SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

# FORM 10-QSB

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

For Quarter Ended June 30, 1996 Commission file number 0-7099

CECO ENVIRONMENTAL CORP.

NEW YORK 13-2566064

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

111 ELIZABETH STREET, SUITE 600, TORONTO, ONTARIO, CANADA M5G1P7

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 416-593-6543

Former name, former address and former fiscal year, if changed since last report.

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

X Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the close of the period covered by this report.

Class: COMMON, PAR VALUE $.01 PER SHARE

OUTSTANDING at June 30, 1996 7,051,148

# CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
JUNE 30, 1996

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# CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEET
(unaudited)

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 249,685 | $1,043,011 |
| Accounts receivable | 968,715 | 1,856,541 |
| Advances to officers | 32,000 | - |
| Inventories | 683,858 | 654,826 |
| Prepaid expenses and other current assets | 113,323 | 56,736 |
| Deferred income taxes | 20,889 | 20,889 |
| Total current assets | 2,068,470 | 3,632,003 |
| Marketable securities, available for sale | 860,575 | - |
| Property and equipment, net | 1,906,196 | 2,019,631 |
| Intangible assets, at cost, net | 97,873 | 45,717 |
| Goodwill | 2,867,924 | 2,872,825 |
| Deferred charges | 25,000 | 75,000 |
| Total assets | $7,826,038 | $8,645,176 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Short-term obligations | $ 550,000 | $ 850,000 |
| Current portion of long-term debt | 87,865 | 173,393 |
| Current portion of capital lease obligation | 4,838 | 4,838 |
| Accounts payable and accrued expenses | 682,110 | 1,166,006 |
| Income taxes payable | 4,844 | 10,745 |
| Total current liabilities | 1,329,657 | 2,204,982 |
| Long-term debt, less current portion | 1,175,672 | 1,238,795 |
| Capital lease obligations, less current portion | 11,478 | 14,955 |
| Deferred income taxes | 19,888 | 19,888 |
| Total liabilities | 2,536,695 | 3,478,620 |
| Minority interest | 827,726 | 824,905 |
| Shareholders' equity: | | |
| Preferred stock, $.01 par value; 10,000,000 shares authorized, none issued | - | - |
| Common stock, $.01 par value; 100,000,000 shares authorized, 7,051,148 and 6,956,348 shares issued, respectively | 70,511 | 69,563 |
| Capital in excess of par value | 7,878,297 | 7,767,945 |
| Accumulated deficit | (3,088,522) | (3,097,188) |
| | 4,860,286 | 4,740,320 |
| Less treasury stock, at cost | ( 398,669) | ( 398,669) |
| Net shareholders' equity | 4,461,617 | 4,341,651 |
| Total liabilities and shareholders' equity | $7,826,038 | $8,645,176 |

See accompanying notes to condensed consolidated financial statements.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(unaudited)

| | THREE MONTHS ENDED June 30, 1996 | THREE MONTHS ENDED June 30, 1995 | SIX MONTHS ENDED June 30, 1996 | SIX MONTHS ENDED June 30, 1995 |
|---|---|---|---|---|
| Net sales | $1,874,440 | $1,957,119 | $ 4,025,097 | $3,836,534 |
| Costs and expenses: | | | | |
| Cost of sales | 964,867 | 1,291,188 | 2,105,189 | 2,424,610 |
| Selling and administrative | 820,282 | 723,078 | 1,623,354 | 1,433,367 |
| Depreciation and amortization | 78,562 | 106,994 | 215,906 | 213,400 |
| | 1,863,711 | 2,121,260 | 3,944,449 | 4,071,377 |
| Income (loss) from operations | 10,729 | ( 164,141) | 80,648 | ( 234,843) |
| Investment income | 22,889 | - | 22,889 | - |
| Interest expense (net) | ( 40,591) | ( 52,275) | ( 84,050) | ( 86,669) |
| Income (loss) before provision (credit) for income taxes | ( 6,973) | ( 216,416) | 19,487 | ( 321,512) |
| Provision (credit) for income taxes | ( 2,000) | ( 53,688) | 8,000 | ( 106,688) |
| Income (loss) before minority interest | ( 4,973) | ( 162,728) | 11,487 | ( 214,824) |
| Minority interest | 2,808 | 57,372 | ( 2,820) | 83,665 |
| Net income (loss) | ($ 2,165) | ($105,356) | $ 8,667 | ($ 131,159) |
| Net income (loss) per share, primary and fully diluted | ($ .00) | ($ .02) | $ .00 | ($ .02) |
| Weighted average number of common shares outstanding | 6,913,228 | 6,163,361 | 6,902,228 | 6,127,295 |

See accompanying notes to condensed consolidated financial statements.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

INCREASE (DECREASE) IN CASH

| | SIX MONTHS ENDED JUNE 30, 1996 | SIX MONTHS ENDED JUNE 30, 1995 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 8,667 | ($131,159) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in ) operating activities: | | |
| Depreciation and amortization | 179,318 | 179,614 |
| Goodwill amortization | 36,588 | 33,786 |
| Amortization of deferred charges | 50,000 | 25,000 |
| Accrued bond interest | ( 18,989) | - |
| Minority interest | 2,820 | ( 83,665) |
| Noncash expenses, officer's compensation and interest | - | 25,799 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 887,826 | ( 93,902) |
| Inventories | ( 29,032) | 10,690 |
| Prepaid expenses and other current assets | ( 56,587) | ( 28,409) |
| Refundable income taxes | - | ( 123,447) |
| (Decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | ( 483,896) | ( 376,327) |
| Income taxes payable | ( 5,901) | ( 89,368) |
| Net cash provided by (used in) operating activities | 570,814 | ( 651,388) |
| Cash flows from investing activities: | | |
| Investments in marketable securities | ( 841,586) | - |
| Additions to property and equipment and intangible assets | ( 65,926) | ( 103,797) |
| Advances to officers | ( 32,000) | - |
| Net cash (used in) investing activities | ( 939,512) | ( 103,797) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 27,500 | - |
| Net borrowings (repayments) of short-term obligations | ( 300,000) | 800,000 |
| Repayments of long-term debt and capital lease obligation | ( 152,128) | ( 85,647) |
| Repayments of amounts due officer | - | ( 180,000) |
| Net cash provided by (used in) financing activities | ( 424,628) | 534,353 |
| Net (decrease) in cash | ( 793,326) | ( 220,832) |
| Cash at beginning of period | 1,043,011 | 329,885 |
| Cash at end of period | $ 249,685 | $109,053 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | 1996 | 1995 |
|---|---|---|
| Cash paid during the period for: | | |
| Interest | $ 84,050 | $ 78,369 |
| Income taxes | $ 23,800 | $113,345 |

See accompanying notes to condensed consolidated financial statements.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position as of June 30, 1996 and the results of operations for the three-month and six-month periods ended June 30, 1996 and 1995 and cash flows for the six-month periods ended June 30, 1996 and 1995. The results of operations for the three-month and six-month periods ended June 30, 1996 are not necessarily indicative of the results to be expected for the full year.

2. Inventories consisted of the following:

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| Raw materials | $576,535 | $514,489 |
| Finished goods | 107,323 | 140,337 |
| | $683,858 | $654,826 |

3. Other Assets

Investments in CECO Filters, Inc.

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

During 1993 through 1995, the Company exchanged 2,582,764 additional shares of its common stock for 2,582,764 shares of CECO's common stock with unrelated third parties. Also, during 1993, the Company acquired, for cash, an additional 21,100 shares of CECO's common stock from unrelated third parties. During the six months ended June 30, 1996, the Company exchanged 83,800 shares of its common stock for 83,800 shares of CECO's common stock with unrelated third parties. As of June 30, 1996, the Company owned 64% of CECO's common stock.

Summarized financial information of CECO as of and for its six months ended June 30, 1996, is as follows:

| | |
|---|---|
| Financial position: | |
| Working capital | $ 655,117 |
| Total assets | $4,230,004 |
| Net shareholders' equity | $1,708,109 |
| Results of operations: | |
| Net sales | $4,025,097 |
| Income before income taxes | $ 15,792 |

| | |
|---|---|
| Net income | $ 7,792 |

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(unaudited)

4. Other Matters

The Company entered into an eighteen-month consulting agreement with an unrelated third party, effective April 1, 1995, to provide financial consulting services to the Company which will, among other things, help the Company to broaden its stock market appeal. As compensation, the consultant received an option to purchase 1,000,000 shares of the Company's common stock at $2.50 per share, such option expiring April 30, 1996. The option price was reduced to $2.25 per share for such options exercised on or prior to December 31, 1995. (During the year ended December 31, 1995, the consultant exercised options to acquire 400,000 shares of the Company's common stock at an exercise price of $2.25 per share. During the six months ended June 30, 1996, the consultant exercised options to acquire an additional 11,000 shares of the Company's common stock at an exercise price of $2.50). In addition, the Company issued 100,000 shares of its common stock to the consultant in April, 1995.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

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

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Financial Condition, Liquidity and Capital Resources - The Company

The Company's consolidated cash position decreased from $1,043,011 at December 31, 1995 to $249,685 at June 30, 1996. This decrease of $793,326 is attributable principally to the use of cash in investing activities of $939,512 during the six months ended June 30, 1996 as compared to the same period of 1995 when the Company used cash of $103,797 in its investing activities. The investments in marketable securities in 1996 are primarily in high yield bonds of major U.S. corporations. CECO Filters, Inc. ("CECO") maintains a $1,250,000 line of credit with a commercial bank of which $550,000 was outstanding as of June 30, 1996.

The Company's current ratio was 1.65 on December 31, 1995 and 1.55 on June 30, 1996.

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

The Company and CECO have entered into a five year management and consulting agreement, dated January 1, 1994, which became effective on July 1, 1994, pursuant to which the Company provides management and financial consulting services to CECO for a monthly fee of $20,000 until the agreement expires in December, 1998. The Company believes its consulting agreement with CECO should provide sufficient revenue to meet its general and administrative, and interest expenses.

Results of Operations - The Company

The Company's consolidated statement of operations for the three-month and six-month periods ended June 30, 1996 and 1995 reflect the operations of the Company consolidated with the operations of CECO. As a result of multiple stock acquisitions, the Company, effective April 7, 1993, owned a greater than 50% interest in CECO. Transactions not related to the operations of CECO were minimal, and included consulting, legal and accounting fees, as well as interest and stock issuance related expenses. As of June 30, 1996, the Company owned approximately 64% of the outstanding stock of CECO. Minority interest in the consolidated statement of operations has been presented as a reduction in net income or loss.

Results of Operations - CECO (Company's Subsidiary)

Comparison of Six Months Ended June 30, 1996 to Six Months Ended June 30, 1995

Sales were approximately $4.0 million and $3.8 million for the six-month periods ended June 30, 1996 and 1995, respectively, an increase of 4.9% from 1995 to 1996. This increase in sales was attributable principally to increased sales orders during the period.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

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

CECO's backlog of orders at June 30, 1996 was approximately $3.3 million as compared to $4 million at June 30, 1995. There can be no assurance that order backlog will be replicated, or increased or that it will translate into higher revenues in the future. The success of CECO's operating results can be significantly impacted by the introduction of new products and/or new manufacturing technologies by competitors, rapid changes in the demand for its products, decreases in the average selling prices over the life of a product, decreases in the average selling prices over the life of a product as competition increases, and CECO's implementation of its target marketing approach introduced in 1995.

CECO's overall cost of sales decreased as a percentage of sales for the six months ended June 30, 1996 compared to the six months ended June 30, 1995. The decrease can be attributed to decreases in raw material costs as well as lower costs incurred to service CECO's products. Engineering and sales management positions were increased while certain factory positions were eliminated. These changes were made as part of CECO's overall restructuring to strengthen management and accommodate anticipated growth. Direct labor was augmented with temporary labor on an as-needed basis.

CECO's selling and administrative expenses amounted to $1,520,748 for the six-month period ended June 30, 1996 compared to $1,352,838 for the six-month period ended June 30, 1995, representing an increase of $167,910 or 12.4%. A substantial portion of the selling and administrative expenses are fixed in nature. As discussed above, certain management positions were added compared to the six-month period ended June 30, 1995.

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

Interest expense increased during the six-month period ended June 30, 1996, when compared to the same period in 1995. The increase in interest expense can be attributed to higher prime interest rates.

CECO generated pre-tax income of $15,792 for the six-month period ended June 30, 1996 as compared to a pre-tax loss of $317,333 for the six-month period ended June 30, 1995. This change is attributed principally to the increase in sales as well as the increase in gross margins for the six-month period ended June 30, 1996 with the comparable period in 1995.

The provision for federal and state tax income taxes for the six-month period ended June 30, 1996 amounted to $8,000 compared to a credit for federal and state income taxes of $106,688 for the six-month period ended June 30, 1995.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

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

Comparison of Three Months Ended June 30, 1996 to June 30, 1995

Sales were approximately $1.9 million and $2 million for the three-month periods ended June 30, 1996 and June 30, 1995, respectively. This represents a decrease of 4.2%. The decrease in sales from 1995 to 1996 was attributable principally to less sales orders.

CECO's overall cost of sales decreased as a percentage of sales for the three months ended June 30, 1996 compared to the three months ended June 30, 1995. The decrease can be attributed to decreases in raw material costs as well as lower costs incurred to service CECO's products. CECO continues to use advanced technology in an effort to reduce both cost of sales (and the maintenance of optimal inventory levels) and operating expenses, and ultimately increase overall company profits.

CECO's selling and administrative expenses amounted to $733,168 for the three-month period ended June 30, 1996 compared to $672,565 for the three-month period ended June 30, 1995, representing an increase of $60,603 or 9%.

CECO paid CEC $60,000 during each of the three-month periods ended June 30, 1996 and 1995 in connection with its management and consulting agreement.

Interest expense during the three-month period ended June 30, 1996, when compared to the same period ended June 30, 1995, was approximately the same.

CECO incurred a pre-tax loss of $9,454 for the three-month period ended June 30, 1996, as compared to pre-tax loss of $199,602 for the three-month period ended June 30, 1995. This change is attributed principally to the increase in gross margins.

The credit for federal and state incomes taxes for the three-month period ended June 30, 1996 amounted to $2,000 as compared to the credit for federal and state income taxes of $53,687 for the three-month period ended June 30, 1995.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

SIGNATURE

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.

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Phillip DeZwirek
Chief Financial Officer
Chief Executive Officer

Date: July 29, 1996

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS
DEC-31-1996
JUN-30-1996
249,685
860,575
968,715
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683,858
2,068,470
3,321,538
1,415,342
7,826,038
1,329,657
1,263,537
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0
70,511
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7,826,038
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4,025,097
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3,943,049
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84,050
19,487
8,000
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8,667
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