

CECO ENVIRONMENTAL CORP  
Form 10-K/A  
September 25, 2009

# U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K/A

(Amendment No. 1)

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008

or

.. Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File No. 0-7099

## CECO ENVIRONMENTAL CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of

13-2566064  
(I.R.S. Employer

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Incorporation or Organization)

Identification No.)

3120 Forrer Street Cincinnati, Ohio  
(Address of Principal Executive Offices)

45209  
(Zip Code)

(513) 458-2600

Registrant's Telephone Number, Including Area Code

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

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

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

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

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

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 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller reporting company

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

Aggregate market value of common stock held by non-affiliates of Registrant computed based on the closing sale price as of the last business day of Registrant's most recently completed second fiscal quarter (June 30, 2008): \$53,740,925.

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: 14,323,231 shares of common stock, par value \$0.01 per share, as of March 13, 2009.

Documents Incorporated by Reference

None.

**Explanatory Note**

This Amendment No. 1 to Annual Report on Form 10-K/A is being filed to amend Item 9A of Part II of the Annual Report on Form 10-K for the fiscal year ended December 30, 2008 (the Form 10-K ) filed with the Securities and Exchange Commission by CECO Environmental Corp. (the Company ) on March 16, 2009. This Amendment No. 1 is being filed solely for the purpose of (i) including a clear definitive statement disclosing management's conclusion on the effectiveness of the Company's internal control over financial reporting as of the end of the fiscal year, and (ii) correcting an inadvertent omission of the statement that our registered public accounting firm had issued an attestation report on the Company's internal controls over financial reporting.

Further, as required by Rule 12b-15 under the Securities Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are being filed as exhibits to this Form 10-K/A under Item 15 of Part IV hereof. Except as noted above, the amendment does not modify or update the disclosures contained in the original Form 10-K to reflect events that occurred at a later date. Accordingly, this Amendment should be read in conjunction with the Company's SEC filings made subsequent to the original filing.

**PART II**

**Item 9A. Controls and Procedures**

**(a) Disclosure Controls and Procedures**

The Company carried out, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on its evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2008, our disclosure controls and procedures were not effective because of the material weakness described below; however, management has concluded that the consolidated financial statements in this Form 10-K fairly present, in all material respects, the Company's financial position, results of operations, and cash flows for the periods and dates presented.

**(b) Management's Annual Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008, based on the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that our internal control over financial reporting was not effective as of December 31, 2008, due to the material weakness described below.

For purposes of evaluating our internal controls over financial reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Fisher-Klosterman, Inc., Flextor Inc., or A.V.C. Specialists, Inc. (collectively the Acquired Entities ), which were acquired on February 29, 2008, August 1, 2008, and August 1, 2008, respectively, and which are included in the consolidated balance sheets of the Company as of December 31, 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. The Acquired Entities constituted 31% of total assets as of December 31, 2008, and 17% and 27% of revenues and operating income, respectively, for the year then ended.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements not be prevented or detected. In its assessment of the effectiveness in internal control over financial reporting as of December 31, 2008, the Company identified the following weakness.

*Entity-level Controls*

As of December 31, 2008, the Company did not maintain effective entity-level controls as it relates to internal control over financial reporting. Specifically, the following deficiencies in the aggregate constitute a material weakness:

The Company lacks appropriate resources within the accounting function. This lack of resources has led to a lack of segregation of duties and insufficient attention to the internal control process over financial reporting;

The Company does not have a fully adequate system for identifying, documenting and testing its key controls. The Company's process did not include a sustainable process for identifying and documenting key controls at operating locations throughout the Company and periodically evaluating control design and operating effectiveness across the Company on an ongoing basis;

The Company did not maintain effective controls over end user computing applications, such as spreadsheets, used in the Company's financial reporting process. Specifically, controls were not designed to ensure that unauthorized modification of the data or formulas within spreadsheets was prevented;

The Company did not maintain effective design of controls over access to programs and data. In addition, controls lack the requirement of periodic reviews and monitoring of such access. The Company did not establish and maintain adequate segregation of duties without appropriate alternative controls;

The Company did not establish appropriate compensating controls to mitigate segregation of duties and system / database access risks identified at an operating location;

The Company does not have an appropriate policy in place to evidence Board of Director approval of significant agreements and contracts;

The Company does not have a formal process in place for management's review of sales contracts less than \$50,000 and not all such contracts are supported by a formal customer purchase order; and,

The Company did not contemporaneously document certain significant accounting positions.

The Company's independent registered public accounting firm, BDO Seidman LLP, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

*Remediation Plan for Material Weakness in Internal Control over Financial Reporting*

The Company is in the process of developing and implementing a remediation plan to address the material weakness described above. The Company has taken the following actions to improve internal control over financial reporting:

The Company plans to continue to enhance the staffing and competency level within the Accounting and Finance department.



We have engaged three third party professionals to advise the Company in connection with (1) the remediation of existing deficiencies including the conversion to a new information technology enterprise management system, (2) SEC related activities including accounting guidance and periodic reporting, and (3) all tax related activities.

In addition, the following are specific remedial actions to be taken for matters related to accounting for significant or non-routine transactions:

Require all significant or non-routine transactions to be thoroughly researched, analyzed, approved at the appropriate level, and documented by qualified accounting personnel. In addition, all major transactions will require the additional review and approval of the Chief Financial Officer.

In addition to the review performed by the Company's management, implement an additional review by subject matter experts for complex accounting estimates and accounting treatments, where appropriate.

Continued development and implementation of focused monitoring controls and other procedures in the Internal Audit organization.

Develop and implement effective communications of and education on a control framework and effectively communicate management's expectations for controls, and business process owners' accountability for controls.

The Company has developed and implemented an approval policy requiring Board of Directors approval of all major agreements and contracts prior to acceptance. Additionally, improved methods of documentation, including minutes and transcripts, and retention of such documentation has been established.

The Company will develop a formal policy requiring proper approval for sales contracts less than \$50,000.

Lastly, the Company has purchased and is in the process of implementing an integrated software system which includes industry standard and current best practice inherent controls. The new system is expected to address and remediate deficiencies including segregation of duties, security (through access restriction limited to job responsibilities), change control procedures, and reduced use of spreadsheets in preparing financials.

We anticipate the actions described above and resulting improvements in controls will strengthen our internal control over financial reporting and will, over time, address the material weakness identified as of December 31, 2008. However, because the remedial actions relate to the hiring of additional personnel and many of the controls in our system of internal controls rely extensively on manual review and approval, the successful operation of these new controls for at least several quarters may be required prior to management being able to conclude that the material weakness has been remediated.

#### **REPORT OF INDEPENDENT REGISTERED**

#### **PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

CECO Environmental Corp.

Cincinnati, Ohio

We have audited CECO Environmental Corp. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A. Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our





audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and described in management's assessment:

As of December 31, 2008, the Company did not maintain effective entity-level controls as it relates to internal control over financial reporting. Specifically, the following deficiencies in the aggregate constitute a material weakness:

The Company lacks appropriate resources within the accounting function. This lack of resources has led to a lack of segregation of duties and insufficient attention to the internal control process over financial reporting;

The Company does not have a fully adequate system for identifying, documenting and testing its key controls. The Company's process did not include a sustainable process for identifying and documenting key controls at operating locations throughout the Company and periodically evaluating control design and operating effectiveness across the Company on an ongoing basis;

The Company did not maintain effective controls over end user computing applications, such as spreadsheets, used in the Company's financial reporting process. Specifically, controls were not designed to ensure that unauthorized modification of the data or formulas within spreadsheets was prevented;

The Company did not maintain effective design of controls over access to programs and data. In addition, controls lack the requirement of periodic reviews and monitoring of such access. The Company did not establish and maintain adequate segregation of duties without appropriate alternative controls;

The Company did not establish appropriate compensating controls to mitigate segregation of duties and system / database access risks identified at an operating location;

The Company does not have an appropriate policy in place to evidence Board of Director approval of significant agreements and contracts;

The Company does not have a formal process in place for management's review of sales contracts less than \$50,000 and not all such contracts are supported by a formal customer purchase order; and,

The Company did not contemporaneously document certain significant accounting positions. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2008 financial statements, and this report does not affect our report dated March 13, 2009 on those financial statements.

As indicated in the accompanying Item 9A. Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Fisher-Klosterman, Inc., Flextor Inc., or A.V.C. Specialists, Inc. (collectively the Acquired Entities), which were acquired on February 29, 2008, August 1, 2008, and August 1, 2008, respectively, and which are included in the consolidated balance sheets of the Company as of December 31, 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. The Acquired Entities constituted 31% of total assets as of December 31, 2008, and 17% and 27% of revenues and operating income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the Acquired Entities.

In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Chicago, Illinois

March 13, 2009

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

Except as described above in item 9A, during the fourth quarter of fiscal 2008, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **PART IV**

#### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

##### **(b) Exhibits**

The exhibits filed herewith are listed on the Exhibit Index.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: September 25, 2009

CECO ENVIRONMENTAL CORP.

By: /s/ Phillip DeZwirek

**Phillip DeZwirek**  
**Chairman and Chief Executive Officer**

By: /s/ Dennis W. Blazer

**Dennis W. Blazer**  
**Chief Financial Officer and Vice President-Finance and Administration**

**EXHIBIT INDEX**

- 31.1 Rule 13a-14(a) certification of chief executive officer in accordance with section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Rule 13a-14(a) certification of chief financial officer in accordance with section 302 of the Sarbanes-Oxley Act of 2002