaries in several countries, including in the Netherlands, Canada, the People’s Republic of China, Mexico, United Kingdom, Singapore, Shanghai, Pune India, Dubai and Chile. In the past, we have not hedged our foreign currency exposure, and fluctuations in exchange rates have not materially affected our operating results. Future changes in exchange rates may positively or negatively impact our revenues, operating expenses and earnings. Since most of our foreign sales are denominated in the local currency, we do not anticipate that exposure to foreign currency rate fluctuations will be material in 2020.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) that are designed to ensure that information required to be disclosed by the Company in reports that it files or

submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2020. Management believes that the condensed consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for each of the periods presented in this report.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended September 30, 2020, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Limitations on the Effectiveness of Controls**

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative 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, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Note 13 to the unaudited Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding legal proceedings in which we are involved.

**ITEM 1A. RISK FACTORS**

There have been no material changes in the Company's risk factors than previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019 and Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2020 and June 30, 2020.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

- 10.1\*^ [Separation and Consulting Agreement, dated as of July 5, 2020, by and between CECO Environmental Corp. and Dennis Sadlowski.](#)
  - 10.2\*^ [Employment Agreement, effective as of July 6, 2020, by and between CECO Environmental Corp. and Todd Gleason.](#)
  - 10.3^ [Nonqualified Stock Option Inducement Award Agreement, by and between CECO Environmental Corp. and Todd Gleason, dated as of July 6, 2020 \(incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 \(Commission File No. 333-239707\) filed on July 6, 2020\)](#)
  - 10.4^ [Nonqualified Premium Stock Option Inducement Award Agreement, by and between CECO Environmental Corp. and Todd Gleason, dated as of July 6, 2020 \(incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 \(Commission File No. 333-239707\) filed on July 6, 2020\)](#)
  - 10.5^ [Restricted Stock Units Inducement Award Agreement, by and between CECO Environmental Corp. and Todd Gleason, dated as of July 6, 2020 \(incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-8 \(Commission File No. 333-239707\) filed on July 6, 2020\)](#)
  - 31.1\* [Rule 13\(a\)/15d-14\(a\) Certification by Chief Executive Officer](#)
  - 31.2\* [Rule 13\(a\)/15d-14\(a\) Certification by Chief Financial Officer](#)
  - 32.1\* [Certification of Chief Executive Officer \(18 U.S. Section 1350\)](#)
  - 32.2\* [Certification of Chief Financial Officer \(18 U.S. Section 1350\)](#)
  - 101\* The following materials from CECO Environmental Corp.'s Quarterly Report on Form 10-Q for the period ended June 30, 2020, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheet, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statement of Shareholders' Equity, (iv) the Condensed Consolidated Statement of Cash Flows, (v) Notes to Condensed Consolidated Financial Statements and (vi) document and entity information.
  - 104\* Cover Page Interactive Data File (embedded within the Inline XBRL document).
- \* Filed or furnished herewith  
^ Management contracts or compensation plans or arrangement

**SIGNATURES**

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.

By:                   /s/ Matthew Eckl                    
**Matthew Eckl**  
**Chief Financial Officer**

Date: November 4, 2020



**SEPARATION AND CONSULTING AGREEMENT**

This Separation and Consulting Agreement (this “**Separation Agreement**”) between CECO Environmental Corp. (the “**Company**”) and Dennis Sadlowski (“**you**” and similar words) sets forth certain terms of your separation from the Company, including certain terms required under the Executive Employment Agreement, dated June 10, 2017, between the Company and you (the “**Employment Agreement**”) or otherwise, in order for you to receive certain separation payments and benefits, as set forth in detail below.

By signing this Separation Agreement, you and the Company agree as follows:

**1.                    STATUS OF EMPLOYMENT**

You agree that you will terminate from your position as Chief Executive Officer of the Company effective July 5, 2020 (the “**Separation Date**”). You also agree that, as of the Separation Date, you will resign from all other positions (including any directorships) you hold with, and as an employee of, the Company and the Company’s subsidiaries and affiliates, as applicable, and that you will promptly execute any documents and take any actions as may be necessary or reasonably requested by the Company to effectuate or memorialize your termination from all positions with the Company and its subsidiaries and affiliates. You agree that the terminations described in this Paragraph 1 shall be treated as set forth in Paragraph 2 of this Separation Agreement.

**2.                    SEVERANCE BENEFITS**

Within 30 days after the Separation Date, the Company will pay to you a lump sum in cash representing your Accrued Obligations (as defined in the Employment Agreement), which will consist of the following, all subject to applicable tax withholding:

- your Annual Base Salary (as defined in the Employment Agreement) through the Separation Date, to the extent not theretofore paid;
- your business expenses that are reimbursable pursuant to Section 2(b)(v) of the Employment Agreement but have not been reimbursed by the Company as of the Separation Date; and
- any vacation pay accrued by you to the extent not theretofore paid.

In consideration for you (a) signing this Separation Agreement, and (b) signing, no earlier than the Separation Date and no later than 52 days following the Separation Date, a general waiver and release of claims, substantially in the form attached hereto as Exhibit A (the “**Release**”), and letting the Release become effective as set forth in the Release, (I) for purposes of your Employment Agreement and this Separation Agreement, your separation from the Company will be deemed a termination of your employment without Cause (as defined in the Employment Agreement), and (II) you will receive the payments and benefits as specified on

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Exhibit B attached hereto, all subject to applicable tax withholding (the “*Severance Benefits*”).

The Accrued Obligations and the Severance Benefits will be in full satisfaction of any amounts due under the Employment Agreement, the CECO Environmental Corp. 2017 Equity and Incentive Compensation Plan (the “*Equity Plan*”), and other compensation arrangements of the Company. You acknowledge and agree that the Severance Benefits do not constitute a benefit to which you would otherwise be entitled as a result of your employment with the Company, that the Severance Benefits would not be due unless you sign the Release, and that the Severance Benefits constitute fair and adequate consideration for your promises and covenants set forth in this Separation Agreement and the Release.

**3. CONSULTING**

To assist the Company with the transition of your responsibilities and duties as an independent advisor to the Company’s Chief Executive Officer and the Company’s management team, during the period from July 6, 2020 through December 31, 2020 (the “*Consulting Period*”), you will provide consultation to the Company on a non-exclusive basis as a consultant on such matters related to the Company, its business, operations, customer relations and industry associations, and industries it serves, as the Company’s Chief Executive Officer or his designee may reasonably request (“*Consulting Services*”), subject to the following terms and conditions:

- Regarding the Consulting Services, you will report directly and be accountable directly to the Company’s Chief Executive Officer;
  - During the Consulting Period, you agree to provide Consulting Services to the Company up to eight hours per week as may be reasonably agreed between the Company’s Chief Executive Officer (or his designee) and you. However, your obligations during the Consulting Period as set forth in this Paragraph 3 shall not require you to report to work or otherwise be physically present at the Company on a regular basis, nor to work any definite hours, and all scheduling shall take into account your personal and family plans so as not to interfere unreasonably with those plans;
  - During the Consulting Period, you will at all times be and remain an independent contractor and will not be covered as or be recognized as an employee under any benefit plans of the Company. You shall be free to exercise your own judgment as to the manner and method of providing the Consulting Services to the Company, subject to applicable laws and requirements reasonably imposed by the Company; and
  - In consideration of your performance of the Consulting Services, and contingent upon you signing and not revoking the Release (as described in Paragraph 2), the Company will pay to you a fee in cash at the rate of \$48,917 per month (the “*Consulting Fee*”), which Consulting Fee will be
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paid in a lump sum as soon as practicable after January 1, 2021 (but in no event later than March 15, 2021).

Notwithstanding the foregoing, the Consulting Period and the Consulting Services will terminate automatically upon your death or disability.

The Company shall reimburse you for all reasonable and documented expenses incurred by you at the request of the Company in the performance of the Consulting Services under this Separation Agreement. You shall not be obligated to make any advance to or for the account of the Company, nor shall you be obligated to incur any expense for the account of the Company without assurance that the necessary funds for the discharge of such expense will be provided. Notwithstanding the foregoing, all significant expenses to be incurred by you in connection with the Consulting Services shall require the prior written (including e-mail) approval of the Chief Executive Officer of the Company. If any reimbursements or in-kind benefits provided by the Company pursuant to this Separation Agreement would constitute deferred compensation for purposes of Section 409A of the Internal Revenue Code of 1986, as amended, such reimbursements or in-kind benefits shall be subject to the following rules: (a) the amounts to be reimbursed, or the in-kind benefits to be provided, shall be determined pursuant to the terms of the applicable benefit plan, policy or agreement and shall be limited to your lifetime and the lifetime of your eligible dependents; (b) the amount eligible for reimbursement, or the in-kind benefits provided, during any calendar year may not affect the expenses eligible for reimbursement, or the in-kind benefits provided, in any other calendar year; (c) any reimbursement of an eligible expense shall be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and (d) your right to an in-kind benefit or reimbursement is not subject to liquidation or exchange for cash or another benefit.

4. **RESTRICTIVE COVENANTS**

By signing this Separation Agreement, you reaffirm that you will continue to abide by the applicable covenants set forth in Section 8 of the Employment Agreement, and the Company reaffirms that it will continue to abide by the applicable non-disparagement covenants set forth in Section 8(k) of the Employment Agreement, which in each case expressly survive the termination of your employment without Cause. Notwithstanding anything in this Separation Agreement or the Employment Agreement to the contrary, nothing in this Separation Agreement or the Employment Agreement prevents you from providing, without prior notice to the Company, information to governmental authorities regarding possible legal violations or otherwise testifying or participating in any investigation or proceeding by any governmental authorities regarding possible legal violations, and for purpose of clarity you are not prohibited from providing information voluntarily to the Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934, as amended.

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5. **LIMITATIONS**

Nothing in this Separation Agreement, the Employment Agreement or the Release shall be binding upon the parties to the extent it is void or unenforceable for any reason, including, without limitation, as a result of any law regulating competition or proscribing unlawful business practices; *provided, however*, that to the extent that any provision in this Separation Agreement, the Employment Agreement or the Release could be modified to render it enforceable under applicable law, it shall be deemed so modified and enforced to the fullest extent allowed by law.

6. **OTHER ACKNOWLEDGEMENTS**

No Company policy or individual agreement between the Company and you shall prevent you from providing information to government authorities regarding possible legal violations, participating in investigations, testifying in proceedings regarding the Company's past or future conduct, engaging in any future activities protected under the whistleblower statutes administered by any government agency (e.g., EEOC, NLRB, SEC, etc.) or receiving a monetary award from a government-administered whistleblower award program for providing information directly to a government agency. The Company nonetheless asserts and does not waive its attorney-client privilege over any information appropriately protected by privilege. By executing this Separation Agreement you represent that, as of the date you sign this Separation Agreement, no claims, lawsuits, or charges have been filed by you or on your behalf against the Company or any of its legal predecessors, successors, assigns, fiduciaries, parents, subsidiaries, divisions or other affiliates, or each of the foregoing's respective past, present and future principals, partners, shareholders, directors, officers, employees, agents, consultants, attorneys, trustees, administrators, executors or representatives (the "***Released Parties***"). You acknowledge and agree that you have in a timely manner received or waived all applicable notices required under the Employment Agreement in connection with the termination of your employment with the Company. The Company agrees that this Separation Agreement does not extend to, release or modify any rights to indemnification or advancement of expenses to which you are entitled from the Company or its insurers under the Company's certificate of incorporation, by-laws, or other corporate governing law or instruments.

7. **CERTAIN CLAIMS**

The Company's obligation to make the payments and provide the benefits provided for in this Separation Agreement and otherwise to perform its obligations hereunder shall be subject to set-off, counterclaim, recoupment, defense, or other claim, right or action that the Company may have against you (but the Company represents and warrants that it has no actual knowledge of any matter that would give rise to a set-off, counterclaim, recoupment, or defense, or constitute a claim, right, or action against you as of your Separation Date) to the extent such set-off or other action does not violate Section 409A of the Internal Revenue Code of 1986, as amended. You will be entitled to recover actual damages if the Company breaches this

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Separation Agreement, including any unexcused late or non-payment of any amounts owed under this Separation Agreement, or any unexcused failure to provide any other benefits specified in this Separation Agreement. Failure by either party to enforce any term or condition of this Separation Agreement at any time shall not preclude that party from enforcing that provision, or any other provision, at a later time.

**8. NO RE-EMPLOYMENT**

You understand that your employment with the Company terminates on the Separation Date. Except for your performance of the Consulting Services during the Consulting Period, you agree that you will not seek or accept employment with the Company, including assignment to or on behalf of the Company as an independent contractor or through any third party, and the Company has no obligation to consider you for any future employment or assignment.

**9. REVIEW OF SEPARATION AGREEMENT**

This Separation Agreement is important. You are advised to review it carefully and consult an attorney before signing it, as well as any other professional whose advice you value, such as an accountant or financial advisor. If you agree to the terms of this Separation Agreement, sign in the space below where your agreement is indicated. The payments and benefits specified in this Separation Agreement are contingent on your signing this Separation Agreement and the Release no earlier than the Separation Date and no later than 52 calendar days following the Separation Date, and not revoking the Release.

**10. RETURN OF PROPERTY**

Except as otherwise provided in Exhibit B, you affirm that you have, or will have within a reasonable time after the date of this Separation Agreement, returned to the Company, including in reasonable working order, all Company Property, as described more fully below. "Company Property" includes company-owned computers, tablets, mobile phones, motor vehicles, equipment, supplies and documents. Such documents may include but are not limited to customer information, supplier information, product information, financial statements, cost data, price lists, invoices, forms, passwords, electronic files and media, mailing lists, contracts, reports, manuals, personnel files, correspondence, business cards, drawings, employee lists or directories, lists of vendors, photographs, maps, surveys, and the like, including copies, notes or compilations made there from, whether such documents are embodied on "hard copies" or contained on computer disk or any other medium. You further agree that you will not retain any copies or duplicates of any such Company Property.

**11. FUTURE COOPERATION**

You agree that you shall respond to reasonable requests for information from the Company regarding matters that may arise in the Company's business. You further

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agree to fully and completely cooperate with the Company, its advisors and its legal counsel with respect to any litigation that is pending against the Company and any claim or action that may be filed against the Company in the future. Such cooperation shall include making yourself available at reasonable times and places for interviews, reviewing documents, testifying in a deposition or a legal or administrative proceeding, and providing advice to the Company in preparing defenses to any pending or potential future claims against the Company. To the extent that, following the Consulting Period, responding to such information requests and/or cooperation (other than with respect to matters, litigation, claims, or actions that arise out of purported acts or omissions by you) requires more than a customarily reasonable amount of time investment by you, the Company will pay you a reasonable per diem or hourly rate that is reasonably agreed to in good faith by you and the Company (which agreement will not be unreasonably withheld). The Company further agrees to pay/reimburse you for any approved travel expenses reasonably incurred as a result of your cooperation with the Company, with any such payments/reimbursements to be made in accordance with the Company's expense reimbursement policy as in effect from time to time.

12. **TAX MATTERS**

By signing this Separation Agreement, you acknowledge that you will be solely responsible for any taxes which may be imposed on you as a result of the Accrued Obligations and the Severance Benefits, all amounts payable to you under this Separation Agreement will be subject to applicable tax withholding by the Company, and the Company has not made any representations or guarantees regarding the tax result for you with respect to any income recognized by you in connection with this Separation Agreement, the Accrued Obligations or the Severance Benefits.

13. **NATURE OF AGREEMENT**

By signing this Separation Agreement, you acknowledge that you are doing so freely, knowingly and voluntarily. You acknowledge that in signing this Separation Agreement you have relied only on the promises written in this Separation Agreement and not on any other promise made by the Released Parties, the Company or any past, present or future parents, subsidiaries or affiliates of the Company (collectively, the "***CECO Companies***"). This Separation Agreement is not, and will not be considered, an admission of liability or of a violation of any applicable contract, law, rule, regulation, or order of any kind. This Separation Agreement and the Release contains the entire agreement between the Company, other CECO Companies and you regarding your departure from the Company, except that all post-employment covenants contained in the Employment Agreement remain in full force and effect. The Accrued Obligations and the Severance Benefits are in full satisfaction of any severance benefits under the Employment Agreement, the Equity Plan, and of any other compensation arrangements between you and the Company or the CECO Companies. This Separation Agreement may not be altered, modified, waived or amended except by

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a written document signed by a duly authorized representative of the Company and you. Except as otherwise explicitly provided, this Separation Agreement will be interpreted and enforced in accordance with the laws of the state of Texas, and the parties hereto, including their successors and assigns, consent to the jurisdiction of the state and federal courts of Texas. The headings in this document are for reference only, and shall not in any way affect the meaning or interpretation of this Separation Agreement.

**[SIGNATURE PAGE FOLLOWS]**

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IN WITNESS WHEREOF, you and the Company have executed this Separation Agreement as of the dates set forth below.

**DENNIS SADLOWSKI**

/s/ Dennis Sadlowski

Date: 7/5/20

**CECO ENVIRONMENTAL CORP.**

By: /s/ Jason DeZwirek

Name: Jason DeZwirek

Title: Chairman of the Board of Directors

Date: 7/5/20

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**Exhibit A**  
**Release**

This Release is between CECO Environmental Corp. the “*Company*”) and Dennis Sadlowski (“*you*” and similar words), in consideration of the benefits provided to you and to be received by you from or on behalf of the Company as described in the Separation and Consulting Agreement between the Company and you dated as of the applicable date referenced therein (the “*Separation Agreement*”). Capitalized terms used herein without definition have the meanings ascribed to such terms in the Separation Agreement.

By signing this Release, you and the Company hereby agree as follows:

**1. WAIVER AND RELEASE**

You, on behalf of yourself and anyone claiming through you, including each and all of your legal representatives, administrators, executors, heirs, successors and assigns (collectively, the “*Releasors*”), hereby fully, finally and forever release, absolve and discharge the Company and each and all of its legal predecessors, successors, assigns, fiduciaries, parents, subsidiaries, divisions and other affiliates, and each of the foregoing’s respective past, present and future principals, partners, shareholders, directors, officers, employees, agents, consultants, attorneys, trustees, administrators, executors and representatives (collectively, the “*Company Released Parties*”), of, from and for any and all claims, causes of action, lawsuits, controversies, liabilities, losses, damages, costs, expenses and demands of any nature whatsoever, at law or in equity, whether known or unknown, asserted or unasserted, foreseen or unforeseen, that the Releasors (or any of them) now have, have ever had, or may have against the Company Released Parties (or any of them) based upon, arising out of, concerning, relating to or resulting from any act, omission, matter, fact, occurrence, transaction, claim, contention, statement or event occurring or existing at any time in the past up to and including the date on which you sign this Release, including, without limitation: (a) all claims arising out of or in any way relating to your employment with or separation of employment from the Company or its affiliates; (b) all claims for compensation or benefits, including salary, commissions, bonuses, vacation pay, expense reimbursements, severance pay, fringe benefits, stock options, restricted stock units or any other ownership interests in the Company Released Parties; (c) all claims for breach of contract, wrongful termination and breach of the implied covenant of good faith and fair dealing; (d) all tort claims, including claims for fraud, defamation, invasion of privacy and emotional distress; (e) all other common law claims; and (f) all claims (including claims for discrimination, harassment, retaliation, attorneys fees, expenses or otherwise) that were or could have been asserted by you or on your behalf in any federal, state, or local court, commission, or agency, or under any federal, state, local, employment, services or other law, regulation, ordinance, constitutional provision, executive order or other source of law, including without limitation under any of the following laws, as amended from time to time: the Age Discrimination in Employment Act (the “*ADEA*”), as amended by the Older Workers’ Benefit Protection Act of 1990 (the “*OWBPA*”), Title VII of the Civil

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Rights Act of 1964, 42 U.S.C. §§ 1981 & 1981a, the Americans with Disabilities Act, the Equal Pay Act, the Employee Retirement Income Security Act, the Lilly Ledbetter Fair Pay Act of 2009, the Family and Medical Leave Act, Sarbanes-Oxley Act of 2002, the National Labor Relations Act, the Rehabilitation Act of 1973, the Worker Adjustment Retraining and Notification Act, the Uniformed Services Employment and Reemployment Rights Act, Federal Executive Order 11246, the Genetic Information Nondiscrimination Act, the Texas Commission on Human Right/Texas Employment Discrimination Law, as amended, the Texas Labor Code, the Texas Health and Safety Code, the Texas Disability Discrimination Law, as amended, the Texas Minimum Wage Act, or the Texas Wage Payment Law (the “**Release**”).

**2. SCOPE OF RELEASE**

Nothing in this Release (a) shall release the Company from any of its obligations set forth in the Separation Agreement or any claim that by law is non-waivable, (b) shall release the Company from any obligation to defend and/or indemnify you against any third party claims arising out of any action or inaction by you during the time of your employment and within the scope of your duties with the Company to the extent you have any such defense or indemnification right, and to the extent permitted by applicable law and to the extent the claims are covered by the Company’s director & officer liability insurance or (c) shall affect your right to file a claim for workers’ compensation or unemployment insurance benefits.

You further acknowledge that by signing this Release, you do not waive the right to file a charge against the Company with, communicate with, or participate in any investigation by the Equal Employment Opportunity Commission, the Securities and Exchange Commission or any comparable state or local agency. However, you waive and release, to the fullest extent legally permissible, all entitlement to any form of monetary relief arising from a charge you or others may file, including without limitation any costs, expenses or attorneys’ fees. You understand that this waiver and release of monetary relief would not affect an enforcement agency’s ability to investigate a charge or to pursue relief on behalf of others. Notwithstanding the foregoing, you will not give up your right to any benefits to which you are entitled under any retirement plan of the Company that is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, or any monetary recovery under the Dodd-Frank Wall Street Reform and Consumer Protection Act and The Sarbanes-Oxley Act of 2002.

By executing this Release you represent that, as of the date you sign this Release, no claims, lawsuits, grievances, or charges have been filed by you or on your behalf against the Company Released Parties.

**3. REVIEW OF RELEASE**

In compliance with the requirements of the OWBPA, you acknowledge by your signature below that, with respect to the rights and claims under the ADEA that are

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waived and released by this Release, including claims relating to employment discrimination based upon age, you specifically acknowledge and agree as follows: (a) you have read and understand the terms of this Release; (b) you have been advised and hereby are advised, and have had the opportunity, to consult with an attorney before signing this Release; (c) the Release is written in a manner understood by you; (d) you are releasing the Company and the other Company Released Parties from, among other things, any claims that you may have against them pursuant to the ADEA; (e) the Release does not cover rights or claims that may arise after you sign this Release; (f) you will receive valuable consideration in exchange for the Release other than amounts you would otherwise be entitled to receive; (g) you have been given a period of 52 days in which to consider and execute this Release (although you may elect not to use the full 52-day period at your option); (h) you may revoke the Release during the seven-day period following the date on which you sign this Release, and the Release will not become effective and enforceable until the seven-day revocation period has expired; and (i) any such revocation must be submitted in writing to the Company c/o Matt Eckl, Chief Financial Officer, CECO Environmental Corp., 14651 North Dallas Parkway, Dallas, Texas 75254 prior to the expiration of such seven-day revocation period. If you revoke the Release within such seven-day revocation period, it shall be null and void.

4. **ENTIRE AGREEMENT**

This Release, the Separation Agreement, and the documents referenced therein contain the entire agreement between you and the Company, and take priority over any other written or oral understanding or agreement that may have existed in the past. You acknowledge that no other promises or agreements have been offered for this Release (other than those described above) and that no other promises or agreements will be binding unless they are in writing and signed by you and the Company. Should any provision of this Release be declared by a court of competent jurisdiction to be illegal, void, or unenforceable, the remaining provisions shall remain in full force and effect; *provided, however*, that upon a finding that the Release, in whole or part, is illegal, void, or unenforceable, you shall be required, at the option of the Company, either to return the Severance Benefits (as defined in the Separation Agreement) or to execute a release that is legal and enforceable.

I agree to the terms and conditions set forth in this Release.

/s/ Dennis Sadlowski  
Dennis Sadlowski

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**Exhibit B**  
**Severance and Other Benefits<sup>1</sup>**

1. Severance benefits under the Employment Agreement, which severance benefits consist of the following (as further described in, and qualified by reference to, the Employment Agreement):
  - A lump sum cash amount equal in value to your Annual Base Salary (\$587,000), payable on the 61<sup>st</sup> day after the Separation Date; and
  - To the extent not theretofore paid or provided, timely payment or provision of any Other Benefits (as defined in Section 5 of the Employment Agreement) in accordance with the terms of the underlying plans or agreements; and
  
2. The following enhanced benefits:
  - In lieu of the benefit provided for under Section 4(a)(iii) of the Employment Agreement, a lump sum cash amount equal in value to the product obtained by multiplying (A) the 2020 Annual Bonus that you would have earned had you remained employed through the end of the 2020 calendar year and earned 50% of your target award, by (B) a fraction, the numerator of which is the total number of days that have elapsed during the 2020 calendar year through the Separation Date and the denominator of which is 365, payable at such time as the Company pays 2020 annual bonuses, if any, to senior executives of the Company (but in no event later than March 15, 2021);
  - If the total amount of your accrued and unpaid vacation pay as of the Separation Date is less than four (4) weeks of vacation pay, a payment equal to the difference between four (4) weeks of accrued vacation pay and the actual amount of accrued vacation pay paid to you as part of the Accrued Obligations, payable in a lump sum as soon as practicable after January 1, 2021 (but in no event later than March 15, 2021);
  - If you elect continuation coverage under the Company's medical, dental and vision benefits pursuant to Part 6 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended ("COBRA"), in lieu of the benefit provided for under Section 4(a)(iv) of the Employment Agreement, reimbursement of your monthly COBRA payment (provided such reimbursement does not result in any taxes or penalties for the Company), until the earlier of (A) your eligibility for any such coverage under another employer's medical plans or (B) the date that is 18 months after the Separation Date;
  - You may permanently retain your Company laptop computer and mobile phone; provided, however, that the mobile phone number associated with your Company

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<sup>1</sup> Except as otherwise expressly provided, all benefits are to be paid or provided in the manner and at the time specified in the applicable plan or agreement, or as required under applicable law. Capitalized terms used in this Exhibit B without definitions have the meanings ascribed to such terms in the Employment Agreement.

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mobile phone will be transferred back to the Company at the end of the Consulting Period; and, provided, further, that upon the expiration of the Consulting Period, you will give the Company or its designee access to such devices to erase all software licensed by the Company and confidential and other Company information therefrom; and

- The Company will make reasonable efforts to transfer your Company executive life insurance plan to you, provided that such transfer results in no cost or liability to the Company.

## EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT, by and between CECO Environmental Corp., a Delaware corporation (the "Company"), and Todd R. Gleason ("Executive"), is dated as of the 5<sup>th</sup> day of July, 2020 (the "Agreement").

The Company wishes to employ Executive on the terms and conditions, and for the consideration, hereinafter set forth, and Executive desires to be employed by the Company on such terms and conditions and for such consideration.

During Executive's employment with the Company, Executive will be provided with access to the Company's trade secrets and confidential information, as well as specialized training that will allow him to perform his duties.

In consideration of the promises provided for in this Agreement, the Company and Executive agree as follows:

1. Employment Period. This Agreement shall become effective as of July 6, 2020 (the "Effective Date"). The Company hereby agrees to employ Executive, and Executive hereby agrees to be employed by the Company, on an at-will basis on the terms and conditions set forth herein for the period commencing on the Effective Date and ending as provided in Section 3 hereof (the "Employment Period").

### 2. Terms of Employment.

(a) Position and Duties. (i) During the Employment Period, Executive shall (A) serve as Chief Executive Officer of the Company with such duties and responsibilities as are commensurate with such position, (B) report to the Board of Directors of the Company (the "Board"), and (C) perform his services at the Company's offices in Dallas, Texas (subject to reasonable global and domestic travel requirements commensurate with Executive's position). The Company shall appoint Executive as a member of the Board as of his appointment as Chief Executive Officer, and will use its reasonable best efforts to have him nominated to the Board throughout the Employment Period while Executive is employed by the Company. Executive shall make his principal residence in the Dallas, Texas area no later than July 31, 2021.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which Executive is entitled, Executive agrees to devote his full business time and attention to the business and affairs of the Company. During the Employment Period, it will not be a violation of this Agreement for Executive to (A) serve on civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities described in clauses (A), (B) and (C) do not interfere with the performance of Executive's responsibilities as an employee of the Company in accordance with this Agreement. Except as otherwise provided in this subclause (ii), Executive shall not during the Employment Period serve as a director of another corporation, provided that Executive shall be permitted to continue serving as a member of the board of directors of Scientific Analytics Inc.

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(b) Compensation (i) Base Salary. During the Employment Period, Executive shall receive an annual base salary (“Annual Base Salary”) of not less than \$450,000 per year paid in accordance with the normal payroll procedures of the Company, which Annual Base Salary shall be reviewed for increase at least annually.

(ii) Sign-On Bonus. The Company shall pay Executive a cash bonus equal to \$150,000 (the “Sign-On Bonus”), payable in a lump sum as soon as practicable (but no later than 30 days) following the Effective Date, which Sign-On Bonus shall be, in part, in lieu of any relocation payments in connection with the relocation of Executive’s primary residence to the Dallas, Texas area. If (A) Executive terminates employment with the Company without Good Reason (other than as a result of death or Disability) prior to September 30, 2021 and (B) Executive has not relocated his primary residence to the Dallas, Texas area as of the Date of Termination, Executive shall repay to the Company the Sign-On Bonus within 30 days after the Date of Termination.

(iii) Annual Bonus.

(A) For the 2020 calendar year, Executive shall be entitled to receive a cash bonus equal to \$150,000 (the “2020 Bonus”), which 2020 Bonus shall be in lieu of any other annual cash bonus opportunity for 2020. The 2020 Bonus will be paid in a lump sum at the same time annual cash bonuses are paid to the other senior officers of the Company for the 2020 calendar year, but in no event later than March 15, 2021.

(B) Executive shall be eligible, for each calendar year of the Company following 2020 that ends during the Employment Period, to earn, based on achievement with respect to the applicable performance criteria that may be established by the Compensation Committee of the Board (the “Committee”), an annual cash bonus (an “Annual Bonus”), with a target Annual Bonus opportunity equal to no less than 100% of Annual Base Salary (“Target Bonus”) and a maximum Annual Bonus opportunity equal to no less than 200% of Annual Base Salary. Any Annual Bonus earned with respect to a particular year will generally be paid at the same time annual cash bonuses are paid to other senior officers of the Company for such calendar year, but in no event later than March 15 of the following calendar year. There is no guaranteed Annual Bonus under this Agreement for any calendar year, and for each such calendar year, Executive’s Annual Bonus could be as low as zero or as high as the maximum payout percentage established for that calendar year’s Annual Bonus opportunity.

(C) Notwithstanding anything in this Agreement to the contrary, each Annual Bonus shall be on the terms and subject to such conditions as are specified for the Company plans or programs pursuant to which the Annual Bonus opportunity, as applicable, is granted.

(iv) Initial Equity Awards. As soon as practical on or after the Effective Date, Executive shall be granted the following one-time awards under the Company’s long-term

incentive compensation arrangements in accordance with the Company's policies, the applicable award agreements and the incentive compensation plans under which such awards are granted:

(A) A grant of time-based restricted stock units covering a number of shares of the Company's common stock equal to the quotient (rounded up to the nearest whole share) of (1) \$600,000, divided by (2) the closing price of the Company's common stock as reported on The NASDAQ Stock Market LLC on the last trading day preceding the date of grant, which award will generally vest, subject to Executive's continued employment with the Company, in substantially equal installments on each of the first four anniversaries of the date of grant;

(B) A grant of nonqualified stock options with a grant date value equal to approximately \$900,000 based on the Company's Black-Scholes option-pricing model (the "At-the-Money Option Award"), which At-the-Money Option Award will generally vest, subject to Executive's continued employment with the Company, in substantially equal installments on each of the first four anniversaries of the date of grant. The At-the-Money Option Award will have an exercise price equal to the closing price of the Company's common stock as reported on The NASDAQ Stock Market LLC on the last trading day preceding the date of grant and will generally expire, subject to continued employment with the Company, on the seventh anniversary of the date of grant; and

(C) A grant of nonqualified stock options with a grant date value equal to approximately \$1,500,000 based on the Company's Black-Scholes option-pricing model, taking into account the premium exercise price described below (the "Premium Option Award"), which Premium Option Award will generally vest, subject to Executive's continued employment with the Company, in substantially equal installments on each of the first four anniversaries of the date of grant. The Premium Option Award will have an exercise price equal to the product of two times the closing price of the Company's common stock as reported on The NASDAQ Stock Market LLC on the last trading day preceding the date of grant and will generally expire, subject to continued employment with the Company, on the seventh anniversary of the date of grant.

(v) Annual Equity Awards. For calendar years following 2020 during the Employment Period, Executive shall be eligible for annual awards under the Company's equity compensation arrangements as reasonably determined by the Committee; provided, however, that Executive's total annual equity award target opportunity under the Equity Plans for each calendar year following 2020 during the Employment Period shall have an aggregate grant date value (as reasonably determined by the Committee) of no less than \$1,000,000. Executive's annual equity awards shall be made in the form of time-based restricted stock units and/or performance-based restricted stock units, or in such other forms as determined by the Committee after consideration of competitive market data provided by its independent compensation consultant, all in accordance with the Company's policies and the applicable award agreements and incentive compensation plans under which such awards may be granted, as in effect from time to time; provided, however, that no less than 60% of Executive's annual equity awards shall be subject to the achievement performance objectives determined by the Committee.



(vi) Car Allowance. During the Employment Period, the Company will pay to Executive a monthly car allowance equal to \$1,000.

(vii) Temporary Living Accommodations. During the Employment Period, for the period beginning on the Effective Date and ending on June 30, 2021, the Company shall reimburse Executive up to \$2,500 per month for apartment or comparable rental expenses incurred by Executive in the Dallas, Texas area.

(viii) Employee Benefits. During the Employment Period, Executive shall be eligible to participate in the employee benefit plans, programs, and policies, as may be in effect from time to time, for senior executives of the Company generally.

(ix) Expenses. During the Employment Period, Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by Executive in accordance with the performance of Executive's duties under this Agreement and in accordance with the Company's business expense reimbursement policy.

### 3. Termination of Employment.

(a) Generally. Except as hereinafter provided, the Employment Period shall continue until, and shall end upon, the third anniversary of the Effective Date (the "Initial Employment Period"). At the end of the Initial Employment Period and on each anniversary thereafter, unless the Company shall have given Executive ninety (90) days written notice that the Employment Period will not be extended, the Employment Period shall be extended for an additional year. The term "Employment Period" as used in this Agreement shall refer to the Initial Employment Period or the Employment Period as so extended. Notwithstanding the foregoing, the Employment Period (to the extent then in effect) will cease on the Date of Termination (as defined in Section 3(f)).

(b) Death or Disability. Executive's employment shall terminate automatically if Executive dies during the Employment Period. If the Company determines in good faith that the Disability (as defined herein) of Executive has occurred during the Employment Period (pursuant to the definition of "Disability"), it may give to Executive written notice in accordance with Section 13(b) of its intention to terminate Executive's employment. In such event, Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, Executive shall not have returned to full-time performance of Executive's duties. "Disability" means the absence of Executive from Executive's duties with the Company on a full-time basis for 90 consecutive business days, or 90 business days during any period of 120 consecutive business days, as a result of incapacity due to mental or physical illness that is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative (such agreement as to acceptability not to be unreasonably withheld).

(c) By the Company. The Company may terminate Executive's employment during the Employment Period for any, or no reason, with or without Cause. For purposes of this Agreement, "Cause" will be deemed to exist upon:

- (i) any use or misappropriation by Executive of the Company's, its parent's, an affiliate's or a subsidiary's funds, assets or property for any personal or other improper purpose;
- (ii) any act of moral turpitude, dishonesty, fraud by or felony conviction of Executive whether or not such acts were committed in connection with the Company's, an affiliate's or subsidiary's business;
- (iii) any failure by Executive substantially to perform the lawful instructions of the Board (other than as a result of total or partial incapacity due to physical or mental illness) following written notice by the Company to Executive of such failure and 15 days within which to cure such failure;
- (iv) any willful or gross misconduct by Executive in connection with Executive's duties to the Company which, in the reasonable good faith judgment of the Board, could reasonably be expected to be materially injurious to the financial condition or business reputation of the Company, its subsidiaries or affiliates;
- (v) any failure by Executive to follow a material Company policy following written notice by the Company to Executive of such failure and 15 days within which to cure such failure; or
- (vi) any material breach by Executive of this Agreement following written notice by the Company to Executive of such breach and 15 days within which to cure such breach.

The cessation of employment of Executive shall not be deemed to be for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board (excluding Executive, if Executive is a member of the Board) at a meeting of the Board called and held for such purpose (after reasonable notice is provided to Executive and Executive is given an opportunity, together with counsel for Executive, to be heard before the Board), finding that, in the good faith opinion of the Board, Executive has engaged in the conduct described in this Section 3(c), and specifying the particulars thereof in detail.

(d) By Executive. Executive's employment may be terminated during the Employment Period by Executive for Good Reason or by Executive without Good Reason. For purposes of this Agreement, "Good Reason" shall mean, in the absence of the prior written consent of Executive:

- (i) a material and permanent diminution in Executive's duties, authorities or responsibilities;
- (ii) a material and permanent reduction of Executive's Annual Base Salary or Target Bonus;

(iii) relocation of Executive's primary workplace, as assigned to Executive by the Company in accordance with Section 2(a)(i) beyond a 50 mile radius from such workplace; or

(iv) any other material breach by the Company of this Agreement;

provided, however, that Executive's termination of employment shall not be deemed to be for Good Reason unless (x) Executive has notified the Company in writing describing the occurrence of one or more Good Reason events within 90 days of such occurrence, (y) the Company fails to cure such Good Reason event within 30 days after its receipt of such written notice and (z) the termination of employment occurs within 180 days after the occurrence of the applicable Good Reason event.

(e) Notice of Termination; Expiration of Employment Period. Any termination of employment by the Company for Cause, or by Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 13(b) of this Agreement. "Notice of Termination" means a written notice that (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company, respectively, hereunder or preclude Executive or the Company, respectively, from asserting such fact or circumstance in enforcing Executive's or the Company's respective rights hereunder.

(f) Date of Termination. "Date of Termination" means (i) if Executive's employment is terminated by the Company for Cause, or by Executive for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be, (ii) if Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies Executive of such termination, (iii) if Executive resigns without Good Reason, the date on which Executive notifies the Company of such termination, and (iv) if Executive's employment is terminated by reason of death or Disability, the date of Executive's death or the Disability Effective Date, as the case may be. Notwithstanding the foregoing, in no event shall the Date of Termination occur until Executive experiences a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the date on which such separation from service takes place shall be the "Date of Termination." Upon the expiration of the Employment Period and in the event Executive continues employment with the Company, Executive's employment will be at-will and the terms of this Agreement (other than Section 8) will have no further effect.

(g) Termination of Status as Director or Officer. Upon termination of Executive's employment for any reason, Executive agrees to resign, as of the date of such termination and to the extent applicable, from the Board (and any committees thereof) and as an

officer and as a member of the board of directors (or any similar position, and from any committees thereof) of any of the Company's subsidiaries and other affiliates.

#### 4. Obligations of the Company upon Termination.

(a) By Executive for Good Reason or by the Company other than for Cause, Death or Disability. If, during the Employment Period, the Company terminates Executive's employment without Cause (other than due to death or Disability) or Executive terminates employment for Good Reason, and Section 4(b) does not apply:

(i) The Company shall pay to Executive, in a lump sum in cash within 30 days after the Date of Termination, subject to Section 10(b), the aggregate of the following amounts: the sum of (A) Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) Executive's business expenses that are reimbursable pursuant to Section 2(b)(ix) of this Agreement but have not been reimbursed by the Company as of the Date of Termination; (C) Executive's 2020 Bonus or Annual Bonus, as applicable, for the calendar year immediately preceding the calendar year in which the Date of Termination occurs, if such bonus has been determined to have been earned but has not been paid as of the Date of Termination; and (D) any accrued vacation pay to the extent not theretofore paid (the sum of the amounts described in subclauses (A), (B), (C) and (D), the "Accrued Obligations");

(ii) On the 61st day after the Date of Termination, the Company shall, subject to Section 4(f) of this Agreement, pay to Executive a lump sum cash amount equal to Executive's Annual Base Salary (without regard to any reduction thereto);

(iii) At such time as the Company pays annual bonuses, if any, to senior executives of the Company, the Company shall, subject to Section 4(f) of this Agreement, pay to Executive a lump sum cash amount equal to the product obtained by multiplying (A) the full year 2020 Bonus or Annual Bonus, as applicable, that Executive would have earned had Executive remained employed through the end of the calendar year in which the Date of Termination occurs based on the degree of satisfaction of the applicable performance targets, by (B) a fraction, the numerator of which is the total number of days that have elapsed during the calendar year through the Date of Termination and the denominator of which is the total number of days in the applicable calendar year;

(iv) if Executive elects continuation coverage under the Company's medical, dental and vision benefits pursuant to Part 6 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended ("COBRA"), the Company shall reimburse Executive for Executive's monthly COBRA payment (provided such reimbursement does not result in any taxes or penalties for the Company), until the earlier of (A) Executive's eligibility for any such coverage under another employer's medical plans or (B) the date that is 12 months after the Date of Termination; and

(v) To the extent not theretofore paid or provided, the Company shall timely pay or provide to Executive any Other Benefits (as defined in Section 5) in accordance with the terms of the underlying plans or agreements.

Other than as set forth in this Section 4(a) of this Agreement, in the event of a termination of Executive's employment by the Company without Cause (other than due to death or Disability) or by Executive for Good Reason, in each case where Section 4(b) does not apply, the Company shall have no further obligation to Executive under this Agreement.

(b) Termination in Connection With a Change in Control. If, during the Employment Period, the Company terminates Executive's employment without Cause (other than due to death or Disability) or Executive terminates employment for Good Reason, in each case, within a period of two years after a Change in Control:

(i) The Company shall pay to Executive, in a lump sum in cash within 30 days after the Date of Termination, subject to Section 10(b), the Accrued Obligations;

(ii) On the 61st day after the Date of Termination, the Company shall, subject to Section 4(f) of this Agreement, pay to Executive a lump sum cash amount equal to the sum of Executive's Annual Base Salary (without regard to any reduction thereto) plus Executive's full year 2020 Bonus or target Annual Bonus, as applicable, for the calendar year in which the Date of Termination occurs;

(iii) if Executive elects continuation coverage under the Company's medical, dental and vision benefits pursuant to Part 6 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended ("COBRA"), the Company shall reimburse Executive for Executive's monthly COBRA payment (provided such reimbursement does not result in any taxes or penalties for the Company), until the earlier of (A) Executive's eligibility for any such coverage under another employer's medical plans or (B) the date that is 12 months after the Date of Termination; and

(iv) To the extent not theretofore paid or provided, the Company shall timely pay or provide to Executive any Other Benefits in accordance with the terms of the underlying plans or agreements.

Other than as set forth in this Section 4(b) of this Agreement, in the event of a termination of Executive's employment by the Company without Cause (other than due to death or Disability) or by Executive for Good Reason, in each case within a period of two years after a Change in Control, the Company shall have no further obligation to Executive under this Agreement.

(c) Definition of Change in Control. For purposes of this Agreement, a "Change in Control" will be deemed to have occurred upon the occurrence (after the Effective Date) of any of the following events:

(i) any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either (A) the then-outstanding common stock, par value \$0.01 per share, of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding

Company Voting Securities”); provided, however, that, for purposes of this definition, the following acquisitions shall not constitute a Change in Control: (w) any acquisition directly from the Company, (x) any acquisition by the Company, (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (z) any acquisition pursuant to a transaction that complies with Sections 4(c)(iii) (A), (B) and (C) below;

(ii) individuals who, as of the Effective Date, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least three-fourths (3/4) of the directors then comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of the Company in which such individual is named as a nominee for director, without objection to such nomination) shall be considered as though such individual was a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or securities of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 50% or more of, respectively, the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were members of the Incumbent Board at the

time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(iv) approval by the Company's stockholders of a complete liquidation or dissolution of the Company.

(d) Death or Disability. If Executive's employment is terminated by reason of Executive's death or Disability during the Employment Period, the Company shall provide Executive or, in the event of death, Executive's estate or beneficiaries, with the Accrued Obligations and the timely payment or delivery of the Other Benefits in accordance with the terms of the underlying plans or agreements, and shall have no further obligations under this Agreement. The Accrued Obligations shall be paid to Executive or, in the event of death, Executive's estate or beneficiaries, in a lump sum in cash within 30 days of the Date of Termination.

(e) Cause; Other than for Good Reason. If Executive's employment is terminated for Cause during the Employment Period, the Company shall provide Executive with Executive's Annual Base Salary through the Date of Termination, and the timely payment or delivery of the Other Benefits in accordance with the terms of the underlying plans or agreements, and shall have no further obligations under this Agreement. If Executive voluntarily terminates employment other than for Good Reason during the Employment Period, the Company shall provide to Executive the Accrued Obligations and the timely payment or delivery of the Other Benefits in accordance with the terms of the underlying plans or agreements, and shall have no further obligations under this Agreement. In such case, all the Accrued Obligations shall be paid to Executive in a lump sum in cash within 30 days of the Date of Termination.

(f) Release. Notwithstanding anything herein to the contrary, the Company shall not be obligated to make any payment under Sections 4(a)(ii)-(v) or Sections 4(b)(ii)-(iv), as applicable, of this Agreement unless (i) prior to the 60th day following the Date of Termination, Executive executes a release of claims against the Company and its affiliates in a form provided by the Company (the "Release"), and (ii) any applicable revocation period has expired during such 60-day period without Executive revoking such Release.

5. Non-Exclusivity of Rights. Amounts that Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company at or subsequent to the Date of Termination ("Other Benefits") shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Notwithstanding the foregoing, Executive shall not be eligible to participate in any other severance plan, program or policy of the Company.

6. Set-off; No Mitigation. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall be subject to set-off, counterclaim, recoupment, defense, or other claim, right or action that the Company may have against Executive to the extent such set-off or other action does not violate Code Section 409A. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement.

7. Limitations on Payments Under Certain Circumstances. Notwithstanding any provision of any other plan, program, arrangement or agreement to the contrary, in the event that it shall be determined that any payment or benefit to be provided by the Company to Executive pursuant to the terms of this Agreement or any other payments or benefits received or to be received by Executive (a "Payment") in connection with or as a result of any event which is deemed by the Internal Revenue Service or any other taxing authority to constitute a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company and subject to the tax (the "Excise Tax") imposed by Section 4999 (or any successor section) of the Code, the Payments, whether under this Agreement or otherwise, shall be reduced so that the Payment, in the aggregate, is reduced to the greatest amount that could be paid to Executive without giving rise to any Excise Tax; provided that in the event that Executive would be placed in a better after-tax position after receiving all Payments and not having any reduction of Payments as provided hereunder, Executive shall, notwithstanding the provisions of any other plan, program, arrangement or agreement to the contrary, receive all Payments and pay any applicable Excise Tax. All determinations under this Section 7 shall be made by a nationally recognized accounting firm selected by the Company (the "Accounting Firm"). Without limiting the generality of the foregoing, any determination by the Accounting Firm under this Section 7 shall take into account the value of any reasonable compensation for services to be rendered by Executive (or for holding oneself out as available to perform services and refraining from performing services (such as under a covenant not to compete)). If the Payments are to be reduced pursuant to this Section 7, the Payments shall be reduced in the following order: (a) Payments which do not constitute "nonqualified deferred compensation" subject to Code Section 409A shall be reduced first; and (b) all other Payments shall then be reduced, in each case as follows: (i) cash payments shall be reduced before non-cash payments and (ii) payments to be made on a later payment date shall be reduced before payments to be made on an earlier payment date.

8. Restrictive Covenants.

(a) Competitive Activity During Employment. Executive will not compete with the Company anywhere in the world during Executive's employment with the Company, including, without limitation, Executive will not:

- (i) enter into or engage in any business which competes with the Business of the Company;
- (ii) solicit customers, business, patronage or orders for, or sell, any products or services in competition with, or for any business that competes with, the Business of the Company;
- (iii) divert, entice or otherwise take away any customers, business, patronage or orders of the Company or attempt to do so; or
- (iv) promote or assist, financially or otherwise, any person, firm, association, partnership, corporation or other entity engaged in any business which competes with the Business of the Company.



(b) Following Termination. For a period of one year following Executive's termination of employment with the Company, Executive will not:

- (i) enter into or engage in any business which competes with the Company's Business within the Restricted Territory (as hereinafter defined);
- (ii) solicit customers, business, patronage or orders for, or sell, any products or services in competition with, or for any business, wherever located, that competes with, the Company's Business within the Restricted Territory;
- (iii) divert, entice or otherwise take away any customers, business, patronage or orders of the Company within the Restricted Territory, or attempt to do so; or
- (iv) promote or assist, financially or otherwise, any person, firm, association, partnership, corporation or other entity engaged in any business which competes with the Company's Business within the Restricted Territory.

For the purposes of Sections 8(a) and (b), inclusive, but without limitation thereof, Executive will be in violation thereof if Executive engages in any or all of the activities set forth therein directly as an individual on Executive's own account, or indirectly as a partner, joint venturer, employee, agent, salesperson, consultant, officer and/or director of any firm, association, partnership, corporation or other entity, or as a stockholder of any corporation in which Executive or Executive's spouse, child or parent owns, directly or indirectly, individually or in the aggregate, more than 5% of the outstanding stock.

(c) The "Company." For the purposes of this Section 8, the "Company" shall include any and all direct and indirect subsidiaries, parents, and affiliated, or related companies of the Company for which Executive worked or had responsibility at the time of termination of Executive's employment and at any time during the two year period prior to such termination.

(d) The Company's "Business." For the purposes of this Section 8, the Company's Business is defined to be: the design, manufacture, sale of, and service related to air and noise pollution control equipment serving the energy and industrial markets and fluid handling and filtration. The Company's Business is further described in any and all manufacturing, marketing and sales manuals and materials of the Company as the same may be altered, amended, supplemented or otherwise changed from time to time, including any such manuals and materials as in effect at any time during the 12-month period immediately prior to Executive's termination of employment, or of any other products or services substantially similar to or readily substitutable for any such described products and services. The Company's Business shall also include any expansion or acquisition plans, as evidenced by the books and records of the Company, at the time of Executive's termination.

(e) "Restricted Territory." For the purposes of Section 8, the Restricted Territory shall be defined as and limited to:

- (i) the geographic area(s) within a 50 mile radius of any and all of the Company's location(s) in, to, or for which Executive worked, to which Executive was

assigned or had any responsibility (either direct or supervisory) at the time of termination of Executive's employment and at any time during the two-year period prior to such termination;

(ii) the United States; and

(iii) all of the specific customer accounts, whether within or outside of the geographic area described in (i) and (ii) above, with which Executive had any contact or for which Executive had any responsibility (either direct or supervisory) at the time of termination of Executive's employment and at any time during the two-year period prior to such termination.

(f) Extension. If it shall be judicially determined that Executive has violated any of Executive's obligations under Section 8(b), then the period applicable to each obligation that Executive shall have been determined to have violated shall automatically be extended by a period of time equal in length to the period during which such violation(s) occurred.

(g) Non-Solicitation. Executive shall not, directly or indirectly, at any time solicit or induce or attempt to solicit or induce any employee(s), sales representative(s), agent(s) or consultant(s) of the Company and/or of its parents, or its other subsidiaries or affiliated or related companies to terminate their employment, representation or other association with the Company and/or its parent or its other subsidiary or affiliated or related companies.

(h) Further Covenants. Executive shall not, directly or indirectly, at any time during or after Executive's employment with the Company, disclose, furnish, disseminate, make available or, except in the course of performing Executive's duties of employment, use any trade secrets or confidential business and technical information of the Company or its customers or vendors, including without limitation as to when or how Executive may have acquired such information. Such confidential information shall include, without limitation, the Company's unique selling, manufacturing and servicing methods and business techniques, training, service and business manuals, promotional materials, training courses and other training and instructional materials, vendor and product information, customer and prospective customer lists, other customer and prospective customer information and other business information. Executive specifically acknowledges that all such confidential information, whether reduced to writing, maintained on any form of electronic media, or maintained in Executive's mind or memory and whether compiled by the Company, and/or Executive, derives independent economic value from not being readily known to or ascertainable by proper means by others who can obtain economic value from its disclosure or use, that reasonable efforts have been made by the Company to maintain the secrecy of such information, that such information is the sole property of the Company and that any retention and use of such information by Executive during Executive's employment with the Company (except in the course of performing Executive's duties and obligations to the Company) or after the termination of Executive's employment shall constitute a misappropriation of the Company's trade secrets. The restrictions set forth in this Section 8(h) shall last for 15 years after Executive's termination with respect to confidential information, and perpetually for trade secret information, or for so long as the information qualifies as a trade secret under the law. Upon termination of Executive's employment with the Company, for any reason, Executive shall return to the Company, in good condition, all property of the Company,

including without limitation, the originals and all copies of any materials which contain, reflect, summarize, describe, analyze or refer or relate to any items of information listed in this Section 8(h). Nothing in this Agreement prevents Executive from providing, without prior notice to the Company, information to governmental authorities regarding possible legal violations or otherwise testifying or participating in any investigation or proceeding by any governmental authorities regarding possible legal violations.

(i) U.S. Defend Trade Secrets Act Notice of Immunity. The U.S. Defend Trade Secrets Act of 2016 (“DTSA”) provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (A) is made (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition, the DTSA provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (x) files any document containing the trade secret under seal and (y) does not disclose the trade secret, except pursuant to court order.

(j) Discoveries and Inventions. Executive hereby assigns to the Company, its successors, assigns or nominees, all of Executive’s rights to any discoveries, inventions and improvements, whether patentable or not, made, conceived or suggested, either solely or jointly with others, by Executive while in the Company’s employ, whether in the course of Executive’s employment with the use of the Company’s time, material or facilities or that is in any way within or related to the existing or contemplated scope of the Company’s business, or its research and development efforts. Any discovery, invention or improvement relating to any subject matter with which the Company was concerned during Executive’s employment and made, conceived or suggested by Executive, either solely or jointly with others, within one year following termination of Executive’s employment under this Agreement or any successor agreements shall be irrebuttably presumed to have been so made, conceived or suggested in the course of such employment with the use of the Company’s time, materials or facilities. Upon request by the Company with respect to any such discoveries, inventions or improvements, Executive will execute and deliver to the Company, at any time during or after Executive’s employment, all appropriate documents for use in applying for, obtaining and maintaining such domestic and foreign patents as the Company may desire, and all proper assignments therefor, when so requested, at the expense of the Company, but without further or additional consideration. In the event the Company is unable, after reasonable effort, and in any event after ten (10) business days, to secure Executive’s signature on a written assignment to the Company of any application for letters patent or to any common-law or statutory copyright or other property right therein, whether because of Executive’s physical or mental incapacity or for any other reason whatsoever, Executive irrevocably designates and appoints the Corporate Secretary of the Company as Executive’s attorney-in-fact to act on Executive’s behalf to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of such letters patent, copyright or trademark.

(k) Work Made For Hire. Executive acknowledges that, to the extent permitted by law, all work papers, reports, documentation, drawings, photographs, negatives,

tapes and masters therefore, prototypes and other materials (hereinafter, "items"), including without limitation, any and all such items generated and maintained on any form of electronic media, generated by Executive during Executive's employment with the Company shall be considered a "work made for hire" and that ownership of any and all copyrights in any and all such items shall belong to the Company. The item will recognize the Company as the copyright owner, will contain all proper copyright notices, e.g., "(creation date) CECO Environmental Corp., All Rights Reserved," and will be in condition to be registered or otherwise placed in compliance with registration or other statutory requirements throughout the world.

(l) Non-Disparagement.

(i) Throughout Executive's employment with the Company and for 1 year thereafter, outside the ordinary course of business on behalf of the Company, Executive will not make or issue, or procure any person, firm, or entity to make or issue, any statement in any form, including written, oral and electronic communications of any kind, which conveys negative or adverse information concerning the Company or its subsidiaries or affiliates, or any of their legal predecessors, successors, assigns, parents, subsidiaries, divisions or other affiliates, or any of the foregoing's respective past, present or future directors, officers, employees or representatives (collectively, the "Non-Disparagement Parties"), or any Non-Disparagement Party's business, or its actions, to any person or entity, regardless of the truth or falsity of such statement.

(ii) Throughout Executive's employment with the Company and for 1 year thereafter, the Company will reasonably direct the executive officers and directors of the Company not make or issue, or procure any person, firm, or entity to make or issue, any statement in any form, including written, oral and electronic communications of any kind, which conveys negative or adverse information concerning Executive or any of Executive's legal successors, assigns, or other affiliates, or any of the foregoing's respective past, present or future directors, officers, employees or representatives (collectively, the "Executive Non-Disparagement Parties"), or any Executive Non-Disparagement Party's business, or its actions, to any person or entity, regardless of the truth or falsity of such statement.

(iii) This Section 8(l) does not apply to truthful testimony or disclosure compelled or required by applicable law or legal process. Notwithstanding anything in this Agreement to the contrary, Executive is not prohibited from providing information voluntarily to the Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934, as amended.

(m) Remedies. The parties acknowledge and agree that any breach by Executive of the terms of this Agreement may cause the Company irreparable harm and injury for which money damages would be inadequate. Accordingly, the Company, in addition to any other remedies available at law or equity, shall be entitled, as a matter of right, to injunctive relief in any court of competent jurisdiction. The parties agree that such injunctive relief may be granted without the necessity of proving actual damages. Nothing in this Agreement shall limit the Company's remedies under state or federal law or elsewhere.

(n) Additional Acknowledgements. Executive acknowledges and agrees that, in the event that Executive becomes subject to any other contractual arrangements with the

Company regarding competition with the Company, the restrictive covenants set forth in this Agreement were executed first and shall be deemed supplemented, and in no event diminished or replaced, by such other contractual arrangements.

#### 9. Successors.

(a) This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

#### 10. Code Section 409A.

(a) The intent of the parties is that payments and benefits under this Agreement comply with, or be exempt from, Code Section 409A and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith.

(b) Notwithstanding any provision of this Agreement to the contrary, in the event that Executive is a "specified employee" within the meaning of Code Section 409A (as determined in accordance with the methodology established by the Company as in effect on the Date of Termination) (a "Specified Employee"), any payments or benefits that are considered non-qualified deferred compensation under Code Section 409A payable under this Agreement on account of a "separation from service" during the six-month period immediately following the Date of Termination shall, to the extent necessary to comply with Code Section 409A, instead be paid, or provided, as the case may be, on the first business day after the date that is six months following Executive's "separation from service" within the meaning of Code Section 409A. For purposes of Code Section 409A, Executive's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. In no event may Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement that is considered nonqualified deferred compensation, subject to Code Section 409A.

(c) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits that are deferred compensation subject to Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year and (iii) such payments shall be made on or before the last day of Executive's taxable year following the taxable year in which the expense occurred.

11. Compensation Recovery Policy. Notwithstanding anything in this Agreement to the contrary, Executive acknowledges and agrees that this Agreement and any compensation described herein are subject to the terms and conditions of the Company's clawback policy (if any) as may be in effect from time to time specifically to implement Section 10D of the Securities Exchange Act of 1934, as amended, and any applicable rules or regulations promulgated thereunder (including applicable rules and regulations of any national securities exchange on which the shares of the Company's common stock may be traded) (the "Compensation Recovery Policy"), and that applicable sections of this Agreement and any related documents shall be deemed superseded by and subject to the terms and conditions of the Compensation Recovery Policy from and after the effective date thereof.

12. Complete Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein, and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of the subject matter contained herein.

13. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive: At the most recent address  
on file at the Company

If to the Company: CECO Environmental Corp.  
Attention: Chief Human Resources Officer  
14651 North Dallas Parkway  
Dallas, Texas 75254

With a copy to:

Jones Day  
Attention: Stephen P. Coolbaugh  
901 Lakeside Avenue  
Cleveland, Ohio 44114,

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company, its subsidiaries and affiliates may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes or social security charges as shall be required to be withheld pursuant to any applicable law or regulation. None of the Company, its subsidiaries or affiliates guarantees any tax result with respect to payments or benefits provided hereunder. Executive is responsible for all taxes owed with respect to all such payments and benefits.

(e) Subject to any limits on applicability contained therein, Section 8 of this Agreement shall survive and continue in full force in accordance with its terms notwithstanding any termination or expiration of the Employment Period.

(f) During Executive's employment with the Company and thereafter, Executive will provide reasonable assistance to the Company in litigation and regulatory matters that relate to events that occurred during Executive's period of employment with the Company and its predecessors, and will provide reasonable assistance to the Company with matters relating to its corporate history from the period of Executive's employment with it or its predecessors. Executive will be entitled to reimbursement of reasonable out-of-pocket travel or related costs and expenses relating to any such cooperation or assistance that occurs following the Date of Termination.

(g) This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

(h) Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(i) With respect to any controversy or claim arising out of or relating to or concerning injunctive relief for Executive's breach or purported breach of Section 8 of this Agreement, the Company shall have the right, in addition to any other remedies it may have, to seek specific performance and injunctive relief with a court of competent jurisdiction, without the need to post a bond or other security.

***[Remainder of page intentionally left blank]***

written. IN WITNESS WHEREOF, Executive and the Company have executed this Agreement on the date first above

EXECUTIVE

/s/ Todd R. Gleason  
Todd R. Gleason

**CECO ENVIRONMENTAL CORP.**

By /s/ Jason DeZwirek  
Name: Jason DeZwirek  
Title: Chairman of the Board of Directors



Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Todd Gleason, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CECO Environmental Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Todd Gleason

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Todd Gleason  
Chief Executive Officer

Date: November 4, 2020

Certification of Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew Eckl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CECO Environmental Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Matthew Eckl

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Matthew Eckl  
Chief Financial Officer

Date: November 4, 2020

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CECO Environmental Corp. (the "Company") on Form 10-Q for the nine-month period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd Gleason, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge and belief, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Todd Gleason

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Todd Gleason  
Chief Executive Officer

Date: November 4, 2020

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CECO Environmental Corp. (the "Company") on Form 10-Q for the nine-month period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew Eckl, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge and belief, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Matthew Eckl

Matthew Eckl  
Chief Financial Officer

Date: November 4, 2020