

CECO ENVIRONMENTAL CORP
Form 10-K/A
April 15, 2005

U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 1)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the fiscal year ended December 31, 2003

or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File No. 0-7099

CECO ENVIRONMENTAL CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

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

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

45209
(Zip Code)

Registrant's Telephone Number, Including Area Code: (513) 458-2600

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

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

Common Stock, \$0.01 par value per share

(Title of Class)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Issuer's Revenues for its most recent fiscal year: \$68,159,000

Aggregate market value of voting stock held by non-affiliates of Registrant (based on the last sale price on June 30, 2003): \$10,614,584

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: 9,984,974 shares of common stock, par value \$0.01 per share, as of March 10, 2004.

Documents Incorporated by Reference

The Exhibit Index incorporates several documents by reference as indicated therein.

Explanatory Note

This Form 10-K/A amends our Annual Report on Form 10-K, filed on March 29, 2004 (the Original Form 10-K) to reflect the restatement of our consolidated financial statements for the years ended December 31, 2003, 2002 and 2001.

On February 8, 2005, the Company filed a Form 8-K with the Securities and Exchange Commission disclosing that the Company's management determined that a spreadsheet error existed affecting the manner in which revenue was calculated and subsequently recognized on small projects. While revenue recognized under the percentage of completion calculation on individual large projects was accurate, due to this spreadsheet error, the accumulation of revenues for small projects was incorrect. This error occurred from 2000 to 2003 and the three quarters reported during 2004.

This error affected the following previously reported amounts: costs and estimated earnings in excess of billings on uncompleted contracts, deferred income tax liability, and retained earnings in our consolidated balance sheets, and net sales, income tax (benefit) provision, and net loss in our consolidated statements of operations. This amendment restates in its entirety each item of the Original Form 10-K that has been changed to reflect the restatement described in Note 18 to the financial statements. These include Part II, Item 6 Selected Financial Data, Item 7 Management's Discussion and Analysis, and Item 8 Financial Statements and Supplementary Data and Item 9(a) Controls and Procedures.

In addition, the Company detected an error in the classification of amortization on deferred financing costs as depreciation and amortization expense rather than interest expense. Amounts relating to this error in classification between depreciation and amortization, income from operations and interest expense are also being corrected in connection with this filing as discussed in Note 18.

We have included in this Report the full text of all other Items as filed in the Original Form 10-K without changes, except for certain expanded disclosures as requested by the U.S. Securities and Exchange Commission. In order to preserve the nature and character of the disclosure set forth in those other items as originally filed, we have not modified or updated the disclosures in this Report except as stated in the paragraph above.

Except as stated above, this Report speaks only as of the date of the Original Form 10-K. Except as specified above, this filing does not reflect any events occurring after March 29, 2004.

PART I

Item 1. Business

General

CECO Environmental Corp. (CECO) was incorporated in New York State in 1966 and reincorporated in Delaware in January 2002. We operate as a provider of air pollution control products and services.

Unless the context indicates otherwise, the terms Company , we , us , and our , as used herein refers to CECO Environmental Corp. (the Registrant) and its subsidiaries.

We market our products and services under the following trade names: Kirk & Blum , kbd/Technic , CECO Filters , Busch International , CECO Abatement Systems , and K&B Duct .

Beginning in fiscal year 1999 and continuing into 2004, we transitioned from a products-based company to a solutions-based provider. Several accomplishments that helped us with this transformation include:

We made key operating management changes within our business.

We implemented a target sales approach with Centers of Excellence industry teams to identify and capture profitable sales and cross-marketing opportunities throughout our organization.

We put into action operating plans to help us realize synergies created after the acquisition of Kirk & Blum.

We completed the consolidation of our administrative and finance functions to Cincinnati, Ohio.

We sold the assets of Air Purator Corporation (APC) and the assets of Busch Martec, as those divisions did not serve the vision for our future operations.

We launched the CECO Abatement product line in May 2001 to leverage existing fabrication and installation resources for thermal oxidation technology by adding higher-level engineering design capabilities.

We established the K&B Duct product line to complement an existing product line.

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We realigned marketing into a single centralized company-wide function.

We placed the responsibility for resource management of our engineering and design personnel under a single manager.

We continue to emphasize the recognized CECO brand names (Kirk & Blum, kbd/Technic, CECO Filters, Busch International, CECO Abatement Systems and K&B Duct) to align with sales channels .

We added CECO Filters India Pvt. Ltd. in February 2004 to penetrate the Asian market under the CECO Filters trade name.

The transition was initiated by the acquisition of Kirk & Blum and kbd/Technic on December 7, 1999, which fundamentally changed the size of our business and focus. The addition of Kirk & Blum, 89.2% of whose net sales arose from the fabrication and installation of industrial ventilation, dust, fume and mist control systems, added a new dimension to our product lines that broadened our coverage of air pollution control technology. In 1999, Kirk & Blum and kbd/Technic had combined revenue of \$70.4 million (unaudited), while the revenue of CECO and its subsidiaries (other than Kirk & Blum and kbd/Technic) for that period was \$17.5 million. Prior to December 1999, CECO Filters was the Company's primary operating subsidiary. Its primary business was acting as an equipment manufacturer and seller. Specifically, its major products were industrial air filters known as fiber bed mist eliminators.

Products and Services

As a result of the acquisition of the Kirk & Blum Manufacturing Company in December 1999, its facilities and personnel serve as the backbone to our operations due to the production capacity acquired and the depth and breadth of personnel employed.

We are recognized as a leading provider in the air pollution control industry. We focus on engineering, designing, building, and installing systems that capture, clean and destroy airborne contaminants from industrial facilities as well as equipment that control emissions from such facilities. We market these turnkey pollution control services primarily under the Kirk & Blum trade name. In October 2002, Engineering News Record ranked Kirk & Blum as the largest specialty sheet metal contractor in the country in 2001. With a diversified base of more than 1,500 active customers, we provide services to a myriad of industries including aerospace, brick, cement, ceramics, metalworking, printing, paper, food, foundries, metal plating, woodworking, chemicals, tobacco, glass, automotive, and pharmaceuticals.

Increasingly stringent air quality standards and the need for improved industrial workplace environments are chief among the factors that drive our business. Some of the underlying federal legislation that affects air quality standards is the Clean Air Act of 1970 and the Occupational Safety and Health Act of 1970. The Environmental Protection Agency (EPA) and Occupational Safety and Health Administrative Agency (OSHA), as well as other state and local agencies, administer air quality standards. Industrial air quality has been improving through EPA mandated Maximum Achievable Control Technology (MACT) standards and OSHA established Threshold Limit Values (TLV) for more than 1,000 industrial contaminants. Bio-terrorism threats have also increased awareness for improved industrial workplace air quality. Any of these factors, whether individually or collectively, tend to cause increases in industrial capital spending that are not directly impacted by general economic conditions, expansion or capacity increases. Favorable

conditions in the economy generally lead to plant expansions and the construction of new industrial sites. Economic expansion provides us with the potential to increase and accelerate levels of growth. However, in a weak economy customers tend to (a) lengthen the time from their initial inquiry to the purchase order or (b) defer purchases.

Our selling strategy is to provide a solutions-based approach for controlling industrial airborne contaminants by being a single source provider of industrial ventilation and air-pollution control products and services. We believe this provides a discernable 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. This enables us to leverage existing business with selective alliances of suppliers and application specific engineering expertise. We, therefore, compete with our competitors by providing competitive pricing with turnkey solutions.

Our operating framework has developed into a hub and spoke business model whereby executive management, finance, administrative and marketing staff serve as the hub and sales channels serve as spokes. This philosophy is used throughout our operations.

We have four principal product lines, which are marketed under the Kirk & Blum trade name, all evolving from the original air pollution systems business (contracting, fabricating, parts and clamp-together duct systems). The largest line, with seven strategic locations throughout the Midwest and Southeast United States, is air pollution control systems and industrial ventilation. The product lines primarily sold on a turnkey basis include oil mist collection, dust collection, industrial exhaust, chip collection, industrial baghouses, make-up air, as well as automotive spray booth systems, industrial and process piping, and other industrial sheet metal work. We provide a cost effective engineered solution to in-plant process problems in order to control airborne pollutants. Representative customers include General Electric, General Motors, Procter & Gamble, Ingersoll Milling Machine, Lafarge, Corning, RR Donnelley, Toyota, Matsushita, and Alcoa. North America is the principal market served. We have, at times, supplied equipment and engineering services in certain overseas markets.

We provide custom metal fabrication services at our Cincinnati, Ohio and Lexington, Kentucky locations. These facilities are used to fabricate parts, subassemblies, and customized products for air pollution and non-air pollution applications from sheet, plate, and structurals and perform the majority of the fabrication for CECO Filters, Busch International, and CECO Abatement. We have developed significant expertise in custom sheet metal fabrication. As a result, these facilities give us flexible production capacity to meet project schedules and cost targets in air pollution control projects while generating additional fabrication revenue in support of non-air pollution control industries. Kirk & Blum is the custom fabricator of product components for many companies located in the Midwest choosing to outsource their manufacturing. Generally, we will market custom fabrication services under a long-term sales agreement. Representative customers include Siemens and General Electric.

We also market under the Kirk & Blum trade name component parts for industrial air systems to contractors, distributors and dealers throughout the United States. In 2001, we started the K&B Duct product line to provide a cost effective alternative to traditional duct sold under the

Kirk & Blum trade name. Primary users for this product line are those that generate dry particulate such as furniture manufactures, metal fabrication, and cement and paper producers.

Our engineering and design services are also marketed under the kbd/Technic trade name to provide engineering services directly to customers related to air system testing and balancing, source emission testing, and industrial ventilation engineering. Representative customers include General Motors, Ford, Toyota, Quaker Oats, Nissan and Delphi.

Our filtering equipment is also marketed under the CECO Filters trade name directly to customers. The principal functions of the filters are (a) the removal of damaging mists and particles (e.g., in process operations that could cause downstream corrosion and damage to equipment), (b) the removal of pollutants and (c) the recovery of valuable materials for reuse. The filters are also used to collect fine insoluble particulates. Major users are chemical and electronics industries, manufacturers of various acid, vegetable and animal based cooking oils, textile products, alkalis, chlorine, papers, asphalt and pharmaceutical products. In February 2004, we established CECO Filters India Pvt. Ltd. in Chennai, India to market filtering equipment under the CECO Filters trade name to extend our penetration into Asia.

We market under the Busch International trade name custom engineered air handling systems used to control fume and oil mist emissions. We also market a heat and transfer device under the JETSTAR trademark. This equipment is globally marketed to the steel and aluminum industries.

We added the CECO Abatement Systems trade name in 2001 to extend our penetration into the thermal oxidation market. We market systems that eliminate toxic emissions fumes and volatile organic compounds from large-scale industrial processes.

When we undertake large jobs, a working capital objective is to make these projects self-funding. We try to achieve this by (a) progress billing contracts, when possible, (b) utilizing extended payment terms from material suppliers, and (c) 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. Inventory remains relatively constant from year to year. Accordingly, changes in inventory do not constitute a significant part of our investment in working capital.

OTHER INFORMATION

Kirk & Blum Acquisition

The financing for the Kirk & Blum transaction was provided by a bank loan facility in the original amount of \$25 million in term loans and a \$10 million revolving credit facility. The bank loan facility was provided by PNC Bank, N.A., Fifth Third Bank and Bank One, N.A. (the Bank Facility). In connection with these loans, the banks providing the Bank Facility received a lien on substantially all of our assets.

The bank facility has been amended through eight amendments to, among other things, reduce minimum coverage under several financial covenants. Additional fees have been paid and prepayments of principal on the Bank Facility have been made in connection with these amendments.

In addition, as a condition to obtaining the Bank Facility, we placed \$5 million of subordinated debt. The proceeds of the bank loans and the additional \$5 million of subordinated debt were used to pay the purchase prices for Kirk & Blum and kbd/Technic, and to pay expenses incurred in connection with the acquisitions, to refinance existing indebtedness and for working capital purposes.

The \$5 million subordinated debt that was provided to us in connection with the Kirk & Blum transaction included investments of \$4 million by Can-Med Technology, Inc. d/b/a Green Diamond Oil Corp. (Green Diamond), \$500,000 by ICS Trustee Services, Ltd. and \$500,000 by Harvey Sandler. These investors were also issued warrants to purchase 1,000,000 shares of Common Stock in the aggregate (the Subdebt Warrants) at a price of \$2.25 per share, the fair market value of the shares at date of issuance. The fair value of the warrants was determined to be \$1,847,000 at the date of issuance and the subordinated debt was discounted by such amount. The discount is being amortized as a component of interest expense over the life of the subordinated debt which coincides with the bank's term loan maturity date of May 2006. The amortization of the discount was approximately \$288,000 for each of the years ended December 31, 2003, 2002 and 2001. The effective annualized interest rate on the subordinated debt obligations is 17.75%, after taking into account the value of the warrants. ICS Trustee Services, Ltd. and Harvey Sandler are not our affiliates. Green Diamond Oil Corp. is owned 50.1% by Icarus Investment Corp., a corporation owned 50% by Phillip DeZwirek, the Chairman of the Board of Directors and Chief Executive Officer of the Company and a major stockholder, and 50% by Jason Louis DeZwirek, Phillip DeZwirek's son, a director and Secretary of the Company and a major stockholder of the Company. The promissory notes, which were issued to evidence the subordinated debt, provide that they accrue interest at the rate of 12% per annum, payable semi-annually. Payments of interest are subject to the subordination agreement with the banks providing the financing referred to above.

Equity Transactions

In December 2001, the Subdebt Warrants were exercised for 1,000,000 shares, and we received gross proceeds of \$2.3 million from such exercise.

On December 31, 2001, we completed a \$2,120,000 equity raise consisting of the sale of 706,668 shares of our common stock, at a price of \$3.00 per share, and the issuance of warrants (Warrants) to purchase 353,334 shares of our common stock (collectively, with the 706,668 shares, the Investor Shares) at an initial exercise price of \$3.60 per share, to a group of accredited investors (the Investors) led by Crestview Capital Fund, L.P., a Chicago-based private investment fund. We used these proceeds along with the proceeds received from the exercise of the Subdebt Warrants, to pay down the Bank Facility. As part of our contractual obligations to the Investors, we registered the Investor Shares on a Form S-1, which became effective on May 15, 2002. The shares that were issued upon exercise of the Subdebt Warrants and the 14,000 shares underlying warrants that were issued as a finder's fee in connection with the sale of shares to the Investors were also included in the Form S-1, for a total of 2,074,002 shares. On April 30, 2003 and May 2, 2003, we filed a Post-Effective Amendment on Form S-3 to Form S-1/A with respect to such shares. Under the terms of the Subscription Agreement, we are no longer required to keep the registration statement effective.

Under the Subscription Agreement CECO entered into with the Investors, we were required to issue to such Investors additional shares based on an earnings formula (as set forth in the Subscription Agreement executed in connection with the issuance of the Investor Shares) for fiscal year 2002. Based on the results of this formula, 382,237 additional shares were issued to the Investors in April 2003 at no cost to the investors. The issuance of the shares was charged to additional paid in capital.

Asset Sales

In December 2001, we sold the fixed assets and inventory of Air Purator Corp. (APC) and received notes totaling \$475,000. The notes, which were due primarily in March 2002, were secured by the assets of APC. At December 31, 2001, we deferred the gain on sale of \$250,000 until collection was reasonably assured. However, the purchaser defaulted on the loan, and we commenced foreclosure proceedings in May 2002. We subsequently sold the assets to the former general manager of APC on July 31, 2002 and recognized a gain on sale during the third and fourth quarters of 2002 totaling \$250,000. The net assets and operations of APC were not material to our consolidated operations.

We sold the assets of Busch Martec during 2002 because those assets no longer served our vision for future operations. Busch Martec's assets are insignificant to the consolidated financial statements.

APC was engaged in the manufacture of non-woven specialty needled fiberglass fabrics and Busch MARTEC acted as a manufacturer's representative with manufacturers of air and fluid products. We no longer engage in those activities.

Due to our increased efficiencies and subsequent need for less space, we sold the property we owned in Conshohocken, Pennsylvania in May 2003 and entered into a lease for approximately half of the property with the purchaser. The net proceeds from the sale of the property were used to reduce our outstanding debt. We recognized net savings, as it was cost effective to sell the property and lease back half of the space.

Customers

No customer comprised 10% or more of our net revenues for 2003. We do not depend upon any one or few customers.

Suppliers

We purchase our angle iron and sheet plate products from a variety of sources. When possible, we secure these materials from steel mills. Other materials are purchased from a variety of steel service centers. We do not anticipate any shortages in the near future.

We purchase a majority of our fans from New York Blower and a majority of our louvers and dampers from American Warming.

We purchase chemical grade fiberglass as needed from Johns Manville Corporation, which we believe is the only domestic supplier of such fiberglass. However, there are foreign suppliers of chemical grade fiberglass, and, based on current conditions, we believe that we could obtain such material from foreign suppliers on acceptable terms.

We have a good relationship with all such suppliers and do not anticipate any difficulty in continuing to receive such items on terms acceptable to us. 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.

Backlog

Backlog represented by firm purchase orders from our customers was approximately \$7.3 million and \$14.6 million at the end of the fiscal years 2003 and 2002, respectively. 2002 backlog was completed in 2003. The 2003 backlog is expected to be completed in 2004.

Competition and Marketing

We believe that there are no direct national competitors nor any singly dominant companies in the industrial ventilation and air pollution control niche markets in which we participate. These markets are fragmented with numerous smaller and regional participants. As a result, competition varies widely by region and industry. However, sales of products and services under some of our trade names face competition with companies that have greater financial resources and that have more extensive marketing and advertising.

We sell and market our products and services with our own direct workforce in conjunction with outside sales representatives in North America, Asia, Europe and South America.

Government Regulations

We have not been materially negatively impacted by existing government regulation, nor are we aware of any probable government regulation that would materially affect our operations. Our costs in complying with environmental laws have been negligible.

Research and Development

During 2003, 2002, and 2001, costs expended in research and development have not been significant. Such costs are generally included as factors in determining pricing.

Employees

We had 427 full-time employees and 5 part-time employees as of December 31, 2003. The facilities acquired with the acquisition of Kirk & Blum are unionized except for selling, administrative and operating management personnel. None of our other employees are subject to a collective bargaining agreement. In total, approximately 300 employees are represented by international or independent labor unions under various union contracts that expire from March 2005 to October 2008. We consider our relationship with our employees to be satisfactory.

Our operations are largely dependent on Richard J. Blum and certain other key executives. The loss of Mr. Blum or any of our key executives could have a material adverse effect upon our operations.

Intellectual Property

There is no assurance that measurable revenues will accrue to us as a result of our patents or licenses.

We purchased, among other assets, three patents from Busch Co. in 1997 that relate to the JET*STAR systems. The Patent and Trademark Office (PTO) records do not currently reflect such transfer. We plan on attempting to obtain the proper documentation to file with the PTO. JET*STAR™ systems constituted \$0.3 million of revenues in 2003.

We hold a US patent for our N-SERT^R and X-SERT^R prefilters and for our Cantenary Grid scrubber. We also hold a US patent for a fluoropolymer fiberbed for a mist eliminator, a US patent for a fluted filter, and a US patent for a multiple in-duct filter system. Such patents combined do not have significant value to our overall performance. We were assigned the patent to a multiple throat narrow gap venturi scrubber, which patent may have significant value. We plan to attempt to file the proper documentation with the PTO to reflect proper ownership. Current PTO records indicate that the party from which we obtained such patent owns such patent.

Affiliated Stock Purchase

In September 2002, the Registrant purchased 31,536,440 shares of CECO Filters, Inc. (Filters) in consideration for the cancellation of Filters' debt of \$3,044,423 owed to CECO Group, Inc. (Group) and \$109,221 owed to Registrant. Registrant then immediately assigned such shares to Group. Group currently owns approximately 99% of the shares of Filters.

Financial Information about Geographic Areas

For 2003, 2002 and 2001, sales to customers outside the United States, including export sales, accounted for approximately 1%, 2% and 2%, respectively, of consolidated net sales. The largest portion of these sales was destined for Canada. Generally, sales are denominated in U.S. dollars. We do not currently maintain long-lived assets outside the United States.

RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K/A, the factors listed below should be considered in evaluating our business and prospects. This Annual Report on Form 10-K/A contains a number of forward-looking statements that reflect our current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below and elsewhere herein, that could cause actual results to differ materially from historical results or those anticipated. In this report, the words anticipates, believes, expects, intends, future and similar expressions identify

forward-looking statements. Readers are cautioned to consider the specific factors described below and not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date of this Annual Report on Form 10-K/A. We assume no obligation to publicly update any forward-looking statements.

Operating at a Loss

We have incurred net losses for our past 5 fiscal years. There are no assurances that we will achieve or sustain profitability.

Competition

The industries in which we compete are all highly competitive. We compete against a number of local, regional and national contractors and manufacturers in each of our business segments, many of which have been in existence longer than us and some of which have substantially greater financial resources than we do. We believe new entrants that are large corporations may be able to compete with the Company on the basis of price and as a result may have a material adverse affect on the results of our operations. In addition, there can be no assurance that other companies will not develop new or enhanced products that are either more effective than ours or would render our products non-competitive or obsolete.

Dependence on Key Personnel

We are highly dependent on the experience of our management in the continuing development of operations. The loss of the services of certain of these individuals, particularly Richard J. Blum, President of CECO, would have a material adverse effect on our business. Our future success will depend in part on our ability to attract and retain qualified personnel to manage our development and future growth. There can be no assurance that we will be successful in attracting and retaining such personnel. The failure to recruit additional key personnel could have a material adverse effect on our business, financial condition and results of operations.

Continued Control by Management

As of the date of this Annual Report on Form 10-K/A, management of the Company beneficially owns approximately 55% of the Company's outstanding common stock, assuming the exercise of currently exercisable warrants and options held by management. Our stockholders do not have the right to cumulative voting in the election of directors. Accordingly, present stockholders will be in a position to exert control over our business and operations, including the election of our directors.

Dependence Upon 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. We purchase all of our chemical grade fiberglass from one domestic supplier, which we believe is the only domestic supplier of such fiberglass, and certain specialty items from only two domestic

suppliers. These items also can be purchased from foreign suppliers. Failure by our third-party suppliers to meet our requirements could have a material adverse effect on us. There can be no assurance 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 manufacturers or 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.

Patents

We hold various patents and licenses relating to certain of our products. There can be no assurance as to the breadth or degree of protection that existing or future patents, if any, may afford us, that our patents will be upheld, if challenged, or that competitors will not develop similar or superior methods or products outside the protection of any patent issued to us. Although we believe that our products do not and will 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. There can be no assurance 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. In addition, there can be no assurance that we will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violations action which may be brought against us. 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.

New Product Development

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 or new products that incorporate technological advances, meet customer requirements and respond to products developed by our competition. There can be no assurance 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.

Technological and Regulatory Change

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 and services. Changes in legislative, regulatory or industrial requirements may render certain of our filtration products and processes obsolete. Acceptance of new products 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

develop and introduce new and enhanced products successfully on a timely basis will be a significant factor in our ability to grow and to remain competitive. There can be no assurance 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 will not become obsolete.

Leverage

We are highly leveraged. We currently have loan facilities, including a term loan and line of credit, with PNC Bank, National Association; Bank One, N.A.; and Fifth Third Bank. The terms of such loan facilities have been revised through eight separate amendments in order to alter some of the financial covenants made by us to prevent CECO from being in default of such covenants.

Our cash interest costs relate primarily to our revolving credit line and term loans; interest payments on the subordinated debt are not permitted under the credit agreement. Interest accrued on these subordinated notes was \$1,218,000 at December 31, 2003 and \$600,000 at December 31, 2002. Such interest will be paid in the future upon agreement with the financial institution. Interest is charged on the revolving credit line at the bank's prime rate plus 5 percentage points. A 1% increase in the average interest rate would increase cash interest cost by approximately \$60,000 if borrowings remain constant in 2004. There are no scheduled increases in the fixed or variable rates on the credit facility, however; an increase or decrease in the prime rate would cause the Company's future interest expense and cash flows to increase or decrease proportionately.

Our Common Stock Has Been Relatively Thinly Traded and We Cannot Predict the Extent to Which a Trading Market Will Develop

Our common stock trades on the Nasdaq SmallCap Market. Our common stock is thinly traded compared to larger, more widely known companies. Thinly traded common stock can be more volatile than common stock trading in an active public market.

Future Sales by Our Stockholders May Adversely Affect Our Stock Price and Our Ability to Raise Funds in New Stock Offerings

We registered up to 2,074,002 shares of common stock which the holders intend to sell in the public market. To our knowledge, approximately 302,221 shares of common stock have been sold under the registration statement through March 15, 2004. Additional sales may cause our stock price to decline. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. In addition, Phillip DeZwirek has warrants to purchase 2,250,000 shares of CECO common stock, which shares we are obligated to register upon demand. Should Mr. DeZwirek elect to sell such shares, such sales may cause our stock price to decline.

Our Financial Performance Is Sensitive to Changes in Overall Economic Conditions

A general slowdown in the United States economy may adversely affect the spending of our customers, which would likely result in lower net sales than expected on a quarterly or annual basis. Future economic conditions, such as business conditions, fuel and energy costs, interest rates, and tax rates, could also adversely affect our business by reducing customer spending.

International War and Possibility of Acts of Terrorism Could Adversely Impact Us

The involvement of the United States in the conflict in the Middle East or elsewhere or a significant act of terrorism on U.S. soil or elsewhere could have an adverse impact on us by, among other things, disrupting our information or distribution systems, causing dramatic increases in fuel prices thereby increasing the costs of doing business, or impeding the flow of imports or domestic products to us.

Item 2. Properties

Our principal operating offices are headquartered in Cincinnati, Ohio at a 236,178 square foot facility that we own.

We have an executive office in Toronto, Canada, at facilities maintained by affiliates of our Chief Executive Officer and Chairman of the Board and Secretary, who work at the Toronto office. We reimburse such affiliate \$5,000 per month for the use of the space and other office expenses.

We own a 33,000 square foot facility in Indianapolis, Indiana, a 35,000 square foot facility in Louisville, Kentucky and a 33,000 square foot facility in Lexington, Kentucky.

We lease the following facilities:

<u>Location</u>	<u>Square Footage</u>	<u>Annual Rent</u>	<u>Expiration</u>
Columbia, Tennessee	28,920	\$ 74,240	August 2005
Greensboro, North Carolina	30,000	\$ 120,000	August 2006
Defiance, Ohio	10,000	\$ 27,400	July 2004
Pittsburgh, Pennsylvania	4,000	\$ 48,000	May 2006
Chicago, Illinois	1,250	\$ 20,000	January 2006
Conshohocken, Pennsylvania	16,000	\$ 88,000	May 2006
Canton, Mississippi	7,500	\$ 16,800	October 2004

All properties owned are subject to collateral mortgages to secure the amounts owed under the Bank Facility.

We consider the properties adequate for their respective purposes.

Due to our increased efficiencies and subsequent need for less space, we sold the property we owned in Conshohocken, Pennsylvania in May 2003. We then entered into a lease for approximately half of the property's space with the purchaser. The net proceeds were used to reduce our outstanding debt.

In November 2003, we accepted an offer to sell our Cincinnati, Ohio property with a contemplated closing date of May 1, 2004, subject to various contingencies. If we consummate the sale, the net proceeds would be used to purchase new principal operating facilities and could also be used to reduce the amount of credit facilities. A February 2003 agreement to sell our Cincinnati property was terminated (with the same party) in September 2003 due to the potential purchaser failing to close in accordance with the terms of the agreement.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which our Company or any of our subsidiaries is a party or to which any of our property is subject.

Item 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of shareholders was held on June 11, 2003. At the meeting, directors Phillip DeZwirek, Jason Louis DeZwirek, Richard Blum, Josephine Grivas, Melvin Lazar and Donald Wright were elected, and the appointment of Deloitte & Touche LLP as our independent registered public accounting firm was ratified. The votes for the appointment of Deloitte & Touche LLP were 6,790,873 with 13,640 against and 10,176 abstentions.

The votes for and against the directors were as follows. There were no abstentions:

	<u>For</u>	<u>Against</u>
Phillip DeZwirek	6,760,447	54,242
Jason Louis DeZwirek	6,370,463	444,226
Richard Blum	6,760,447	54,242
Josephine Grivas	6,370,463	444,226
Melvin F. Lazar	6,760,447	54,242
Donald A. Wright	6,760,447	54,242

PART II**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters**

(a) Our common stock is traded in the over-the-counter market and is quoted in the Nasdaq SmallCap Market automated quotation system under the symbol CECE. The following table sets forth the range of bid prices for our common stock as reported in the Nasdaq system during the periods indicated, and represents prices between broker-dealers, which do not include retail mark-ups and mark-downs, or any commissions to the broker-dealers. The bid prices do not reflect prices in actual transactions.

CECO Common Stock Bids

<u>2002</u>	<u>High</u>	<u>Low</u>
1 st Quarter	\$ 3.95	\$ 3.02
2 nd Quarter	\$ 3.95	\$ 2.25
3 rd Quarter	\$ 2.40	\$ 1.75
4 th Quarter	\$ 2.18	\$ 1.75

CECO Common Stock Bids

<u>2003</u>	<u>High</u>	<u>Low</u>
1 st Quarter	\$ 1.95	\$ 1.65
2 nd Quarter	\$ 2.06	\$ 1.55
3 rd Quarter	\$ 2.10	\$ 1.59
4 th Quarter	\$ 2.00	\$ 1.50

2004

1 st Quarter (through March 12, 2004)	\$ 2.01	\$ 1.65
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(b) The approximate number of beneficial holders of our common stock as of March 14, 2004 was 1,400.

(c) We paid no dividends during the fiscal years ended December 31, 2003 or 2002. We do not expect to pay dividends in the foreseeable future. We are party to various loan documents, which prevent us from paying any dividends.

(d) Information relating to securities authorized for issuance under our equity compensation plans is set forth in Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters below in this Annual Report on Form 10-K/A.

Item 6. **Selected Financial Data**

The following table sets forth our selected financial information. The financial information for the years ended December 31, 2003, 2002 and 2001 has been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The financial information for the year ended December 31, 2000 and as of December 31, 1999 has been derived from our audited consolidated financial statements not included in this Annual Report. This historical selected financial information may not be indicative of our future performance and should be read in conjunction with the information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes included elsewhere in this Annual Report.

	Year Ended December 31,				
	2003 ⁷	2002 ^{1,7}	2001 ^{2,7}	2000 ^{3,7}	1999 ⁷
(in thousands, except per share amount)					
Statement of operations information:					
Net sales	\$ 68,159	\$ 78,575	\$ 90,809	\$ 89,141	\$ 22,414
Gross profit, excluding depreciation and amortization	13,011	15,590	18,347	17,421	8,387
Depreciation and amortization	1,245	1,479	2,100	1,986	729
Loss from continuing operations	(667)	(306)	(380)	(1,096)	(434)
Discontinued operations					(509)
Net loss	(667)	(306)	(380)	(1,096)	(943)
Basic and diluted net loss per share from continuing operations ⁵	(.07)	(.03)	(.05)	(.13)	(.05)
Basic and diluted net loss per share ⁵	(.07)	(.03)	(.05)	(.13)	(.11)
Weighted average shares outstanding (in thousands)					
Basic	9,852	9,582	7,899	8,195	8,485
Diluted	9,852	9,582	7,899	8,195	8,485
Supplemental financial data:					
Ratio of earnings to fixed charges ⁶	n/a	n/a	n/a	n/a	n/a
Deficiency ⁶	\$ (1,034)	\$ (641)	\$ (318)	\$ (1,708)	\$ (281)
Cash flows from operating activities	1,593	3,701	4,382	2,630	(846)

	At December 31,				
	2003 ⁷	2002 ^{1,7}	2001 ^{2,7}	2000 ^{3,7}	1999 ⁷
(dollars in thousands)					
Balance sheet information:					
Working capital	\$ 3,709	\$ 5,024	\$ 7,202	\$ 10,014	\$ 14,504
Total assets	41,154	45,514	52,169	54,278	56,448
Short-term debt	2,094	2,120	2,826	3,776	2,788
Long-term debt	13,388	16,202	18,588	26,101	28,290
Stockholders equity ⁴	8,030	8,706	9,299	6,602	9,038

¹ Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . As a result, we ceased amortization of goodwill and indefinite life intangibles, effective January 1, 2002, that totaled \$476,000 in fiscal year 2001.

² During December 2001, we received approximately \$4.4 million of gross proceeds from equity transactions.

³ During fiscal 2000, depreciation and goodwill increased by \$600,000 due to the acquisition of Kirk & Blum and kbd/Technic, whose results of operations are included with their respective dates of acquisition.

⁴ Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended.

⁵ Basic and diluted earnings (loss) per common share are calculated by dividing income (loss) by the weighted average number of common shares outstanding during the period.

⁶ For purposes of determining the ratio of earnings to fixed charges, earnings are defined as income (loss) from continuing operations before income taxes less minority interest plus fixed charges. Fixed charges consist of interest expense on all indebtedness and that portion of operating lease rental expense that is representative of the interest factor. Deficiency is the amount by which fixed charges exceeded earnings.

⁷ The selected financial data gives effect to the restatement described in note 18 to the consolidated financial statements.

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations

As discussed in note 18 to our consolidated financial statements, the accompanying 2003, 2002 and 2001 financial statements have been restated to reflect the impact of spreadsheet errors we detected affecting the manner in which we recognize revenue on smaller contracts and to appropriately reclassify amortization of deferred financing costs from depreciation and amortization expense to interest expense. The restatement had no impact on cash flows. The following discussion and analysis gives effect to the restatement.

Operations Overview

We operate as a provider of air-pollution control products and services marketed under the Kirk & Blum, CECO Filters, Busch International, CECO Abatement Systems, kbd/Technic and K&B Duct trade names. Our business is focused on engineering, designing, and building equipment, and installing systems that capture, clean and destroy airborne contaminants from industrial facilities as well as equipment that controls emissions from such facilities. We have a diversified base of more than 1,500 active customers among a myriad of industries including aerospace, brick, cement, ceramics, metalworking, printing, paper, food, foundries, metal plating, woodworking, chemicals, tobacco, glass, automotive, and pharmaceuticals. Therefore, our business is not concentrated in a single industry or customer.

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.

We have expanded our business by adding CECO Abatement Systems and K&B Duct while divesting of the operating assets of Air Purator Corporation in 2002 and Busch Martec in 2002 (neither were strategically important to us). However, our sales have been adversely impacted by the economic downturn especially in the capital goods segment. As a result, we have made reductions in our operating cost structure to help mitigate the impact.

Much of our business is driven by various regulatory standards and guidelines governing air quality in and outside factories. Favorable conditions in the economy generally lead to plant expansions and construction of new industrial sites. Economic expansion provides us with the potential to increase and accelerate levels of growth. However, as we have seen in the past two years, in a weak economy, customers tend to lengthen the time between inquiry and order or may defer purchases.

We have made significant strides in reducing our leverage through cash generated by operations and asset sales, which has reduced our debt carrying costs. We ended 2003 with senior debt of \$10.0 million at December 31, 2003 compared to \$14.3 million at December 31, 2002 and \$17.7 million at December 31, 2001.

Results of Operations

Our consolidated statements of operations for the years ended December 31, 2003, 2002 and 2001 reflect our operations consolidated with the operations of our subsidiaries.

2003 vs. 2002

	For the year ended December 31,	
	2003	2002
(\$ s in millions)		
Sales	\$ 68.2	\$ 78.6
Cost of sales	55.2	63.0
Gross profit (excluding depreciation and amortization)	\$ 13.0	\$ 15.6
Percent of sales	19.1%	19.8%
Selling and administrative expenses	\$ 10.4	\$ 11.9
Percent of sales	15.3%	15.1%
Operating income	\$ 1.4	\$ 2.2
Percent of sales	2.0%	2.8%

Consolidated sales were \$68.2 million, a decrease of \$10.4 million compared to 2002. Our small order business remained relatively constant with 2002. In 2003, these orders totaled \$24.8 million compared to \$26.7 million in 2002. These orders came from our large base of customers that are generally repeat buyers for replacement products, for service work or for custom fabrication work. In 2003, the individual larger contracts were down because of the continuing weakness in the U.S. economy. Additionally, 2002 sales were higher resulting from the following: a) several large projects included in our December 31, 2001 backlog that were completed in 2002 (including work performed for ethanol processing facilities and a specialty textile manufacturer), and b) sales generated by large orders booked in 2002 (including work performed for a large testing facility, a cement manufacturing facility and a major automotive manufacturer). Net sales during the year ended December 31, 2002 included \$550,000 revenue generated from operations divested in 2002.

Orders booked in 2003 were \$61.0 million compared with \$75.0 million in 2002. The decline in bookings was due to the weakness in the economy coupled with several large orders booked in 2002 that were not replaced with comparably sized orders in 2003 (including orders booked for a rockwool insulation manufacturing plant, a large testing facility, a cement manufacturing facility and for a major automotive manufacturer). We have experienced an increased level of customer inquiry and quoting activities in the later half of 2003 relative to the first half of 2003. This may be partially attributable to a perceived improvement in the economy by our customers, which could result in increased air-quality related capital spending. This favorable trend could lead to an increase in our future sales.

Gross profit excluding depreciation and amortization was \$13.0 million in 2003 compared with \$15.6 million in 2002. Gross profit, as a percentage of sales, was 19.1% in 2003 compared to 19.8% in 2002. The decline was due to our product mix and higher margins realized in our contracting operations coupled with lower factory overhead costs. We managed our fixed overhead costs to help offset some of the lost gross profit from reduced sales in a highly competitive market in 2003. As a result, gross margin was relatively stable in 2003 compared to 2002.

Selling and administrative expenses decreased by \$1.5 million to \$10.4 million in 2003. Selling and administrative expenses, as a percentage of revenues for 2003 were 15.3% compared to

15.1% in 2002. In light of the lower revenue in 2002 and weakness in the economy, we implemented cost reduction initiatives in May 2002, September 2002 and May 2003, which generated an annualized operating cost savings of approximately \$2,800,000. These cost savings, which are primarily due to a reduction in our workforce, and our cost containment efforts, were the principal reasons for the decrease in selling and administrative expenses.

Depreciation and amortization decreased \$0.2 million to \$1.2 million in year ended December 31, 2003.

Operating income was \$1,364,000 in 2003 and \$2,209,000 in 2002. The impact on operating income from the lower sales was significantly lessened by our operating expense reductions. We reduced selling and administrative expenses by \$1,500,000 principally due to cost reduction programs implemented in 2002 and 2003. Additionally, depreciation and amortization expense was lower by \$234,000 resulting from our initiatives to control capital expenditures. These expense reductions and cost containment initiatives, as well as lower factory overhead spending, helped to mitigate the reduction in operating income due to lower sales.

Other income for the year ended December 31, 2003 was \$0.2 million compared with income of \$0.2 million during the same period of 2002. The other income for the year ended December 31, 2003 is the result of the gain recognized from the sale and leaseback of our Conshohocken, Pennsylvania property. A deferred gain of \$200,000 will be recognized over the ensuing three-year leaseback period. The other income during the year ended December 31, 2002 is the result of a fair market value adjustment to a liability recorded in connection with detachable stock warrants to purchase 353,334 shares of common stock at an initial exercise price of \$3.60 per share. These warrants were issued along with the Company's stock issuance of 706,668 shares of common stock on December 31, 2001 to a group of private investors. This liability is accounted for at fair market value and adjustments in future quarters could result in an increase to the liability and a corresponding charge to income.

Interest expense decreased \$0.4 million to \$2.6 million during 2003 compared to the same period of 2002. The decrease is due to lower debt outstanding during the year partially offset by higher interest rates.

Federal and state income tax benefit was \$0.4 million during 2003 compared with a tax benefit of \$0.3 million for the same period in 2002. The effective income tax rate for 2003 was 35.5% compared with 52.3% in the same period of 2002. The effective tax rate during 2003 was favorably affected by state tax benefits and exports sales and negatively affected by certain permanent differences including non-deductible interest expense.

Net loss was \$667,000 in 2003 and \$306,000 in 2002. The impact on net loss from lower operating income was partially offset by reduced tax-effected interest expense. As a result, we increased our net loss in 2003 by \$361,000.

2002 vs. 2001

	For the year ended December 31,	
	2002	2001
(\$ s in millions)		
Sales	\$ 78.6	\$ 90.8
Cost of sales	63.0	72.5
Gross profit (excluding depreciation and amortization)	\$ 15.6	\$ 18.3
Percent of sales	19.7%	20.2%
Selling and administrative expenses	\$ 11.9	\$ 13.2
Percent of sales	15.1%	14.5%
Operating income	\$ 2.2	\$ 3.0
Percent of sales	2.8%	3.4%

Consolidated net sales decreased 13.5%, or \$12.2 million to \$78.6 million from 2001 to 2002. Sales were down mainly because of a) the weakness in the industrial segment of the U.S. economy, b) divestitures of two non-core businesses, Air Purator Corporation and Busch Martec that amounted to \$2.0 million of decreased sales, and c) the abandonment of our expansion into the highly engineered specialty piping for automotive paint facilities started in 2001, which amounted to \$3.5 million of decreased sales.

One of our targeted growth areas, thermal oxidation technology, sold under the CECO Abatement trade name, had a strong first full year of operations, by generating over \$5.0 million of orders from alternative energy providers. Sales of our fiberbed mist eliminator technology, continued to penetrate further into automotive component manufacturers.

We began 2002 with a strong backlog of \$18.6 million. Orders booked in 2002 were \$75.0 million compared with \$96.0 million in 2001. The decline resulted primarily from a reduction in large orders from automotive manufacturers and from the metals industries. However, smaller orders from customers who represent a cross section of industrial customers in the United States also decreased.

In December 2001, we sold the fixed assets and inventory of Air Purator Corp. (APC) and received notes totaling \$475,000. The notes, which were due primarily in March 2002, were secured by the assets of APC. At December 31, 2001, we deferred the gain on sale of \$250,000 until collection was reasonably assured. However, the purchaser defaulted on the loan, and we commenced foreclosure proceedings in May 2002. We subsequently sold the assets to the former general manager of APC on July 31, 2002 and recognized a gain on sale during the third and fourth quarters of 2002 totaling \$250,000. The net assets and operations of APC were not material to our consolidated operations. We also sold the assets of Busch Martec during 2002 because those assets no longer served our vision for future operations. Busch Martec's assets are insignificant to the consolidated financial statements.

Gross profit excluding depreciation and amortization was \$15.6 million in 2002 compared with \$18.3 million in 2001. Gross profit as a percentage of sales was 19.7% in 2002 compared with 20.2% in 2001.

Even though we (a) increased margins in 2002 on turnkey projects through improved project management and (b) reduced factory overhead in 2002, the decline in sales caused a net decrease in margin. Gross profit in 2002 also includes the favorable impact of a recovery of a claim from a 2001 contract and the impact from the sale of APC operating assets.

Selling and administrative expenses decreased by \$1.3 million to \$11.9 million in 2002. Selling and administrative expenses, as a percentage of revenues for 2002 were 15.1% compared to 14.5% in 2001. The decrease is due to cost control and reductions in our workforce. We reduced our workforce in May 2002 and again in September 2002 reflecting the consolidation of certain functions, efficiencies and lower sales volume. On an annualized basis, the full impact on cost control initiatives is expected to result in a savings of approximately \$2.0 million, which began to be realized during the third quarter of 2002. The 2001 period included certain non-recurring adjustments of \$370,000 related to a customer bankruptcy and other contingencies, which reduced selling and administrative expenses.

Depreciation and amortization decreased \$0.6 million to \$1.5 million in the year ended December 31, 2002 primarily resulting from the implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 requires that ratable amortization of goodwill and intangible assets with indefinite lives be replaced with annual tests for impairment and that intangible assets with finite lives should continue to be amortized over their useful lives.

Operating income was \$2,209,000 in 2002 and \$3,048,000 in 2001. The impact on operating income from the lower sales was lessened by our operating expense reductions and cessation of amortization on goodwill and indefinite life intangibles. We reduced selling and administrative expenses by \$1,297,000 principally due to cost reduction programs implemented in 2002. The decrease would have been \$370,000 higher had it not been for non-recurring adjustments relating to a customer bankruptcy and other contingencies, which reduced selling and administrative expenses in 2001. Additionally, depreciation and amortization expense was lower by \$621,000 primarily due to the cessation of amortization discussed above. These expense reductions and lower factory overhead spending helped to mitigate some of the reduction in gross profit due to lower sales.

Other income for the year ended December 31, 2002 was \$0.2 million compared with income of \$0.4 million during the same period of 2001. The other income in 2002 is the result of a fair market value adjustment during the second quarter to a liability recorded in connection with the issuance of warrants. Warrants were issued along with our issuance of 706,668 shares of common stock on December 31, 2001 to certain of our investors. This liability is accounted for at fair market value and adjustments in future quarters could result in an increase to the liability and a corresponding charge in income.

Interest expense decreased \$0.7 million to \$3.1 million during 2002 compared to the same period of 2001. The decrease is principally due to lower borrowing levels and decreased rates under the bank credit facility.

Federal and state income tax benefit was \$0.3 million during 2002 compared with a tax provision of \$0.1 million for the same period in 2001. The effective income tax rate for 2002 was 52.3% compared with 19.5% in the same period of 2001. The effective tax rate during 2002 is affected by state tax benefits and by certain permanent differences including non-deductible interest expense. The effective income tax rate during 2001 was affected by non-deductible goodwill amortization and interest expense.

Net loss was (\$306,000) in 2002 and (\$380,000) in 2001. The impact on net loss from lower operating income was partially offset by reduced interest expense and an increase from income tax benefits. As a result, we decreased our net loss in 2002 by \$74,000.

Liquidity and Capital Resources

At December 31, 2003 and December 31, 2002, cash and cash equivalents totaled \$136,000 and \$194,000, respectively. Generally, we do not carry significant cash and cash equivalent balances because excess amounts are used to pay down our revolving line of credit.

Total bank and related debt as of December 31, 2003 was \$9,957,000 as compared to \$14,284,000 at December 31, 2002, a decrease of \$4,327,000, due to net payments under the bank credit facilities. The cash that we used to pay down our revolving line of credit and term debt of \$700,000 and \$900,000, respectively, came from our Conshohocken property transaction (discussed below), subordinated debt raised (discussed below) and the balance came from cash generated by operating activities.

Unused credit availability under our revolving line of credit at December 31, 2003 was \$4,325,000. The bank credit facility was amended in November 2003 by extending the maturities of the revolving line of credit and the final payment due under the term loan to January 2005. No extinguishment loss was recognized as a result of this amendment. The amendment also reduced minimum coverage requirements under several financial covenants through December 31, 2004. We opted to amend the existing agreement rather than refinance the entire credit facility as discussed in the second quarter of 2003 because of current market conditions. However, we will continue to monitor such market conditions and will seek refinancing alternatives in future periods. On September 30, 2003, \$1,200,000 of subordinated debt was raised from a related party with a maturity of April 30, 2005 and interest rate of 6% per annum. This debt is subordinated to the bank credit facility and the subordinated debt originally issued in December 1999. The entire principal balance of this obligation will be due upon maturity. Proceeds were used to reduce the revolving line of credit.

Although we do not intend to seek additional financing, substantially all our assets are pledged as security on our existing debt and would not be available for any additional such borrowings. We may seek refinancing alternatives in the future such as increasing the amount available from the revolving credit facility, extending the maturity on the term debt and possibly using the proceeds from the sale of our Cincinnati property to pay down debt. In the event that any refinancing takes place, the liens against our assets would be removed upon payment of the current credit facility and new liens would likely be placed on our assets by the new lenders.

Overview of Cash Flows and Liquidity

(\$ s in thousands)	For the year ended December 31,		
	2003	2002	2001
Total operating cash flow	\$ 1,593	\$ 3,701	\$ 4,382
Purchases of property and equipment and intangible assets	\$ (112)	\$ (240)	\$ (793)
Divestiture of businesses and other		470	
Proceeds from sale of property	1,568		
Net cash provided by (used in) investing activities	\$ 1,456	\$ 230	\$ (793)
Proceeds from issuance of common stock and detachable warrants	\$ 20	\$ 9	\$ 4,377
Stock issuance expense		(443)	
Repayments of borrowings, net	(4,327)	(3,380)	(8,752)
Proceeds from subordinated notes	1,200		
Other uses		24	175
Net cash used in financing activities	(3,107)	(3,790)	(4,200)
Net increase (decrease)	\$ (58)	\$ 141	\$ (611)

In 2003, \$1,593,000 was generated from operating activities. This follows two years of higher amounts of cash generation, which were mainly due to increased sales volumes and reductions in working capital during 2002 and 2001. In 2003, cash provided was impacted by our net loss adjusted for non-cash items and lessened working capital demands from lower sales. We generated additional cash through a decrease in accounts receivable of \$639,000 that was due to lower sales partially offset by slower turnover of our accounts receivable. A reduction in accounts payable and accrued expenses resulting from reduced purchases on lower sales volume used cash of \$456,000. The other working capital account that generated cash was inventory. Other working capital accounts that used cash were prepaid expenses and other current assets, billings in excess of costs and estimated earnings and costs and estimated earnings in excess of billings on uncompleted contracts. Our net investment in working capital (excluding cash and cash equivalents and current portion of debt) at December 31, 2003 was \$5,667,000 as compared to \$6,950,000 at December 31, 2002. Looking forward, we will continue to manage our net investment in working capital. We believe that our working capital needs will tend to change at a lower rate than the change in sales due to the acceleration of progress billing and collections of such on major contracts.

Cash provided by operating activities in 2002 was \$3,701,000. Cash provided was impacted by net loss adjusted for non-cash items, lessened working capital demands from lower sales and improved turnover in accounts receivable. Major changes in working capital that provided cash included: accounts receivable- \$4,963,000, costs and estimated earnings in excess of billings \$587,000, inventory - \$102,000. Major changes in working capital that used cash included prepaid expenses and other current assets \$1,006,000, accounts payable and accrued expenses \$1,040,000 and billings in excess of costs and estimated earnings on uncompleted contracts \$943,000.

Net cash used in investing activities related to the acquisition of capital expenditures for property and equipment was \$112,000 for 2003 compared with \$240,000 for the same period in 2002. We received cash proceeds of approximately \$1,600,000 from the sale of our Conshohocken property (as discussed in the following paragraph). We are managing our capital expenditures in light of the current level of sales. Should sales increase in 2004, we anticipate increased capital expenditure spending. Additional capital expenditures may be incurred related to the replacement facilities subject to the successful completion of the sale of our Cincinnati property.

On May 7, 2003, we received approximately \$1,600,000 in cash proceeds from the sale and leaseback of our Conshohocken, Pennsylvania property. Approximately, \$700,000 was used to reduce the revolving line of credit and the balance was used to reduce term debt. In November 2003, we accepted an offer to sell our Cincinnati, Ohio property with a contemplated closing date of May 1, 2004 subject to various contingencies. If we consummate the sale, the net proceeds would be used to purchase new principal operating facilities and could also be used to reduce the amount of credit facilities. A February 2003 agreement to sell our Cincinnati property was terminated (with the same party) in September 2003 due to the potential purchaser failing to close in accordance with the terms of the agreement.

Financing activities used cash of \$3,107,000 during 2003 compared with cash used of \$3,790,000 during the same period of 2002. Current year financing activities included net payments of \$1,198,000 on our revolving line of credit and payments of \$3,129,000 on our term loan. In addition, we raised \$1,200,000 under a new subordinated debt obligation discussed earlier.

In the fourth quarter of 2001, we received gross proceeds of \$2,120,000 and issued 706,668 shares of common stock to a group of accredited investors. Under the Subscription Agreement CECO entered into with the Investors, we were required to issue to such Investors additional shares based on an earnings formula (as set forth in the Subscription Agreement executed in connection with the issuance of the Investor Shares) for fiscal year 2002. Based on the results of this formula, 382,237 additional shares were issued to the Investors in April 2003 at no cost to the Investors. The issuance of the shares was charged to additional paid in capital.

The Company believes that the amount available on its credit facility, together with cash flows from operations, will be sufficient to meet its short-term needs for liquidity over the next twelve months. Additionally, in the longer term, we have real estate with market values significantly in excess of debt which may be sold to generate cash flow. Our cost reduction initiatives will have both short-term and long-term cash flow implications. A lower or more stable cost structure will be beneficial in future periods as revenues increase. We also have access to additional financing by increasing the amount of our subordinated debt obtained through related parties.

Dividends

We did not pay any dividends during the years ended December 31, 2003 and 2002 and do not expect to pay any in the foreseeable future as we are party to various loan documents that prevent us from paying such dividends.

Debt Covenants

The Company's credit facilities contain financial covenants requiring compliance including at December 31, 2003 and each quarter through December 31, 2004: maximum leverage of 3.2 to 1, minimum fixed charge coverage ratio of 1 to 1 and minimum interest coverage ratio of 2.1 to 1. Our debt agreement has been amended several times in recent years to revise covenants in order for the Company to be in compliance with such covenants at quarterly reporting periods. These amendments were necessary as a result of the economic environment over the last four years, which negatively affected the markets and industries served by us and therefore our operations and financial performance. Our below plan financial performance resulted in our inability to meet certain covenants that were established based on a higher level of operations. We have

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made significant changes in our business in response to the lower level of revenues and believe our ability to react effectively has enabled us to successfully renegotiate our agreement.

As of December 31, 2003, we were in compliance with these financial covenants. Based on our 2004 projections, we anticipate that we will remain in compliance with such covenants. However, any adverse changes in actual results from projections may place us at risk of not being able to comply with all of the covenants of the Credit Agreement. In the event we cannot comply with the terms of the Credit Agreement as currently written, it would be necessary for us obtain a waiver or renegotiate our loan covenants, and there can be no assurance that such negotiations will be successful. However, we have been able to demonstrate to our lender our ability to address the situation(s) resulting in our inability to comply by making changes to our business and successfully renegotiating our agreement. In the event that we are not successful in obtaining a waiver or an amendment, we would be declared in default which would cause all amounts owed to be immediately due and payable.

Employee Benefit Obligations

Based on the assumptions used to value other postretirement obligations, life insurance benefits and retiree healthcare benefits, in the fourth quarter of 2003, cash payments for these benefits are expected to be in the range of \$335,000 - \$360,000 in each of the next 5 years. Based on current assumptions, estimated contributions of \$854,000 may be required in 2004 for the pension plan and \$86,000 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 fund is 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.

Contractual Obligations and Other Commercial Commitments

The following table lists our contractual cash obligation as of December 31, 2003 (in thousands of dollars).

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations (a)	\$ 9,957	\$ 2,094	\$ 7,863	\$	\$
Estimated interest payments	6,275	2,275	4,000		
Estimated pension funding	3,080	580	1,000	1,000	500
Subordinated debt (b)	5,525		5,525		
Estimated interest payments on subordinated debt	3,314		3,314		
Operating lease obligations (c)	1,213	571	642		
Purchase obligations (d)	1,211	1,211			
	<u>\$ 30,575</u>	<u>\$ 6,731</u>	<u>\$ 22,344</u>	<u>\$ 1,000</u>	<u>\$ 500</u>

(a) As described in Note 9 to the Consolidated Financial Statements.

(b) As described in Note 10 to the Consolidated Financial Statements.

(c) Primarily as described in Note 13 to the Consolidated Financial Statements.

(d) Primarily consists of purchase obligations for various costs associated with uncompleted sales contracts.

The interest rate swap matured in November 2002 and therefore, no future obligation exists under this agreement.

Estimated interest payments associated with long term debt are based on anticipated interest payments on the term debt and estimated interest payments on the line of credit are based on the projected borrowing levels throughout the term of the line of credit.

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Interest payments associated with the repayment of the subordinated debt are based on the fixed rates, outstanding principal and anticipated payment dates. Interest on the subordinated debt is not currently permitted under the credit facility and therefore, accrued interest is assumed to be paid upon maturity of the debt for purposes of this schedule.

Pension funding was assumed to stay at current levels based on consistent discount and long term return rates, current funding levels and no significant changes in plan design or benefits.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. 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.

Revenue Recognition

A substantial portion of our revenue is derived from contracts, which are accounted for under the percentage of completion method of accounting measured by the percentage of contract costs incurred to date compared to estimated total contract costs for each contract. This method is used because management considers contract costs to be the best available measure of progress on these contracts. 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 contracts' profitability.

Contract costs include direct material, labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, and other overhead expenses. Selling and administrative expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. 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. We provided for estimated losses on uncompleted contracts of \$0, \$123,000 and \$108,000 during the years ended December 31, 2003, 2002 and 2001, respectively.

Inventory Costing

The labor content of work-in-process and finished products and substantially all inventories of steel at our Cincinnati Facility (approximately 69% and 70% of total inventories at December 31, 2003 and 2002, respectively) are valued at the lower of cost or market using the last-in, first-out (LIFO) method. The LIFO method allocates the most recent costs to cost of products sold and, therefore, recognizes into operating results fluctuations in raw material, energy and other inventoriable costs more quickly than other methods. All other inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) method. The LIFO method of inventory valuation for all classes of inventory approximated the FIFO value at December 31, 2003 and 2002.

Impairment of Long-Lived Assets, including Goodwill

We review the carrying value of our long-lived assets held for use and assets to be disposed of periodically when events or circumstances indicate a potential impairment and the undiscounted cash flows estimated to be generated by those assets are less than the carrying value of such assets. For all assets excluding goodwill and intangible assets with indefinite lives, the carrying value of a long-lived asset is considered impaired if the sum of the undiscounted cash flows is less than the carrying value of the asset. If this occurs, an impairment charge is recorded for the amount by which the carrying value of the long-lived assets exceeds its fair value. Effective January 1, 2002, we adopted SFAS No. 142,

Goodwill and Other Intangible Assets. Under this accounting standard, we no longer amortize our goodwill and intangible assets with an indefinite life and are required to complete an annual impairment test. We have determined that we have a single reporting unit, as defined in SFAS No. 142, within our Company. We completed our impairment test during 2003 as required by this accounting standard and have not recognized an impairment charge related to the adoption of this accounting standard. The impairment test requires us

to forecast our future cash flows, which requires significant judgment. As of December 31, 2003, we have \$9.5 million of goodwill, \$.8 million of intangible assets - finite life, \$1.4 million of indefinite life intangible assets, and \$10.0 million of property, plant, and equipment recorded on the consolidated balance sheets.

Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our balance sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded on the balance sheet and will provide necessary valuation allowances as required. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to record a valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Gross deferred tax assets and gross deferred tax liabilities at December 31, 2003 totaled \$3.1 million and \$5.8 million, respectively.

Risk Management Activities

We are exposed to market risk including changes in interest rates, currency exchange rates and commodity prices. We may use derivative instruments to manage our interest rate and foreign currency exposures. We do not use derivative instruments for speculative or trading purposes. We may enter into hedging relationships such that changes in the fair values or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives. Accounting for derivative instruments is complex, as evidenced by the significant interpretations of the primary accounting standard, and continues to evolve. As of December 31, 2003, there were no derivative instruments outstanding.

Pension and Postretirement Benefit Plan Assumptions

We sponsor a pension plan for certain union 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, 2003, a 25 basis point change in the discount rate would change the projected benefit obligation by approximately \$100,000, and the annual post-retirement expense by less than \$100,000. Additionally, a 25 basis point change in the expected return on plan assets would change the projected benefit obligation by approximately \$100,000.

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.

Backlog

Our backlog consists of orders we have received for products and services we expect to ship and deliver within the next 12 months. Our backlog, as of December 31, 2003 was \$7.3 million compared to \$14.6 million as of December 31, 2002. There can be no assurances that backlog will be replicated or increased or translated into higher revenues in the future. The success of our business depends on a multitude of factors that are out of our control. Our operating results can be affected by the introduction of new products, new manufacturing technologies, rapid change of the demand for its products, decrease in average selling price over the life of the product as competition increases and our dependence on efforts of intermediaries to sell a portion of our product.

New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, requiring that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Implementation of SFAS No. 143 is required for fiscal 2003. The adoption of this statement on January 1, 2003, did not have an effect on our financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Among other amendments to previous pronouncements, which have already taken effect, a provision in the Statement requiring certain gains and losses from extinguishment of debt to be reclassified from extraordinary items, is effective January 1, 2003. The adoption of this statement on January 1, 2003, did not have an effect on our financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or

disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The adoption of this statement on January 1, 2003, did not have an effect on our financial position or results of operations.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* which we adopted in 2003. The Statement provides alternative methods of transition for a voluntary change to the fair value method and, at this time, we do not anticipate making such voluntary change.

On April 30, 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain pre-existing contracts. We adopted SFAS No. 149 on a prospective basis at its effective date on July 1, 2003. The adoption of this statement did not have a material impact on our financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement was effective for financial instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003, except for mandatorily redeemable financial instruments. Mandatorily redeemable financial instruments are subject to the provisions of this statement beginning on January 1, 2004. We have not entered into or modified any financial instruments subsequent to May 31, 2003 affected by this statement nor do we have any mandatorily redeemable financial instruments. The adoption of this statement did not have a material impact on our financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (*FIN 45*) *Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. *FIN 45* elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee. However, the provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of *FIN 45* are effective for financial statements of interim or annual periods ending after December 15, 2002 and had no effect on our financial statement disclosures.

In December 2003, the FASB issued a revised FASB Interpretation No. 46, entitled Consolidation of Variable Interest Entities. As revised, the new interpretation requires that the Company consolidate all variable interest entities in its financial statements under certain circumstances. We will adopt the revised interpretation as of March 31, 2004 as required; however, the adoption of this interpretation currently is not expected to affect our financial condition or results of operations, as we do not have any interest in variable interest entities.

In November 2002, the FASB's Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF No. 00-21 provided guidance for revenue arrangements that involve the delivery or performance of multiple products or services where performance may occur at different points or over different periods of time. EITF No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003 (i.e., our fiscal 2004). We have not yet completed our assessment of the effect of the adoption, if any, of EITF Issue No. 00-21 on our financial condition or results of operations.

In December 2003, the FASB issued FASB Statement No. 132 (Revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits. The statement increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. We are required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. We have adopted the disclosure requirement of SFAS No. 132 for our December 31, 2003 financial statements, and we will be required to disclose various elements of pension and postretirement benefit costs in interim period financial statements for quarters beginning after December 15, 2003 (our first quarter of fiscal 2004 ending March 31).

Forward-Looking Statements

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are making this cautionary statement in connection with such safe harbor legislation. This Form 10-K/A, the Annual Report to Shareholders or Form 8-K of CECO or any other written or oral statements made by or on our behalf may include forward-looking statements which reflect our current views with respect to future events and financial performance. The words believe, expect, anticipate, intends, estimate, forecast, project, should and similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections in this Form 10-K/A are forward-looking statements, and are based on management's current expectations of our near-term results, based on current information available pertaining to us.

We wish to caution investors that any forward-looking statements made by or on our behalf are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to: changing economic and political conditions in the United States and in other countries, changes in governmental spending and budgetary policies, governmental laws and regulations surrounding various matters such as environmental remediation, contract pricing, and international trading restrictions, customer product acceptance, and continued access to capital markets, and foreign currency risks. We wish to caution investors that other factors might, in the future, prove to be

important in affecting our results of operations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Investors are further 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. We undertake no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise.

Item 7a. Quantitative and Qualitative Disclosure About Market Risk

Risk Management Activities

In the normal course of business, we are exposed to market risk including changes in interest and raw material commodity prices. We may use derivative instruments to manage our interest rate exposures. We do not use derivative instruments for speculative or trading purposes. Generally, we enter into hedging relationships such that changes in the fair values of cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives.

Interest Rate Management

We may use interest rate swap contracts to adjust the proportion of our total debt that is subject to variable interest rates. Our interest rate swap contract matured in 2002 and was not renewed.

The remaining amount of loans outstanding under the Credit Agreement bear interest at the floating rates as described in Note 9 to the consolidated statements contained in Item 8.

The following table presents information of all dollar-denominated interest rate instruments. The fair value presented below approximates the cost to settle the outstanding contract.

	Expected Maturity Date						Total	Fair Value
	2004	2005	2006	2007	2008	Thereafter		
(\$ in thousands)								
Liabilities								
Variable Rate Debt (\$)	2,094	7,863					9,957	9,957
Average Interest Rate	9.0%	9.0%					9.0%	9.0%
Subordinated Notes due 2006			4,325				4,325	4,443
Effective Interest Rate			17.8%				17.8%	18.0%
Subordinated Note due 2005		1,200					1,200	1,117
Average Interest Rate		6.0%					6.0%	12.0%

Raw Materials

The profitability of our manufactured products is affected by changing purchase prices of steel and other materials. If higher steels or other material prices cannot be passed onto to our customers, operating income will be adversely affected.

Credit Risk

As part of our ongoing control procedures, we monitor concentrations of credit risk associated with financial institutions with which we conduct business. Credit risk is minimal as credit exposure is limited with any single high quality financial institution to avoid concentration. We also monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. Concentrations of credit associated with these trade receivables are considered minimal due to our geographically diverse customer base. Bad debts have not been significant. We do not normally require collateral or other security to support credit sales.

Item 8. Financial Statements and Supplementary Data

The Company's consolidated financial statements of CECO Environmental Corp. and subsidiaries for years ended December 31, 2003, 2002 and 2001 and other data are included in this Report following the signature page of this Report:

<u>Cover Page</u>	F-1
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u> (restated)	F-3
<u>Consolidated Statements of Operations</u> (restated)	F-4
<u>Consolidated Statements of Shareholders' Equity</u> (restated)	F-5
<u>Consolidated Statements of Cash Flows</u> (restated)	F-6
<u>Notes to Consolidated Financial Statements for the Years Ended December 31, 2003, 2002 and 2001</u> (restated)	F-7 to F-25

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of December 31, 2003. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2003 for the reasons described below.

On February, 8, 2005, the Company, in consultation with its Audit Committee, concluded that it must correct its previously issued financial statements to properly account for revenue recognized under the percentage of completion method of accounting. The Company's management determined that a spreadsheet error existed affecting the manner in which revenue was calculated and recognized on small projects. While revenue recognized under the percentage of completion calculation on individual large projects was accurate, due to this spreadsheet error, the accumulation of revenue for small projects was incorrect. This error was material and occurred from 2000 to 2003 and the three quarters reported during 2004. This correction resulted in the restatement of the Company's consolidated financial statements for the fiscal years 2001 through 2003, which is reflected in this Annual Report on Form 10-K/A for the year ended December 31, 2003, and for the three quarters of 2004, which are reflected in Quarterly Reports on Form 10-Q/A for the relevant periods.

After evaluating the nature of the deficiency and the resulting restatement, the Company's Chief Executive Officer and Chief Financial Officer concluded that a material weakness existed in the Company's internal control over financial reporting at December 31, 2003.

Changes in Internal Control over Financial Reporting

During the fourth quarter of fiscal 2003, there were no significant changes in the Company's internal control over financial reporting that materially affected or were reasonably likely to materially affect internal control over financial reporting.

Management detected the error noted above as a result of additional monitoring processes and procedures that were implemented during the fourth quarter of 2004 to review revenue recognized under the percentage of completion method of accounting. The additional procedures were implemented by an individual hired by the Company in its efforts to expand the internal control structure in connection with its planning and execution under the internal control standards of Section 404 of the Sarbanes-Oxley Act of 2002. This person was hired in August 2004 to initiate the Company's documentation and testing of its internal controls. This individual's responsibilities included performing certain monitoring activities which detected the material misstatement.

Management has evaluated this matter relative to its current and prior internal control environment and disclosure controls and procedures. It has concluded that the material weakness that led to this error not being detected timely has been mitigated as of December 31, 2004 as a result of the additional monitoring controls that were in place as of that date, which enabled the Company to detect this error.

PART III**Item 10. Directors and Executive Officers of the Registrant**Directors and Executive Officers

The following are the directors and executive officers of the Company. The terms of directors expire at the next annual meeting of the shareholders and upon election of their successors. 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.

<u>Name</u>	<u>Age</u>	<u>Position with CECO</u>
Phillip DeZwirek	66	Chief Executive Officer; Chairman of the Board of Directors
Richard J. Blum	57	President; Director
Marshall J. Morris	44	Vice President-Finance and Administration; Chief Financial Officer
Jason Louis DeZwirek	33	Secretary; Director
David D. Blum	48	Senior Vice President-Sales and Marketing; Assistant Secretary
Josephine Grivas	63	Director
Melvin F. Lazar	65	Director
Donald A. Wright	66	Director

The Company has a separately designated Audit Committee, as defined in §3(a)(58)(A) of the Securities Exchange Act of 1934 (the Exchange Act), the current members of which are Mr. Lazar, Mr. Wright and Ms. Grivas. The Board of Directors has determined that Mr. Lazar qualifies as an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Exchange Act and that each of the Audit Committee members, including Mr. Lazar, is independent under the applicable Nasdaq listing standards.

The business backgrounds during the past five years of the Company's directors and officers are as follows:

Phillip DeZwirek became a director, the Chairman of the Board and the Chief Executive Officer of the Company in August 1979. Mr. DeZwirek also served as Chief Financial Officer until January 26, 2000. Mr. DeZwirek's principal occupations during the past five years have been as Chairman of the Board and Vice President of Filters (since 1985); Treasurer and Assistant Secretary of CECO Group (since December 10, 1999); a director of Kirk & Blum and kbd/Technic (since 1999); President of Can-Med Technology, Inc. d/b/a Green Diamond Oil Corp. (Green Diamond)

(since 1990) and Vice Chairman and Chief Executive Officer of API Electronics Group, Inc. Mr. DeZwirek has also been involved in private investment activities for the past five years.

Richard J. Blum became the President and a director of the Company on July 1, 2000 and the Chief Executive Officer and President of CECO Group, Inc. on December 10, 1999. Mr. Blum has been a director and the President of Kirk & Blum since February 28, 1975 until November 12, 2002 and the Chairman and a director of kbd/Technic since November 1988. Mr. Blum is also a director of The Factory Power Company, a company of which CECO owns a minority interest and that provides steam energy to various companies, including CECO. Kirk & Blum and kbd/Technic were acquired by the Company on December 7, 1999. Mr. Richard Blum is the brother of Mr. David Blum.

Marshall J. Morris became the Chief Financial Officer of the Company on January 26, 2000 and the Vice President-Finance and Administration on July 1, 2000. Mr. Morris also serves as Chief Financial Officer of CECO Group (since January 26, 2000). From 1996 to 1999, Mr. Morris was Treasurer of Calgon Carbon Corporation which stock trades on the New York Stock Exchange and which is a worldwide producer of specialty chemicals and supplier of pollution control technologies and services with annual sales of approximately \$300 million. From 1995 to 1996, he served as a consultant with respect to business management and strategic planning. From 1989 through 1995, Mr. Morris also served as the Treasurer of Trico Products Corporation, an international manufacturer and distributor of original equipment automotive parts with annual sales of approximately \$350 million.

Jason Louis DeZwirek, the son of Phillip DeZwirek, became a director of the Company in February 1994. He became Secretary of the Company on February 20, 1998. Mr. DeZwirek from October 1, 1997 through January 1, 2002 served as a member of the Committee that was established to administer CECO's Stock Option Plan. He also serves as Secretary of CECO Group (since December 10, 1999). Mr. DeZwirek's principal occupation since October 1999 has been as President of kaboose, Inc., a company that owns a children's portal. Mr. DeZwirek is (and has been since 2001) the Chairman of the Board of API Electronics Group, Inc., a publicly traded company, that is a manufacturer of power semi-conductors primarily for military use.

David D. Blum became the Senior Vice President-Sales and Marketing and an Assistant Secretary of the Company on July 1, 2000 and the President of Kirk & Blum on November 12, 2002. Mr. Blum served as Vice President of Kirk & Blum from 1997 to 2000 and was Vice President-Division Manager Louisville at Kirk & Blum from 1984 to 1997. Mr. David Blum is the brother of Mr. Richard Blum.

Josephine Grivas has been a director of CECO since February, 1991. She was its Secretary from October 1992, until she resigned as of February 2, 1998. Ms. Grivas has since October 1, 1997, also been a member of the Committee that was established to administer CECO's stock option plan. She is also one of the initial administrators of the CECO Environmental Corp. 1999 Employee Stock Purchase Plan. Since February 20, 1998, Ms. Grivas has been a member of the Audit Committee, which assists the Board of Directors in its general oversight of CECO's financial reporting process and such other matters that are properly referred to the Audit Committee by the

Board of Directors. Ms. Grivas had been an administrative assistant for Phillip DeZwirek since 1975. She retired from this position in February 1998.

Melvin F. Lazar became a director of CECO on February 6, 2003. Mr. Lazar also serves as Chairman of the Audit Committee. Mr. Lazar is a Certified Public Accountant and was the founding partner of Lazar Levine & Felix LLP, which was founded in 1969. Mr. Lazar has serviced public and closely-held companies for over 30 years and is considered an expert on business valuations and merger and acquisition activities. He also received his accreditation in Business Valuation from the American Institute of Certified Public Accountants in 1998. He serves as Director and member of the Audit Committee of Enzo Biochem, Inc., a public company traded on the New York Stock Exchange, Director and Chairman of the Audit Committee of Active Media Services, Inc., a privately held company, and director and chairman of the Audit Committee of Arbor Realty Trust, Inc., a newly formed real estate investment trust (REIT), which is currently in the registration process to become a publicly traded REIT.

Donald A. Wright became a director of CECO on February 20, 1998. Mr. Wright has also been a member of the Audit Committee since February 20, 1998. He is also one of the initial administrators of the CECO Environmental Corp. 1999 Employee Stock Purchase Plan and since January 1, 2002 has been a member of the Committee established to administer CECO's stock option plan. Mr. Wright has been a principal of and real estate broker with The Phillips Group in San Diego, California, a company which is a real estate developer and apartment building syndicator, since 1992. Since November 1996, Mr. Wright has also been a real estate broker with Prudential Dunn Realtors in Pacific Beach, California.

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers and persons beneficially owning more than ten percent of a class of our equity securities to file certain reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission. Based solely on our review of Section 16(a) reports and any written representation made to us, the Company believes that all such required filings for 2003 were made in a timely manner.

Code of Ethics

We have adopted a Code of Ethics that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller and persons performing similar functions). A copy of the Code of Ethics is attached to this Form 10-K as Exhibit 14.

Item 11. Executive Compensation

Summary of Cash and Certain Other Compensation

The following table sets forth all compensation received for services rendered to the Company in all capacities for the years ended December 31, 2003, 2002 and 2001, by (i) each person who served as Chief Executive Officer of the Company during the year ended December 31, 2003 and (ii) each of the other executive officers of the Company who were serving as executive officers at December 31, 2003 and whose total compensation exceeded \$100,000. Perquisites amounting in aggregate to the lesser of \$50,000 or 10% of the total annual salary and bonus reported for the named executive officer are not disclosed.

Richard J. Blum, who also serves as Chief Executive Officer and President of CECO Group, is paid the amounts set forth below by CECO Group. Mr. Phillip DeZwirek and Mr. Morris are paid by CECO. Mr. David Blum, who also serves as Vice-President of Kirk & Blum, is paid by Kirk & Blum.

Summary Compensation Table For CECO

Name/Principal Position	Year	Annual Compensation		Long-Term Compensation	All Other Compensation
		Salary	Bonus	Securities Underlying Options (#)	
Phillip DeZwirek					
Chairman of the Board	2003				\$ 250,000 ¹
	2002				\$ 250,000
& Chief Executive Officer	2001	\$ 111,000			\$ 139,000
Richard J. Blum	2003	\$ 244,600			\$ 5,791 ²
	2002	\$ 227,400			\$ 11,438
President of CECO &	2001	\$ 227,538			\$ 25,406
President & Chief Executive Officer of CECO Group				25,000 ³	
David D. Blum					
Senior Vice President-Sales	2003	\$ 181,275			\$ 3,011 ⁴
	2002	\$ 170,750			\$ 7,235
& Marketing and Assistant	2001	\$ 170,106			\$ 17,104
Secretary of CECO and					
Vice President of Kirk & Blum					
Marshall J. Morris					
Vice President-Finance &					
Administration and Chief	2003	\$ 165,387			\$ 2,601 ⁵
	2002	\$ 156,000			\$ 2,227
Financial Officer of CECO	2001	\$ 155,769			\$ 1,377

¹ Includes \$250,000 paid to Can-Med Technology, Inc. d/b/a Green Diamond Oil Corp. in 2003 for consulting services provided by Green Diamond. Mr. DeZwirek is deemed to control Green Diamond.

² Represents Company contribution of \$2,514 to 401(k) plan on behalf of Mr. Richard Blum and \$3,277 of insurance premiums paid for term life insurance for his benefit.

³ Represents options to purchase 25,000 shares of CECO's stock granted on October 5, 2001. Such options are exercisable at any time between April 5, 2002 and October 5, 2011 at a price of \$2.01 per share.

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Represents Company contribution of \$2,178 to 401(k) plan on behalf of Mr. David Blum and \$833 of insurance premiums paid for term life insurance for his benefit.

- ⁵ Represents Company contribution of \$2,099 to 401(k) plan on behalf of Mr. Morris and \$502 of insurance premiums paid for term life insurance for his benefit.

Option Grants and Exercises in Last Fiscal Year

We did not grant any options to our executive officers in the fiscal year 2003. The following table sets forth information with respect to CECO's executive officers concerning unexercised options on stock of CECO held as of the end of the fiscal year.

Aggregated Option/SAR on CECO
Exercises for the Year Ended December 31, 2003
and Option/SAR Values on CECO as of December 31, 2003

Name	Shares		Number of Securities		Value of Unexercised	
	Acquired on		Underlying Unexercised		In-The-Money	
	Exercise		Options/SARs at		Options/SARs at	
	(#)	Value	12/31/03		12/31/03	
	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable	
Phillip DeZwirek	0	0	2,250,000	0	\$ 6,000	N/A
Richard J. Blum	0	0	473,000	0	\$ 0	N/A
David D. Blum	0	0	335,000	0	\$ 0	N/A
Marshall J. Morris	0	0	30,000	20,000	\$ 0	\$ 0
Jason Louis DeZwirek	0	0	25,000	0	\$ 0	N/A

Employment Contracts

Richard J. Blum entered into an Employment Agreement dated December 7, 1999 with CECO Group, Inc., a wholly-owned subsidiary of CECO. The Employment Agreement has a term through December 7, 2005. Either party may terminate the Employment Agreement for cause. Mr. Richard Blum's base salary is set annually, at the Board's discretion, and is currently \$244,600 per year. In addition to his base salary, Mr. Richard Blum is entitled to a bonus, depending upon whether the Company exceeds certain targets, and four weeks paid vacation.

David D. Blum entered into an Employment Agreement dated December 7, 1999 with Kirk & Blum. The Employment Agreement has a term through December 7, 2005. Either party may terminate the Employment Agreement for cause. Mr. David Blum's base salary is set annually, at the Board's discretion, and is currently \$181,275 per year. In addition to his base salary, Mr. David Blum is entitled to a bonus, depending upon whether the Company exceeds certain targets, and four weeks paid vacation.

Compensation Under CECO Stock Option Plan and Stock Purchase Plans

Stock Option Plan

Our Stock Option Plan was adopted by our board of directors on October 1, 1997 and approved by the shareholders on September 10, 1998. This plan provides for the grant of incentive stock options to our employees and nonstatutory stock options to our employees, consultants, advisors and directors. The number of shares of common stock reserved under the Stock Option Plan are 1,500,000. Of these shares, 168,700 shares were subject to outstanding options as of December 31, 2003. No options have been exercised as of March 15, 2003.

A committee of our board administers the stock plan and determines the terms of awards granted, including the exercise price, the number of shares subject to individual awards and the vesting period of awards. Directors Grivas and Wright currently serve on such committee. In the case of options intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), the committee will consist of two or more outside directors within the meaning of Section 162(m) of the Code. The committee determines the exercise price of options granted under the Stock Option Plan, but with respect to nonstatutory stock options intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code and all incentive stock options, the exercise price must at least be equal to the fair market value of our common stock on the date of grant. The term of an incentive stock option may not exceed ten years, except that with respect to any participant who owns 10% of the voting power of all classes of our outstanding capital stock, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. The committee determines the term of all other options.

On February 6, 2003, we granted options under the Stock Option Plan to Director Lazar to purchase up to 10,000 shares of the Company's common stock at an exercise price of \$1.90. No other options were granted under the Stock Option Plan in the year 2003.

Stock Purchase Plan

On September 21, 1999, our Board of Directors adopted the Stock Purchase Plan which was approved by the stockholders on November 16, 1999. Employees, other than certain part-time employees, are eligible to participate in the Stock Purchase Plan, which provides employees the opportunity to purchase our stock at a discounted price. The maximum number of shares of common stock that will be offered under the Stock Purchase Plan is 1,000,000. Such shares will be offered in nine separate consecutive offerings, which commenced October 1, 1999, with the final offering terminating on September 30, 2004. The purchase price per share will be the lesser of 85% of the market price of the stock on the last business day of the offering or 85% of the market price of the stock on the offering date. Payment for the stock under the Stock Purchase Plan is paid through employee payroll deductions. The Stock Purchase Plan is administered by our Board of Directors, however, the Board of Directors may delegate its authority to a committee of the board or an officer of the Company. Directors Grivas and Wright currently administer the Stock Purchase Plan.

As of December 31, 2003, 73,898 shares of stock have been issued under the Stock Purchase Plan; 6,241 of which have been issued to Mr. Richard Blum to date, and 10,019 of which have been issued to Mr. David Blum to date. Of the 10,019 issued to Mr. David Blum, 2,120 were issued in 2003. No other shares of stock under the Stock Purchase Plan have been issued to an executive officer or director of the Company.

Director Compensation

In consideration for Melvin F. Lazar's valuable service to the Company as a director, we granted Mr. Lazar options on February 6, 2003 to purchase up to 10,000 shares of our common stock under the Stock Option Plan at a price of \$1.90, the closing price of CECO's common stock as of such date. Such options are exercisable at any time between February 6, 2004 and 60 days after he ceases to be a director of the Company or any of its subsidiaries and are not transferable other than by will or the laws of descent. Mr. Lazar also receives an annual amount of \$20,000, paid in quarterly installments for serving as director, \$4,000 per year paid in quarterly installments for serving as Chairman of the audit committee, and \$1,000 for every formal board meeting and audit meeting he attends. Mr. Lazar's reasonable travel expenses will be reimbursed by us. In 2003, Mr. Lazar received \$18,000 in director's fees, \$3,600 in audit committee chair fees (both prorated to account for his becoming a director in February 2003), \$3,000 for attendance at three formal meetings, and \$1,188 for travel expense reimbursement. Mr. Lazar has agreed to attend at least one audit meeting a quarter and such other audit committee meetings that are determined to be necessary by the audit committee.

No other of our directors received consideration for serving in their capacity as directors of the Company or as members of any committee of the Board of Directors during its last fiscal year. Directors Richard Blum and Phillip DeZwirek receive compensation in their capacities as executive officers.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder TransactionsBeneficial Ownership of Shares

The following table sets forth the name and address of each beneficial owner of more than five percent (5%) of our common stock known to us, the number of shares of our common stock beneficially owned as of March 15, 2004, and the percent of the class so owned by each such person.

Name and Address Of Beneficial Owner	No. of Shares of Common Stock Beneficially Owned	% of Total Common Shares Outstanding ¹
Phillip DeZwirek ^{2,3} Chief Executive Officer and Chairman of the Board 505 University Avenue Suite 1400 Toronto, Ontario M5G 1X3	4,657,457	38.1%
Jason Louis DeZwirek ^{2,4,5} Secretary 247 Erskine Avenue Toronto, Ontario M4P 1Z6	3,845,426	38.4%
Icarus Investment Corp. ^{2,6} 505 University Avenue Suite 1400 Toronto, Ontario M5G 1X3	2,221,760	22.3%
IntroTech Investments, Inc. ⁴ 247 Erskine Avenue Toronto, Ontario M4P 1Z6	1,598,666	16.0%
Can-Med Technology, Inc. ⁶ d/b/a Green Diamond Oil Corp. 505 University Avenue, Suite 1400	887,400	8.9%

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Toronto, Ontario M5G 1X3

Crestview Capital Fund L.P.⁷

95 Revere Drive, Suite F

Northbrook, IL 60062

582,171

5.7%

Harvey Sandler⁸

17591 Lake Estates Drive

Boca Raton, FL 33496

511,000

5.1%

¹ Based upon 9,984,974 shares of our common stock outstanding as of March 15, 2004. For each named person, this percentage includes Common Stock of which such person has the right to acquire beneficial ownership either currently or within 60 days of March 15, 2004, including, but not limited to, upon the exercise of an option; however, such Common Stock shall not be deemed outstanding for the purpose of computing the percentage owned by any other person.

- ² Icarus Investment Corp. (Icarus) is owned 50% by Phillip DeZwirek and 50% by Jason Louis DeZwirek. Ownership of the shares of common stock of CECO owned by Icarus Investment Corp. also are attributed to both Messrs. Phillip DeZwirek and Jason Louis DeZwirek. With respect to the shares owned by Icarus, Icarus has sole dispositive and voting power and Phillip DeZwirek and Jason Louis DeZwirek are deemed to have shared voting and shared dispositive power.
- ³ Includes (i) 750,000 shares of our common stock that Phillip DeZwirek can purchase on or prior to November 7, 2006 from CECO at a price of \$1.75 per share pursuant to warrants granted to Mr. DeZwirek by the Company on November 7, 1996; (ii) 250,000 shares that may be purchased pursuant to warrants granted January 14, 1998 at a price of \$2.75 per share prior to January 14, 2008; (iii) 250,000 shares of our common stock that may be purchased pursuant to warrants granted September 14, 1998 at a price of \$1.626 per share prior to September 14, 2008; (iv) 500,000 shares that may be purchased pursuant to warrants granted to Mr. DeZwirek by the Company January 22, 1999, which are exercisable prior to January 22, 2009 at a price of \$3.00 per share; and (v) 500,000 shares that may be purchased pursuant to warrants granted to Mr. DeZwirek by CECO August 14, 2000, which are exercisable prior to August 14, 2010 at a price of \$2.0625 per share.
- ⁴ IntroTech Investments, Inc. (IntroTech) is owned 100% by Jason Louis DeZwirek. Ownership of the shares of common stock of CECO owned by IntroTech also are attributed to Jason Louis DeZwirek. IntroTech and Jason Louis DeZwirek are each deemed to have sole dispositive and sole voting power with respect to such shares.
- ⁵ Includes 25,000 shares of our common stock that Jason Louis DeZwirek can purchase on or prior to October 5, 2011 at a price of \$2.01 per share pursuant to options granted to Mr. DeZwirek on October 5, 2001.
- ⁶ 50.1% of the shares of Green Diamond are owned by Icarus. Ownership of the shares of common stock of Green Diamond also are attributed to Icarus. Icarus has voting and dispositive power, with respect to such shares which is shared with the other shareholders of Green Diamond.
- ⁷ Includes 216,667 shares of common stock that Crestview Capital Fund L.P. can purchase on or prior to December 31, 2006 from CECO at a price of \$3.60 per share pursuant to warrants granted December 31, 2001.
- ⁸ Includes 20,000 shares held in the name of Phyllis Sandler, Mr. Sandler's spouse.

Security Ownership of Management

As of March 15, 2004, the present directors and executive officers of the Company are the beneficial owners of the numbers of shares of our common stock set forth below:

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares of Common Stock Beneficially Owned</u>	<u>% Total Company Common Shares Outstanding¹</u>
Phillip DeZwirek ² 505 University Avenue Suite 1400 Toronto, Ontario M5G 1P7	4,657,457	38.1%
Jason Louis DeZwirek ³ 247 Erskine Avenue Toronto, Ontario M4P 1Z6	3,845,426	38.4%
Richard J. Blum ⁴ 3120 Forrer Street Cincinnati, Ohio 45209	499,241	4.8%
David D. Blum ⁵ 3120 Forrer Street Cincinnati, Ohio 45209	355,019	3.4%
Donald A. Wright ⁶ 4538 Cass Street San Diego, California 92109	50,000	0.5%
Marshall J. Morris ⁷ 3120 Forrer Street Cincinnati, Ohio 45209	50,600	0.5%
Melvin F. Lazar ⁸ 400 East 56th Street Apt. 16N New York, NY 10022	10,000	0.1%

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Josephine Grivas

505 University Avenue

Suite 1400

Toronto, Ontario M5G 1P7

Officers and	7,245,983	55.1%
Directors as a group (8 persons)		

¹ See Note 1 to the foregoing table.

- ² See Notes 2 and 3 to the foregoing table.
- ³ See Notes 2, 4 and 5 to the foregoing table.
- ⁴ Includes 448,000 shares of our common stock that Mr. Richard Blum has the right to purchase for \$2.9375 per share pursuant to a warrant granted to Mr. Richard Blum on December 7, 1999, in connection with the acquisition of Kirk & Blum and kbd/Technic. Also includes 25,000 shares that may be purchased pursuant to Options granted to Mr. Blum October 5, 2001, at a price of \$2.01 per share.
- ⁵ Includes 335,000 shares of our common stock that Mr. David Blum has the right to purchase for \$2.9375 per share pursuant to a warrant granted to Mr. David Blum on December 7, 1999, in connection with the acquisition of Kirk & Blum and kbd/Technic.
- ⁶ Includes (i) 10,000 shares of our common stock that may be purchased pursuant to Options granted June 30, 1998, at a price of \$2.75 per share prior to June 30, 2008; (ii) 5,000 shares of our common stock that may be purchased pursuant to Options granted September 18, 2000 at a price of \$2.0625 per share prior to September 18, 2010; and (iii) 10,000 shares that may be purchased pursuant to Options granted October 5, 2001 at a price of \$2.01 per share.
- ⁷ Includes 400 shares held in the name of Cynthia S. Morris, the spouse of Mr. Morris. Also includes 40,000 shares of our common stock that may be purchased pursuant to options granted to Mr. Morris to purchase 50,000 shares of our common stock on January 20, 2000. This option became exercisable on January 20, 2001, with respect to 10,000 of such shares, on January 20, 2002 with respect to another 10,000 shares, on January 20, 2003 with respect to another 10,000 of such shares, and on January 20, 2004 with respect to 10,000 shares. The additional 10,000 shares become exercisable January 20, 2005. The exercise price of the options is \$2.50 per share.
- ⁸ Includes 10,000 shares of our common stock Mr. Lazar has the right to purchase for \$1.90 per share, pursuant to Options granted Mr. Lazar on February 6, 2003.

Securities Authorized for Issuance Under Equity Compensation Plans

Equity Compensation Plan Information

December 31, 2003

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights, compensation plans	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	168,700	\$ 2.54	1,331,300
Equity compensation plans not approved by security holders	3,285,000 ¹	\$ 2.42	None
TOTAL	3,453,700	\$ 2.43	1,331,300

¹ Includes:

- (a) a warrant to purchase 448,000 shares of Common Stock for \$2.9375 per share granted to Mr. Richard Blum on December 7, 1999, in connection with the acquisition of Kirk & Blum and kbd/Technic;
- (b) a warrant to purchase 335,000 shares of Common Stock for \$2.9375 per share granted to Mr. David Blum on December 7, 1999, in connection with the acquisition of Kirk & Blum and kbd/Technic;
- (c) a warrant to purchase 217,000 shares of Common Stock for \$2.9375 per share granted to Mr. Larry Blum on December 7, 1999, in connection with the acquisition of Kirk & Blum and kbd/Technic;
- (d) 25,000 shares of common stock that Mr. Jason DeZwirek can purchase on or prior to October 5, 2011 at a price of \$2.01 per share pursuant to options granted to Mr. Jason DeZwirek on October 5, 2001;
- (e) (i) 750,000 shares of common stock that Mr. Phillip DeZwirek can purchase on or prior to November 7, 2006 at a price of \$1.75 per share pursuant to warrants granted to Mr. Phillip DeZwirek on November 7, 1996; (ii) 250,000 shares that may be purchased pursuant to warrants granted January 14, 1998 at a price of \$2.75 per share prior to January 14, 2008; (iii) 250,000 shares of common stock that may be purchased by Mr. Phillip DeZwirek pursuant to warrants granted September 14, 1998 at a price of \$1.626 per share prior to September 14, 2008; (iv) 500,000 shares that may be purchased pursuant to warrants granted to Mr. Phillip DeZwirek January 22, 1999, which are exercisable prior to January 22, 2009 at a price of \$3.00 per share; and (v) 500,000 shares that may be purchased pursuant to warrants granted to Mr. Phillip DeZwirek August 14, 2000, which are exercisable prior to August 14, 2010 at a price of \$2.0625 per share; and
- (f) 10,000 shares of common stock that Mr. Donald Wright can purchase pursuant to options granted June 30, 1998 at a price per share of \$2.75 prior to June 30, 2008.

Item 13. Certain Relationships and Related Transactions

Certain Transactions

Since January 1, 2003, the following transactions have occurred in which persons who, at the time of such transactions, were directors, officers or owners of more than 5% of our common stock, had a direct or indirect material interest.

As a condition to obtaining our current bank facility, we placed \$5 million of subordinated debt. Green Diamond provided \$4,000,000 of the subordinated debt (the Sub Debt). The promissory notes which were issued to evidence the subordinated debt provide that they accrue interest at the rate of 12% per annum, payable semi-annually. Actual payment is subject to the subordination agreement with the banks providing the Bank Facility.

During the fiscal year ended December 31, 2003, we reimbursed Green Diamond \$5,000 per month for use of the space and other office expenses of the Company's Toronto office. Green Diamond is owned 50.1% by Icarus Investment Corp., which is controlled by Phillip DeZwirek, the Chief Executive Officer and Chairman of the Board of CECO, and Jason Louis DeZwirek, the Secretary and a director of the Company.

During the fiscal year ended December 31, 2003, we paid fees of \$250,000 to Green Diamond for management consulting services. The services were provided by Phillip DeZwirek, the Chief Executive Officer and Chairman of the Board of CECO, through Green Diamond. Such amount is included as compensation paid to Mr. DeZwirek under Executive Compensation.

On September 30, 2003, Green Diamond provided \$1,200,000 of subordinated debt to the Company. The proceeds were used to pay down our credit facility. The note issued to evidence the loan has a maturity date of April 30, 2005, or earlier if certain significant transactions occur, such as upon the sale of the stock or assets of the company or other change in control. Interest accrues at the rate of 6% per annum, and is payable on March 31 and September 30 of each year, commencing March 31, 2004. Payment of the note is subject to the subordination agreement with the banks providing the Bank Facility. In addition, payment may not be made if there is a default by the Company under the notes evidencing the Sub Debt.

Item 14. Principal Accountant Fees and ServicesFees Paid to Deloitte & Touche LLP

The following table sets forth the fees paid for services provided by Deloitte & Touche LLP during the fiscal years ended December 31, 2002 and December 31, 2003.

	<u>2003</u>	<u>2002</u>
Audit Fees	\$ 163,000	\$ 152,996
Audit-Related Fees	8,000	14,600
Tax Fees	60,475	59,228
All Other Fees	0	3,689
Total	\$ 231,475	\$ 230,513

The following is a description of the nature of the services comprising the fees disclosed in the table above for each of the four categories of services. The Audit Committee has considered whether providing non-audit services is compatible with maintaining Deloitte & Touche LLP's independence.

Audit Fees. These are fees for professional services rendered by Deloitte & Touche LLP for the audit of our annual consolidated financial statements, the review of financial statements included in Quarterly Reports on Form 10-Q, and services that are normally rendered in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. These are fees for assurance and related services rendered by Deloitte & Touche LLP that are reasonably related to the performance of the audit or the review of our financial statements that are not included as audit fees. These services include work associated with the Company's registration statement on Form S-1 and the Post-Effective Amendment on Form S-3 to Form S-1/A.

Tax Fees. These are fees for professional services rendered by Deloitte & Touche LLP with respect to tax compliance, tax advice and tax planning. These services include tax return preparation, tax consulting associated with inventory, and consulting on tax planning matters.

All Other Fees. These are fees for other services rendered by Deloitte & Touche LLP that do not meet the above category descriptions. These services include consulting on real estate accounting matters.

Audit Committee Pre-Approval Policy

The Audit Committee is responsible for pre-approving all audit services and permitted non-audit services (including the fees and retention terms) to be performed for the Company by Deloitte & Touche LLP prior to their engagement for such services. The Audit Committee has delegated to each of its members the authority to grant pre-approvals, such approvals to be presented to the full

Committee at the next scheduled meeting. None of the fees paid to Deloitte & Touche LLP under the categories Audit-Related, Tax and All Other were approved by the Audit Committee after the services were rendered pursuant to the de minimis exception established by the SEC.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial statements are set forth in this report following the signature page of this report.

2. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

3. Exhibit Index. The exhibits listed below, as part of Form 10-K, are numbered in conformity with the numbering used in Item 601 of Regulation S-K of the Securities and Exchange Commission.

2.1 Agreement and Plan of Reorganization dated August 13, 1997 between CECO, the Company and Steven I. Taub. (Incorporated by reference from Form 10-KSB dated December 31, 1997 of the Company)

2.2 Certificate of Ownership and Merger Merging CECO Environmental Corp. into CECO Environmental Corp. (Incorporated by reference from Form 10-K dated December 31, 2001)

2.3 Certificate of Merger of CECO Environmental Corp. into CECO Environmental Corp. Under Section 907 of the Business Corporation Law. (Incorporated by reference from Form 10-K dated December 31, 2001)

3(i) Certificate of Incorporation. (Incorporated by reference from Form 10-K dated December 31, 2001)

3(ii) Bylaws. (Incorporated by reference from Form 10-K dated December 31, 2001)

10.1 CECO Filters, Inc. Savings and Retirement Plan. (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1990)

** 10.2 CECO Environmental Corp. 1997 Stock Option Plan and Amendment. (Incorporated by reference from Form S-8, Exhibit 4, filed March 24, 2000, of the Company)

10.3 1999 CECO Environmental Corp. Employee Stock Purchase Plan. (Incorporated by reference from Form S-8, filed September 22, 1999 of the Company)

10.4 Mortgage dated October 28, 1991 by CECO and the Montgomery County Industrial Development Corporation (MCIDC). (Incorporated by reference from CECO s Annual Report on Form 10-K for the fiscal year ended December 31, 1991)

10.5 Installment Sale Agreement dated October 28, 1991 between CECO and MCIDC. (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)

10.6 Lease dated as of March 10, 1992 between CECO and BTR North America, Inc. (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)

10.7 Consulting Agreement dated as of January 1, 1994 and effective as of July 1, 1994 between the Company and CECO. (Incorporated by reference to Form 10-QSB dated September 30, 1994 of the Company)

** 10.8 Warrant Agreement dated as of November 7, 1996 between the Company and Phillip DeZwirek. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1996)

** 10.9 Warrant Agreement dated as of January 14, 1998 between the Company and Phillip DeZwirek. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1998)

10.10 Lease between Busch Co. and Richard Roos dated January 10, 1980, Amendment to Lease dated August 1, 1988 between Busch Co. and Richard Roos, Amendment to Lease dated May 21, 1991 between Richard A. Roos and Busch Co. and Amendment to Lease dated June 1, 1991 between JDA, Inc. and Busch Co. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1997)

10.11 Assignment of Lease dated September 25, 1997 among Richard A. Roos, JDA, Inc., Busch Co. and New Busch Co., Inc. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1998)

10.12 Lease between Joseph V. Salvucci and Busch Co. dated October 17, 1994. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1997)

** 10.13 Warrant Agreement dated as of September 14, 1998 between the Company and Phillip DeZwirek. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1998)

** 10.14 Warrant Agreement dated as of January 22, 1999 between the Company and Phillip DeZwirek. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1998)

** 10.15 Option for the Purchase of Shares of Common Stock for Donald Wright dated June 30, 1998. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1998)

10.16 Stock Purchase Agreement, dated as of December 7, 1999, among CECO Environmental Corp., CECO Filters, Inc. and the Stockholders of The Kirk & Blum Manufacturing Company and kbd/Technic, Inc. and Richard J. Blum, Lawrence J. Blum and David D. Blum. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

** 10.17 Employment Agreement, dated as of December 7, 1999, between Richard J. Blum and CECO Group, Inc. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

** 10.18 Stock Purchase Warrant, dated as of December 7, 1999, granted by CECO Environmental Corp. to Richard J. Blum. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

** 10.19 Employment Agreement, dated as of December 7, 1999, between Lawrence J. Blum and The Kirk & Blum Manufacturing Company. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

** 10.20 Stock Purchase Warrant, dated as of December 7, 1999, granted by CECO Environmental Corp. to Lawrence J. Blum. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

** 10.21 Employment Agreement, dated as of December 7, 1999, between David D. Blum and The Kirk & Blum Manufacturing Company. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

** 10.22 Stock Purchase Warrant, dated as of December 7, 1999, granted by CECO Environmental Corp. to David D. Blum. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

10.23 Credit Agreement, dated as of December 7, 1999, among PNC Bank, National Association, The Fifth Third Bank, and Bank One, N.A. and PNC Bank, National Association as agent, and CECO Group, Inc., CECO Filters, Inc., Air Purator Corporation, New Busch Co., Inc., The Kirk & Blum Manufacturing Company and kbd/Technic, Inc. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

10.24 Kbd/Technic, Inc. Voting Trust Agreement, dated as of December 7, 1999, Richard J. Blum, trustee. (Incorporated by reference from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

10.25 Amendment to Credit Agreement dated March 28, 2000. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 1999)

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10.26 Letter Agreement between PNC Bank and CECO Group, Inc., dated September 28, 2000. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 2000)

10.27 Second Amendment to Credit Agreement dated November 19, 2000. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 2000)

** 10.28 Stock Option Agreement for Donald A. Wright dated September 18, 2000. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 2000)

** 10.29 Warrant Agreement dated as of August 14, 2000 between the Company and Phillip DeZwirek. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 2000)

** 10.30 Incentive Stock Option Agreement for Marshall J. Morris dated as of January 20, 2000. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 2000)

* 10.31 Second Amended and Restated Replacement Promissory Note in the amount of \$4,000,000, dated as of May 28, 2002, made by CECO Environmental Corp. and payable to Green Diamond Oil Corp.

10.32 Amended and Restated Replacement Promissory Note in the amount of \$500,000, dated as of May 1, 2001, made by CECO Environmental Corp. and payable to Harvey Sandler. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 2001)

* 10.33 Second Amended and Restated Replacement Promissory Note in the amount of \$500,000, dated as of May 28, 2002, made by CECO Environmental Corp. and payable to ICS Trustee Services, Ltd.

10.34 Third Amendment to Credit Agreement dated March 30, 2001. (Incorporated by reference from the Company's Form 10-KSB dated December 31, 2000)

10.35 Fourth Amendment to Credit Agreement dated August 20, 2001. (Incorporated by reference from Form 10-K dated December 31, 2001)

10.36 Fifth Amendment to Credit Agreement dated March 27, 2002. (Incorporated by reference from Form 10-K dated December 31, 2001)

** 10.37 Option for the Purchase of Shares of Common Stock of Jason Louis DeZwirek dated October 5, 2001. (Incorporated by reference from Form 10-K dated December 31, 2001)

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10.38 Asset Purchase Agreement between Belfiber Co. and Air Purator Corporation dated December 31, 2001. (Incorporated by reference from Form 10-K dated December 31, 2001)

10.39 Subscription Agreement dated December 31, 2001. (Incorporated by reference from the Company's Form 8-K filed January 15, 2002)

10.40 Form of Warrant (for Investors). (Incorporated by reference from the Company's Form 8-K filed January 15, 2002)

10.41 Form of Warrant (for Finders). (Incorporated by reference from Form 10-K dated December 31, 2001)

10.42 Sixth Amendment to Credit Agreement dated May 14, 2002. (Incorporated by reference from the Company's Form 10-K dated December 31, 2002)

10.43 Seventh Amendment to Credit Agreement dated November 13, 2002. (Incorporated by reference from the Company's Form 10-K dated December 31, 2002)

10.44 Amendment to Pledge Agreement dated November 13, 2002. (Incorporated by reference from the Company's Form 10-K dated December 31, 2002)

* 10.45 Promissory Note in the amount of \$1,200,000 dated as of September 30, 2003, made by CECO Environmental Corp. and payable to Green Diamond Oil Corp.

* 10.46 Intercreditor Agreement among PNC Bank, National Association, Fifth Third Bank and Bank One, NA dated November 13, 2003.

* 10.47 Eighth Amendment to Credit Agreement dated November 13, 2003.

* 10.48 Lease Agreement between LFT Realty Group and CECO Filters, Inc. dated April 13, 2003.

* 10.49 Agreement of Sale and Purchase of Real Estate dated April 10, 2003 between Plymouth Industrial Center, Inc. and CECO Filters, Inc.

* 10.50 Purchase Agreement between Cincinnati Galleria, LLC and The Kirk & Blum Manufacturing Company dated November 20, 2003. Portions of such document have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.

* 10.51 Amendment to Purchase Agreement between Cincinnati Galleria, LLC and The Kirk & Blum Manufacturing Company dated February 27, 2004.

* 14 Code of Ethics

* 21 Subsidiaries of the Company

* 23.1 Consent of Independent Registered Public Accounting Firm

* 31.1 Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer

* 31.2 Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer

* 32.1 Certification of Chief Executive Officer (18 U.S. Section 1350)

* 32.2 Certification of Chief Financial Officer (18 U.S. Section 1350)

* Filed herewith

** Management contracts or compensation plans or arrangements

(b) Reports on Form 8-K

The Company did not file a report on Form 8-K during the fiscal quarter ended December 31, 2003.

(c) See Exhibit Index in 15(a) 3 above.

(d) See 15(a) 2 above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CECO ENVIRONMENTAL CORP.

By: /s/ Phillip DeZwirek
Phillip DeZwirek,
Chief Executive Officer
Dated: April 14, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Principal Executive Officer

/s/ Phillip DeZwirek
Phillip DeZwirek, Chairman of the Board,

April 14, 2005

Director and Chief Executive Officer

Principal Financial and Accounting Officer

/s/ Dennis W. Blazer
Dennis W. Blazer,
Vice President-Finance and Administration;

April 14, 2005

Chief Financial Officer

/s/ Richard J. Blum
Richard J. Blum, President,
Director

April 14, 2005

/s/ Jason Louis DeZwirek
Jason Louis DeZwirek, Director

April 14, 2005

/s/ Thomas J. Flaherty
Thomas J. Flaherty, Director

April 14, 2005

/s/ Melvin F. Lazar
Melvin F. Lazar, Director

April 14, 2005

/s/ Donald A. Wright
Donald A. Wright, Director

April 14, 2005

CECO ENVIRONMENTAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

CECO Environmental Corp.

We have audited the accompanying consolidated balance sheets of CECO Environmental Corp. and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 18, the accompanying 2003, 2002 and 2001 consolidated financial statements have been restated.

/s/ DELOITTE & TOUCHE LLP

Cincinnati, Ohio

March 25, 2004 (March 31, 2005 as to the effects of the restatement discussed in Note 18)

CECO ENVIRONMENTAL CORP.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2003	2002
	As Restated See Note 18	
	Dollars in thousands except per share data	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136	\$ 194
Accounts receivable, net	11,398	12,037
Costs and estimated earnings in excess of billings on uncompleted contracts	3,340	4,124
Inventories	1,575	2,055
Prepaid expenses and other current assets	1,983	2,151
	<u> </u>	<u> </u>
Total current assets	18,432	20,561
Property and equipment, net	9,987	12,122
Goodwill, net	9,527	9,527
Intangible assets finite life, net	816	894
Intangible assets indefinite life	1,395	1,395
Deferred charges and other assets	997	1,015
	<u> </u>	<u> </u>
	\$ 41,154	\$ 45,514
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt	\$ 2,094	\$ 2,120
Accounts payable and accrued expenses	11,309	11,765
Billings in excess of costs and estimated earnings on uncompleted contracts	1,320	1,652
	<u> </u>	<u> </u>
Total current liabilities	14,723	15,537
Other liabilities	2,591	2,137
Debt, less current portion	7,863	12,164
Deferred income tax liability	2,422	2,932
Subordinated notes (including, related party \$5,100 and \$3,634, respectively)	5,525	4,038
	<u> </u>	<u> </u>
Total liabilities	33,124	36,808
	<u> </u>	<u> </u>
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, none issued		
Common stock, \$.01 par value; 100,000,000 shares authorized, 10,786,194 and 10,390,956 shares issued in 2003 and 2002, respectively	108	104
Capital in excess of par value	16,329	16,313
Accumulated deficit	(5,709)	(5,042)

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Accumulated other comprehensive loss	(894)	(865)
	<u>9,834</u>	<u>10,510</u>
Less treasury stock, at cost, 801,220 shares in 2003 and 2002	(1,804)	(1,804)
	<u>8,030</u>	<u>8,706</u>
Total shareholders' equity	\$ 41,154	\$ 45,514
	<u>\$ 41,154</u>	<u>\$ 45,514</u>

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

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CECO ENVIRONMENTAL CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2003	2002	2001
	As restated see note 18 Dollars in thousands, except per share data		
Net sales	\$ 68,159	\$ 78,575	\$ 90,809
Costs and expenses:			
Cost of sales, exclusive of items shown separately below	55,148	62,985	72,462
Selling and administrative	10,402	11,902	13,199
Depreciation and amortization	1,245	1,479	2,100
	66,795	76,366	87,761
Income from operations	1,364	2,209	3,048
Other income	213	204	396
Interest expense (including related party interest of \$817, \$799 and \$710, respectively)	(2,611)	(3,054)	(3,762)
Loss from operations before income taxes	(1,034)	(641)	(318)
Income tax (benefit) provision	(367)	(335)	62
Net loss	\$ (667)	\$ (306)	\$ (380)
Net loss per share basic and diluted	\$ (.07)	\$ (.03)	\$ (.05)
Weighted average number of common shares outstanding:			
Basic and diluted	9,852,280	9,582,011	7,899,092

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

CECO ENVIRONMENTAL CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock		Capital in Excess of Accumulated	Accumulated Other Comprehensive		Treasury Stock		Total Comprehensive	
	Shares	Amount		Par Value	Deficit	Loss	Shares	Amount	Total
	Dollars in thousands								
Balance, December 31, 2000									
As Restated see note 18	8,640	\$ 86	\$ 12,592	\$ (4,356)	\$ (34)	(764)	\$ (1,686)	\$ 6,602	
Cumulative effect of change in accounting principle-adoption of SFAS No. 133, net of tax \$140					(209)			(209)	\$ (209)
Net loss for the year ended December 31, 2001									
As Restated see note 18				(380)				(380)	(380)
Exercise of warrants	1,000	10	2,240					2,250	
Issuance of common stock	738	8	1,132					1,140	
Contingent stock warrants issued			340					340	
Other comprehensive loss:									
Minimum pension liability, net of tax \$275					(413)			(413)	(413)
Change in fair value of swap, net of tax \$20					(31)			(31)	(31)
Balance, December 31, 2001									
As Restated see note 18	10,378	104	16,304	(4,736)	(687)	(764)	(1,686)	9,299	\$ (1,033)
Net loss for the year ended December 31, 2002									
As Restated see note 18				(306)				(306)	\$ (306)
Issuance of common stock	13		9				9		
Treasury stock purchases						37	(118)	(118)	
Other comprehensive loss:									
Minimum pension liability, net of tax \$278					(418)			(418)	(418)
Maturity of swap, net of tax \$160					240			240	240
Balance, December 31, 2002									
As Restated see note 18	10,391	104	16,313	(5,042)	(865)	(801)	(1,804)	8,706	\$ (484)
Net loss for the year ended December 31, 2003									
As Restated see note 18				(667)				(667)	\$ (667)
Issuance of common stock	13		20					20	
Issuance of common stock under contingent stock warrants	382	4	(4)						
Other comprehensive loss:									
Minimum pension liability, net of tax \$20					(29)			(29)	(29)
Balance, December 31, 2003									
As Restated see note 18	10,786	\$ 108	\$ 16,329	\$ (5,709)	\$ (894)	(801)	\$ (1,804)	\$ 8,030	\$ (696)

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

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CECO ENVIRONMENTAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2003	2002	2001
	As restated see note 18 Dollars in thousands		
Cash flows from operating activities:			
Net loss	\$ (667)	\$ (306)	\$ (380)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	1,245	1,479	2,100
Non cash gains included in net loss	(213)		
Deferred income taxes	(310)	(178)	34
Gain on sale of business		(250)	
Gain on sale of marketable securities, trading			(388)
Changes in operating assets and liabilities:			
Marketable securities trading			1,390
Accounts receivable	639	4,963	372
Costs and estimated earnings in excess of billings on uncompleted contracts	784	587	(288)
Inventories	480	102	216
Prepaid expenses and other current assets	(72)	(1,006)	(767)
Deferred charges and other assets	(330)	(40)	(440)
Accounts payable and accrued expenses	(456)	(1,040)	852
Other liabilities	265	(264)	(40)
Billings in excess of costs and estimated earnings on uncompleted contracts	(332)	(943)	1,420
Other	560	597	301
Net cash provided by operating activities	1,593	3,701	4,382
Cash flows from investing activities:			
Acquisitions of property and equipment and intangible assets	(112)	(240)	(793)
Divestiture of businesses and other		470	
Proceeds from sale of property	1,568		
Net cash provided by (used in) investing activities	1,456	230	(793)
Cash flows from financing activities:			
Net (repayments) borrowings on revolving credit line	(1,198)	700	(800)
Proceeds from issuance of stock and detachable warrants	20	9	4,377
Stock issuance expense		(443)	
Repayments of debt	(3,129)	(4,080)	(7,952)
Proceeds from subordinated debt	1,200		
Proceeds from borrowing against cash surrender value of life insurance		142	175
Purchases of treasury stock		(118)	
Net cash used in financing activities	(3,107)	(3,790)	(4,200)
Net increase (decrease) in cash and cash equivalents	(58)	141	(611)

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Cash and cash equivalents at beginning of year	194	53	664
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of year	\$ 136	\$ 194	\$ 53
	<u> </u>	<u> </u>	<u> </u>
Supplemental disclosures of cash flow information:			
Cash paid (refunded) during the year for:			
Interest	\$ 1,331	\$ 2,578	\$ 2,693
	<u> </u>	<u> </u>	<u> </u>
Income taxes	\$ (183)	\$ 335	\$ 673
	<u> </u>	<u> </u>	<u> </u>

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

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2003, 2002 and 2001

(Dollars in thousands, except per share amounts)

1. Nature of Business and Summary of Significant Accounting Policies

Nature of business The principal businesses of CECO Environmental Corp. provide innovative solutions to industrial ventilation and air quality problems through dust, mist and fume control systems and particle and chemical technologies to industrial and commercial customers, primarily in the United States.

Principles of consolidation Our consolidated financial statements include the accounts of the following subsidiaries:

	<u>% Owned As Of December 31, 2003</u>
CECO Group, Inc. (Group)	100%
CECO Filters, Inc. and Subsidiaries (CFI)	99%
The Kirk & Blum Manufacturing Company (K&B)	100%
kbd/Technic, Inc (kbd)	100%
CECO Abatement Systems, Inc (CAS) .	100%

CFI includes a wholly owned subsidiary, New Busch Co., Inc. (Busch). In 2002, we increased our ownership in CFI from 94% to 99% by contributing our intercompany receivable from CFI and receiving in exchange additional shares of CFI. Minority interest is not material and is included in other liabilities in the consolidated financial statements.

All material intercompany balances and transactions have been eliminated.

Business Segment Information Our structure and operational integration results in one segment that focuses on engineering, designing, building and installing systems that remove airborne contaminants from industrial facilities, as well as equipment that controls emissions from such facilities. Accordingly, the condensed consolidated financial statements herein reflect the operating results of the segment.

Divestiture of Businesses In December 2001, we sold the fixed assets and inventory of Air Purator Corporation (APC) and received notes totaling \$475. The notes which were due primarily in March 2002 were secured by the assets of APC. At December 31, 2001, we deferred the gain on sale of \$250 until collection was reasonably assured. However, the purchaser defaulted on the loan, and we commenced foreclosure proceedings in May 2002. We subsequently sold the assets to the former general manager of APC on July 31, 2002 and recognized a gain on the sale during the third and fourth quarters of 2002 totaling \$250. The net assets and operations of APC were not material to our consolidated financial statements.

We sold the assets of Busch Martec during 2002 because these assets no longer served our vision for future operations. Busch Martec's assets were not material to our consolidated financial statements.

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

Cash and cash equivalents We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments in marketable securities Investments in marketable securities are generally comprised of corporate common stock securities. These investments generally are classified as trading securities, which are carried at their fair value based on quoted market prices. Accordingly, net realized and unrealized gains and losses on trading securities and interest income are included in other (expense) income. Realized gains and losses are recorded based on the specific identification method. The fair value of investments in marketable securities at December 31, 2003 totaled \$393, of which \$382 is restricted for bonding purposes. These investments are included in prepaid expenses and other current assets in the consolidated balance sheets.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Inventories The labor content of work-in-process and finished products and substantially all inventories of steel at our Cincinnati Facility (approximately 69% and 70% of total inventories at December 31, 2003 and 2002, respectively) are valued at the lower of cost or market using the last-in, first-out (LIFO) method. All other inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) method. The LIFO method of inventory valuation for all classes of inventory approximated the FIFO value at December 31, 2003 and 2002.

Accounting for long-lived assets Our policy is to assess the recoverability of long-lived assets when there are indications of potential impairment and the undiscounted cash flows estimated to be generated by those assets are less than the carrying value of such assets.

Property and equipment Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to income as incurred. Depreciation and amortization are computed using the straight-line and accelerated methods over the estimated useful lives of the assets, which range from 12 to 40 years for building and improvements and 3 to 10 years for machinery and equipment.

Intangible assets Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents. The ratable amortization of the goodwill associated with acquisitions and other intangible assets with indefinite lives was replaced with periodic tests for impairment with our adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets on January 1, 2002. Other intangible assets with finite lives are being amortized on a straight-line basis over their estimated useful lives, which range from 5 to 17 years. In accordance with SFAS No. 142, we ceased amortization of goodwill and intangible assets with indefinite lives effective January 1, 2002. The ceasing of the amortization of such assets resulted in a reduction in amortization expense of \$476 for the year ended December 31, 2002. During 2002, we evaluated the fair value of intangible assets with indefinite lives and goodwill and determined that the fair values were in excess of the carrying values of such assets. In the fourth quarter of 2003, we completed our annual tests for impairment and determined that the fair values of these net assets continue to be in excess of the carrying values of such assets.

Cash Surrender Value of Life Insurance We have whole life insurance policies in force on the lives of six former shareholders of certain subsidiaries. These policies were purchased by these subsidiaries prior to their acquisition by CECO Environmental, Inc. in 1999 and were originally intended to provide funding for repurchasing shares in the event of the death of a shareholder. The policies are fully paid up and the cash surrender values have been borrowed to pay premiums and interest on the policy loans, and to provide an occasional low cost source of financing for the Company. Interest on the policy loans is expensed and the loan amounts on the cash surrender values are increased to cover payment of this expense. The net value of these policies, reported as other long term assets, was \$423, \$120 and \$261 as of December 31, 2003, 2002 and 2001, respectively.

Had we adopted SFAS No. 142 at the beginning of 2001, net income (loss) for the years ended December 31, 2003, 2002 and 2001 would have been adjusted as follows:

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	<u>2003</u>	<u>2002</u>	<u>2001</u>
Reported net loss	\$ (667)	\$ (306)	\$ (380)
Add back: Goodwill amortization, net of tax of \$138			206
Tradename amortization, net of tax of \$53			79
	<u> </u>	<u> </u>	<u> </u>
Adjusted net loss	\$ (667)	\$ (306)	\$ (95)
	<u> </u>	<u> </u>	<u> </u>
Earnings (loss) per share basic and diluted:			
Reported net loss	\$ (.07)	\$ (.03)	\$ (.05)
Goodwill amortization			.02
Tradename amortization			.01
	<u> </u>	<u> </u>	<u> </u>
Adjusted net loss	\$ (.07)	\$ (.03)	\$ (.02)
	<u> </u>	<u> </u>	<u> </u>

Deferred charges Deferred charges primarily represent deferred financing costs, which are amortized over the life of the related loan. Amortization expense was \$336, \$310 and \$220 for 2003, 2002 and 2001, respectively.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Financial Instruments On January 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. Under this guidance all derivative instruments, including those embedded in other contracts are recognized as either assets or liabilities and those financial instruments are measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation. We recognized a transition obligation of \$209, net of tax of \$140, in other comprehensive loss in the first quarter ended March 31, 2001 from the adoption of SFAS 133.

We are exposed to market risk from changes in interest rates. Our policy is to manage interest rate costs using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, we may enter into interest rate swaps or other hedge type arrangements, in which we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Our interest rate swaps matured in 2002 and were not replaced.

Revenue recognition Revenues from contracts, representing the majority of our revenues, are recognized on the percentage of completion method, measured by the percentage of contract costs incurred to date compared to estimated total contract costs for each contract. This method is used because management considers contract costs to be the best available measure of progress on these contracts. Our remaining revenues are recognized when risk and title passes to the customer, which is generally upon shipment of product.

Contract costs include direct material, labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Selling and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in 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. At December 31, 2002, our reserve for estimated losses on uncompleted contracts was \$123. No provision for estimated losses on uncompleted contracts was necessary at December 31, 2003.

The asset, Costs and estimated earnings in excess of billings on uncompleted contracts, represents revenues recognized in excess of amounts billed. The liability, Billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

Claims The Company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. Unapproved change orders are accounted for in revenue and cost when it is probable that the costs will be recovered through a change in the contract price. In circumstances where recovery is considered probable but the revenues cannot be reliably estimated, costs attributable to change orders are deferred pending determination of contract price.

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Cost of sales Cost of sales amounts include materials, direct labor and associated benefits, inbound freight charges, purchasing and receiving, inspection, warehousing and internal transfer costs. Customer freight charges are included in sales and actual freight expenses are included in cost of sales.

Income taxes Deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse.

Selling and administrative expenses Selling and administrative expenses included sales and administrative wages and associated benefits, selling and office expenses, bad debt expense and change in life insurance cash surrender value.

Advertising costs Advertising costs are charged to operations in the year incurred and totaled \$171, \$153 and \$109 in 2003, 2002 and 2001, respectively.

Research and development Research and development costs are charged to expense as incurred. The amounts charged to operations were \$28, \$33 and \$104 in 2003, 2002 and 2001, respectively.

Earnings per share For the years ended December 31, 2003, 2002 and 2001, both basic weighted average common shares outstanding and diluted weighted average common shares outstanding were 9,852,280, 9,582,011 and 7,899,092, respectively. We consider outstanding options and warrants in computing diluted net loss per share only when they are dilutive. Options and warrants to purchase 3,453,700, 3,451,000 and 3,488,500 shares for the years ended December 31, 2003, 2002 and 2001, respectively, were not included in the computation

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

of diluted earnings per share due to their having an anti-dilutive effect. There were no adjustments to net loss for the basic or diluted earnings per share computations for any year presented.

Stock-based compensation We apply Accounting Principles Board Opinion No. 25 and related interpretations in the accounting for stock option plans. Under such method, compensation is measured by the quoted market price of the stock at the measurement date less the amount, if any, that the employee is required to pay. The measurement date is the first date on which the number of shares that an individual employee is entitled to receive and the option or purchase price, if any, are known. We did not incur any compensation expense in 2003, 2002 or 2001 related to our stock option plans. We adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* and related pronouncements.

The following table compares 2003, 2002 and 2001 as reported to the pro forma results, considering both options and warrants discussed in Note 11, had we adopted the expense recognition provision of SFAS No. 123:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net loss as reported	\$ (667)	\$ (306)	\$ (380)
Deduct: compensation cost based on fair value recognition, net of tax	(368)	(422)	(775)
Pro forma net loss under SFAS No. 123	<u>\$ (1,035)</u>	<u>\$ (728)</u>	<u>\$ (1,155)</u>
Basic and diluted loss per share:			
As reported	\$ (0.07)	\$ (0.03)	\$ (0.05)
Pro forma under SFAS No.123	(0.11)	(0.08)	(0.15)

Recent accounting pronouncements In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, requiring that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Implementation of SFAS No. 143 is required for fiscal 2003. The adoption of this statement on January 1, 2003 did not have an effect on our financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Among other amendments to previous pronouncements, which have already taken effect, a provision in the Statement requires certain gains and losses from extinguishment of debt to be reclassified from extraordinary items. The adoption of this statement on January 1, 2003 did not have an effect on our financial position or results of operations.

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In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The adoption of this statement did not have a material impact on our financial condition or results of operations.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure which we adopted January 1, 2003. The Statement provides alternative methods of transition for a voluntary change in the fair value method. We adopted the disclosure requirements effective December 31, 2002 and we are currently evaluating the voluntary change to the fair value method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

On April 30, 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain pre-existing contracts. We adopted SFAS No. 149 on a prospective basis at its effective date on July 1, 2003. The adoption of this statement did not have a material impact on our financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement was effective for financial instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003, except for mandatorily redeemable financial instruments. Mandatorily redeemable financial instruments are subject to the provisions of this statement beginning on January 1, 2004. We have not entered into or modified any financial instruments subsequent to May 31, 2003 affected by this statement nor do we have any mandatorily redeemable financial instruments. The adoption of this statement did not have a material impact on our financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45) Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations, it assumes under that guarantee. However, the provisions do not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions, which apply on a prospective basis beginning January 1, 2003, had no effect on our financial statements in 2003 because there were no guarantees issued or modified during this period. The disclosure requirements of FIN 45 were adopted December 31, 2002 and had no effect on our financial statement disclosures.

In December 2003, the FASB issued a revised FASB Interpretation No. 46, entitled Consolidation of Variable Interest Entities. As revised, the new interpretation requires that the Company consolidate all variable interest entities in its financial statements under certain circumstances. We will adopt the revised interpretation as of March 31, 2004 as required; however, the adoption of this interpretation currently is not expected to affect our financial condition or results of operations, as we do not have any interests in variable interest entities.

In November 2002, the FASB s Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF No. 00-21 provided guidance for revenue arrangements that involve the delivery or performance of multiple products or services where performance may occur at different points or over different periods of time. EITF No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003 (i.e., our fiscal 2004). We have not yet completed our assessment of the effect of the adoption, if any, of EITF Issue No. 00-21 on our financial condition or results of operations.

In December 2003, the FASB issued FASB Statement No. 132 (Revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits. The statement increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. We are required to segregate plan assets by category, such as debt, equity and real estate, and

to provide

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

certain expected rates of return and other informational disclosures. We have adopted the disclosure requirement of SFAS No. 132 for our December 31, 2003 financial statements, and we will be required to disclose various elements of pension and postretirement benefit costs in interim period financial statements for quarters beginning after December 15, 2003 (our first quarter of fiscal 2004 ending March 31).

2. Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets as well as obligations under accounts payable, long-term debt and subordinated notes. The carrying values of these financial instruments approximate fair value at December 31, 2003 and 2002 except for subordinated notes which fair value was \$5,560 and \$4,264, at December 31, 2003 and 2002, respectively.

Most of the debt obligations approximate their reported carrying amounts based on future payments discounted at current interest rates for similar obligations or interest rates which fluctuate with the market.

We did not hold any financial instruments for trading purposes at December 31, 2003 or 2002.

We entered into an interest rate swap agreement to convert variable rate debt to a fixed rate (see Note 9) that matured in 2002. The fair value of the swap at December 31, 2001, which was determined using discounted cash flow analysis based on current rates offered for similar issues of debt, was a liability of approximately \$400 and was recorded in other liabilities and accumulated other comprehensive loss, net of tax, in the accompanying consolidated balance sheets and consolidated statements of shareholders' equity, respectively.

Concentrations of credit risk:

Financial instruments that potentially subject us to credit risk consist principally of cash and accounts receivable. We maintain cash and cash equivalents with various major financial institutions. We perform periodic evaluations of the financial institutions in which our cash is invested. Concentrations of credit risk with respect to trade and contract receivables are limited due to the large number of customers and various geographic areas. Additionally, we perform ongoing credit evaluations of our customers' financial condition.

Union Contracts:

As of December 31, 2003, the Company's continuing operations included approximately 430 employees. Approximately 300 employees are represented by international or independent labor unions, under various contracts that expire in the years 2005 through 2008.

3. Accounts Receivable

	<u>2003</u>	<u>2002</u>
Trade receivables	\$ 1,536	\$ 2,346
Contract receivables	10,132	9,891
Allowance for doubtful accounts	(270)	(200)
	<u>\$ 11,398</u>	<u>\$ 12,037</u>

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Balances billed, but not paid by customers under retainage provisions in contracts, amounted to approximately \$520 and \$709 at December 31, 2003 and 2002, respectively. Retainage receivables on contracts in progress are generally collected within twelve months.

Provision for doubtful accounts was approximately \$201, \$178 and \$154 during 2003, 2002 and 2001, respectively.

4. Costs and Estimated Earnings on Uncompleted Contracts

	2003	2002
Costs incurred on uncompleted contracts	\$ 36,251	\$ 24,168
Estimated earnings	6,902	4,243
	43,153	28,411
Less billings to date	(41,133)	(25,939)
	<u>\$ 2,020</u>	<u>\$ 2,472</u>
Included in the accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 3,340	\$ 4,124
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,320)	(1,652)
	<u>\$ 2,020</u>	<u>\$ 2,472</u>

5. Inventories

	2003	2002
Raw material and subassemblies	\$ 816	\$ 1,202
Finished goods	213	251
Parts for resale	546	602
	<u>\$ 1,575</u>	<u>\$ 2,055</u>

6. Property and Equipment

	<u>2003</u>	<u>2002</u>
Land	\$ 1,460	\$ 1,597
Building and improvements	4,131	5,642
Machinery and equipment	10,412	10,369
	<u>16,003</u>	<u>17,608</u>
Less accumulated depreciation	(6,016)	(5,486)
	<u>\$ 9,987</u>	<u>\$ 12,122</u>

Depreciation expense was \$1,114, \$1,254 and \$1,242 for 2003, 2002 and 2001, respectively.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

7. Goodwill and Intangible Assets

	<u>2003</u>	<u>2002</u>
Goodwill	\$ 9,527	\$ 9,527
Intangible assets - finite life	\$ 1,446	\$ 1,446
Less accumulated amortization	(630)	(552)
	<u>\$ 816</u>	<u>\$ 894</u>
Intangible assets - indefinite life	<u>\$ 1,395</u>	<u>\$ 1,395</u>

Amortization expense was \$78, \$178 and \$834 for 2003, 2002 and 2001, respectively, including amortization of goodwill and indefinite life intangible assets prior to 2003. Amortization of finite life intangible assets over the next five years is \$79 in 2004 and 2005, and \$78 in 2006 and 2007 and \$77 in 2008.

8. Accounts Payable and Accrued Expenses

	<u>2003</u>	<u>2002</u>
Trade accounts payable	\$ 7,845	\$ 8,805
Compensation and related benefits	935	1,119
Accrued interest	1,471	869
Other accrued expenses	1,058	972
	<u>\$ 11,309</u>	<u>\$ 11,765</u>

9. Debt

	<u>2003</u>	<u>2002</u>
Bank credit facility	\$ 9,957	\$ 14,150
Pennsylvania Industrial Development Authority		134

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	9,957	14,284
Less current portion	(2,094)	(2,120)
	<u>\$ 7,863</u>	<u>\$ 12,164</u>

In December 1999, we obtained a bank credit facility aggregating \$33,000 consisting of \$23,000 in term loans and a \$10,000 revolving credit line. Interest is charged based on the bank's prime rate plus 5. The proceeds of the credit facility were used to finance the acquisition of K&B and kbd/Technic, Inc. in 1999. The proceeds of the subordinated notes (see Note 10) were used to refinance our existing indebtedness and working capital.

At December 31, 2003, the revolving credit line, as amended, permits borrowings of up to the lesser of 1) \$8,000 less outstanding letters of credit, or 2) borrowings which are limited to 75% of eligible accounts receivable, plus 50% of eligible inventory, minus outstanding letters of credit. Amounts unused and available under this revolving credit facility were \$4,325 and \$3,127 at December 31, 2003 and 2002, respectively. Amounts borrowed were \$3,675 and \$4,873 at

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

December 31, 2003 and 2002, respectively. There were no amounts outstanding under letters of credit at December 31, 2003 and 2002. The line of credit matures in 2005. The weighted average interest rates were 9.00% and 9.25% at December 31, 2003 and 2002, respectively.

The term loans consisted of a Term A and a Term B facility. Term B was paid off in May 2003. Term A quarterly principal installments were \$488 beginning February 2000, increasing to \$700 in February 2002 through August 2002, \$524 through November 2004 and the final principal payment due January 2005. The amounts outstanding under the term loans were \$6,282 and \$9,277 at December 31, 2003 and 2002, respectively. The weighted average interest rates were 9.0% and 8.1% at December 31, 2003 and 2002, respectively.

The bank credit facility was amended in November 2003 by extending the maturities of the revolving line of credit and the final payment due under the term loan to January 2005. No extinguishment loss was recognized as a result of this amendment. The amendment also reduced minimum coverage requirements under several financial covenants through December 31, 2004. Various amendments were also made to the credit facility in 2002 and 2001 which were effective during and as of December 31, 2002 and 2001 reducing minimum coverage requirements under several financial covenants through December 2003, raising interest rates, reducing scheduled principal payments under the Term A loan, and extending the maturity on the revolving credit line to January 2004. In consideration for these amendments, additional fees were paid to these lenders. We would not have been in compliance with the financial covenants had the amendments not been made.

In April 1992, we obtained a loan through the Pennsylvania Industrial Development Authority, which is collateralized by a mortgage on the related land and building. Principal and interest, at an annual rate of 3%, is paid quarterly over an amortization period of fifteen years ending in 2006. We paid this loan off in May 2003.

We opted to amend the existing agreement rather than refinance the entire credit facility because of current market conditions. However, we will continue to monitor such market conditions and could consider refinancing alternatives in future periods.

In 2001 and through November 2002, we had a four-year interest rate swap agreement (Swap Agreement) to manage our variable interest rate exposure, which matured in November 2002.

On May 7, 2003, we received approximately \$1,600 in cash proceeds from the sale and leaseback of our Conshohocken, Pennsylvania property. Approximately \$700 was used to reduce the revolving line of credit and the balance was used to reduce term debt. In November 2003, we accepted an offer to sell our Cincinnati, Ohio property with a termination date of May 1, 2004 subject to various contingencies by the purchaser. If we consummate the sale, the net proceeds will influence the amount of the credit facilities required as well as any other financing necessary in connection with the replacement operating facility. A previous agreement, dated February 2003, to sell our Cincinnati property was terminated in September 2003 due to the buyer's inability to consummate the purchase.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Maturities of all long-term debt over the next five years are estimated as follows:

<u>December 31,</u>	<u>Maturities</u>
2004	\$ 2,094
2005	7,863
2006	
2007	
2008	
Thereafter	

Our property and equipment, accounts receivable, investments and inventory serve as collateral for our bank debt. Our debt agreements contain customary covenants and events of default.

10. Subordinated Notes

	<u>2003</u>	<u>2002</u>
Subordinated Notes due 2006, 12%	\$ 4,325	\$ 4,038
Subordinated Note due 2005, 6%	1,200	
	<u>\$ 5,525</u>	<u>\$ 4,038</u>

During December 1999, as part of our refinancing activities (that were accomplished at the same time as the acquisition of K&B and kbd/Technic), we obtained \$4,000 of subordinated debt financing from Green Diamond Oil Corp., a company beneficially owned by two of our major shareholders. In addition, we obtained \$1,000 of subordinated debt financing with two unrelated parties. Interest on the notes accrues semi-annually at a rate of 12% per annum. The notes are subject to a subordination agreement and amendments to the Bank Credit Facility. In connection with this agreement, accrued interest on the subordinated notes totaling \$1,218 and \$600 at December 31, 2003 and 2002, respectively, was not paid. However, during 2002, we paid the accrued interest of \$963 at December 31, 2003 to our subordinated debt holders as a result of an amendment to our credit agreement permitting us to make such payment. The notes provided for the issuance to the holders detachable stock warrants that expire December, 2009 (see Note 11). The fair value of the warrants was determined to be \$1,847 at the date of issuance and the subordinated debt was discounted by such amount. The discount is being amortized as a component of interest expense over the life of the subordinated debt which coincides with the bank's term loan maturity date of May 2006. The amortization of the discount was approximately \$288, for each of the years ended December 31, 2003, 2002 and 2001, respectively. The effective annualized interest rate on the subordinated debt obligations is 17.75%, after taking into account the value of the warrants.

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On September 30, 2003, \$1,200 of subordinated debt was raised from a related party with a maturity of April 30, 2005 and interest rate of 6% per annum. This debt is subordinated to the bank credit facility and the subordinated debt originally issued in December 1999. The entire principal balance of this obligation will be due upon maturity. Proceeds were used to reduce the revolving line of credit.

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CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

11. Shareholders Equity

Stock Option Plan

We maintain a stock option plan for our employees. Generally, options are exercisable one year from the date of grant, at the rate of 20% each year over the following five years and expire between five and ten years from the date of grant. There are 1,500,000 shares of our common stock that have been reserved for issuance under this plan.

The status of our stock option plan is as follows:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	166,000	\$ 2.60	182,500	\$ 2.68	154,400	\$ 2.89
Granted	10,000	1.90			35,000	2.01
Forfeited	(7,300)	3.02	(16,500)	3.50	(6,900)	3.88
Outstanding, end of year	168,700	2.54	166,000	2.60	182,500	2.68
Options exercisable at year end	130,700		106,000		53,000	
Available for grant at end of year	1,331,300		1,334,000		1,317,500	

For the years ended December 31, 2003, 2002 and 2001, no compensation expense was recognized under stock-based employee compensation plans.

The range of exercise prices on shares outstanding as of December 31, 2003 was as follows:

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Range of Exercise Prices	Outstanding			Exercisable	
	Shares	Weighted Average Exercise Price	Remaining Contractual Life in Years	Shares	Weighted Average Exercise Price
\$2.01 - 2.63	150,000	\$ 2.37	7 - 9	112,000	\$ 2.31
\$3.88	18,700	\$ 3.88	4	18,700	\$ 3.88

The fair value of the options and warrants granted, which is amortized to expense over the option vesting period in determining the pro forma impact under SFAS No. 123, is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions. The expected life of the options valued in 2003, 2002 and 2001 is 10 years. The risk free interest rate applicable for 2003, 2002 and 2001 was 4.5%. The expected volatility of the Company's stock used in 2003, 2002 and 2001 was 70%. The expected dividend yield used in 2003, 2002 and 2001 was 0%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

The weighted average fair values at the date of grant for options and warrants granted during 2003 and 2001 was \$1.43 and \$2.01, respectively.

We may grant the right to purchase restricted shares of our common stock. Such shares are subject to restriction on transfer under Federal securities laws. During October 2001, we granted options to Jason Louis DeZwirek, a related party and a member of the Board of Directors, to purchase up to 25,000 shares of our common stock, exercisable at any time between April 5, 2002 and October 5, 2011, inclusive, at a price of \$2.01, the fair market value at date of grant.

Employee Stock Purchase Plan

We maintain an Employee Stock Purchase Plan for all employees meeting certain eligibility criteria. Under the Plan, eligible employees may purchase through the initial twelve-month offering and through a series of semiannual offerings, each October and April, commencing October 1, 1999, shares of our common stock, subject to certain limitations. The purchase price of each share is 85% of the lesser of its fair market value on the first business day or the last business day of the offering period. The aggregate number of whole shares of common stock allowed to be purchased under the option cannot exceed 10% of the employee's base compensation. There were 250,000 shares made available for purchase under the plan. During 2003, 2002 and 2001, we issued 13,001, 12,949 and 31,500 shares, respectively, under this plan at amounts that approximated fair value.

Warrants to Purchase Common Stock

In December 2001, warrants to purchase 1,000,000 shares of common stock at \$2.25 per share were exercised; 800,000 shares by the Green Diamond Oil Corp. and 200,000 shares by two unrelated subordinated debt lenders. Gross proceeds of \$2,250 were received from the exercise of the warrants and were used to pay down the bank credit facility.

On December 31, 2001, we issued 706,668 shares of common stock at a price of \$3.00 per share, and issued detachable stock warrants to purchase 353,334 shares of common stock at an initial exercise price of \$3.60 per share to a group of accredited investors (the Investors). Gross proceeds of \$2,120 were received from the issuance of these shares and were used to pay down the bank credit facility. The right to purchase shares under the warrants vest immediately upon the issuance of the warrants, and the warrants contain various features to protect the Investors in the event of a merger or consolidation and from dilution in the event of a stock issuance at prices below the exercise price. We prepared and filed with the SEC a registration statement within 90 days of the issuance of such warrants and caused the registration statement to become effective within 150 days of the issuance. We valued these warrants at \$240 as of December 31, 2001, which is included in other liabilities in the 2001 consolidated financial statements. At December 31, 2002, the fair value of those warrants decreased to \$0 and \$204 was recorded as other income in the 2002 consolidated financial statements. Future increases, if any, in the fair value of these warrants will be recognized in our consolidated financial statements.

In connection with this transaction, we were required to issue additional shares based on an earnings formula computed from fiscal year 2002 results (as defined in the Investors Subscription Agreement) to the Investors, at no additional cost to the Investors. In 2001 we valued these shares at \$340, net of expenses of \$102, which is included as contingent stock warrants in the accompanying consolidated financial statements. Based on the results of the earnings formula, approximately 382,000 additional shares were issued to the Investors.

In connection with the issuance of the common shares and warrants to the investors, we estimated \$440 of issuance costs and issued warrants to purchase 14,000 shares of common stock at an initial exercise price of \$3.00. These costs were accrued at December 31, 2001. The fair value of the warrants, valued by our management at \$18, has been included as issuance costs and recorded as a liability in other liabilities in the accompanying consolidated financial

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

statements. The total issuance costs including the fair value of the warrants to purchase 14,000 shares of common stock were allocated to common stock, detachable stock warrants and contingent stock warrants based on their respective fair market values.

Former K&B Shareholders

In December 1999, as part of their employment contracts, warrants were granted to three of the former owners of K&B to purchase a total of 1,000,000 shares of our common stock at an exercise price of \$2.9375 per share which was the fair market value on the date granted. These warrants become exercisable at the rate of 25% per year over the four years following December 1999. The warrants have a term of ten years.

Related Party and Other

In December 1999, warrants were issued to the subordinated lenders (see Note 10) to purchase up to 1,000,000 shares (900,000 of which are related party at December 31, 2003) of our common stock for \$2.25 per share which was the fair market value on the date granted. As noted above, these warrants were exercised in 2001. In connection with such warrants, the subordinated lenders were granted certain registration rights with respect to their warrants and shares of our common stock into which the warrants are convertible. Our management valued the detachable stock warrants at \$1,847 and discounted the subordinated debt obligations by such amount (see Note 10) and recorded additional capital in excess of par value at December 31, 1999.

Chief Executive Officer

In January 1999, warrants were issued to the Chief Executive Officer to purchase 500,000 shares of the Company's common stock at an exercise price of \$3.00 per share. Prior to 1999, warrants were issued to the Chief Executive Officer to purchase 1,250,000 shares, at exercise prices ranging from \$1.625 to \$2.75 per share. In August 2000, warrants were issued to the Chief Executive Officer to purchase 500,000 shares at an exercise price of \$2.06 per share. The warrants expire 10 years from the date of issuance.

In December 2001, the Green Diamond Oil Corp. exercised warrants to purchase 800,000 shares at a price of \$2.25 per share as previously disclosed.

Treasury Stock

In 2002, we purchased 37,300 shares of our common stock as treasury shares at a total cost of \$118.

12. Pension and Employee Benefit Plans

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

We also sponsor a post-retirement health care plan for office employees retiring before January 1, 1990. The plan allows retirees who have attained the age of 65 to elect the type of coverage desired.

The following tables set forth the plans' changes in benefit obligations, plan assets and funded status on the measurement dates, December 31, 2003 and 2002, and amounts recognized in our consolidated balance sheets as of those dates.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 4,211	\$ 3,885	\$ 586	\$ 619
Service cost	100	108		
Interest cost	279	265	33	41
Amendment	23			
Actuarial loss/(gain)	13	14	(4)	10
Discount rate change	389	115		8
Benefits paid	(190)	(176)	(84)	(92)
Projected benefit obligation at end of year	4,825	4,211	531	586
Change in plan assets:				
Fair value of plan assets at beginning of year	2,411	2,734		
Actual return (loss) on plan assets	428	(409)		
Employer contribution	30	262	84	92
Benefits paid	(190)	(176)	(84)	(92)
Fair value of plan assets at end of year	2,679	2,411		
Funded status	(2,146)	(1,800)	(531)	(586)
Unrecognized prior service cost	67	53		
Unrecognized net actuarial loss	1,815	1,735	5	9
Accrued benefit cost	\$ (264)	\$ (12)	\$ (526)	\$ (577)
Amounts recognized in the consolidated balance sheets consist of:				
Accrued benefit cost	\$	\$ (12)	\$	\$
Accrued benefit liability	(1,821)	(1,493)	(526)	(577)
Intangible asset included in deferred charges and other assets	67	53		
Accumulated other comprehensive income, net	1,490	1,440		
Net amount recognized	\$ (264)	\$ (12)	\$ (526)	\$ (577)
Weighted-average assumptions at December 31:				
Discount rate	6.0%	6.75%	6.0%	6.75%
Expected return on plan assets	8.5%	8.5%	N/A	N/A

The accumulated benefit obligation for our defined benefit plans was \$4,500 and \$3,917 at December 31, 2003 and 2002, respectively. Information with respect to our plans which have accumulated benefit obligations in excess of plan assets at December 31, 2003 and 2002 is as

follows:

	<u>2003</u>	<u>2002</u>
Projected benefit obligation	\$ 4,825	\$ 4,211
Accumulated benefit obligation	4,500	3,917
Fair value of plan assets	2,679	2,411

Based on current assumptions, estimated contributions of \$854 may be required in 2004 for the pension plan and \$86 for the retiree healthcare plan.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

In accordance with SFAS 87, Employers Accounting for Pensions, additional liabilities to recognize the required minimum liability were as follows:

	2003	2002
	<u> </u>	<u> </u>
Minimum liability included in other comprehensive income:		
Increase in minimum liability in other comprehensive income	\$ 49	\$ 753

Benefits under the plans are not based on wages and, therefore, future wage adjustments have no effect on the projected benefit obligations.

The details of net periodic benefit cost for pension benefits included in the accompanying consolidated statements of operations for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Service cost	\$ 100	\$ 108	\$ 121
Interest cost	279	265	252
Expected return on plan assets	(211)	(243)	(272)
Net amortization and deferral	114	59	6
	<u> </u>	<u> </u>	<u> </u>
Net periodic benefit cost	\$ 282	\$ 189	\$ 107
	<u> </u>	<u> </u>	<u> </u>

The net periodic benefit cost (representing interest cost only) for the post-retirement plan included in the accompanying consolidated statements of operations was \$33, \$41 and \$43 for the years ended December 31, 2003, 2002 and 2001 respectively.

Pension plan assets are invested in trusts comprised primarily of investments in various debt and equity funds. A fiduciary committee establishes the target asset mix and monitors asset performance. The expected rate of return on assets includes the determination of a real rate of return for equity and fixed income investment applied to the portfolio based on their relative weighting, increased by an underlying inflation rate.

Changes in health care costs have no effect on the plan as future increases are assumed by the retirees.

Our defined benefit pension plan asset allocation by asset category is as follows:

Asset Category:	Target Allocation	Percentage of Plan Assets	
	2004	2003	2002
Equity Securities	55%	55%	51%
Debt Securities and cash	45%	45%	49%
Total	100%	100%	100%

In connection with collective bargaining agreements, we participate with other companies in defined benefit pension plans. These plans cover substantially all of our Kirk & Blum contracted union employees not covered in the aforementioned plan. If we were to withdraw from participation in these multi-employer plans, we would be required to contribute our share of the plans unfunded benefit obligation. We have no intention of withdrawing from any plan and, therefore, no liability has been provided in the accompanying consolidated financial statements.

Amounts charged to pension expense under the above plans including the multi-employer plans totaled \$2,024, \$2,019 and \$2,644 for 2003, 2002 and 2001, respectively.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

We sponsor a profit sharing and 401(k) savings retirement plan for K&B non-union employees. The plan covers substantially all employees who have one year of service, completed 1,000 hours of service and who have attained 21 years of age. The Plan allows us to make discretionary contributions and provides for employee salary deferrals of up to 15%. We provide matching contributions of 25% of the first 5% of employee contributions. We also have made matching contributions and discretionary contributions of \$51, \$65 and \$203 during 2003, 2002 and 2001, respectively.

We also sponsor a 401(k) Savings and Retirement Plan which covers substantially all of CFI's employees. Under the terms of the Plan, employees can contribute between 1% and 22% of their annual compensation to the Plan. We match 50% of the first 6%. Plan expense for the years ended December 31, 2003, 2002 and 2001 was \$33, \$32 and \$47, respectively.

13. Commitments and Contingencies

Rent

We lease certain facilities on a year-to-year basis. We also have future annual minimum rental commitments under noncancellable operating leases as follows:

<u>December 31,</u>	<u>Commitment</u>
2004	\$ 571
2005	431
2006	194
2007	17
	<u>\$ 1,213</u>

We terminated the lease of a facility from a related party, the former President and chief operating officer of Busch who is the beneficial owner of the property, with an annual base rental of \$88 which expired July, 2002.

Total rent expense under all operating leases for 2003, 2002 and 2001 was \$651, \$668 and \$470, respectively.

Non-Compete Agreement

In connection with the acquisition of Busch, we entered into a non-compete agreement with a former shareholder of Busch. In addition to the \$100 paid at the closing date, the agreement required annual payments of \$200 from 1998 through 2001. The related cost was amortized ratably over the four-year period. We paid an additional amount to the former shareholder of Busch in 2002 of \$450 for consulting services, which had been accrued during the two-year period ended June 20, 2002.

Commitments

In November 2003, we accepted an offer to sell our Cincinnati, Ohio property with a termination date of May 1, 2004 subject to various contingencies by the purchaser. If we consummate the sale, the net proceeds will influence the amount of the credit facilities required as well as any other financing necessary in connection with the replacement operating facility. A February 2003 agreement to sell our Cincinnati property was terminated in September 2003 due to the buyer's inability to consummate the purchase.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Employment Agreements

In December 1999, we entered into five-year employment agreements with three of the former owners of K&B. In 2001, these agreements were amended by extending the term one additional year. The agreements provide for annual salaries and a bonus, for each of the next five years, equal to 25% of our earnings before interest and taxes in excess of \$4,000 less contributions made by us on behalf of the former owners to any profit sharing or 401(k) plan. No amounts have been paid in connection with these employment agreements.

14. Income Taxes

Income tax provision (benefit) consisted of the following for the years ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current:			
Federal	\$ 16	\$ 41	\$ 67
State	(73)	(198)	(39)
	<u>(57)</u>	<u>(157)</u>	<u>28</u>
Deferred:			
Federal	(306)	(136)	52
State	(4)	(42)	(18)
	<u>(310)</u>	<u>(178)</u>	<u>34</u>
	<u>\$ (367)</u>	<u>\$ (335)</u>	<u>\$ 62</u>

The income tax provision (benefit) differs from the statutory rate due to the following:

<u>2003</u>	<u>2002</u>	<u>2001</u>
-------------	-------------	-------------

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Tax benefit at statutory rate	\$ (352)	\$ (218)	\$ (108)
Increase (decrease) in tax resulting from:			
State income tax, net of federal benefit	(51)	(158)	(38)
Permanent differences, principally goodwill and interest	34	40	158
Under accrual of prior years' taxes	2	1	50
	<u>\$ (367)</u>	<u>\$ (335)</u>	<u>\$ 62</u>

Deferred income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax liability consisted of the following at December 31:

	<u>2003</u>	<u>2002</u>
Current deferred tax assets (liabilities) attributable to:		
Accrued expenses	\$ 216	\$ 286
Deferred state taxes	301	286
Reserves on assets	114	84
Inventory	(938)	(783)
	<u> </u>	<u> </u>
Current deferred tax asset (liability) (included in accounts payable and accrued expenses in 2003 and prepaid expenses and other current assets in 2002 in the consolidated balance sheets)	<u>(307)</u>	<u>(127)</u>

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

Noncurrent deferred tax assets (liabilities) attributable to:		
Depreciation	(3,589)	(3,627)
Goodwill and intangibles	(1,320)	(1,291)
Other liabilities	346	282
Non-compete agreement	272	297
Minimum pension liability	596	576
Federal and state net operating loss carryforwards	1,164	677
AMT credit carryforward	104	79
Other	5	75
	<u> </u>	<u> </u>
Net noncurrent deferred income tax liability	(2,422)	(2,932)
	<u> </u>	<u> </u>
Net deferred tax liability	\$ (2,729)	\$ (3,059)
	<u> </u>	<u> </u>

Gross deferred tax assets were \$3,118 and \$2,642 at December 31, 2003 and 2002, respectively. Gross deferred tax liabilities were \$5,847 and \$5,701 at December 31, 2003 and 2002, respectively.

We have Federal net operating loss carryforwards of \$2,671 at December 31, 2003 to be utilized in future years, which begin to expire in 2020. Additionally, we have state net operating loss carryforwards of \$2,849 at December 31, 2003.

We file a consolidated Federal income tax return.

15. Related Party Transactions

During 2003, we reimbursed Green Diamond Oil Corp. \$5 per month for use of the space and other office expenses of our Toronto office. In 2003, 2002 and 2001, reimbursements were \$60, \$60 and \$60, respectively. During 2003 and 2002, we paid fees of \$250 and \$250, respectively, to Green Diamond for management consulting services. These services were provided by Phillip DeZwirek, the Chief Executive Officer and Chairman of our Board, through Green Diamond. During 2001, the Company advanced \$337 to Green Diamond, which was repaid in March 2002.

16. Backlog of Uncompleted Contracts from Continuing Operations

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Our backlog of uncompleted contracts from continuing operations was \$7,268 and \$14,607, at December 31, 2003 and 2002, respectively.

17. Quarterly Financial Data (unaudited)

The following quarterly financial data, as restated and as previously reported, are unaudited, but in the opinion of management include all necessary adjustments for a fair presentation of the interim results, which are subject to significant seasonal variations.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
As restated:					
Year ended December 31, 2003					
Net Sales	\$ 14,615	\$ 17,622	\$ 17,054	\$ 18,868	\$ 68,159
Income from operations	(378)	172	760	810	1,364
Net income (loss)	(681)	(184)	90	108	(667)
Basic and diluted earnings (loss) per share	(0.07)	(0.02)	0.01	0.01	(0.07)
Year ended December 31, 2002					
Net Sales(1) (2)	\$ 18,473	\$ 18,490	\$ 19,712	\$ 21,900	\$ 78,575
Income from operations	(30)	113	727	1,400	2,209
Net income (loss)	(380)	(204)	(26)	304	(306)
Basic and diluted earnings (loss) per share	(0.04)	(0.02)	0.00	0.03	(0.03)
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
As previously reported:					
Year ended December 31, 2003					
Net Sales	\$ 15,201	\$ 17,754	\$ 17,039	\$ 18,971	\$ 68,965
Income from operations	124	220	661	829	1,834
Net income (loss)	(249)	(82)	237	(72)	(166)
Basic and diluted earnings (loss) per share	(0.03)	(0.01)	0.02	(0.01)	(0.02)
Year ended December 31, 2002					
Net Sales(1) (2)	\$ 18,879	\$ 18,586	\$ 19,581	\$ 21,831	\$ 78,877
Income from operations	299	131	518	1,253	2,201
Net income (loss)	(197)	(205)	61	218	(123)
Basic and diluted earnings (loss) per share	(0.02)	(0.02)	0.01	0.02	(0.01)

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2003, 2002 and 2001

- (1) Includes \$160 and \$90 during the third and fourth quarters, respectively, from the sale of APC's operating assets.
- (2) Includes \$220 during the fourth quarter from a 2001 contract claim recovery.

18. Restatement of financials

Subsequent to the issuance of the financial statements for the fiscal year ended December 31, 2003, the Company's management determined that a spreadsheet error existed affecting the manner in which revenue was calculated and subsequently recognized on small projects. As such, the financial statements for the three years ended December 31, 2003 have been restated. While revenue recognized under the percentage of completion calculation on individual large projects was accurate, due to this spreadsheet error, the accumulation of revenue for small projects was incorrect. This error occurred from 2000 to 2003 and the three quarters reported during 2004.

In addition, the Company detected an error in the classification of amortization of deferred financing costs as depreciation and amortization expense rather than interest expense. This error is also being corrected herein.

The following chart summarizes the significant effects of the restatements:

	For the year ended December 31,		
	2003	2002	2001
Consolidated Statement of Operations:			
Net Sales - as originally reported	\$ 68,965	\$ 78,877	\$ 90,994
Adjustment	(806)	(302)	(185)
Net Sales - as restated	\$ 68,159	\$ 78,575	\$ 90,809
Depreciation and amortization expense - as originally reported	\$ 1,581	\$ 1,789	\$ 2,320
Adjustment	(336)	(310)	(220)
Depreciation and amortization expense - as restated	\$ 1,245	\$ 1,479	\$ 2,100
Income from operations as originally reported	\$ 1,834	\$ 2,201	\$ 3,013
Adjustment	(470)	8	35

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Income from operations as restated	\$ 1,364	\$ 2,209	\$ 3,048
Interest expense - as originally reported	\$ (2,275)	\$ (2,744)	\$ (3,542)
Adjustment	(336)	(310)	(220)
Interest expense - as restated	\$ (2,611)	\$ (3,054)	\$ (3,762)
Income (loss) before tax - as originally reported	\$ (228)	\$ (339)	\$ (133)
Adjustment	(806)	(302)	(185)
Income (loss) before tax - as restated	\$ (1,034)	\$ (641)	\$ (318)
Income tax (benefit) provision - as originally reported	\$ (62)	\$ (216)	\$ 131
Adjustment	(305)	(119)	(69)
Income tax (benefit) provision - as restated	\$ (367)	\$ (335)	\$ 62
Net Income (loss) - as originally reported	\$ (166)	\$ (123)	\$ (264)
Adjustment	(501)	(183)	(116)
Net Income (loss) - as restated	\$ (667)	\$ (306)	\$ (380)
Net loss per share - as originally reported	\$ (0.02)	\$ (0.01)	\$ (0.03)
Adjustment	(0.05)	(0.02)	(0.02)
Net loss per share - as restated	\$ (0.07)	\$ (0.03)	\$ (0.05)

	December 31,		
	2003	2002	2001
Consolidated Balance Sheets:			
Costs and estimated earnings in excess of billings as originally reported	\$ 5,309	\$ 5,287	\$ 5,572
Adjustment cumulative	(1,969)	(1,163)	(861)
Costs and estimated earnings in excess of billings as restated	\$ 3,340	\$ 4,124	\$ 4,711
Deferred Income tax liability as originally reported	\$ 3,185	\$ 3,390	\$ 4,065
Adjustment cumulative	(763)	(458)	(339)
Deferred Income tax liability - as restated	\$ 2,422	\$ 2,932	\$ 3,726
Accumulated deficit - as originally reported	\$ (4,503)	\$ (4,337)	\$ (4,214)
Adjustment - cumulative	(1,206)	(705)	(522)
Accumulated deficit - as restated	\$ (5,709)	\$ (5,042)	\$ (4,736)

The cumulative effect of this restatement on the beginning accumulated deficit, December 31, 2000, was to increase the deficit by \$406.