

CECO ENVIRONMENTAL CORP
Form 10-K
March 18, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2014**

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to**

Commission File No. 0-7099

CECO ENVIRONMENTAL CORP.

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Delaware
(State or other jurisdiction of
incorporation or organization)

13-2566064
(I.R.S. Employer
Identification No.)

4625 Red Bank Road

Cincinnati, Ohio
(Address of principal executive offices)

45227
(Zip Code)

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

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

Title of Each Class
Common Stock, \$0.01 par value per share
Name of Each Exchange on Which Registered
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 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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one)

Large Accelerated Filer Accelerated Filer 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

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was \$254.1 million based upon the closing market price and shares of common stock outstanding as of June 30, 2014. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant and owners of more than 10% of the registrant's common stock are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily conclusive for any other purpose.

As of March 4, 2015, the registrant had 26,410,085 shares of common stock, par value \$0.01 per share, outstanding.

Documents Incorporated by Reference

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Portions of the definitive Proxy Statement for the 2015 Annual Meeting of Stockholders, which is to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2014, are incorporated by reference into Part III of this Annual Report to the extent described herein.

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CECO Corporation and Subsidiaries

ANNUAL REPORT ON FORM 10-K

For the year ended December 31, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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PART I

Item 1. Business
General

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

We operate through three principal groups, each of which is a reportable segment: (i) Air Pollution Control, (2) Energy and (3) Fluid Handling and Filtration. By combining the efforts of certain or all of these segments, we are able to offer complete full systems to our customers and leverage the operational efficiencies between our family of technology companies.

During 2014, the Company operated its business under the following three reportable segments (see Note 17 in the Notes to Consolidated Financial Statements for additional information):

Air Pollution Control Segment, product recovery and air pollution control technologies, comprised of the following: Adwest Technologies, Inc., HEE-Duall Air and Odor Technologies, Busch International, Emtrol-Buell Energy Cyclones, Flex-Kleen Dust Collection Technologies, Fisher-Klosterman, Kirk & Blum, KB Duct and SAT Technology.

Energy Segment, customized solutions for the power and petrochemical industry, comprised of the following: Aarding Thermal Acoustics, Effox-Flexor, AVC Specialists and Zhongli.

Fluid Handling and Filtration Segment, high quality pump, filtration and fume exhaust solutions, comprised of the following: Met-Pro Global Pump Solutions, Mefiag Filtration Solutions, Keystone Filtration Solutions, CECO Filters and Strobic Air.

Recent Company Developments

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

We have established a family of companies, each playing a specialized role in the creation of product recovery, air pollution control, fluid handling and filtration solutions. A part of our growth and business strategy is to acquire businesses that align with our long-term goals. Beginning in December 2012, we acquired Adwest Technologies, Inc. (Adwest), a designer and manufacturer of regenerative thermal oxidizers (RTOs). Domestic and international acquisition activity increased significantly during 2013. In February 2013, we acquired Aarding Thermal Acoustics B.V. (Aarding), a global provider of natural gas turbine exhaust systems and silencer applications. In August 2013, we acquired Met-Pro Corporation (Met-Pro), a leading, niche-oriented, global provider, of product recovery, pollution control, fluid handling, and filtration systems. In 2014,

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we completed four acquisitions, including i) in August 2014, HEE Environmental Engineering (HEE), a North American designer and manufacturer of scrubbers and fans for the air pollution control market, ii) in September 2014, SAT Technology, Inc. (SAT), a provider of volatile organics compounds abatement solutions for the Chinese air pollution control environment, iii) in November 2014, Emtrol LLC (Emtrol), a global leader in the design and manufacture of fluid catalytic cracking and industrial cyclone technology and iv) in December 2014, Jiangyin Zhongli Industrial Technology Co. Ltd. (Zhongli), a designer and manufacturer of power industry damper, diverter and ball mills systems in China.

Industry Overview

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

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

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

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

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

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Strategy

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

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

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

Competitive Strengths

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

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

Global Diversification and Broad Customer Base. The global diversity of our operations and customer base provides us with multiple growth opportunities. As of December 31, 2014, we had a diversified customer base of more than 5,000 active customers across a range of industries. Our customers represent some of the largest refineries, power, chemical processes, metals and minerals, energy market and industrial manufacturing companies. We believe that the diversity of our customers and end-markets mitigates our risk of a potential

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fluctuation or downturn in demand from any individual industry or particular customer. We believe we have the resources and capabilities to meet the needs of our customers as they upgrade and expand domestically as well as into new international markets. Once systems have been installed and a relationship has been established with the customer, we are often awarded repetitive service and maintenance business as the customers' process changes and modifications or additions to their systems become necessary.

Experienced Management and Engineering Team. Our senior management team has an average of 25 years of experience in the product recovery, air pollution control, fluid handling and filtration segments. Our Chief Executive Officer, Jeff Lang, has more than 30 years of executive operating management experience in manufacturing. The business experience of our management team enables us to pursue our strategy. Our senior management team is supported by a strong operating management team, which possesses extensive operational and managerial experience, averaging over 20 years of industry experience, most of which has been with us and our family of companies. Our workforce includes approximately 213 engineers, designers, and project managers whose significant specialized industry experience and technical expertise enables them to have a deep understanding of the solutions that will best suit the needs of our customers. The experience and stability of our management, operating and engineering teams have been crucial to our growth, developing and maintaining customer relationships, and increasing our market share.

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

Expand Customer Base and Penetrate End Markets through Global Market Coverage. We constantly look for opportunities to gain new customers and penetrate geographic locations and end-markets with existing products and services or acquire new product or service opportunities. For example, our acquisition of EFFOX, Inc. (Effox) in 2007 allowed us to access the multi-billion dollar energy, power and utilities markets. The acquisition of Flextor, Inc. (Flextor) in 2008 further expanded Effox's business internationally. Our acquisition of FKI in 2008 expanded our access to the petroleum and power markets and also provides us with a manufacturing facility in China. The acquisition of AVC, Inc. (AVC) in 2008 added additional replacement parts sales to Fisher-Klosterman's (FKI) business. The Adwest acquisition in 2012 expanded our abilities to design RTOs. The Aarding acquisition in 2013 increased our global access to natural gas turbine exhaust systems and silencer applications, and helped our global natural gas business including the Flextor division, which provides complementary and integrated engineered solutions to those of Aarding. The Met-Pro acquisition in 2013 expanded our domestic and global penetration by providing niche-oriented product recovery, pollution control, fluid handling, and filtration systems. The HEE Environmental Engineering acquisition in 2014 bolstered our North American scrubber business. The SAT Technology acquisition in 2014 bolstered our Asian air pollution control business. The 2014 acquisition of Emtrol LLC, combined with our FKI and Buell businesses, has made us the global leader in fluid catalytic cracking and industrial cyclone technology. The Jiangyin Zhongli Industrial Technology Co. Ltd. acquisition in 2014 expanded our global leadership into Asia in our traditional power industry business.

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

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

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

Products and Services

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

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

Divisions	Capabilities (products and services)	Typical Industries	Typical Applications
Energy Segment	Design and manufacture:	Coal-Fired and Natural Gas Power Plants	Steam Heat Recovery
	- Dampers	Petro-chemical	Flue Gas Desulphurization
	- Expansion Joints	Chemical Processing	Catalytic (NOx) Reduction
	- Gas Turbine Exhaust Systems & Silencer Applications	Refining	Gas Turbine Exhaust
	Aftermarket Service	Metals	
		Wood Products	
Zhongli			
Fluid Handling and Filtration Segment	Fiber-Bed and Mesh Style Mist Collectors	Sulfuric Acid	Absorption Towers
	Engineered Systems	Asphalt Roofing Products	Drying Towers
	Replacement Filters	Chemical Processing	Asphalt Saturators
	Repack Services	Fertilizer	Acid/Caustic Mist
		Metals	Storage Tank Emissions
		Semiconductors	Organic Emissions

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Centrifugal Pumps	Metal Finishing and Plating	Purification of Air and Liquids
Non Metallic Wafer Style Butterfly Valves	Printed Circuits Fabrication	Fluid Handling
Filter Cartridges and Housings	Water and Wastewater Treatment	Filtration
Fans	Food and Beverage	
Laboratory Fume Hood Exhaust Systems	Chemical and Petrochemical Processing	
Ventilation Recirculation and Heat Recovery Systems	Oil and Gas	
Filters and Filter Systems	Pharmaceutical	
Carbonate Precipitators	University, Public Health and Government	
	Industrial Ventilation	
	Refining, Oil Production and Petrochemical	
	Aquarium and Aquaculture	
	Desalination and Water Reuse	
Air Pollution Control Segment		
Heavy Duty Air Handling and Conditioning	Aluminum	Rolling Mill Oil Mist Collection
Fume Exhaust Systems	Chemical	Heavy Gauge Strip and Coil:
Air-Curtain Hoods	Paper	- Coolers
JET*STAR Strip/ Coil Coolers and Dryers	Power	- Dryers
	Steel	General Ventilation
Design, Manufacture and/or Install:	Refineries	Air Pollution Control
- Industrial Cyclones	Utilities	Product Recovery and Capture
- FCC Cyclones	Bio Fuels	Petroleum Refining
- Scrubbers	Petrochemicals	Catalyst Recovery
- Venturi	Pharmaceutical	Manufactured Sand
- Packed Bed	Forest Products	Protection of Downstream Process and Pollution Control
	Manufacturing	

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- Multiple Purpose	Food	Equipment
Medial Filtration:		Flyash Beneficiation
- Baghouse Fabric Filters		
- Cartridge Collectors		
- Pneumatic Conveying and Industrial Ventilation		
Regenerative Thermal Oxidation	Chemical Processing	High Efficiency Destruction:
Catalytic and Thermal Oxidation	Ethanol	- Volatile Organic Compounds
Selective and Regenerative Catalytic Reduction	Paint Booth Emissions	- Fumes
	Wastewater Treatment	- Industrial Odors
	Wood Products	
	Asphalt	

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Full Design, Build, Install:	Aerospace	Collection:
Dust Collectors	Automotive	- Dust
Oil Mist Collectors	Food	- Oil Mist
Chip Conveyance Systems	Foundry	- Fume Exhaust
Custom Sheet Metal Fabrication	Glass	Exhaust/Make-up Air
Component Parts for Industrial Air Systems	Primary Metals	Paint/Finishing Booths
	Printing Industrial	Pneumatic Conveying
	Sheet Metal Contractors	Industrial Ventilation Systems
Clamp-Together Componentized Ducting Systems	Industrial Sheet Metal Contractors	Capture in Moderately Abrasive Environments
	Chemical	- Dust Particles
	Food	- Fumes
	Furniture	- Oil Mist
	Metals	
	Pharmaceuticals	
Cyclone Dust Collection	Municipal and Industrial Wastewater Treatment	Product Recovery
Filters: Bin Vent		Pollution Control
Filters: Fabric	Metal Finishing and Plating	
Filters: High Pressure/High Vacuum	Printed Circuits Fabrication	Purification of Air and Liquids
	Wood Products	
HEPA Filter Systems	Food and Beverage	
	Chemical Processing	
	Pharmaceutical	
	University, Public Health and Government	
	Industrial Ventilation	
	Refining, Oil Production and Petrochemical	
	Aquarium and Aquaculture	

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	Desalination and Water Reuse	
Aerators and Degasifiers	Municipal and Industrial Wastewater Treatment	Product Recovery
Biotrickling Filers and Biofilters	Metal Finishing and Plating	Pollution Control
Carbon Absorbers	Printed Circuits Fabrication	Purification of Air and Liquids
Duct Hoods and Exhaust Fans	Wood Products	
Filers: Wet Particulate	Food and Beverage	
Mist Eliminators	Chemical Processing	
Scrubbers: Chemical and Biological Order Control	Pharmaceutical	

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Scrubbers: Emergency Gas	University, Public Health and Government
Scrubbers: Wet	Industrial Ventilation
Storage Tanks	Refining, Oil Production and Petrochemical
	Aquarium and Aquaculture
	Desalination and Water Reuse

Project Design and Research and Development

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

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

Sales, Marketing and Support

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

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

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

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

Quality Assurance

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

Customers

We are not dependent upon any single customer, and no customer comprised 10% or more of our consolidated revenues for 2014, 2013 or 2012. We do not believe the loss of any one of our customers would have a material adverse effect on us and our subsidiaries taken as a whole.

Suppliers and Subcontractors

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

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

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

Backlog

Backlog is a representation of the amount of revenue expected from complete performance of firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 months. Our customers may have the right to cancel a given order, although historically cancellations have been rare. Backlog was approximately \$140.1 million and \$98.5 million as of December 31, 2014 and 2013, respectively. Substantially all 2013 backlog was completed in 2014. A substantial portion of the 2014 backlog is

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expected to be completed in 2015. Backlog is not defined by U.S. generally accepted accounting principles (GAAP) and our methodology for calculating backlog may not be consistent with methodologies used by other companies.

Competition

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

performance track record in difficult plant applications;

comprehensive portfolio of products with leading technology;

solid brand recognition in the fluid handling market;

ability to design standard and custom products that meet customers needs;

ability to provide reliable solutions in a timely manner;

quality customer service and support; and

financial and operational stability, including reputation.

We believe we compete favorably with respect to these factors.

Seasonality

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

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

Government Regulations

We believe our operations are in material compliance with applicable environmental laws and regulations. We believe that changes in environmental laws and regulations create opportunity given the nature of our business.

We are subject to the requirements of OSHA and comparable state statutes. We believe we are in material compliance with OSHA and state requirements, including general industry standards, record keeping requirements and monitoring of occupational exposures. In general, we

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expect to increase our expenditures to comply with stricter industry and regulatory safety standards needed. Although such expenditures cannot be accurately estimated at this time, we do not believe that they will have a material adverse effect on our financial position, results of operations or cash flows.

Table of Contents*Intellectual Property*

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

Financial Information about Geographic Areas

For 2014, 2013 and 2012, sales to customers outside the United States, including export sales, accounted for approximately 30%, 21% and 14%, respectively, of consolidated net sales. The largest portion of these sales were to European, Asian, and Canadian customers.

With the February 2013 acquisition of Aarding and August 2013 acquisition of Met-Pro, both of which have operations in the Netherlands, along with our China operations (bolstered by the December 2014 acquisition of Zhongli), sales to customers outside of the United States have increased. Our operations outside of the United States are subject to additional risks, which are more fully described in Item 1A. Risk Factors. Our operations outside of the United States are subject to political, investment and local business risks of this annual report on Form 10-K.

Employees

We had 850 full-time and three part-time employees as of December 31, 2014. The facilities of Kirk & Blum and Fluid Handling and Filtration in Telford, Pennsylvania are unionized except for selling, engineering, design, administrative and operating management personnel. None of our other employees are subject to a collective bargaining agreements. We consider our relationship with our employees to be satisfactory. In total, as of December 31, 2014, approximately 226 employees were represented by international or independent labor unions under various union contracts that expire at various intervals.

Executive Officers of the Registrant

The following are the executive officers of the Company as of December 31, 2014. The terms of all officers expire at the next annual meeting of the board of directors and upon the election of the successors of such officers.

Name	Age	Position with CECO
Jason DeZwirek	44	Chairman of the Board of Directors
Jeffrey Lang	58	Chief Executive Officer and President, and Director
Edward J. Prajzner	48	Chief Financial Officer and Secretary
Benton L. Cook	52	Vice President of Finance and Controller

Jason DeZwirek became a director of the Company in February 1994 and Chairman of the Board in May 2013. Previously, he served as Secretary of the Company from February 1998 until September 2013. He also serves as a member of the board of directors of the Company's subsidiaries. In 1999, Mr. DeZwirek founded Kaboose Inc., a family focused online media company. Mr. DeZwirek served as the Chairman and CEO of Kaboose Inc. until its sale to Disney Online (a subsidiary of The Walt Disney Company) and Barclays Private Equity Limited in June 2009. Mr. DeZwirek also previously served as a director and corporate secretary of API Technologies Corp. (NASDAQ:ATNY), a prime contractor in electronics, highly engineered systems, secure communications and electronic components and sub-systems for the defense and aerospace industries, from November 2006 through January 2011. Mr. DeZwirek also is and has been involved in private investment activities.

Jeffrey Lang has served as a director and the Chief Executive Officer since February 2010, as President since September 2013 and in several leadership positions with our subsidiaries since October 2010. From May

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2010 until September 2013, Mr. Lang also served as our Chief Operating Officer. Prior to joining the Company, from 2007 until 2009, Mr. Lang was the Executive Vice President, Operating Officer of McJunkin Red Man Corporation, a distributor of pipes, valves and fittings and related services serving the petrochemical, petroleum refining, pulp and paper, oil industry and utilities. From 2006 until 2007, he was the Senior Vice President and Operating Officer of Red Man Pipe and Supply Company, a pipe distribution company, that merged with McJunkin Corporation to form McJunkin Red Man Corporation. Previously, Mr. Lang was employed by Ingersoll Rand Company, a global industrial company, for twenty-five years from 1980 to 2005. He started out as a sales engineer in 1980, became a Sales and Service Branch Manager in 1985, the Southeast U.S. Area Manager, Air Solutions in 1995, and by 1999 was the Director and General Manager, North American Distributor Division, and from 2002 to 2005 served as the Director and General Manager, North American industrial Air Solutions, reporting directly to the President of the Air Solutions Group.

Edward J. Prajzner became our Chief Financial Officer and Secretary in March 2014. He previously served as Chief Accounting Officer and Vice President of Finance from September 2013. Mr. Prajzner served as Corporate Controller and Chief Accounting Officer of Met-Pro from June 2012 until its acquisition by the Company in August 2013. Prior to joining Met-Pro in May 2012, Mr. Prajzner served as Senior Vice President and Corporate Controller of CDI Corporation, an engineering and staffing company, from November 2010 to March 2012. From December 2008 to December 2010, he served as the Corporate Controller of American Infrastructure, Inc., a heavy civil engineering company.

Benton L. Cook became our Vice President of Finance and Controller as of March 2014. Mr. Cook served as our Controller since 2008. Mr. Cook served as Interim Chief Financial Officer from September 2011 through September 2013. Mr. Cook joined CECO in 2004 as Project Manager for Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) implementation.

Where to Find More Information

We use our Investor Relations website, www.cecoenviro.com, as a channel for routine distribution of important information, including news releases, analyst presentations and financial information. We post filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission, or SEC, including our annual, quarterly, and current reports on Forms 10-K, 10-Q, and 8-K; our proxy statements; and any amendments to those reports or statements. All such postings and filings are available on our Investor Relations website free of charge. The SEC also maintains a website, www.sec.gov, that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this Annual Report on Form 10-K unless expressly noted.

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Item 1A. Risk Factors

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

Risks Related to Our Business and Industry

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

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

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

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

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

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

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

unanticipated technical problems;

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required project modifications not initiated by the customer; and

suppliers or subcontractors failure to perform.

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

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

We recognize contract revenue for a substantial component of our business using the percentage-of-completion method on fixed price contracts over \$50,000. Under this method, for each contract, estimated contract revenue is calculated based generally on the percentage that actual direct costs to date are to total estimated direct costs. Estimated contract losses are recognized in full when determined. Accordingly, contract revenue and total direct cost estimates are reviewed and revised periodically as the work progresses and as change orders are approved, and adjustments based upon the percentage-of-completion are reflected in contract revenue in the period when these estimates are revised. These estimates are based on management's reasonable assumptions and our historical experience, and are only estimates. Variation of actual results from these assumptions, which are outside the control of management and can differ from our historical experience, could be material. To the extent that these adjustments result in an increase, a reduction or the elimination of previously reported contract revenue, we would recognize a credit or a charge against current earnings, which could be material.

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

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

difficulties in integrating the acquired businesses, product or service lines, assets or technologies;

diverting management's attention from normal daily operations of the business;

entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;

unanticipated costs and exposure to undisclosed or unforeseen liabilities;

the ability to service debt obligations incurred in connection with such acquisitions, if any;

potential loss of key employees and customers of the acquired businesses, product or service lines, assets or technologies;

our ability to properly establish and maintain effective internal controls over an acquired company; and

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increasing demands on our operational and information technology systems.

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

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

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

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

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

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

Our subsidiary, Met-Pro, beginning in 2002, began to be named in asbestos-related lawsuits filed against a large number of industrial companies including, in particular, those in the pump and fluid handling industries. In management's opinion, the complaints typically have been vague, general and speculative, alleging that Met-Pro, along with the numerous other defendants, sold unidentified asbestos-containing products and engaged in other related actions that caused injuries (including death) and loss to the plaintiffs. Counsel has advised that more recent cases typically allege more serious claims of mesothelioma. The Company's insurers have hired attorneys who, together with the Company, are vigorously defending these cases. Many cases have been dismissed after the plaintiff fails to produce evidence of exposure to Met-Pro's products. In those cases where evidence has been produced, the Company's experience has been that the exposure levels are low and the Company's position has been that its products were not a cause of death, injury or loss. The Company has been dismissed from or settled a large number of these cases. Cumulative settlement payments from 2002 through December 31, 2014 for cases involving asbestos-related claims were \$0.8 million, which together with all legal fees other than corporate counsel expenses have been paid by the Company's insurers. The average cost per settled claim, excluding legal fees, was approximately \$25,000.

Based upon the most recent information available to the Company regarding such claims, there were a total of 195 cases pending against the Company as of December 31, 2014 (with Connecticut, New York, Pennsylvania and West Virginia having the largest number of cases), as compared with 173 cases that were pending as of January 1, 2014. During 2014, 51 new cases were filed against the Company, and the Company was dismissed from 29 cases and settled zero cases. Most of the pending cases have not advanced beyond the early stages of discovery, although a number of cases are on schedules leading to, or are scheduled for trial. The Company believes that its insurance coverage is adequate for the cases currently pending against the Company and for the foreseeable future, assuming a continuation of the current volume, nature of cases and settlement amounts. However, the Company has no control over the number and nature of cases that are filed against it, nor as to the financial health of its insurers or their position as to coverage. The Company also presently believes that none of the pending cases will have a material adverse impact upon the Company's results of operations, liquidity or financial condition.

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Our business may be adversely affected by global economic conditions.

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

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

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

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

Our backlog has increased to \$140.1 million at December 31, 2014 from \$98.5 million at December 31, 2013. Our ability to meet customer delivery schedules for our backlog is dependent on a number of factors including, but not limited to, access to the raw materials required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects, sufficient manufacturing plant capacity and appropriate planning and scheduling of manufacturing resources. Our failure to deliver in accordance with customer expectations may result in damage to existing customer relationships and result in the loss of future business. Failure to deliver backlog in accordance with expectations could negatively impact our financial performance and cause adverse changes in the market price of our common stock.

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

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

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

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

Our annual revenues and earnings have varied in the past and are likely to vary in the future. Our contracts generally stipulate customer specific delivery terms and may have contract cycles of a year or more, which subjects these contracts to many factors beyond our control. In addition, contracts that are significantly larger in

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size than our typical contracts tend to intensify their impact on our annual operating results. Furthermore, as a significant portion of our operating costs are fixed, an unanticipated decrease in our revenues, a delay or cancellation of orders in backlog, or a decrease in the demand for our products, may have a significant impact on our annual operating results. Therefore, our annual operating results may be subject to significant variations and our operating performance in one period may not be indicative of our future performance.

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

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

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

For the year ended December 31, 2014, approximately 30% of our total revenue was derived from products or services ultimately delivered or provided to end-users outside the United States. As part of our operating strategy, we intend to expand our international operations through internal growth and selected acquisitions. Our goal is to balance revenues 50/50 between the United States and the rest of the world. Operations outside of the United States, particularly in emerging markets, are subject to a variety of risks that are different from or are in addition to the risks we face within the United States. Among others, these risks include:

local, economic, political and social conditions, including potential hyperinflationary conditions and political instability in certain countries;

imposition of limitations on the remittance of dividends and payments by foreign subsidiaries;

adverse currency exchange rate fluctuations, including significant devaluations of currencies;

tax-related risks, including the imposition of taxes and the lack of beneficial treaties, that result in higher effective tax rates for us;

difficulties in enforcing agreements and collecting receivables through certain foreign local systems;

domestic and foreign customs, tariffs and quotas or other trade barriers;

increased costs for transportation and shipping;

difficulties in protecting intellectual property;

risk of nationalization of private enterprises by foreign governments;

managing and obtaining support and distribution channels for overseas operations;

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hiring and retaining qualified management personnel for our overseas operations;

legal and regulatory requirements, including import, export, defense regulations and foreign exchange controls;

imposition or increase of restrictions on investment;

disadvantages of competing against companies from countries that are not subject to United States laws and regulations, including the Foreign Corrupt Practice Act (FCPA); and

required compliance with a variety of local laws and regulations, which may differ materially from those to which we are subject in the United States.

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

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

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

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

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

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

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

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

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

As of December 31, 2014, goodwill and indefinite lived intangibles represented approximately \$187.3 million, or 45.2% of our total assets. Goodwill and indefinite lived intangible assets are not amortized, but

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

We face significant competition in the markets we serve.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our manufacturing operations are dependent on third-party suppliers.

Although we are not dependent on any one supplier, we are dependent on the ability of our third-party suppliers to supply our raw materials, as well as certain specific component parts. Failure by our third-party suppliers to meet our requirements could have a material adverse effect on us. We cannot assure you that our third-party suppliers will dedicate sufficient resources to meet our scheduled delivery requirements or that our suppliers will have sufficient resources to satisfy our requirements during any period of sustained demand. Failure of suppliers to supply, or delays in supplying, our raw materials or certain components, or allocations in the supply of certain high demand raw components could materially adversely affect our operations and ability to meet our own delivery schedules on a timely and competitive basis.

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

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

We continue to devote substantial time and resources to the documentation and testing of our controls, and to plan for and the implementation of remedial efforts in those instances where remediation is indicated. As indicated below, as of December 31, 2014, our management determined that significant deficiencies in internal control over financial reporting constituted a material weakness. If we fail to maintain the adequacy of our internal controls, including remediating any material weaknesses or deficiencies in our internal controls, as such

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standards are modified, supplemented or amended in the future, we could be subject to regulatory actions, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition, results of operations and cash flows. We believe that the out-of-pocket costs, the diversion of management's attention from running our day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 will continue to be significant.

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

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

As of December 31, 2014, our management determined that significant deficiencies in the financial reporting close process related to the adequacy of accounting personnel and oversight, accounting for income taxes, and segregation of duties, among others, when taken in the aggregate, constitute a material weakness in our internal control over financial reporting. If we are not able to maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, financial condition and operating results could be harmed. We can give no assurances that any additional material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting.

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

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

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

The air pollution control and filtration industry is characterized by changing technology, competitively imposed process standards and regulatory requirements, each of which influences the demand for our products

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

Work stoppages or similar difficulties could significantly disrupt our operations.

As of December 31, 2014, 226 of our 850 employees are represented by international or independent labor unions under various union contracts that expire from May 1, 2015 to May 31, 2018. It is possible that our workforce will become more unionized in the future. Although we consider our employee relations to generally be good, our existing labor agreements may not prevent a strike or work stoppage at one or more of our facilities in the future and we may be affected by other labor disputes. A work stoppage at one or more of our facilities may have a material adverse effect on our business. Unionization activities could also increase our costs, which could have an adverse effect on our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

Increased information technology security threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, and products.

Increased global information technology security threats and more sophisticated and targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data and communications. While we attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of

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backup and protective systems, our systems, networks and products remain potentially vulnerable to advanced persistent threats. Depending on their nature and scope, such threats could potentially lead to the compromising of confidential information and communications, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations.

Risks Related to Our Common Stock

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

The stock market has experienced and may in the future experience volatility that has often been unrelated to the operating performance of particular companies. The market price of our common stock has experienced, and may continue to experience, substantial volatility. During the twelve-month period ended December 31, 2014, the sales price of our common stock on the NASDAQ has ranged from a low of \$12.40 to a high of \$18.90 per share. We expect our common stock to continue to be subject to fluctuations. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the common stock price may include, among other things:

actual or anticipated variations in quarterly operating results;

adverse general economic conditions, including, but not limited to, withdrawals of investments in the stock markets generally or a tightening of credit available to potential acquirers of businesses, that result in a lower average prices being paid for public company shares and lower valuations being placed on businesses;

other domestic and international macroeconomic factors unrelated to our performance;

our failure to meet the expectations of the investment community;

industry trends and the business success of our customers;

loss of key customers;

announcements of technological advances by us or our competitors;

current events affecting the political and economic environment in the United States;

conditions or trends in our industry, including demand for our products and services, technological advances and governmental regulations;

litigation or other proceedings involving or affecting us; and

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additions or departures of our key personnel.

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

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

We have reserved 2.6 million shares of our common stock for issuance under our 2007 Equity Incentive Plan (the 2007 Plan), which may include option grants, stock grants and restricted stock grants. As of December 31, 2014, approximately 2.3 million options or shares of restricted stock have been issued under the 2007 Plan. Icarus, an affiliate of ours, also owns warrants to purchase 250,000 shares of common stock that have piggy-back rights granting it the right to require that we register such shares in the event we file any registration statements in the future.

We had outstanding options to purchase approximately 80,000 shares of our common stock as of December 31, 2014 under our 1997 Stock Option Plan and outstanding options to purchase approximately

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1,647,000 shares of our common stock under our 2007 plan. The shares under both plans are registered for resale on currently effective registration statements.

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

Not Applicable.

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The following facilities were owned or leased by the Company as of December 31, 2014.

Owned and Leased Locations	Type	Square Footage	Annual Rent	Expiration
Air Pollution Control Segment:				
Anaheim, California	Mfg.	17,200	\$ 247,000	December 2016
Glendale Heights, Illinois	Mfg.	20,000	\$ 73,000	November 2015
Owosso, Michigan	Mfg.	63,000	Owned	Held for Sale
Louisville, Kentucky	Mfg.	61,095	\$ 126,000	February 2018
Louisville, Kentucky	Mfg.	35,000	Owned	
Lebanon, Pennsylvania	Sales	4,221	\$ 57,000	November 2019
Pittsburgh, Pennsylvania	Sales	4,000	\$ 64,000	May 2015
Columbia, Tennessee	Mfg.	34,800	\$ 127,000	August 2015
Shanghai, China	Mfg.	40,000	\$ 209,000	March 2016
Pune, India	Sales	678	\$ 7,000	March 2017
Islandia, New York	Sales	8,178	\$ 172,000	October, 2019
Cambridgeshire, United Kingdom	Sales	1,600	\$ 132,000	June, 2016
Shanghai, People's Republic of China	Sales	2,475	\$ 35,000	May, 2015
Ontario, California	Sales	2,453	\$ 14,000	April, 2015
Adelanto, California	Mfg.	17,125	\$ 90,000	March, 2017
Louisville, Kentucky	Sales	5,450	\$ 54,000	November, 2019
Cincinnati, Ohio (a)	Mfg.	53,210	\$ 199,000	April 2018
Salt Lake City, Utah	Mfg.	13,600	\$ 46,000	April 2015
Greensboro, North Carolina	Mfg.	30,000	\$ 104,000	August 2018
Energy Segment:				
Moorpark, California	Mfg.	4,300	\$ 52,000	April 2015
Ventura, California	Sales	1,281	\$ 15,000	April 2017
Cincinnati, Ohio	Mfg.	96,400	\$ 313,000	November 2026
Nunspeet, the Netherlands	Mfg.	58,125	\$ 402,000	December 2016
JiangYin City, People's Republic of China	Mfg.	181,447	\$ 624,000	December 2018
Montreal, Canada	Sales	3,514	\$ 34,000	October 2017
Fluid Handling and Filtration Segment:				
Telford, Pennsylvania	Mfg.	93,500	Owned	
Indianapolis, Indiana	Mfg.	66,000	Owned	
Heerenveen, the Netherlands	Mfg.	34,000	Owned	
Guangzhou, People's Republic of China	Mfg.	17,168	\$ 53,000	July 2015
Hatfield, Pennsylvania	Mfg.	31,000	Owned	Held for Sale
Waukegan, Illinois	Mfg.	22,000	Owned	Held for Sale
Corporate offices:				
Cincinnati, Ohio (b)	Admin.	7,000	\$ 101,000	June 2016
Toronto, Canada	Admin.	4,000	\$ 181,000	August 2018
Wayne, Pennsylvania	Admin.	2,600	\$ 35,000	June 2019

(a) Location is also used by Kirk and Blum as a sales office.

(b) Location is also used by Kirk and Blum as a management office.

It is anticipated that most leases coming due in the near future will be renewed at expiration. The property we own is subject to collateral mortgages to secure the amounts owed under the Credit Agreement. Our current capacity, with limited capital additions, is expected to be sufficient to meet production requirements for the near future. We believe our production facilities are suitable and can meet our future production needs.

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Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**
Market Information

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

	2014				2013			
	4 th Qtr.	3 rd Qtr.	2 nd Qtr.	1 st Qtr.	4 th Qtr.	3 rd Qtr.	2 nd Qtr.	1 st Qtr.
High	\$ 15.90	\$ 16.00	\$ 17.29	\$ 18.90	\$ 19.42	\$ 14.16	\$ 13.18	\$ 14.32
Low	12.40	13.38	13.02	14.22	13.91	11.81	10.44	9.92

Performance Graph

The following graph sets forth the cumulative total return to CECO's shareholders during the five years ended December 31, 2014, as well as the following indices: Russell 2000 Index, Standard and Poor's (S&P) 600 Small Cap Industrial Machinery Index, and S&P 500 Index. Assumes \$100 was invested on December 31, 2009, including the reinvestment of dividends, in each category.

Table of Contents**Dividends**

Our dividend policy and the payment of cash dividends under that policy are subject to the Board of Director's continuing determination that the dividend policy and the declaration of dividends are in the best interest of our shareholders. Future dividends and the dividend policy may be changed or cancelled at the Board of Director's discretion at any time. Payment of dividends is also subject to the continuing compliance with our financial covenants under our Credit Agreement. During 2014 and 2013, our Board of Directors declared the following quarterly cash dividends on our common stock:

Dividend		
Per Share	Record Date	Payment Date
\$0.060	December 19, 2014	December 30, 2014
\$0.060	September 16, 2014	September 30, 2014
\$0.060	June 13, 2014	June 27, 2014
\$0.050	March 19, 2014	March 31, 2014
\$0.050	December 17, 2013	December 31, 2013
\$0.050	September 16, 2013	September 30, 2013
\$0.050	June 14, 2013	June 28, 2013
\$0.050	March 18, 2013	March 28, 2013

On March 4, 2015, our Board of Directors declared a quarterly dividend of \$0.066 per share. The dividend will be paid on March 31, 2015 to all shareholders of record at the close of business on March 19, 2015.

Holders

The approximate number of registered shareholders of record of our common stock as of March 4, 2015 was 373, although there are a larger number of beneficial owners.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not repurchase any shares of our common stock during the fourth quarter of 2014.

Recent Sales of Unregistered Securities

In connection with our acquisition of Emtrol, on November 3, 2014, the Company issued 453,858 shares of common stock with an agreed upon value of \$6 million (based on the average closing price of the Company's common stock on the NASDAQ for the preceeding thirty trading days) to each of the members of Emtrol as part of the total consideration for the purchase of the membership interests of Emtrol. The fair value of the shares issued was \$5.8 million, which reflects the closing price of the Company's common stock on the closing date of the acquisitions, adjusted for certain trading restrictions placed on the common stock issued. The shares were issued in reliance on an exemption from the registration requirements of the Securities Act, provided by Section 4(a)(2) of the Securities Act as a private offering. Such issuance did not involve a public offering, and was made without general solicitation or advertising. In addition to compliance with securities laws, sales of these shares are subject to restricted stock agreements with each of the members of Emtrol.

In connection with our acquisition of HEE on August 13, 2014, the Company issued 34,626 shares to the sellers of HEE as a part of the purchase price consideration. The fair value of the shares issued was \$0.5 million, which reflects the closing price of the Company's common stock on the closing date of the acquisition. The shares were issued in reliance on an exemption from the registration requirements of the Securities Act, provided by Section 4(a)(2) of the Securities Act as a private offering. Such issuance did not involve a public offering, and was made without general solicitation or advertising. In addition to compliance with securities laws, sales of these shares are subject to restricted stock agreements with each of the sellers of HEE.

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(In thousands, except per share data)

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Net sales	\$ 263,217	\$ 197,317	\$ 135,052	\$ 139,192	\$ 140,602
Gross profit	84,823	61,555	42,443	38,168	32,653
Income from continuing operations	21,663	6,972	16,683	11,723	3,676
Net income	13,077	6,557	10,850	8,272	2,105
Basic earnings per common share	\$ 0.51	\$ 0.33	\$ 0.73	\$ 0.58	\$ 0.15
Diluted earnings per common share	\$ 0.50	\$ 0.32	\$ 0.65	\$ 0.51	\$ 0.15
Weighted average shares outstanding basic	25,750,972	20,116,991	14,813,186	14,386,410	14,308,130
Weighted average shares outstanding diluted	26,196,901	20,719,951	17,246,058	17,115,284	17,102,357
Dividends declared per common share	\$ 0.23	\$ 0.20	\$ 0.16	\$ 0.05	
Dividends paid	5,937	4,337	2,460	728	
Working capital:					
Total assets	414,365	349,210	94,104	79,345	74,791
Short-term debt	8,887	9,922			
Long-term debt (1)	103,541	79,160		9,600	10,800
Shareholders' equity	181,224	170,406	61,994	42,990	35,174

(1) Long-term debt as of December 31, 2011 and 2010 consisted of convertible subordinated notes, including \$3,950 to related parties for both periods.

Results of operations from acquired businesses are included from the date of acquisition forward. The fair value of assets and liabilities, inclusive of changes resulting from operating the businesses, are included in the first period ended after the date of each acquisition, and all periods thereafter. Acquisitions consist of the following: i) Adwest in December 2012, ii) Aarding in March 2013, iii) Met-Pro in August 2013, iv) HEE in August 2014, v) SAT in September 2014, vi) Emtrol in November 2014 and vii) Zhongli in December 2014.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

Overview*Business Overview*

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

Industry Trends and Corporate Strategy

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

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

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Recent Developments

On December 15, 2014, the Company acquired 100% of the equity interests of Zhongli for \$7.0 million in cash. As additional consideration, the former owners are entitled to earn-out payments based upon a multiple of specified financial results through December 31, 2017. There is no maximum amount of earn-out, under the terms of the Framework Agreement. Based on projections at the acquisition date, the Company estimated the fair value of the earn-out to be \$17.1 million. Zhongli is a designer and manufacturer of power industry damper, diverter and ball mill systems in China, which complements our Energy Segment businesses.

On November 3, 2014, the Company acquired 100% of the membership interests of Emtrol. The Company paid cash at closing of \$31.9 million, which was financed with borrowing under our Credit Agreement. The Company also issued 453,858 shares of the Company's common stock with an agreed upon value of \$6.0 million computed based on the average closing price of the Company's common stock for the thirty trading days immediately preceding the acquisition date. The shares of common stock issued to the former members contain restrictions on sale or transfer for periods ranging from one to two years from the acquisition date. Accordingly, the preliminary fair value of the common stock issued has been determined to be \$5.8 million, which reflects the estimated fair value of the shares based on the closing price of the Company's common stock on the acquisition date and a discount related to the sale and transfer restrictions. Emtrol is engaged in the business of designing and manufacturing of fluid catalytic cracking and industrial cyclone technology for a variety of industries including the refinery, petrochemical, and chemical sectors, which complements our Air Pollution Control Segment businesses.

On September 26, 2014, the Company acquired 100% of the stock of SAT for \$1.4 million in cash. The Company is holding back \$0.2 million of this cash until certain working capital requirements are determined to be met, as defined in the agreement. As additional consideration, the former owners are entitled to earn-out payments upon the achievement of specified financial results through September 30, 2017. Based on projections at the acquisition date, the Company estimated the fair value of the earn-out to be \$1.0 million, which is the maximum amount of the earnout. SAT is a provider of Volatile Organic Compounds abatement solutions for the Chinese air pollution control market, which complements our Air Pollution Control Segment businesses.

On August 13, 2014, the Company acquired certain assets and liabilities of HEE for \$7.0 million in cash. The Company also issued 34,626 shares of the Company's common stock with an agreed upon value of \$0.5 million computed based on the average closing price of the Company's common stock for the thirty trading days immediately preceding the acquisition date. The shares of common stock issued to the former owners contain restrictions on sale or transfer for a period of six months from the acquisition date. Accordingly, the preliminary fair value of the common stock issued has been determined to be \$0.5 million, which reflects the estimated fair value of the shares based on the closing price of the Company's common stock on the acquisition date and a discount related to the sale and transfer restrictions. As additional consideration, the former owners are entitled to earn-out payments upon the achievement of specified financial results through July 31, 2017. Based on projections at the acquisition date, the Company estimated the fair value of the earn-out to be \$2.0 million, which is the maximum amount of the earnout. HEE is a North American designer and manufacturer of scrubbers and fans for the air pollution control market, which complements our Air Pollution Control Segment businesses.

Effective January 1, 2014, CECO implemented an internal reorganization which resulted in CECO reporting its results in three reportable segments:

Air Pollution Control Segment, product recovery and air pollution control technologies, comprised of the following:

Adwest, HEE-Dual Air and Odor Technologies, Busch International, Emtrol-Buell Energy Cyclones, Flex-Kleen Dust Collection Technologies, Fisher-Klosterman, Kirk & Blum, KB Duct and SAT Technology.

Energy Segment, customized solutions for the power and petrochemical industry, comprised of the following:

Aarding Thermal Acoustics, Effox-Flexor, AVC Specialists, Inc. and Zhongli.

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Fluid Handling and Filtration Segment, high quality pump, filtration and fume exhaust solutions, comprised of the following: Met-Pro Global Pump Solutions, Mefiag Filtration Solutions, Keystone Filtration Solutions, CECO Filters and Strobic Air Corporation.

The financial information presented in this Annual Report on Form 10-K incorporates the change in the composition of the Company's reportable segments as a result of the segment reorganization effective January 1, 2014.

Operations Overview

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

Our three reportable segments are: the Air Pollution Control Segment (APC), which produces various types product recovery and air pollution control technologies, the Energy Segment, which produces customized solutions for the power and petrochemical industry, and the Fluid Handling and Filtration Segment (FHF), which produces high quality pump, filtration and fume exhaust solutions. It is through combining the efforts of some or all of these groups that we are able to offer complete turnkey systems to our customers and leverage the operational efficiencies between our family of companies.

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

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

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

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

Material Raw material that we buy to build our products;

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

Subcontracts Electrical work, concrete work and other subcontracts necessary to produce our products;

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

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

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

Note Regarding Use of Non-GAAP Financial Measures

The Company's audited consolidated financial statements are prepared in accordance with GAAP. These GAAP financial statements include certain charges the Company believes are not indicative of its ongoing operational performance.

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

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

Table of Contents**Results of Operations****Consolidated Results**

Our consolidated statements of income for the years ended December 31, 2014, 2013 and 2012 are as follows:

(\$ in millions)	Year ended December 31,		
	2014	2013	2012
Net sales	\$ 263.2	\$ 197.3	\$ 135.1
Cost of goods sold	178.4	135.8	92.7
Gross profit	\$ 84.8	\$ 61.5	\$ 42.4
<i>Percent of sales</i>	32.2%	31.2%	31.4%
Selling and administrative	\$ 51.4	\$ 37.1	\$ 25.4
<i>Percent of sales</i>	19.5%	18.8%	18.8%
Acquisition and integration expense	\$ 1.3	\$ 7.2	\$
<i>Percent of sales</i>	0.5%	3.6%	
Amortization and earn out expenses	\$ 10.1	\$ 6.7	\$ 0.3
<i>Percent of sales</i>	3.9%	3.4%	0.2%
Legal reserves	\$ 0.3	\$ 3.5	\$
<i>Percent of sales</i>	0.1%	1.8%	
Operating income	\$ 21.7	\$ 7.0	\$ 16.7
<i>Percent of sales</i>	8.2%	3.5%	12.4%

On March 5, 2015, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission that included an earnings release issued that same day reporting results for the fourth quarter of 2014, which was furnished as Exhibit 99.1 thereto (the Earnings Release). Between the issuance of the Earnings Release and the filing of this Annual Report on Form 10-K, the Company became aware of additional new information affecting its earlier estimates and assumptions. As a result, the Company recorded an income tax benefit of \$0.7 million resulting in a decrease to overall tax expense and recorded a legal reserve, workers compensation and general administrative expenses of \$0.7 million resulting in a decrease to income from operations and income before taxes for the year ended December 31, 2014. The net impact of these two adjustments had no impact on Net Income or Diluted Earnings per share as initially reported for the year ended December 31, 2014.

To compare operating performance between the years ended December 31, 2014, 2013 and 2012, the Company has adjusted GAAP operating income and GAAP net income to exclude (1) acquisition and integration related expenses, including legal, accounting, and banking expenses, (2) amortization and contingent acquisition expenses, including amortization of acquisition related intangibles, retention, severance, and earn-out expenses, (3) legal reserves, (4) inventory valuation and plant, property and equipment valuation adjustments related to the Met-Pro acquisition, (5) foreign currency remeasurement with respect to intercompany loans, and (5) with respect to net income, associated tax benefits of these charges. The Company has adjusted GAAP gross profit to exclude inventory valuation and plant, property and equipment valuation adjustments related to the Met-Pro acquisition. See Note Regarding Use of Non-GAAP Financial Measures above. The following tables present the reconciliation of GAAP gross profit and GAAP gross margin to non-GAAP gross profit and non-GAAP gross profit margin, GAAP operating income and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin, and GAAP net income to non-GAAP net income:

(dollars in millions)	Year Ended December 31,		
	2014	2013	2012
Gross profit as reported in accordance with GAAP	\$ 84.8	\$ 61.6	\$ 42.4
<i>Gross profit margin in accordance with GAAP</i>	32.2%	31.2%	31.4%
Inventory valuation adjustment		1.1	
Plant, property and equipment valuation adjustment	0.6	0.2	
Non-GAAP gross profit	\$ 85.4	\$ 62.9	\$ 42.4
<i>Non-GAAP Gross profit margin</i>	32.4%	31.9%	31.4%

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(dollars in millions)	Year Ended December 31,		
	2014	2013	2012
Operating income as reported in accordance with GAAP	\$ 21.7	\$ 7.0	\$ 16.7
<i>Operating margin in accordance with GAAP</i>	8.2%	3.5%	12.4%
Inventory valuation adjustment		1.1	
Plant, property and equipment valuation adjustment	0.6	0.2	
Acquisition and integration expenses	1.3	7.2	
Amortization and earn out expenses	10.1	6.8	0.3
Legal reserves	0.3	3.5	
Non-GAAP operating income	\$ 34.0	\$ 25.8	\$ 17.0
<i>Non-GAAP Operating margin</i>	12.9%	13.1%	12.6%

(dollars in millions)	Year Ended December 31,		
	2014	2013	2012
Net income as reported in accordance with GAAP	\$ 13.1	\$ 6.6	\$ 10.9
Inventory valuation adjustment		1.1	
Plant, property and equipment valuation adjustment	0.6	0.2	
Acquisition and integration expenses	1.3	7.2	
Amortization and earn out expenses	10.1	6.8	0.3
Legal reserves	0.3	3.5	
Foreign currency remeasurement	2.9	(1.1)	
Tax benefit of expenses	(3.7)	(4.6)	(0.1)
Non-GAAP net income	\$ 24.6	\$ 19.7	\$ 11.1

Comparison of the years ended December 31, 2014 and 2013

Consolidated sales in 2014 were \$263.2 million compared with \$197.3 million in 2013, an increase of \$65.9 million. The increase in sales was due to the acquisitions of Aarding at the end of February 2013, Met-Pro at the end of August 2013, HEE in mid-August 2014, SAT at the end of September 2014, and Emtrrol at the beginning of November 2014. These acquisitions aggregated to an additional \$71.6 million of sales in 2014, which was the primary reason for the increase in sales.

Gross profit increased by \$23.2 million, or 37.7%, to \$84.8 million in 2014 compared with \$61.6 million in 2013. Gross profit as a percentage of sales was 32.2% in 2014 compared with 31.2% in 2013. The increase gross profit was the result of the aforementioned acquisitions. On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP gross profit was \$85.4 million or 32.4% as a percentage of sales for 2014, an increase of \$22.5 million compared with non-GAAP gross margin of \$62.9 million or 31.9% as a percentage of sales in 2013.

Selling and administrative expenses were \$51.4 million in 2014 compared with \$37.1 million in 2013. The increase in selling and administrative expenses were the result of the aforementioned acquisitions.

Acquisition and integration expenses of \$1.3 million in 2014 and \$7.2 million in 2013 relate to acquisition activities, which include legal, accounting, and banking expenses.

Amortization and earnout expense was \$10.1 million in 2014 and \$6.8 million in 2013. This increase was the result of the aforementioned acquisitions.

Legal reserves of \$0.3 million in 2014 relate to the settlement of the Valero lawsuit. Legal reserves of \$3.5 million in 2013 relate to the settlement of the Sheet Workers Local Union No. 80 claim. See Note 12 to our consolidated financial statements for more information.

Operating income for 2014 was \$21.7 million, an increase of \$14.7 million from \$7.0 million in 2013. Operating income as a percentage of sales for 2014 was 8.2% compared with 3.5% for 2013. The increase in

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operating income was attributable to the aforementioned acquisitions. On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP operating income was \$34.0 million for 2014, an increase of \$8.2 million from 2013. Non-GAAP operating income as a percentage of sales for 2014 was 12.9% compared with 13.1% for 2013, which is essentially flat year over year.

Other (expense) income for 2014 was \$(2.3) million compared with \$1.0 million in 2013, and was comprised of foreign currency transaction losses in 2014 and foreign currency transaction gains in 2013. The expense in 2014 and income in 2013 is primarily attributable to a translation remeasurement on U.S. Dollar denominated intercompany debt at Aarding.

Interest expense increased to \$3.1 million in 2014 from \$1.5 million in 2013, due to higher debt levels in 2014, which debt was incurred in connection with the Met-Pro and Emtrol acquisitions.

Income tax expense (benefit) was \$3.1 million in 2014 compared to \$(0.1) million in 2013. The effective tax rate for 2014 was 19.3% compared with (1.6)% in 2013. Included in the income tax provision calculation for 2013 is a \$2.4 million tax benefit, net of related uncertain tax position reserves, for research and development income tax credits earned during 2009 through 2013. This credit was not factored in the 2012 tax provision because it was not evaluated until 2013. Along with the tax benefit of research and development income tax credits, the effective tax rate is beneficially impacted by the domestic production activities deduction, offset by nondeductible deal costs related to the Met-Pro acquisition.

Comparison of the years ended December 31, 2013 and 2012

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

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

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

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

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

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

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

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

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

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

Business Segments

The Company's operations in 2014, 2013 and 2012 are organized and reviewed by management along its product lines and presented in three reportable segments. The results of the segments are reviewed through to the "Income from operations" line on the Consolidated Statements of Income. The amounts presented in the Net Sales table below and in the following comments regarding our net sales at the reportable business segment level exclude both intra-segment and inter-segment net sales. The Income (loss) from Operations table and corresponding comments regarding operating income at the reportable segment level include both intra-segment and inter-segment operating income.

	2014	2013	2012
Net Sales (less intra-, inter-segment sales)			
Air Pollution Control Segment	\$ 127,707	\$ 101,150	\$ 88,582
Energy Segment	70,285	69,355	40,194
Fluid Handling and Filtration Segment	65,638	25,199	6,191
Corporate and Other (1)	(413)	1,613	85
Net sales	\$ 263,217	\$ 197,317	\$ 135,052

- (1) Includes adjustment for revenue on intercompany jobs.

	2014	2013	2012
Income (Loss) from Operations			
Air Pollution Control Segment	\$ 16,803	\$ 15,422	\$ 14,635
Energy Segment	7,799	9,336	7,574
Fluid Handling and Filtration Segment	13,188	1,443	998
Corporate and Other (2)	(14,297)	(17,756)	(6,460)
Eliminations	(1,830)	(1,473)	(64)
Income from operations	\$ 21,663	\$ 6,972	\$ 16,683

- (2) Includes corporate compensation, professional services, information technology, acquisition and integration expenses, and other general and administrative corporate expenses.

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Comparison of the years ended December 31, 2014 and 2013

Air Pollution Control Segment

Our APC segment net sales increased \$26.6 million to \$127.7 million in the year ended December 31, 2014 compared with \$101.2 million in the year ended December 31, 2013, an increase of 26.3%. The increase is primarily due to the Met-Pro and Emtrol acquisitions, which accounted for an additional \$17.1 million and \$9.8 million in net sales, respectively, for the year ended December 31, 2014.

Operating income from the APC segment increased \$1.4 million to \$16.8 million for the year ended December 31, 2014 compared with \$15.4 million in the year ended December 31, 2013, an increase of 9.0%. The increase was due in part to the Met-Pro and Emtrol acquisitions, which accounted for an additional \$3.1 million and \$1.2 million, respectively, for the year ended December 31, 2014. We also benefited from increased operating income at Adwest of \$2.0 million due to increased volume. There were offsetting decreases at the FKI and Kirk & Blum operations of \$2.3 million and \$2.6 million, respectively.

Energy Segment

Our Energy segment net sales increased \$0.9 million to \$70.3 million in the year ended December 31, 2014 compared with \$69.4 million in the year ended December 31, 2013, an increase of 1.3%. There were no major changes in operations in 2014, as such net sales were essentially flat.

Operating income from the Energy segment decreased \$1.5 million to \$7.8 million for the year ended December 31, 2014 compared with \$9.3 million in the year ended December 31, 2013, a decrease of 16.1%. The decrease was due in part to a decline in overall margins.

Fluid Handling and Filtration Segment

Our FHF segment net sales increased \$40.4 million to \$65.6 million in the year ended December 31, 2014 compared with \$25.2 million in the year ended December 31, 2013, an increase of 160.3%. The increase is primarily due to the Met-Pro acquisition, which accounted for an additional \$39.3 million in net sales for the year ended December 31, 2014. The remaining \$1.1 million increase was due to an increase in the CECO Filters operations.

Operating income from the FHF segment increased \$11.8 million to \$13.2 million for the year ended December 31, 2014 compared with \$1.4 million in the year ended December 31, 2013. The increase was due primarily to the Met-Pro acquisition, which accounted for an additional \$10.9 million for the year ended December 31, 2014. The remaining \$0.9 million increase was due to an increase in the CECO Filters operations.

Comparison of the years ended December 31, 2013 and 2012

Air Pollution Control Segment

Our APC segment net sales increased \$12.6 million to \$101.2 million in the year ended December 31, 2013 compared with \$88.6 million in the year ended December 31, 2012, an increase of 14.2%. The increase is primarily due to the Met-Pro and Adwest acquisitions, which accounted for an additional \$9.0 million and \$9.5 million in net sales, respectively, for the year ended December 31, 2013. These increases were offset by a decrease of \$6.0 million in our contracting business driven primarily jobs that were delayed or cancelled in 2013.

Operating income from the APC segment increased \$0.8 million to \$15.4 million for the year ended December 31, 2013 compared with \$14.6 million in the year ended December 31, 2012, an increase of 5.5%. The increase was due in part to the Met-Pro and Adwest acquisitions, which accounted for an additional \$1.4 million and \$0.4 million, respectively, for the year ended December 31, 2013. These increases were offset by a decrease in our contracting business driven primarily by the decreases in revenue.

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Our Energy segment net sales increased \$29.2 million to \$69.4 million in the year ended December 31, 2013 compared with \$40.2 million in the year ended December 31, 2012, an increase of 72.6%. The increase is primarily due to the Aarding acquisition, which accounted for an additional \$27.0 million in net sales for the year ended December 31, 2013. The remaining amount of the increases was due to increases in business at Effox.

Operating income from the Energy segment increased \$1.7 million to \$9.3 million for the year ended December 31, 2013 compared with \$7.6 million in the year ended December 31, 2012, a decrease of 22.4%. The increase was due primarily to increased operating income from our Effox business.

Fluid Handling and Filtration Segment

Our FHF segment net sales increased \$19.0 million to \$25.2 million in the year ended December 31, 2013 compared with \$6.2 million in the year ended December 31, 2012. The increase is primarily due to the Met-Pro acquisition, which accounted for an additional \$20.4 million in net sales for the year ended December 31, 2013. There was an offsetting decrease of \$1.4 million due to a decrease in the CECO Filters operations.

Operating income from the FHF segment increased \$0.4 million to \$1.4 million for the year ended December 31, 2013 compared with \$1.0 million in the year ended December 31, 2012. The increase is primarily due to the Met-Pro acquisition, which accounted for an additional \$0.7 million in operating income for the year ended December 31, 2013. There was an offsetting decrease of \$0.3 million due to a decrease in the CECO Filters operations.

Backlog

Our backlog consists of the amount of revenue we expect from complete performance of uncompleted, signed, firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 months. Our backlog as of December 31, 2014 was \$140.1 million compared with \$98.5 million as of December 31, 2013. The increase in backlog at December 31, 2014 was primarily a result of the acquisitions of Emtrol, Zhongli, and HEE, which in the aggregate represent \$40.8 million of our backlog at December 31, 2014. There can be no assurances that backlog will be replicated, increased or translated into higher revenues in the future. The success of our business depends on a multitude of factors related to our backlog and the orders secured during the subsequent periods. Certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability.

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

(dollars in millions)	2014	Three Months Ended December 31,	
		2013	2012
Net sales as reported in accordance with GAAP	\$ 76.1	\$ 68.7	\$ 34.3
Gross profit as reported in accordance with GAAP	\$ 22.6	\$ 21.5	\$ 11.2
<i>Gross profit margin in accordance with GAAP</i>	<i>29.7%</i>	<i>31.3%</i>	<i>32.6%</i>
Inventory valuation adjustment		0.7	
Plant, property and equipment valuation adjustment	0.1	0.1	
Non-GAAP gross profit	\$ 22.7	\$ 22.3	\$ 11.2
<i>Gross profit margin</i>	<i>29.8%</i>	<i>32.4%</i>	<i>32.6%</i>

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(dollars in millions)	Three Months Ended		
	2014	December 31, 2013	2012
Operating income as reported in accordance with GAAP	\$ 3.8	\$ 3.7	\$ 4.4
<i>Operating margin in accordance with GAAP</i>	<i>5.0%</i>	<i>5.4%</i>	<i>12.8%</i>
Inventory valuation adjustment		0.7	
Plant, property and equipment valuation adjustment	0.1	0.1	
Acquisition and integration expenses	0.9	0.6	
Amortization and earn out expenses	2.8	3.3	0.1
Legal reserves		1.0	
Non-GAAP operating income	\$ 7.6	\$ 9.4	\$ 4.5
<i>Operating margin</i>	<i>10.0%</i>	<i>13.6%</i>	<i>12.8%</i>

On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP gross profit was \$22.7 million or 29.8% as a percentage of sales for the three months ended December 31, 2014, an increase of \$0.4 million compared with non-GAAP gross margin of \$22.3 million or 32.4% as a percentage of sales for the three months ended December 31, 2013. On a non-GAAP basis as adjusted for the non-GAAP items discussed above, non-GAAP operating income was \$7.6 million or 10.0% as a percentage of sales for the three months ended December 31, 2014, a decrease of \$1.8 million compared with \$9.4 million or 13.6% as a percentage of sales for the three months ended December 31, 2013.

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

Liquidity and Capital Resources

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

At December 31, 2014 and 2013, cash and cash equivalents totaled \$19.4 million and \$22.7 million, respectively. As of December 31, 2014 and 2013, \$11.7 million and \$17.6 million, respectively, of our cash and cash equivalents were held by certain non-U.S. subsidiaries, as well as being denominated in foreign currencies.

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Debt consisted of the following at December 31, 2014 and 2013:

(Table only in thousands)	December 31, 2014	December 31, 2013
Outstanding borrowings under Credit Facility. Term loan payable in quarterly principal installments of \$2.2 million through September 2016, \$2.8 million through September 2017, and \$3.3 million thereafter with balance due upon maturity in August 2018.		
Term loan	\$ 90,072	\$ 63,781
U.S. Dollar revolving loans	24,000	22,000
Multi-currency revolving loans		
Unamortized debt discount	(1,796)	(1,918)
 Total outstanding borrowings under Credit Facility	 112,276	 83,863
Outstanding borrowings under Canadian dollar-denominated Flextor Facility (defined below)		
Outstanding borrowings (U.S. dollar equivalent) under Aarding Facility (defined below)		4,909
Outstanding borrowings (U.S. dollar equivalent) under Euro-denominated note payable to a bank, payable in quarterly installments of 25 (\$30 as of December 31, 2014), plus interest, at a fixed rate of 3.82%, maturing January 2016. Collateralized by the Heerenveen, Netherlands building.	152	310
 Total outstanding borrowings	 \$ 112,428	 \$ 89,082
Less: current portion	8,887	9,922
 Total debt, less current portion	 \$ 103,541	 \$ 79,160

United States Debt

On August 27, 2013, the Company entered into a credit agreement (the "Credit Agreement") with various lenders (the "Lenders") and letter of credit issuers (each, an "L/C Issuer"), and Bank of America, N.A., as Administrative Agent (the "Agent"), swing line lender and an L/C Issuer, providing for various senior secured credit facilities (collectively, the "Credit Facility") comprised of a \$65.0 million senior secured term loan, a \$70.5 million senior secured U.S. dollar revolving credit facility for U.S. dollar revolving loans with sub-facilities for letters of credit and swing-line loans, and a \$19.5 million senior secured multi-currency revolving credit facility for U.S. dollar and specific foreign currency loans.

Concurrent with the closing of the Met-Pro acquisition (as defined below in Note 16 to our consolidated financial statements), the Company borrowed \$65.0 million in term loans and \$52.0 million in U.S. dollar revolving loans and used the proceeds to (i) finance the cash portion of the acquisition, (ii) pay off certain outstanding indebtedness of the Company and its subsidiaries (including certain indebtedness of Met-Pro and its subsidiaries), and (iii) pay certain fees and expenses incurred in connection with the Credit Agreement and the acquisition.

On November 18, 2014, the Company amended the Credit Agreement. Pursuant to the amendment (i) certain lenders provided an additional term loan under the Credit Agreement in an aggregate principal amount of \$35.0 million and certain lenders increased their revolving credit commitments in an aggregate principal amount of up to \$15.0 million, and (ii) the Credit Agreement was amended to, among other things, (a) modify the calculation of Consolidated EBITDA to include certain pro forma adjustments related to certain acquisitions and other transactions, (b) modify the Consolidated Leverage Ratio covenant and (c) permit additional investments in foreign subsidiaries and additional indebtedness by foreign subsidiaries. The proceeds from the additional term loan were used primarily to finance the acquisition of Emtrol and related expenses. The Company has the option to obtain additional commitments for either the U.S. dollar revolving credit facility or the term loan facility in an aggregate principal amount not to exceed \$50.0 million.

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As of December 31, 2014 and 2013, \$9.5 million and \$1.3 million of letters of credit, respectively, were outstanding under the Credit Facility. Total unused credit availability under the Credit Facility was \$71.5 million and \$66.7 million at December 31, 2014 and 2013, respectively. Revolving loans may be borrowed, repaid and reborrowed until August 27, 2018, at which time all amounts borrowed pursuant to the Credit Facility must be repaid.

At the Company's option, revolving loans and the term loans accrue interest at a per annum rate based on either the highest of (a) the federal funds rate plus 0.5%, (b) the Agent's prime lending rate, and (c) one-month LIBOR plus 1.00%, plus a margin ranging from 0.5% to 1.5% depending on the Company's consolidated leverage ratio (Base Rate), or a Eurocurrency Rate (as defined in the Credit Agreement) plus 1.5% to 2.5% depending on the Company's consolidated leverage ratio. Interest on swing line loans is the Base Rate.

Accrued interest on Base Rate loans is payable quarterly in arrears on the last day of each calendar quarter and at maturity. Interest on Eurocurrency Rate loans is payable on the last date of each applicable Interest Period (as defined in the agreement), but in no event less than once every three months and at maturity. The weighted average interest rate on outstanding borrowings was 2.24% and 2.23% at December 31, 2014 and 2013, respectively.

The Company has granted a security interest in substantially all of its assets to secure its obligations pursuant to the Credit Agreement. The Company's obligations under the Credit Agreement are guaranteed by the Company's U.S. subsidiaries and such guaranty obligations are secured by a security interest on substantially all of the assets of such subsidiaries, including certain real property. The Company's obligations under the Credit Agreement may also be guaranteed by the Company's material foreign subsidiaries to the extent no adverse tax consequences would result to the Company.

The Credit Agreement contains customary affirmative and negative covenants, including the requirement to maintain compliance with a consolidated leverage ratio of less than 3.25 and a consolidated fixed charge coverage ratio of more than 1.25. The Credit Agreement also includes customary events of default and the occurrence of an event of default could result in an increased interest rate equal to 2.0% above the applicable interest rate for loans, the acceleration of the Company's obligations pursuant to the Credit Agreement and an obligation of the subsidiary guarantors to repay the full amount of the Company's borrowings pursuant to the Credit Agreement.

As of December 31, 2014 and 2013, the Company was in compliance with all related financial and other restrictive covenants under the Credit Agreement.

During 2014 and 2013, the Company capitalized \$0.4 and \$2.7 million, respectively, of other customary closing fees, arrangement fees, administration fees, letter of credit fees and commitment fees for the Credit Agreement. As of December 31, 2014 and 2013, capitalized deferred financing costs of \$0.5 million and \$0.6 million, respectively, are included in deferred charges and other assets and \$1.8 million and \$1.9 million, respectively, are included as a discount to debt in the accompanying condensed consolidated balance sheets. Amortization expense was \$0.6 million, \$0.3 million and \$0.2 million for 2014, 2013 and 2012, respectively, and is classified as interest expense.

In connection with the execution of the Credit Agreement, the Company's then existing credit facility was terminated effective August 27, 2013, and all amounts outstanding under such facility, including the outstanding principal balance, were paid in full.

Foreign Debt

The Company had a \$5.5 million facilities agreement (Canadian dollar denominated), originally dated November 28, 2007 (as amended from time to time), made between our Canadian subsidiary, Flextor, Inc., as borrower and Caisse/branch Caisse Desjardins du Mont-Saint-Bruno as the lender (Flextor Facility). The

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facilities agreement included (in Canadian dollars) a \$2.5 million bank guarantee facility (under the PSG Program from Export Development Canada), a \$0.5 million line of credit specific to forward exchange contracts, and a \$2.5 million variable (subject to asset value limitations) line of credit for operations. The facility interest rate was the Caisse Central Desjardins prime rate plus 0.5%. All of the borrower's assets were pledged for the facility, and the borrower had to have a working capital ratio of at least 1.25:1, working capital of at least \$1.0 million, debt to adjusted tangible net worth ratio of less than 2.50:1, and minimum adjusted tangible net worth of \$1.3 million. During 2014, the Company cancelled this facilities agreement. There were no penalties for cancelling the agreement.

The Company has a 10.5 million facilities agreement, originally dated August 17, 2012 (as amended from time to time), made between our Netherlands subsidiaries ATA Beheer B.V. and Aarding Thermal Acoustics B.V., as borrowers and ING Bank N.V. as the lender (Aarding Facility). During 2014, the Aarding Facility was increased from 7.0 to 10.5, all other terms of the agreement remained the same. The facilities agreement includes a 7.0 million bank guarantee facility and a 3.5 million overdraft facility. The bank guarantee interest rate is the three months Euribor plus 265 basis points (2.73% as of December 31, 2014) and the overdraft interest rate is three months Euribor plus 195 basis points (2.03% as of December 31, 2014). All of the borrowers' assets are pledged for this facility, and the borrowers' solvency ratio must be at least 30% and net debt/last twelve months EBITDA less than 3.0. As of December 31, 2014, the borrowers were in compliance with all related financial and other restrictive covenants, and expect continued compliance. As of December 31, 2014, 5.5 million (\$6.7 million) of the bank guarantee and none of the overdraft facility was being used by the borrowers. There is no stated expiration on this facilities agreement.

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

	December 31,	
	2014	2013
(dollars in millions)		
Credit Facility, U.S. Dollar revolving loans	\$ 85.5	\$ 70.5
Draw down	(24.0)	(22.0)
Letters of credit open	(9.5)	(1.3)
Credit Facility, Multi-currency revolving facilities	19.5	19.5
Netherlands facilities (10.5 million and 7.0 million at December 31, 2014 and 2013, respectively, in U.S. Dollar equivalent)	12.8	9.6
Letters of credit open	(6.7)	(8.3)
Canadian credit agreement (Canadian Dollar 5.5 million at December 31, 2013, in U.S. Dollar equivalent)		5.1
Letters of credit open		
Total unused credit availability	\$ 77.6	\$ 73.1

Table of Contents**Overview of Cash Flows and Liquidity**

(dollars in thousands)	For the year ended		
	2014	December 31, 2013	2012
Total operating cash flow provided by operating activities	\$ 16,263	\$ 24,181	\$ 16,829
Acquisitions of property and equipment	(1,151)	(1,377)	(273)
Net cash paid for acquisition	(44,399)	(104,432)	(4,000)
Net proceeds from sale of property and equipment	7,738	215	382
Net cash used in investing activities	(37,812)	(105,594)	(3,891)
Net (repayments) borrowings on credit lines	\$ (2,909)	\$ 3,366	\$
Borrowings of long-term debt	\$ 35,000	\$ 100,000	\$
Repayments of long-term debt	\$ (8,867)	\$ (14,218)	\$
Deferred financing fees paid	\$ (370)	\$ (2,730)	\$
Proceeds from exercise of stock options	\$ 1,383	\$ 1,364	\$ 248
Cash paid for repurchase of common shares	\$ (973)	\$ (2,365)	\$ (456)
Excess tax benefit from stock options exercised	\$ 923	\$	\$
Dividends paid to common shareholders	\$ (5,937)	\$ (4,337)	\$ (2,460)
Net cash provided by (used in) financing activities	\$ 18,250	\$ 81,080	\$ (2,668)
Net (decrease) increase in cash and cash equivalents	\$ (3,299)	\$ (333)	\$ 10,270

In 2014, \$16.3 million of cash was provided by operating activities as compared with \$24.2 million provided in 2013. The \$7.9 million decrease in cash flow from operating activities was due primarily to a few unfavorable net working capital items in 2014 compared to 2013. The incremental cash provided was comprised of \$2.5 million in accounts receivable, \$2.0 million in inventories, \$1.5 million in accounts payable and accrued expenses and \$0.6 million in prepaid expenses and other assets. The incremental cash used was comprised of \$6.6 million in costs in excess of billings, \$2.2 million in billings in excess of costs, \$1.2 million in income taxes payable, \$1.7 million in other liabilities and \$2.5 million in accrued litigation settlement.

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

In 2014, \$37.8 million of cash was used in investing activities as compared with \$105.6 million in 2013. Investing activities in 2014 were comprised of \$44.4 million cash paid for acquisitions and \$1.2 million for capital expenditures for property and equipment and offset by \$7.7 million proceeds from sale of property and equipment, as compared with \$104.4 million cash paid for acquisitions, \$0.2 million proceeds from sale of equipment and \$1.4 million for capital expenditures for property and equipment in 2013.

In 2013, \$105.6 million of cash was used in investing activities as compared with \$3.9 million used in investing activities in 2012. Investing activities in 2013 were comprised of \$104.4 million cash paid for acquisitions and \$1.4 million for capital expenditures for property and equipment and offset by \$0.2 million proceeds from sale of equipment, as compared with \$4.0 million cash paid for acquisitions, \$0.4 million proceeds from sale of equipment and \$0.3 million for capital expenditures for property and equipment in 2012.

Financing activities in 2014 provided net cash of \$18.3 million, which consisted primarily of net borrowings of \$35.0 million and proceeds from exercise of options of \$1.4 million, less dividends paid to our shareholders of

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\$5.9 million, cash used to repurchase common stock of \$1.0 million and repayments of long-term debt and borrowings of \$11.8 million. Financing activities in 2013 provided net cash of \$81.1 million, which consisted primarily of net borrowings of \$89.1 million and proceeds from exercise of options of \$1.4 million, less dividends paid to our common shareholders of \$4.3 million, cash used to repurchase common stock of \$2.4 million, repayments of long-term debt of \$14.2 million, and deferred financing fees paid of \$2.7 million.

Financing activities in 2013 provided net cash of \$81.1 million, which consisted primarily of net borrowings of \$89.1 million and proceeds from exercise of options of \$1.4 million, less dividends paid to our common stockholders of \$4.3 million, cash used to repurchase common stock of \$2.4 million and deferred financing fees paid of \$2.7 million. This compares to cash used in financing activities in 2012 of \$2.7 million comprised of \$2.5 million dividends paid to our common stockholders, and cash paid for repurchase of common stock of \$0.5 million, offset by \$0.3 million proceeds from exercise of stock options.

Our dividend policy and the payment of cash dividends under that policy are subject to the Board of Directors' continuing determination that the dividend policy and the declaration of dividends are in the best interest of the Company's shareholders. Future dividends and the dividend policy may be changed or cancelled at the Company's discretion at any time. Payment of dividends is also subject to the continuing compliance with our financial covenants under our Credit Facility. During 2014 and 2013, our Board declared the following quarterly cash dividends on our common stock:

Dividend Per Share	Record Date	Payment Date
\$0.060	December 19, 2014	December 30, 2014
\$0.060	September 16, 2014	September 30, 2014
\$0.060	June 13, 2014	June 27, 2014
\$0.050	March 19, 2014	March 31, 2014
\$0.050	December 17, 2013	December 31, 2013
\$0.050	September 16, 2013	September 30, 2013
\$0.050	June 14, 2013	June 28, 2013
\$0.050	March 18, 2013	March 28, 2013

On March 4, 2015, our Board of Directors declared a quarterly dividend of \$0.066 per share. The dividend will be paid on March 31, 2015 to all shareholders of record at the close of business on March 19, 2015.

Effective August 13, 2012, the Company implemented a Dividend Reinvestment Plan (the "Plan"), under which the Company may issue up to 750,000 shares of common stock. The Plan provides a way for interested shareholders to increase their holdings in our common stock. Participation in the Plan is strictly voluntary and is open only to existing shareholders. The Company may periodically issue new shares of common stock under the Plan.

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, when possible, utilizing extended payment terms from material suppliers, 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.

In connection with the Met-Pro and Emtrol acquisitions, we took on significant additional debt to fund the transaction. See the description of the Credit Facility above. We believe that cash flows from operating activities, together with our existing cash and borrowings available under our Credit Facility, will be sufficient for at least the next twelve months to fund our current anticipated uses of cash. After that, our ability to fund these expected uses of cash and to comply with the financial covenants under our debt agreements will depend on the results of future operations, performance and cash flow. Our ability to fund these expected uses from the results of future operations will be subject to prevailing economic conditions and to financial, business, regulatory, legislative and other factors, many of which are beyond our control.

Table of Contents**Employee Benefit Obligations**

Based on current assumptions, estimated contributions of \$1.4 million may be required in 2015 for the pension plans and \$25,000 for the retiree healthcare plan. The amount and timing of required contributions to the pension trust depends on future investment performance of the pension funds and interest rate movements, among other things and, accordingly, we cannot reasonably estimate actual required payments. Currently, our pension plans are under-funded. As a result, absent major increases in long-term interest rates, above average returns on pension assets and/or changes in legislated funding requirements, we will be required to make contributions to our pension trust of varying amounts in the long-term.

Off Balance Sheet Arrangements

None.

Contractual Obligations

The following table summarizes the Company's contractual obligations as of December 31, 2014:

	Total	Payments Due by Period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 114,224	\$ 8,887	\$ 21,023	\$ 84,314	\$
Interest expense (estimated)	8,621	2,459	4,274	1,888	
Unconditional purchase obligations (1)	43,424	43,424			
Pension and post retirement obligations (2)	2,836	1,360	562	914	
Operating lease obligations	14,258	3,568	4,950	2,354	3,386
Contingent liabilities related to acquisitions	22,695	8,214	14,481		
Totals	\$ 206,058	\$ 67,912	\$ 45,290	\$ 89,470	\$ 3,386

- (1) Primarily consists of purchase obligations for various costs associated with uncompleted sales contracts.
- (2) Future expected obligations under the Company's pension plans are included in the contractual cash obligations table above, up to, but not more than five years. The Company's pension plan policy allows it to fund an amount, which could be in excess of the pension cost expensed, subject to the limitations imposed by current tax regulations. The Company projects that it will contribute \$1.4 million to its pension plans during the fiscal year ended December 31, 2015.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with GAAP. The preparation of these financial statements requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We believe that, of our significant accounting policies, the following accounting policies involve a higher degree of judgments, estimates, and complexity.

Use of Estimates

Preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses and related contingent liabilities. On an on-going basis, we evaluate our estimates, including those related to revenues, bad debts, share based compensation, income taxes, goodwill and intangible asset valuation, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Table of Contents*Revenue Recognition*

A substantial portion of our revenue is derived from contracts, which are accounted for under the percentage of completion method of accounting. Percentage completion is measured by the percentage of contract costs incurred to date compared with estimated total contract costs to be the best available measure of progress on these contracts. Contract costs include direct material and labor costs related to contract performance. This method requires a higher degree of management judgment and use of estimates than other revenue recognition methods. The judgments and estimates involved include management's ability to accurately estimate the contracts' percentage of completion and the reasonableness of the estimated costs to complete, among other factors, at each financial reporting period. In addition, certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability. Changes to job performance, job conditions, and estimated profitability may result in revisions to contract revenue and costs and are recognized in the period in which the revisions are made. Revenues are also recognized on a completed contract basis, when risk and title passes to the customer, which is generally upon shipment of product.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. No provision for estimated losses on uncompleted contracts was needed at December 31, 2014, 2013 and 2012.

Inventories

The Company's inventories are primarily valued at the lower of cost or market using the first-in, first-out inventory costing method as well as the last-in, first-out method. Approximately 12% of our inventory is valued on the last-in, first-out method. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

Property, plant and equipment

Property, plant and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Depreciation and amortization are provided using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives (buildings and improvements generally 10 to 40 years; machinery and equipment generally two to 15 years).

Intangible assets

Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents, technology, customer lists, tradenames, non-compete agreements and employment contracts. Finite life intangible assets are amortized on a straight line or accelerated basis over their estimated useful lives of 17 years for patents, seven to 10 years for technology, five to 20 years for customer lists, 10 years for tradenames, five years for non-compete agreements and three years for employment contracts.

Long-lived assets

Property, plant and equipment and finite life intangible assets are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, our impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of our assets and liabilities.

This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. We conduct annual reviews for idle and underutilized equipment, and review business plans for possible impairment. Impairment occurs when the

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carrying value of the assets exceeds the future undiscounted cash flows expected to be earned by the use of the asset or asset group. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset or asset group and an impairment charge is recorded for the difference between the carrying value and the estimated fair value.

Additionally, we also evaluate the remaining useful life each reporting period to determine whether events and circumstances warrant a revision to the remaining period of depreciation or amortization. If the estimate of a long lived asset's remaining useful life is changed, the remaining carrying amount of the asset is amortized prospectively over that revised remaining useful life.

We complete an annual (or more often if circumstances require) impairment assessment of indefinite life intangible assets. The Company adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2012-02, *Intangibles Goodwill and Other Testing Indefinite-Lived Intangible Assets for Impairment (Topic 350)* (ASU). ASU 2012-02 provides an option to first qualitatively assess 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 an asset is less than its carrying amount. Absent a qualitative determination that the fair value of a particular asset is more likely than not to be less than its carrying value, we do not need to proceed to the traditional estimated fair value test for that asset. If this qualitative assessment indicates a more likely than not potential that the asset may be impaired, the estimated fair value is calculated by the relief from royalty method. If the estimated fair value of an asset is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its calculated implied fair value.

Goodwill

We complete an annual (or more often if circumstances require) impairment assessment of goodwill on a reporting unit level, at or below the operating segment level. The Company applies the provisions of FASB ASU No. 2011-08, *Intangibles Goodwill and Other (Topic 350)* (ASU 2011-08). ASU 2011-08 provides an option to first qualitatively assess 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 is less than its carrying amount. Absent a qualitative determination that the fair value of a particular reporting unit is more likely than not to be less than its carrying value, the Company does not need to proceed to the traditional two-step goodwill test for that reporting unit. If this qualitative assessment indicates a more likely than not potential that the asset may be impaired, the estimated fair value is calculated by the discounted cash flow method. If the estimated fair value of a reporting unit is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value of the goodwill exceeds its calculated implied fair value.

Income Taxes

Income taxes are determined using the asset and liability method of accounting for income taxes in accordance with FASB ASC Topic 740,

Income Taxes . Under ASC Topic 740, tax expense includes U.S. and international income taxes plus the provision for U.S. taxes on undistributed earnings of international subsidiaries not deemed to be indefinitely reinvested. Tax credits and other incentives reduce tax expense in the year the credits are claimed.

Deferred income taxes are provided using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases, and are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because of management's intent to indefinitely reinvest such earnings. At December 31, 2014, the aggregate undistributed earnings of the foreign subsidiaries amounted to \$3.9 million. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable.

In addition, from time to time, management must assess the need to accrue or disclose uncertain tax positions for proposed potential adjustments from various federal, state and foreign tax authorities who regularly audit the Company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions, including many foreign jurisdictions. The accounting guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company records the related interest expense and penalties, if any, as tax expense in the tax provision.

Pension and Postretirement Benefit Plan Assumptions

We sponsor pension plans for certain employees. We also sponsor a postretirement healthcare benefit plan for certain office employees retiring before January 1, 1990. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to these plans. These factors include key assumptions, such as a discount rate and expected return on plan assets. In addition, our actuarial consultants use subjective factors such as withdrawal and mortality rates to estimate these liabilities. The actuarial assumptions we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension or postretirement healthcare benefit expenses we have recorded or may record in the future. An analysis for the expense associated with our pension plan is difficult due to the variety of assumptions utilized. For example, one of the significant assumptions used to determine projected benefit obligation is the discount rate. At December 31, 2014, a 25 basis point change in the discount rate would change the projected benefit obligation by approximately \$1.3 million and the annual pension expense by approximately \$7,000. Additionally, a 25 basis point change in the expected return on plan assets would change the pension expense by approximately \$67,000.

Stock Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments and recognize this cost over the period during which an employee is required to provide the services, based on the fair value of the award at the date of the grant as determined by the Black-Scholes valuation method.

Other significant accounting policies

Other significant accounting policies, not involving the same level of uncertainties as those discussed above, are nevertheless important to an understanding of our financial statements. See Note 1 to the consolidated financial statements, Summary of Significant Accounting Policies, which discusses accounting policies that must be selected by us when there are acceptable alternatives.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue From Contracts With Customers*. ASU 2014-09 supersedes nearly all existing revenue recognition under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services using a defined five step process. More judgment and estimates may be required to achieve this principle than under existing GAAP. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, including interim periods therein, using either of the following transition methods: (i) a full retrospective

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approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption which includes additional footnote disclosures. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company's consolidated financial statements and has not yet determined the method of adoption.

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 amends the definition of a discontinued operation and requires entities to disclose additional information about disposal transactions that do not meet the discontinued-operations criteria. The FASB issued the ASU to provide more decision-useful information and to elevate the threshold for a disposal transaction to qualify as a discontinued operation. ASU 2014-08 is effective for disposals or classifications as held for sale of components of an entity that occur within annual periods beginning on or after December 15, 2014, including interim periods within those years. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

Item 7A. 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 total long-term debt and current maturities of long-term debt at December 31, 2014 was \$112.4 million. 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 December 31, 2014. 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 December 31, 2014 is \$0.3 million on an annual basis.

The Company has wholly-owned subsidiaries located in the Netherlands, Canada, the People's Republic of China, Mexico, Great Britain, 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. On March 31, 2014, Aarding entered into a one-month foreign exchange forward contract to manage exposure to foreign currency fluctuations on a U.S. dollar-denominated transaction totaling \$5.5 million. The contract expired prior to December 31, 2014 and there are no such contracts outstanding as of December 31, 2014. Due to the fact that 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 the year ending December 31, 2015.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of CECO Environmental Corp. and subsidiaries for the years ended December 31, 2014, 2013 and 2012 and other data are included in this report following the signature page of this report and incorporated into this Item 8 by reference:

<u>Cover Page</u>	F-1
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Income</u>	F-4
<u>Consolidated Statements of Comprehensive Income</u>	F-5
<u>Consolidated Statements of Shareholders' Equity</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-7 to F-8
<u>Notes to Consolidated Financial Statements for the Years Ended December 31, 2014, 2013 and 2012</u>	F-9 to F-47

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
(a) Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rule