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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-07099

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**CECO ENVIRONMENTAL CORP.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**3120 Forrer Street, Cincinnati, Ohio 45209**  
(Address of principal executive offices) (Zip Code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232, 405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of latest practical date.

Class: Common, par value \$.01 per share outstanding at August 3, 2009 – 14,289,331

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CECO ENVIRONMENTAL CORP.  
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
JUNE 30, 2009

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TABLE OF CONTENTS

Part I - Financial Information:

Item 1. <u>Consolidated balance sheets as of June 30, 2009 and December 31, 2008</u>	2
<u>Consolidated statements of operations for the three-month and six-month periods ended June 30, 2009 and 2008</u>	3
<u>Consolidated statements of cash flows for the six-month periods ended June 30, 2009 and 2008</u>	4
<u>Notes to consolidated financial statements</u>	6
Item 2. <u>Management's discussion and analysis of financial condition and results of operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	25

Part II - Other Information

Item 4. <u>Submission of matters to a vote of security holders</u>	27
Item 6. <u>Exhibits</u>	27

<u>Signature</u>	29
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CECO ENVIRONMENTAL CORP.

Part I. Financial Information

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share data

	<u>JUNE 30,</u> <u>2009</u>	<u>DECEMBER 31,</u> <u>2008</u>
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,121	\$ 1,169
Accounts receivable, net of allowance for doubtful accounts of \$550 and \$251 respectively	18,257	47,574
Costs and estimated earnings in excess of billings on uncompleted contracts	9,818	12,687
Inventories, net	5,521	6,169
Prepaid expenses and other current assets	2,283	2,220
Total current assets	37,000	69,819
Property and equipment, net	12,155	12,205
Goodwill	31,323	31,116
Intangibles – finite life, net	1,727	2,190
Intangibles – indefinite life	3,180	3,165
Deferred charges and other assets	1,458	1,522
	<u>\$ 86,843</u>	<u>\$ 120,017</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of debt	\$ 1,021	\$ 1,474
Accounts payable and accrued expenses	15,686	33,153
Billings in excess of costs and estimated earnings on uncompleted contracts	6,925	8,058
Accrued income taxes	59	2,291
Total current liabilities	23,691	44,976
Other liabilities	3,036	3,017
Debt, less current portion	8,567	21,111
Deferred income tax liability	2,311	2,311
Related party subordinated notes	4,162	4,089
Total liabilities	41,767	75,504
Shareholders' equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized, 15,045,372 and 15,087,272 shares issued in 2009 and 2008, respectively	150	150
Capital in excess of par value	43,397	42,924
Accumulated earnings	6,414	6,684
Accumulated other comprehensive loss	(2,943)	(3,303)
	47,018	46,455
Less treasury stock, at cost, 764,041 shares in 2009 and 2008	(1,942)	(1,942)
Total shareholders' equity	45,076	44,513
	<u>\$ 86,843</u>	<u>\$ 120,017</u>

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

CECO ENVIRONMENTAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

Dollars in thousands, except per share data

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net sales	\$ 33,547	\$ 57,446	\$ 73,298	\$ 104,308
Cost of sales	25,952	46,989	57,036	87,556
Gross profit	7,595	10,457	16,262	16,752
Selling and administrative	7,803	8,007	15,316	14,823
Amortization	166	392	479	606
(Loss) income from operations	(374)	2,058	467	1,323
Other expense, net	(261)	—	(172)	—
Interest expense (including related party interest of \$78 and \$0, and \$187 and \$0, respectively)	(347)	(370)	(709)	(579)
(Loss) income before income taxes	(982)	1,688	(414)	744
Income tax (benefit) expense	(343)	659	(144)	290
Net (loss) income	<u>\$ (639)</u>	<u>\$ 1,029</u>	<u>\$ (270)</u>	<u>\$ 454</u>
Per share data:				
Basic net (loss) income	<u>\$ (0.04)</u>	<u>\$ 0.07</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Diluted net (loss) income	<u>\$ (0.04)</u>	<u>\$ 0.07</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Weighted average number of common shares outstanding:				
Basic	<u>14,204,447</u>	<u>14,918,888</u>	<u>14,200,072</u>	<u>14,873,554</u>
Diluted	<u>14,204,447</u>	<u>15,299,944</u>	<u>14,200,072</u>	<u>15,274,513</u>

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

CECO ENVIRONMENTAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

Dollars in thousands

	SIX MONTHS ENDED	
	JUNE 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (270)	\$ 454
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,336	1,386
Non cash interest expense included in net (loss) income	6	31
Non cash loss on remeasurement of subordinated debt	73	—
Compensation expense – stock awards	473	558
Bad debt expense	300	—
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	29,017	11,627
Inventories	648	(1,086)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,869	(2,824)
Prepaid expenses and other current assets	(63)	(11)
Deferred charges and other assets	58	(101)
Accounts payable and accrued expenses	(17,455)	(10,197)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,133)	1,910
Accrued income taxes	(2,232)	—
Other liabilities	130	(90)
<b>Net cash provided by operating activities</b>	<b>13,757</b>	<b>1,657</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(807)	(1,274)
Net cash paid for acquisition	—	(15,347)
<b>Net cash used in investing activities</b>	<b>(807)</b>	<b>(16,621)</b>
<b>Cash flows from financing activities:</b>		
Net (repayments) borrowings on revolving credit lines	(11,498)	10,378
Proceeds from exercise of stock options	—	43
Subordinated debt borrowings	3,000	—
Subordinated debt repayments	(3,000)	—
Proceeds from term debt	—	5,000
Repayment of term debt	(1,500)	(250)
<b>Net cash (used in) provided by financing activities</b>	<b>(12,998)</b>	<b>15,171</b>
Net (decrease) increase in cash and cash equivalents	(48)	207
Cash and cash equivalents at beginning of the period	1,169	656
Cash and cash equivalents at end of the period	<u>\$ 1,121</u>	<u>\$ 863</u>
<b>Supplemental Schedule of Non-Cash Activities:</b>		
Stock based consideration for acquisition	<u>\$ —</u>	<u>\$ 898</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:		
Interest	<u>\$ 862</u>	<u>\$582</u>
Income taxes	<u>\$2,209</u>	<u>\$447</u>

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

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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**1. Basis of reporting for consolidated financial statements**

The accompanying unaudited, condensed consolidated financial statements of CECO Environmental Corp. and subsidiaries (the “Company”, “we”, “us”, or “our”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2009 and December 31, 2008 and the results of operations for the three-month and six-month periods ended June 30, 2009 and 2008 and of cash flows for the six-month periods ended June 30, 2009 and 2008. The results of operations for the three-month period and six-month period ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

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.

The Company has evaluated subsequent events through August 10, 2009, the date these financial statements were issued.

These financial statements and accompanying notes should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2008 with the Securities and Exchange Commission.

**2. New Accounting Pronouncements**

*New Financial Accounting Pronouncements Adopted*

Statement of Financial Accounting Standard (“SFAS”) 165 – In May 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 165, “Subsequent Events.” SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

FSP FAS 107-1 and APB 28-1—In April 2009, the FASB issued Staff Position FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” which enhances consistency in financial reporting by increasing the frequency of fair value disclosures. This FSP is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for interim and annual periods ending after March 15, 2009 subject to certain restrictions. The Company did not elect early adoption in the quarter ended March 31, 2009 and, therefore, has applied the provisions of this FSP for the quarter ending June 30, 2009. See Note 14.

SFAS 141(R)—In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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141(R)"). This statement defines the acquirer in a business combination as the entity that obtains control of one or more businesses, and establishes the acquisition date as the date the acquirer achieves this control. This statement also refines the application of the purchase method by requiring the acquirer to recognize assets acquired and liabilities assumed at fair value and replacing the cost-allocation process previously required under SFAS 141. Furthermore, acquisition-related costs and restructuring costs that are expected but not obligatory are required to be recognized separately from the business combination. SFAS 141(R) is effective prospectively for business combinations with acquisition dates on or after January 1, 2009. There was no material impact to the Company's consolidated financial position, results of operations, or cash flows as a result of the adoption of SFAS 141(R). However, management believes this statement could have a material impact on the Company's future financial statements depending on its acquisition plans.

In April 2009, the FASB released FSP FAS 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies". The FSP amends Statement No. 141R related to the accounting for assets and liabilities arising from contingencies in a business combination. The FSP requires that an asset or a liability arising from a contingency in a business combination be recognized at fair value if fair value can be reasonably determined and provides guidance on how to make that determination. If the fair value of an asset or liability cannot be reasonably determined, the FSP requires that an asset or liability be recognized at the amount that would be recognized in accordance with FASB Statement No. 5, "Accounting for Contingencies", and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss", for liabilities and an amount using similar criteria for assets. The FSP is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. There was no material impact to the Company's consolidated financial position, results of operations, or cash flows as a result of the adoption of SFAS 141(R)-1. However, management believes this statement could have a material impact on the Company's future financial statements depending on its acquisition plans.

EITF No. 07-05—During June 2008, the FASB issued EITF Issue No. 07-05, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" became effective for the Company on January 1, 2009. This Issue addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in paragraph 11(a) of Statement 133. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under paragraphs 6-9 of Statement 133 is indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). Other applicable authoritative accounting literature, including Issues EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company Own Stock, and EITF 05-2, The Meaning of "Conventional Debt Instrument" in Issue No. 00-19, provides guidance for determining whether an instrument (or an embedded feature) is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). This Issue did not have a material impact to the Company's consolidated financial position, results of operations, or cash flows upon its effective date.

FSP 142-3— In April 2008, the FASB issued Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets." FSP 142-3 provides guidance on the determination of useful lives of intangible assets in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets". For intangible assets acquired after the effective date, a company is not

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

required to consider renewal or extension at substantial cost or with material modification of existing terms to be factors that limit the useful life of the asset. Rather the Company must consider its own historical experience in renewing or extending similar arrangements. FSP 142-3 became effective on January 1, 2009 and did not have a material impact to the Company's consolidated financial position, results of operations, or cash flows.

FSP EITF 03-6-1— In June 2008, the FASB issued Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." FSP EITF 03-6-1 concludes that non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to SFAS 128, "Earnings per Share", when computing basic and diluted EPS. FSP EITF 03-6-1 became effective for the Company on January 1, 2009. Because the Company's Restricted Share awards contain non-forfeitable dividend rights, the provisions of this FSP must be applied. Upon adoption, the Company was required to adjust all prior period EPS data on a retrospective basis to conform with the provisions of this FSP. Due to the net loss incurred for the quarter ended March 31, 2008, the Company's previously-reported basic and diluted weighted average shares outstanding, and earnings (loss) per share, for this period were not affected by the adoption of this FSP. There is no impact on previously reported basic and diluted earnings (loss) per share for any reported period during 2008 or for the year ended December 31, 2007. Periods prior to 2007 were not impacted as the Company had not issued Restricted Share awards in such periods. The impact on basic and diluted weighted average shares outstanding for the remaining quarters and year to date periods in 2008 and for the year ended December 31, 2007 is as follows:

	<u>Basic Weighted Average Common Shares Outstanding</u>		<u>Diluted Weighted Average Common Shares Outstanding</u>	
	<u>Previously Reported</u>	<u>Adjusted upon adoption of FSP EITF 03-6-1</u>	<u>Previously Reported</u>	<u>Adjusted upon adoption of FSP EITF 03-6-1</u>
Quarter ended June 30, 2008	14,780,369	14,918,888	15,207,924	15,299,944
Six months ended June 30, 2008	14,735,290	14,873,554	15,186,105	15,274,513
Quarter ended September 30, 2008	14,821,253	14,949,352	15,593,959	15,722,058
Nine months ended September 30, 2008	14,764,154	14,899,005	15,304,657	15,434,682
Quarter ended December 31, 2008	14,243,221	14,370,871	15,242,537	15,370,187
Year ended December 31, 2008	14,633,209	14,766,250	15,275,690	15,405,221
Year ended December 31, 2007	13,456,580	13,512,963	14,042,324	14,087,992

SFAS 157—Effective January 1, 2008, the Company partially adopted SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 applies to most current accounting pronouncements that require or permit fair value measurements. SFAS 157 provides a framework for measuring fair value and requires expanded disclosures about fair value methods and inputs by establishing a hierarchy for ranking the quality and reliability of the information used by management to measure and report amounts at fair value.

The Company had only partially applied the provisions of SFAS 157 as management elected the deferral provisions of FASB

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Staff Position (“FSP”) SFAS 157-2 as it applies to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP SFAS 157-2 delayed the effective date of SFAS 157 for non-financial assets and liabilities which are not measured at fair value on a recurring basis (at least annually) until January 1, 2009 for the Company. The major categories of assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis include certain amounts of property and equipment, intangibles and goodwill reported at fair value as a result of impairment testing, and certain other assets, liabilities and equity instruments recognized as a result of prior business combinations. There was no impact to the Company’s consolidated financial position, results of operations, or cash flows as a result of the adoption of SFAS 157 for non-financial assets and liabilities.

Recently Issued Accounting Pronouncements

SFAS 167—On June 12, 2009, the Financial Accounting Standards Board (FASB) published two new accounting standards (Statement of Financial Accounting Standard [SFAS] 166 and SFAS 167) that determine whether securitizations and other transfers of financial instruments are given off-balance sheet treatment. The revisions to the standards, expected to be effective January 1, 2010 for issuers with calendar year ends, will result in many existing off-balance sheet securitizations being treated as secured financing and returning on-balance sheet. SFAS 166, “Accounting for Transfers of Financial Assets,” will amend SFAS 140 and SFAS 167, “Amendments to FASB Interpretation (FIN) No. 46(R),” will amend FIN 46(R). The adoption of SFAS 167 will not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

SFAS 168—In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.” SFAS 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles, superseding existing accounting literature. While not intended to change U.S. GAAP, the Codification significantly changes the way in which accounting literature is organized. SFAS 168 is effective for interim or annual reporting periods ending after September 15, 2009. The adoption of SFAS 168 will not have an impact on the Company’s consolidated financial position, results of operations or cash flows. However, because the Codification completely replaces existing standards, it will affect the way U.S. GAAP are disclosed in our consolidated financial statements.

FSP 132(R)-1—In December 2008, the FASB issued Staff Position No. 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets”. FSP 132(R)-1 amends FASB Statement No. 132 (Revised 2003), “Employers’ Disclosures about Pensions and Other Postretirement Benefits” to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosure requirements addressed by FSP 132(R)-1 provide for greater transparency surrounding the types of assets and associated risks in a plan, events in the economy and markets that could have a significant effect on the value of plan assets, and information about fair value measurements similar to those required by SFAS 157. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company does not expect that the adoption of this standard will have a material effect on the Company’s consolidated results of operations, financial position or cash flows.

**3. Inventories**

*\$ in thousands*

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Raw materials and subassemblies	\$4,011	\$ 4,272
Finished goods	818	932
Parts for resale	767	965
Reserve for obsolescence	(75)	—
	<u>\$5,521</u>	<u>\$ 6,169</u>

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

**4. Costs and Estimated Earnings on Uncompleted Contracts**

<i>\$ in thousands</i>	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Costs incurred on uncompleted contracts	\$ 108,077	\$ 203,500
Estimated earnings	23,963	28,450
	<u>132,040</u>	<u>231,950</u>
Less billings to date	(129,147)	(227,321)
	<u>\$ 2,893</u>	<u>\$ 4,629</u>
Included in the accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 9,818	\$ 12,687
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>(6,925)</u>	<u>(8,058)</u>
	<u>\$ 2,893</u>	<u>\$ 4,629</u>

**5. Goodwill and Intangible Assets**

<i>\$ in thousands</i>	<u>Six months ended June 30, 2009</u>		<u>Year ended December 31, 2008</u>	
<u>Goodwill / Tradename</u>	<u>Goodwill</u>	<u>Tradename</u>	<u>Goodwill</u>	<u>Tradename</u>
Beginning balance	\$31,116	\$ 3,165	\$ 14,761	\$ 2,095
Acquisitions	—	—	16,355	1,070
Foreign currency adjustments	<u>207</u>	<u>15</u>	<u>—</u>	<u>—</u>
	<u>\$31,323</u>	<u>\$ 3,180</u>	<u>\$ 31,116</u>	<u>\$ 3,165</u>
	<u>As of June 30, 2009</u>		<u>As of December 31, 2008</u>	
<u>Intangible assets – finite life</u>	<u>Cost</u>	<u>Accum. Amort.</u>	<u>Cost</u>	<u>Accum. Amort</u>
Patents	\$ 1,412	\$ 978	\$ 1,412	\$ 932
Backlog	565	565	1,451	1,249
Customer Lists	1,612	515	1,595	352
Employment contracts	414	233	410	163
Other	<u>118</u>	<u>103</u>	<u>111</u>	<u>93</u>
	<u>\$ 4,121</u>	<u>\$ 2,394</u>	<u>\$ 4,979</u>	<u>\$ 2,789</u>

Amortization of finite life intangibles is on a straight line basis and amortization expense for the three months ended June 30, 2009 and 2008 was \$166,000 and \$393,000 respectively and for the six months ended June 30, 2009 and 2008 was \$479,000 and \$606,000 respectively. Over the next five years amortization expense for these finite life intangible assets will be \$271,000 for the remainder of 2009, \$494,000 in 2010, \$424,000 in 2011, \$316,000 in 2012 and \$130,000 in 2013.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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**6. Business Segment Information**

Our structure and operational integration results in one reportable 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 consolidated financial statements herein reflect the operating results of the reportable segment.

**7. Earnings Per Share**

Effective January 1, 2009, the Company adopted FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." As a result of the adoption of FSP EITF 03-6-1, non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to SFAS 128, "Earnings per Share", when computing basic and diluted EPS. Losses are only allocable to participating securities if the holder has the contractual obligation to share in the losses of the Company as further defined in EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128." The Company's restricted stock awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted earnings per share. During periods of net loss, these shares are excluded from both basic and diluted earnings per share. For the three and six month periods ended June 30, 2009, 102,022 non-vested restricted share awards were excluded from the computation of basic and diluted weighted average common shares outstanding due to the reported net loss for the periods. For the three and six month periods ended June 30, 2008, the weighted average number of non-vested restricted share awards which were included in the basic weighted average common shares outstanding totaled 138,519 and 138,264, respectively. We consider outstanding options and warrants in computing diluted net income per share only when they are dilutive. For the three and six month periods ended June 30, 2009, 1,283,105 and 485,000, respectively, outstanding options and warrants were excluded from the computation of diluted weighted average common shares outstanding as their effect would have been anti-dilutive. Additionally, pursuant to the if-converted method, net income used for purposes of computing diluted earnings per share is adjusted for the net impact of interest and other items related to the Convertible Subdebt Note (see Note 8) unless the effect is anti-dilutive. The net impact of interest and other items related to the convertible Subdebt Note for the three and six month periods ended June 30, 2009 was income of approximately \$73,000 and \$99,000, respectively. Because of an anti-dilutive effect, net income (loss) was not adjusted for this net impact for the three and six month periods ended June 30, 2009. The convertible Subdebt Note was not outstanding during the three and six month periods ended June 30, 2008 and, accordingly, there was no adjustment to net income for the diluted earnings per share computation for those periods.

**8. Debt**

Total bank debt at June 30, 2009 was \$9.6 million and \$22.6 million at December 31, 2008. The bank debt at June 30, 2009 includes \$6.8 million due on the revolving line of credit. Unused credit availability under our \$30.0 million revolving line of credit at June 30, 2009 was \$1.6 million. Availability is limited as determined by a borrowing base formula contained in the credit agreement.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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We entered into our current credit facility (the “Bank Facility”) on December 29, 2005 with Fifth Third Bank. The Bank Facility was amended on various dates and fees paid for these amendments were deferred and are being amortized over the remaining term of the Bank Facility.

On May 1, 2009, the Company entered into a Sixth Amendment to the Bank Facility effective as of March 31, 2009. The Amendment amends the Bank Facility to extend the termination date of the line of credit from January 31, 2010 to April 1, 2011, make certain changes to the interest rates applicable to the obligations under the Bank Facility, including the implementation of a daily reset, one-month LIBOR-based rate and the unavailability of a prime-based rate except in certain circumstances, which results in an increase of the borrowing rates by one percent, consent to a one-time payment of principal on the Subordinated Convertible Promissory Note of Icarus Investment Corp. in an amount not to exceed \$3,000,000, and consent to an extension fee of CAD \$38,000 payable to Icarus.

As of June 30, 2009, the Bank Facility, as amended, includes a revolving line of credit of up to \$30 million, including letters of credit, limited to a borrowing base amount computed as 70% of eligible accounts receivable plus 50% of eligible inventories. The loan covenants currently require a ratio of funded debt to adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) of not greater than 3.2 to 1.0, a ratio of fixed charges to adjusted EBITDA of not less than 1.25 to 1.0 and a requirement to attain \$5.0 million of loan availability on or before June 1, 2009. As of June 30, 2009, we are in compliance with all covenants.

Interest on the outstanding borrowings is charged at the daily LIBOR rate plus 3.5% or the tranche LIBOR rate plus 3.0% for the revolver and the daily LIBOR rate plus 3.75% or the tranche LIBOR rate plus 3.25% for the term note. The weighted average interest rate under the Bank Facility as of June 30, 2009 was 3.95%.

On August 14, 2008, the Company issued a Subordinated Convertible Promissory Note (the “Convertible Subdebt Note”) in the amount of Canadian \$5,000,000 to Icarus Investment Corp., an Ontario corporation (“Icarus”), which is controlled by Phillip DeZwirek, our Chairman and CEO, and Jason DeZwirek, our Secretary and one of our Directors. The Convertible Subdebt Note provides for interest to accrue at the rate of 10% per annum in 2008, 11% per annum in 2009, and 12% per annum commencing January 1, 2010 until paid. The holder of the Convertible Subdebt Note may convert at any time, the outstanding principal and accrued interest under the Convertible Subdebt Note into common stock of the Company at a per share price of \$4.75, which was the closing consolidated bid price immediately preceding the entering into of the Convertible Subdebt Note. The Convertible Subdebt Note was amended in February 2009 to provide for interest payments to be payable monthly, instead of semi-annually, subject to the Subordination Agreement between Fifth Third Bank and Icarus Investment Corp. The Convertible Subdebt Note was further amended on May 1, 2009 to extend its maturity date to October 1, 2011 from July 31, 2010. Fees of Canadian \$38,000 were paid for this amendment and are being deferred and amortized over the remaining term of the Subdebt. The Convertible Subdebt Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of \$5 million. To the extent that the Company completes an equity financing in excess of \$10 million, 25% of the amounts in excess of the \$10 million are required to be used

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

to repay the Convertible Subdebt Note, provided that the Company is not in default under the Bank Facility. We repaid Canadian \$3,726,000 under the Convertible Subdebt Note on March 31, 2009 and the outstanding balance of the Convertible Subdebt Note at June 30, 2009, as translated into U.S. dollars was \$1.1 million. A foreign exchange translation loss of \$82,550 was recognized during the quarter as other expense.

On May 15, 2009, the Company issued a Promissory Note (“Note”) to Icarus in the amount of \$3,000,000. The Note, which is subordinated to the Company’s Facility with Fifth Third, bears interest at 12% per annum with interest payable monthly. The maturity date of the note is the earlier of May 15, 2012 or six months after repayment of the Bank Facility. The Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of \$5 million. To the extent that the Company completes an equity financing in excess of \$10 million, 25% of the amount in excess of the \$10 million is required to be used to repay the Note, provided that the Company is not in default under its Bank Facility. At the option of Icarus, the note is repayable in Canadian funds with a stated conversion rate of 1.1789, or CAD \$3,536,700, representing the conversion rate at the issuance date of the Note. In accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, this option has been bifurcated and recorded at fair value. The liability of \$0.1 million is included in the corresponding debt balance in the Company’s condensed consolidated balance sheet as of June 30, 2009. Gains and losses resulting from the revaluation of this liability are included in other income (expense) in the condensed consolidated statements of operations.

The Company may repay the Note at any time with no prepayment penalty. The outstanding balance of the Note at June 30, 2009, was \$3.1 million in U.S. dollars and the total subordinated debt was \$4.2 million in U.S. dollars.

**9. 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.

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

\$ in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Retirement plan:</b>				
Service cost	\$ 44	\$ 44	\$ 88	\$ 88
Interest cost	95	91	190	182
Expected return on plan assets	(80)	(105)	(160)	(210)
Amortization of prior service cost	2	2	4	4
Amortization of net actuarial loss	61	35	122	70
Net periodic benefit cost	<u>\$ 122</u>	<u>\$ 67</u>	<u>\$ 244</u>	<u>\$ 134</u>
<b>Health care plan:</b>				
Interest cost	\$ 4	\$ 4	\$ 8	\$ 8
Amortization of gain	(1)	(1)	(2)	(3)
Net periodic benefit cost	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 5</u>

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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As of June 30, 2009 we have made contributions to our defined benefit plans totaling \$255,000. We anticipate contributing \$231,000 to fund the pension plan during the remainder of fiscal 2009.

**10. Stock-Based Compensation**

The Company recognizes compensation expense for stock-based awards, measured at the fair value of the awards at the grant date. The Company recognized expense of approximately \$239,000 and \$304,000 during the quarters ended June 30, 2009 and 2008, respectively and \$473,000 and \$558,000 for the six months ended June 30, 2009 and 2008, respectively.

During 2009, the Company awarded 138,400 shares of performance-based, restricted stock with a fair value of \$3.50 per share which vest subject to attainment of predetermined Company performance goals by fiscal year end 2009. These shares will vest on March 31, 2010, if certain minimum financial targets are attained. If the minimum level of performance is not attained by the end of 2009, these stock awards will be forfeited and any expense recognized to date will be reversed. Currently no expense has been recorded due to the expectation that the related financial objectives will not be met.

Additionally, on May 21, 2009, a total of 8,000 shares of restricted stock with a fair value of \$3.50 per share were granted to four independent directors. These shares vest over a one year period.

On May 21, 2009, at the 2009 Annual Meeting (the "Annual Meeting") of Stockholders of CECO Environmental Corp. (the "Company"), the Company's stockholders approved the CECO Environmental Corp. Employee Stock Purchase Plan (the "ESPP"). The ESPP is administered by the Compensation Committee. The aggregate maximum number of shares of the Company's common stock that may be granted under the ESPP is one million five hundred shares over the ten year term of the ESPP, subject to adjustment in the event there is a reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, or similar transaction with respect to the common stock. The plan will become effective on August 1, 2009.

**11. Income Taxes**

The Company files income tax returns in various federal, state and local jurisdictions. The Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2004.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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As of June 30, 2009 and December 31, 2008, the liability for uncertain tax benefits totaled approximately \$432,000 and \$420,000 respectively. Included in these balances is a \$178,000 tax position for which the ultimate outcome is highly certain. The Company included interest and penalties in the unrecognized tax benefit as of June 30, 2009 and December 31, 2008.

**12. Comprehensive Income (Loss)**

Comprehensive income (loss) consists of net income (loss), changes in the pension liability that do not directly impact net earnings, if any during the period, and translation gains and losses for foreign operations.

Comprehensive loss of \$(132,000) included net loss of \$(639,000) and a translation gain of \$507,000 for the three month period ended June 30, 2009, and comprehensive income of \$1,038,000 for the three month period ended June 30, 2008 included net income of \$1,029,000 and a translation gain of \$9,000.

Comprehensive income of \$90,000 included net loss of \$(270,000) and a translation gain of \$360,000 for the six month period ended June 30, 2009, and comprehensive income of \$465,000 for the six month period ended June 30, 2008 included net income of \$454,000 and a translation gain of \$11,000.

**13. Product Warranties**

The Company's warranty reserve is to cover the products sold and is principally at our Effox subsidiary. The warranty accrual is based on historical claims information. The warranty reserve is reviewed and adjusted as necessary on a quarterly basis. Warranty accrual is not significant at the Company's other operations due to the nature of the work of including installation. The change in accrued warranty expense is summarized in the following table:

\$ in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Beginning balance	\$ 553	\$ 578	\$ 574	\$ 605
Provision	43	25	81	50
Payments	(85)	(29)	(144)	(81)
Ending balance	<u>\$ 511</u>	<u>\$ 574</u>	<u>\$ 511</u>	<u>\$ 574</u>

**14. Financial Instruments**

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets, such as cash surrender life insurance, as well as obligations under accounts payable, long-term debt and subordinated notes. The carrying values of these financial instruments approximate fair value at June 30, 2009 and December 31, 2008, except for subordinated notes for which fair value was \$4.2 million.

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.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

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*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.

**15. Acquisitions**

On February 29, 2008, the Company, through its wholly owned subsidiary FKI Acquisition Corp., purchased substantially all of the assets of Fisher-Klosterman, Inc. ("FKI"). We acquired FKI to obtain air pollution and particulate recovery products in the fields of petroleum refinery, power production, petrochemicals, and manufacturing. The acquisition also expands our operations into China with FKI's 40,000 square foot facility in Shanghai, China. The purchase price was approximately \$23.3 million, consisting of net cash paid plus transaction costs totaling approximately \$15.3 million (funded under the amended Bank Facility), liabilities assumed of approximately \$7.1 million and 98,580 shares of restricted common stock valued at \$0.9 million. Additionally, the former owners of FKI are entitled to earn-out payments payable in shares of common stock of up to \$3.5 million upon the attainment of specified gross profit amounts through February 28, 2011. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

*\$ in thousands*

Current assets	\$ 6,934
Other assets	41
Property and equipment	1,823
Intangible assets – finite life	1,634
Intangible assets – indefinite life	800
Goodwill	<u>12,087</u>
Total assets acquired	23,319
Current liabilities assumed	<u>(7,074)</u>
Net assets acquired	<u>\$16,245</u>

The purchase price allocation is preliminary and subject to further refinement based upon completion of asset valuations.

On August 1, 2008, the Company, through a subsidiary, acquired all of the stock of Flextor Inc., a Quebec company ("Flextor"), pursuant to the terms of a Stock Purchase Agreement dated August 1, 2008, among the Company, 9199-3626 Quebec Inc., Michael dos Santos, The Dos Santos Family Trust, Thierry Allegrucci, The Allegrucci Family Trust, Francois Rouviere and Antandamy Investments Inc. Additionally, the former owners are entitled to earn-out payments of up to \$.5 million upon the attainment of specified gross profit amounts through July 31, 2011.

Flextor is a provider of engineered-to-order dampers and expansion joints for the power, natural gas, cement, smelting, incineration, and other industries. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

*\$ in thousands*

Current assets	\$ 5,247
Property and equipment	286
Intangible assets – finite life	16
Goodwill	5,058
Total assets acquired	<u>10,607</u>
Current liabilities assumed	<u>(3,769)</u>
Net assets acquired	<u>\$ 6,838</u>

The purchase price allocation is preliminary and subject to further refinement based upon completion of asset valuations.

FKI, purchased all of the assets and assumed certain liabilities of Shideler, Inc. (f/k/a/ A.V.C. Specialists, Inc.) (“AVC”) on August 1, 2008 pursuant to an Asset Purchase Agreement dated August 1, 2008 by and among FKI, AVC, and Thomas J. Shideler and Barbara Shideler. Additionally, the former owners are entitled to earn-out payments of up to \$.4 million upon the attainment of specified gross profit amounts through July 31, 2010. AVC is a provider of electrostatic precipitator components for the power, refining, petrochemical, pulp and paper, cement, and other industries.

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

*\$ in thousands*

Current assets	\$ 486
Property and equipment	302
Goodwill	636
Total assets acquired	<u>1,424</u>
Current liabilities assumed	<u>(74)</u>
Net assets acquired	<u>\$1,350</u>

These two acquisitions, which were not considered significant subsidiaries, were financed with a combination of the proceeds of the Subordinated Debt described in Note 8 and the Bank Facility.

## 16. Related Party Transactions

On August 14, 2008, the Company issued a Subordinated Convertible Promissory Note (the “Convertible Subdebt Note”) in the amount of Canadian \$5,000,000 to Icarus Investment Corp., an Ontario corporation (“Icarus”), which is controlled by Phillip DeZwirek, our Chairman and CEO, and Jason DeZwirek, our Secretary and one of our Directors. The Convertible Subdebt Note was amended on May 1, 2009 to extend its maturity date to October 1, 2011 from July 31, 2010. We repaid Canadian \$3,726,000 under the Convertible Subdebt Note on March 31, 2009 and the outstanding balance on the Convertible Subdebt Note at June 30, 2009, was \$1.1 million in U.S. dollars.

On May 15, 2009, the Company issued a Promissory Note (“Note”) to Icarus in the amount of \$3,000,000. The Company may repay the Convertible Subdebt Note and the Note at any time with no prepayment penalty. The Convertible Subdebt Note and the Note are secured by a second lien on the Company and its U.S. subsidiaries’ assets, which lien is subordinate to Fifth Third Bank. The outstanding balance of the Note at June 30, 2009, was \$3.1 million in U.S. dollars. See Note 8.

CECO ENVIRONMENTAL CORP.

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

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

Our consolidated statements of operations for the three-month and six-month periods ended June 30, 2009 and 2008 reflect our operations consolidated with the operations of our subsidiaries.

(\$'s in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	\$ 33.5	\$ 57.4	\$73.3	\$104.3
Cost of sales	26.0	46.9	57.0	87.5
Gross profit	\$ 7.6	\$ 10.5	\$16.3	\$ 16.8
Percent of sales	22.7%	18.3%	22.2%	16.1%
Selling and administrative expenses	\$ 7.8	\$ 8.0	\$15.3	\$ 14.8
Percent of sales	23.3%	13.9%	20.9%	14.2%
Operating (loss) income	\$ (0.4)	\$ 2.1	\$ 0.5	\$ 1.3
Percent of sales	(1.2)%	3.7%	0.7%	1.2%

Consolidated net sales for the second quarter decreased 41.6% or \$23.9 million to \$33.5 million in 2009 compared to \$57.4 million in 2008. Consolidated net sales for the first six months of 2009 were \$73.3 million, a decrease of \$31.0 million or 29.7% compared to \$104.3 million in 2008. The decrease in revenues for the three months ended June 30, 2009 was due to the weak economy which resulted in a 57% decrease in contracting revenues, a 34% decrease in equipment revenues and a 27% decrease in parts sales. The comparative six month decrease in net sales was also attributable to significant decreases in all groups although to a lesser degree because of an increase in equipment sales in the first quarter of 2009 as compared to the same quarter in 2008. Equipment group customers in power and refining have not been as adversely affected by the weak economy.

Orders booked were \$32.7 million during the second quarter of 2009 and \$67.7 million for the first six months of 2009, as compared to \$54.1 million during the second quarter of 2008 and \$106.9 million in the first half of 2008.

Second quarter 2009 gross profit was \$7.6 million. This compares to gross profit of \$10.5 million during the same period in 2008. Gross profit as a percentage of revenues for the three-month period ended June 30, 2009, increased by 4.4 percentage points to 22.7% compared with 18.3% for the comparable period in 2008. This anticipated increase was primarily the result of an increase in the proportion of sales of higher margin equipment and component parts to total sales. The equipment group sales, before intercompany eliminations, were 57.5% of total sales for the second quarter of 2009 compared to 49.2% of total sales for the second quarter of 2008 and the component parts sales, before intercompany eliminations, were 9.2% of total sales for the second quarter of 2009 compared to 7.1% sales for the second quarter of 2008. Additionally, gross margin percentages in equipment sales, contracting and parts sales also increased in the second quarter of 2009 compared to the second quarter of 2008.

Gross profit was \$16.3 million for the first six months of 2009, a decrease of \$.5 million compared to \$16.8 million for the same period in 2008. Gross profit as a percentage of revenues for the first six months of 2009 increased to 22.2% compared to 16.1% for the same period in 2008. This increase was the result of the same factors described for the second quarter as well as the fact that the six month 2008 gross profit percentage was lower due to the impact of significant ongoing costs incurred on a large project caused by customer scope changes and site conditions.

CECO ENVIRONMENTAL CORP.

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

---

Selling and administrative expenses decreased by \$0.2 million, or 2.5%, from \$8.0 million to \$7.8 million during the second quarter and increased by \$0.5 million, or 3.3%, from \$14.8 million to \$15.3 million during the first six months of 2009 compared to 2008. The three and six month periods ended June 30, 2009 reflect additional selling and administrative expenses of entities acquired during 2008, approximating \$0.4 million and \$1.8 million, respectively, and a \$300,000 non-cash charge to increase the allowance for bad debts during the second quarter of 2009. These increases were offset by significant reductions in selling and administrative wages and fringes due to staff reductions of \$0.7 million for the second quarter of 2009 and \$1.0 million for the six months ended June 30, 2009 as compared to the same periods in 2008. The addition to the allowance for bad debts was due to an increase in the percentage of past due accounts as a percentage of the total receivables. None of these past due accounts relate to the automotive industry and our outstanding receivables related to the auto industry have been significantly reduced through collection.

Selling and administrative expense as a percentage of sales increased from 13.9% to 23.3% for the quarter ended June 30, 2009 and increased from 14.2% to 20.9% for the six months ended June 30, 2009. The increase in selling and administrative expenses as a percentage of sales is primarily due to the overall decline in sales volume as well as the increase to the allowance for bad debts during the second quarter of 2009.

Amortization expense decreased by \$226,000 to \$166,000 during the second quarter of 2009 from \$392,000 in the same period of 2008 and decreased by \$127,000 to \$479,000 in the first six months of 2009 from \$606,000 in the same period of 2008. These decreases were the result of certain definite life intangibles related to earlier acquisitions becoming fully amortized.

Operating loss was \$(0.4) million in the second quarter of 2009, a decrease of \$2.5 million compared to operating income of \$2.1 million during the same quarter of 2008. Operating loss as a percent of sales in the second quarter of 2009 was (1.2%) compared to operating income of 3.7% for the same period in 2008.

Operating income for the first six months of 2009 was \$0.5 million, a decrease of \$0.8 million compared to operating income of \$1.3 million during the same period of 2008. Operating income as a percent of sales for the six months ended June 30, 2009 was 0.7% compared to 1.2% for the same period in 2008.

Low sales volume was the primary factor for the decreases in operating income and operating margin percentages.

Other expense of \$261,000 for the three months ended June 30, 2009 consists of losses on foreign currency translations and revaluation of the embedded derivative on the subordinated debt. For the six months ended June 30, 2009, other expense of \$172,000 consisted of foreign currency translation losses and revaluation of the embedded derivative on the subordinated debt.

Interest expense decreased by \$0.1 million from \$0.4 million in the second quarter of 2008 to \$0.3 million during the second quarter of 2009. Interest expense increased slightly to \$0.7 million during the first six months of 2009 compared to \$0.6 million during the first six months of 2008. The decrease for the quarter was due primarily to lower borrowings on the Company's credit facility offset by higher interest rates on the facility which was amended effective March 31, 2009 and an additional \$0.1million charge to interest expense resulting from a state sales tax audit. The six month period was affected by the same factors.

CECO ENVIRONMENTAL CORP.

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

---

Federal and state income tax benefit was \$0.3 million during the second quarter of 2009 compared to expense of \$0.7 million during the second quarter of 2008. Federal and state income tax benefit was \$0.1 million for the first six months of 2009 compared to a tax expense of \$0.3 million in 2008. The federal and state income tax provision for the first six months of 2009 was 35%, which reflects the estimated effective tax rate for 2009. Our statutory income tax rate is affected by certain permanent differences including income or expense for market valuation of warrants, non-deductible interest expense related to the subordinated debt and non-deductible expense related to incentive stock options.

Net loss for the quarter ended June 30, 2009 was \$0.6 million compared with net income of \$1.0 million for the same period in 2008. Net loss for the six months ended June 30, 2009 was \$0.3 million compared with a net income of \$0.5 million for the same period in 2008.

#### Backlog

Our backlog consists of the amount of revenues we expect from full performance of open, signed, firm fixed price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 months. Our backlog, as of June 30, 2009, was \$62.4 million compared to \$68.0 million as of December 31, 2008. There can be no assurances that backlog will be replicated, increased or translated into higher revenues in the future. The success of our business depends on a multitude of factors related to our backlog and the orders secured during the subsequent period(s). Certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability.

#### Financial Condition, Liquidity and Capital Resources

Our principal sources of liquidity are cash flow from operations and available borrowings under our revolving credit facility. Our principal uses of cash are operating costs, debt service, payment of interest on our outstanding senior debt, working capital and other general corporate requirements.

At June 30, 2009 and December 31, 2008, cash and cash equivalents totaled \$1.1million and \$1.2 million 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 debt at June 30, 2009 was \$9.6 million versus \$22.6 million at December 31, 2008. The bank debt at June 30, 2009 includes \$6.8 million due on the revolving line of credit. Unused credit availability under our \$30.0 million revolving line of credit at June 30, 2009 was \$1.6 million. Availability is limited as determined by a borrowing base formula contained in the credit agreement.

On May 1, 2009, the Company entered into a Sixth Amendment to Credit Agreement effective as of March 31, 2009. The Amendment amends the Bank Facility to extend the termination date of the line of credit from January 31, 2010 to April 1, 2011, make certain changes to the interest rates applicable to the obligations under the Bank Facility, including the implementation of a

CECO ENVIRONMENTAL CORP.

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

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daily reset, one-month LIBOR-based rate and the unavailability of a prime-based rate except in certain circumstances, which results in an increase of the borrowing rates by one percent, consent to a one-time payment of principal on the Subordinated Convertible Promissory Note of Icarus Investment Corp. in an amount not to exceed \$3,000,000, and consent to an extension fee of CAD \$38,000 payable to Icarus.

As of June 30, 2009, the Bank Facility, as amended, includes a revolving line of credit of up to \$30 million, including letters of credit, limited to a borrowing base amount computed as 70% of eligible accounts receivable plus 50% of eligible inventories. The loan covenants currently require a ratio of funded debt to adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") of not greater than 3.2 to 1.0, a ratio of fixed charges to adjusted EBITDA of not less than 1.25 to 1.0 and a requirement to attain \$5.0 million of loan availability on or before June 1, 2009. As of June 30, 2009, we are in compliance with all covenants.

Interest on the outstanding borrowings is charged at the daily LIBOR rate plus 3.5% or the tranche LIBOR rate plus 3.0% for the revolving credit line and the daily LIBOR rate plus 3.75% or the tranche LIBOR rate plus 3.25% for the term note. The weighted average interest rate under the Bank Facility as of June 30, 2009 was 3.95%.

On August 14, 2008, the Company issued the Convertible Subdebt Note in the amount of Canadian \$5,000,000 to Icarus. The Convertible Subdebt Note provides for interest to accrue at the rate of 10% per annum in 2008, 11% per annum in 2009, and 12% per annum commencing January 1, 2010 until paid. The holder of the Convertible Subdebt Note may convert at any time, the outstanding principal and accrued interest under the Note into common stock of the Company at a per share price of \$4.75, which was the closing consolidated bid price immediately preceding the entering into of the Convertible Subdebt Note. The Convertible Subdebt Note was amended in February 2009 to provide for interest payments to be payable monthly, instead of semi-annually, subject to the Subordination Agreement between Fifth Third Bank and Icarus Investment Corp. The Convertible Subdebt Note was further amended on May 1, 2009 to extend its maturity date to October 1, 2011 from July 31, 2010. Fees of Canadian \$38,000 were paid for this amendment and are being deferred and amortized over the remaining term of the subdebt. The Convertible Subdebt Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of \$5 million. To the extent that the Company completes an equity financing in excess of \$10 million, 25% of the amounts in excess of the \$10 million are required to be used to repay the Convertible Subdebt Note, provided that the Company is not in default under the Bank Facility. The outstanding balance of the Convertible Subdebt Note at June 30, 2009, as translated into U.S. dollars, was \$1.1 million.

On May 15, 2009, the Company issued a Promissory Note ("Note") to Icarus in the amount of \$3,000,000. The Note, which is subordinated to the Company's Bank Facility with Fifth Third, bears interest at 12% per annum with interest payable monthly. The maturity date of the note is the earlier of May 15, 2012 or six months after repayment of the facility. The Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of \$5 million. To the extent that the Company completes an equity financing in excess of \$10 million, 25% of the amount in excess of the \$10 million is required to be used to repay the Note, provided that the Company is not in default under its Bank Facility with its senior lender. At the option of Icarus, the note is repayable in Canadian funds with a stated conversion rate of 1.1789, or CAD \$3,536,700, representing the conversion rate at the issuance date of the Note. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", this option has been bifurcated and recorded at fair value. The liability of \$0.1 million is included in the corresponding debt balance in the Company's

CECO ENVIRONMENTAL CORP.

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

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condensed consolidated balance sheet as of June 30, 2009. Gains and losses resulting from the revaluation of this liability are included in other income (expense) in the condensed consolidated statements of operations.

The Company may repay the note at any time with no prepayment penalty. The outstanding balance of the Note at June 30, 2009, was \$3.1 million in U.S. dollars and the total subordinated debt was \$4.2 million in U.S. dollars.

Overview of Cash Flows and Liquidity

(\$'s in thousands)	<u>For the six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Net cash provided by operating activities	\$ 13,757	\$ 1,657
Net cash used in investing activities	(807)	(16,621)
Net cash (used in) provided by financing activities	<u>(12,998)</u>	<u>15,171</u>
Net (decrease) increase	<u>\$ (48)</u>	<u>\$ 207</u>

Net cash provided by operating activities was \$13.8 million in 2009 compared to cash provided by operating activities in 2008 of \$1.7 million. Cash provided by operating activities for the first six months of 2009 was primarily the result of a net loss of \$0.3 million, non cash depreciation and amortization expense of \$1.3 million, non cash compensation expense for stock awards of \$0.5 million, non cash bad debt expense of \$0.3 million, a decrease of \$29.0 million in accounts receivable, decrease in costs and estimated earnings in excess of billings and estimated earnings of \$2.9 million and a decrease in inventories of \$0.6 million offset by an decrease in accounts payable of \$17.5 million, a decrease in accrued income taxes of \$2.2 million and a decrease in billings in excess of costs and estimated earnings of \$1.1 million. Other changes in working capital items provided cash of \$0.1 million. Our net investment in working capital (excluding cash and cash equivalents and current portion of debt) at June 30, 2009 and December 31, 2008 was \$13.3 million and \$25.1 million, respectively.

Net cash used in investing activities was \$0.8 million for the first six months of 2009 compared with \$16.6 million for the same period in 2008. For the six months ended June 30, 2008, net cash used for the acquisition of FKI, which was financed by additional borrowings on the Company's credit facility, amounted to \$15.3 million. We are managing our capital expenditure spending in light of the current level of sales. We anticipate lower capital spending in 2009, which will be funded with cash provided by operating activities and additional borrowings on our revolving credit facility.

Financing activities used cash of \$13.0 million during the first six months of 2009 compared with cash provided by financing activities of \$15.2 million during the same period of 2008. This consisted of repayments on the credit facility of \$11.5 million and payments on term debt of \$1.5 million.

Forward-Looking Statements

This Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects or future results of operations or financial position made in this Form 10-Q are forward-looking. We use words such as "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "will," "plan," "should," and similar expressions to identify forward-looking statements.

CECO ENVIRONMENTAL CORP.

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

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Forward-looking statements are based on management's current expectations and assumptions that are subject to risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or trends to differ materially from those expressed in the forward-looking statements. Potential risks, among others, that could cause actual results to differ materially are discussed under "Item 1A Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and include, but are not limited to: our dependence on fixed price contracts and the risks associated therewith, including actual costs exceeding our estimates and our method of accounting for contract revenue; our history of losses and possibility of further losses; fluctuations in operating results from period to period due to seasonality of our business; the effect of growth on our infrastructure, resources, and existing sales; our ability to expand our operations in both new and existing markets; the potential for contract delay or cancellation; the potential for fluctuations in prices for manufactured components and raw materials; our ability to raise capital and the availability of capital resources; our ability to fully utilize and retain executives; the impact of federal, state, or local government regulations; labor shortages or increases in labor costs; economic and political conditions generally; and the effect of competition in the air pollution control and industrial ventilation industry.

We 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.

CECO ENVIRONMENTAL CORP.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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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.

The remaining amount of loans outstanding under the Bank Facility bear interest at the floating rates as described in Note 8.

Raw Materials

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

CECO ENVIRONMENTAL CORP.

ITEM 4. CONTROLS AND PROCEDURES

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*Evaluation of Disclosure Controls and Procedures*

Our Chief Executive Officer and Chief Financial Officer have evaluated our 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 the end of the period covered by this quarterly report. Based on this evaluation, such officers have concluded that these controls and procedures are not effective as of the end of the period covered by this quarterly report on Form 10-Q in ensuring that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission ("SEC") rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely discussions regarding required disclosure. This conclusion was based on the existence of a material weakness in our Entity-level Controls as further disclosed in Item 9A ("Management's Annual Report on Internal Control Over Financial Reporting") in the Company's annual report on Form 10-K for the year ended December 31, 2008.

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

The Internal Audit division, with senior management input, is in the process of identifying, documenting, and testing key controls. An on-going, sustainable process is currently being developed which will encompass significant operating units throughout the Company.

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

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

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

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

Continue to develop and implement focused monitoring controls and other procedures in the Internal Audit organization.

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

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

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

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

Lastly, we are in the process of implementing an integrated IT system, which is expected to be operational during the current year. Effective controls over end user computing applications are inherent in the system. Access to programs will be designed in the system with access privileges to be consistent with job responsibilities. System database access will also be restricted to mitigate segregation of duties issues. When segregation of duties issues cannot be addressed systematically, compensating controls will be designed and implemented.

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

The Company is committed to continuing to improve its internal control processes and will continue to review its disclosure controls and procedures and internal control over financial reporting. As management continues to evaluate and work to improve the Company's controls, additional control deficiencies may be identified. Further, management may determine to take additional measures to address control deficiencies.

Other than as described above, there have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CECO ENVIRONMENTAL CORP.

PART II -OTHER INFORMATION

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At our Annual Meeting on May 21, 2009, the shareholders of CECO Environmental Corp. took the following actions:

1. Elected the following seven directors, constituting the entire Board of Directors, for terms to expire at the 2010 Annual Meeting of Shareholders, with votes as indicated opposite each director's name:

	<u>Votes For</u>	<u>Votes Withheld</u>
Richard J. Blum	10,830,524	2,185,291
Arthur Cape	11,824,755	1,191,060
Jason DeZwirek	10,524,933	2,490,882
Phillip DeZwirek	10,496,636	2,519,179
Thomas J. Flaherty	12,019,421	996,394
Ronald E. Krieg	11,828,216	1,187,599
Donald A. Wright	11,682,718	1,333,097

2. Approved the CECO Environmental Corp. Employee Stock Purchase Plan as follows:

Votes for:	9,182,157
Votes against:	82,480
Abstain:	19,670
Broker non-votes:	3,731,508

3. Approved an amendment to the CECO Environmental Corp. 2007 Equity Incentive Plan to permit option repricing as follows;

Votes for:	6,513,041
Votes against:	2,746,796
Abstain:	24,496
Broker non-votes:	3,731,509

4. Ratified the appointment of BDO Seidman, LLP as the Company's independent registered accounting firm for the fiscal year ending December 31, 2009 as follows:

Votes for:	12,950,825
Votes against:	56,547
Abstain:	8,441

ITEM 6. EXHIBITS

- 10.1 Second Amendment to Subordinated Convertible Promissory Note between the Company and Icarus Investment Corp. dated May 1, 2009.
- 10.2 Sixth Amendment to Credit Agreement dated May 1, 2009, effective date March 31, 2009. (Incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 7, 2009.)
- 10.3 Fourth Amended and Restated Revolving Credit Promissory Note, effective date March 31, 2009 (Incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K filed on May 7, 2009.)

- 10.4 Amended and Restated Term Promissory Note, effective date March 31, 2009 (Incorporated by reference from Exhibit 10.3 of the Company's Current Report on Form 8-K filed on May 7, 2009.)
- 10.5 Promissory Note between the Company and Icarus Investment Corp. dated May 15, 2009.
- 10.6 CECO Environmental Corp. Employee Stock Purchase Plan (Incorporated by reference to Exhibit A to CECO Environmental Corp.'s definitive proxy statement on Schedule 14A filed with the Security Exchange Commission on April 13, 2009.)
- 10.7 First Amendment to CECO Environmental Corp. 2007 Equity Incentive Plan (Incorporated by reference to Exhibit B to CECO Environmental Corp.'s definitive proxy statement on Schedule 14A filed with the Security Exchange Commission on April 13, 2009.)
- 10.8 Restricted Stock Award Agreement of Dennis W. Blazer dated May 21, 2009.
- 10.9 Restricted Stock Award Agreement of David D. Blum dated May 21, 2009.
- 10.10 Restricted Stock Award Agreement of Richard J. Blum dated May 21, 2009.
- 31.1 Rule 13(a)/15d-14(a) Certification by Chief Executive Officer
- 31.2 Rule 13(a)/15d-14(a) Certification by Chief Financial Officer
- 32.1 Certification of Chief Executive Officer (18 U.S. Section 1350)
- 32.2 Certification of Chief Financial Officer (18 U.S. Section 1350)

CECO ENVIRONMENTAL CORP.

SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CECO ENVIRONMENTAL CORP.

/s/ Dennis W. Blazer

Dennis W. Blazer

V.P. - Finance and Administration and Chief  
Financial Officer

Date: August 10, 2009

NEITHER THE NOTE AS AMENDED BY THIS SECOND AMENDMENT NOR ANY SECURITIES WHICH MAY BE ISSUED UPON THE EXERCISE OF CONVERSION RIGHTS UNDER THE NOTE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR OTHERWISE QUALIFIED UNDER ANY STATE SECURITIES LAW. NEITHER THE NOTE NOR ANY SUCH SECURITIES MAY BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT AND REGISTRATION OR OTHER QUALIFICATION UNDER ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION OR OTHER QUALIFICATION IS NOT REQUIRED.

**Notwithstanding anything herein to the contrary, (i) the obligations evidenced by the Subordinated Convertible Promissory Note dated August 14, 2008 by CECO Environmental Corp., as amended by the First Amendment to Subordinated Convertible Promissory Note dated February 13, 2009 and this Second Amendment to Subordinated Convertible Promissory Note, are subordinated to the prior payment in full of the Senior Obligations (as defined in the Subordination Agreement referred to herein) pursuant to, and to the extent provided in the Subordination Agreement, dated as of August 14, 2008 (as amended, restated, supplemented or modified from time to time, the "Subordination Agreement") in favor of Fifth Third Bank (together with its successors and assigns, and the other holders, if any, of the Senior Obligations identified therein or contemplated thereby, the "Senior Lender") and (ii) the rights of the holder of the Note, as amended, are subject to the limitations and provisions of the Subordination Agreement. In the event of any conflict between the terms of the Subordination Agreement and the terms of the Subordinated Convertible Promissory Note, as amended hereby, the terms of the Subordination Agreement shall govern.**

#### **Second Amendment to Subordinated Convertible Promissory Note**

This Second Amendment to Subordinated Convertible Promissory is dated as of May 1, 2009 between CECO Environmental Corp., a Delaware corporation, (the "Company"), and Icarus Investment Corp., an Ontario corporation ("Holder").

**WHEREAS**, the Company executed a Subordinated Convertible Promissory Note dated as of August 14, 2008, as amended by a First Amendment to Subordinated Convertible Promissory Note dated February 13, 2009 (the "Note"), in the principal amount of Canadian \$5,000,000, payable to Holder;

**WHEREAS**, the parties desire to amend the Note (i) to extend the maturity date, and (ii) and to make such other revisions as further provided herein;

**NOW, THEREFORE**, in consideration for the mutual promises set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

##### **1. Amendments to Note.**

**1.1 Paragraph 1.** The reference to "July 31, 2010" in Paragraph 1 of the Note is hereby amended by substituting a reference to "October 1, 2011" for such reference to "July 31, 2010" where "July 31, 2010" appears therein.

**1.2 Paragraph 11.1** Clause (a) of Section 11.1 “Occurrences of Events of Default” is hereby amended in its entirety by substituting the following in its stead:

(a) if the Company fails to pay any amount payable under this Note and such default is not cured within 5 days of written notice from the Holder;

2. **Extension Fee.** In consideration of Holder’s agreement to extend the maturity date as set forth herein, the Company immediately shall pay Holder a fee of CAD \$38,220.

3. **Continuing Effect.** All terms and provisions of the Note, except as expressly modified herein, shall continue in full force and effect, and the Company hereby confirms each and every one of its obligations under the Note as amended herein. The indebtedness evidenced by the Note is continuing indebtedness, and nothing herein shall be deemed to constitute a payment, settlement or novation of the Note, or release or otherwise adversely affect any lien, mortgage, or security interest securing such indebtedness or any rights of the Holder against any party.

4. **Governing Law.** This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Delaware.

[signatures on next page]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first written above.

The Company:

CECO Environmental Corp.

By: /s/ Dennis W. Blazer

Dennis W. Blazer, Vice President and CFO

Holder:

Icarus Investment Corp.

By: /s/ Phillip DeZwirek

Its: Director

**CECO ENVIRONMENTAL CORP.****PROMISSORY NOTE**

USD \$3,000,000

May 15, 2009

FOR VALUE RECEIVED, the undersigned, CECO ENVIRONMENTAL CORP. (the "Company"), a Delaware corporation, hereby promises to pay to the order of ICARUS INVESTMENT CORP., an Ontario corporation or registered assigns ("Holder"), the principal sum of THREE MILLION DOLLARS (\$3,000,000) (or such lesser amounts as may be outstanding from time to time under this Note) on the Maturity Date, as defined in Section 1 below. Unless otherwise set forth herein, all references to \$ means United States dollars.

1. **Maturity.** This Note shall be due and payable upon the earlier to occur of the following events (the "Maturity Date"): (i) May 15, 2012; (ii) six (6) months after repayment of the Superior Debt (as defined in Section 8 below); or (iii) the closing (any such closing referred to as the "Closing") of a Sale Transaction. For purposes of this Note, a Sale Transaction shall mean (i) a merger, consolidation, corporate reorganization, or sale of shares of stock of the Company as a result of which there is a change in control and/or the shareholders of the Company on the date hereof ("Current Shareholders") own 50% or less of the outstanding shares of the Company on a fully-diluted basis immediately after the transaction and, including as outstanding for purposes of such calculation, any warrants, options or other instruments convertible or exchangeable into equity securities of the Company issued to persons other than the Current Shareholders in connection with the transaction or (ii) the sale of (A) fifty percent or more of the assets of the Company or (B) any subsidiary, division or line of business of the Company for total consideration in excess of USD \$5 million.

2. **Interest.** Interest shall accrue on the unpaid principal balance hereof and on any interest payment that is not made when due at the rate of twelve percent (12%) per annum (the "Base Rate") until the principal amount of this Note is paid in full. Accrued interest shall be due and payable on the fifteenth of each month with a final payment of accrued and unpaid interest due and payable on the Maturity Date. It shall not be a default hereunder and interest will not accrue on any portion of such interest payments if such interest payments are deferred ("Deferred Interest") because payment of such interest payments will constitute a default under the Credit Agreement dated December 29, 2005, as amended (the Credit Agreement, as amended, restated, supplemented or modified from time to time, the "Credit Agreement") among the Company, certain of its affiliates and Fifth Third Bank, so long as the Deferred Interest is paid at the time and in the manner allowed by the Credit Agreement. In the Event of Default (as defined herein) interest shall accrue on all unpaid amounts due hereunder, including without limitation interest, at the rate of the Base Rate plus three percent (3%). If a judgment is entered against Lender on this Note, the amount of the judgment so entered shall bear interest at the highest rate authorized by law as of the date of the entry of the judgment.

3. Payments. Payments of both principal and interest shall be made at the principal executive office of the Company, or such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America, provided, that Holder, in its sole discretion, may require that payments be made in Canadian funds, based on an exchange rate of 1.1789. The Company shall notify Holder prior to any payment, and Holder shall instruct the Company as to whether such payment shall be made in United States or Canadian funds.

So long as no Event of Default has occurred in this Note, all payments hereunder shall first be applied to interest, then to principal. Upon the occurrence of an Event of Default in this Note, all payments hereunder shall first be applied to costs pursuant to Section 10.5, then to interest and the remainder to principal.

4. Registration, Transfer and Exchange of Notes. The Company will keep at its principal office a register in which it will provide for the registration of and transfer of this Note, at its own expense (excluding transfer taxes). If this Note is surrendered at said office or at the place of payment named in this Note for registration of transfer or exchange (accompanied in the case of registration of transfer or exchange by a written instrument of transfer in form satisfactory to the Company duly executed by or on behalf of the holder), the Company, at its expense, will deliver in exchange one or more new notes in denominations of \$10,000 or larger multiples of \$1,000, as requested by the holder for the aggregate unpaid principal amount. Any note or notes issued in a transfer or exchange shall carry the same rights to increase notes surrendered. The Holder agrees that prior to making any sale, transfer, pledge, assignment, hypothecation, or other disposition (each, a "Transfer") of this Note, the Holder shall give written notice to the Company describing the manner in which any such proposed Transfer is to be made and providing such additional information and documentation regarding the Transfer as the Company reasonably requests. If the Company so requests, the Holder shall at his expense provide the Company with an opinion of counsel (which counsel must be reasonably satisfactory to the Company), in form and substance satisfactory to the Company, that the proposed Transfer complies with applicable federal and state securities laws. The Company shall have no obligation to Transfer this Note unless the Holder thereof has complied with the foregoing provisions, and any such attempted Transfer shall be null and void.

5. Registered Owner. Prior to due presentation for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, and interest on, such Note and for all other purposes.

6. Prepayment. The Company, at its option and without any premium, may prepay in whole or in part the principal amount of this Note at any time, subject to the terms of paragraph 3 herein.

7. Repayment of Notes. In the event the Company completes an equity financing or offering or a series of equity financing or offerings for a total consideration in excess of USD \$10,000,000, then twenty-five percent (25%) of all such consideration in excess of USD \$10,000,000 shall be used immediately, upon receipt by the Company, to pre-pay this Note, provided such payment is not a default by the Company under the Credit Agreement.

## 8. Events of Default.

8.1 Occurrences of Events of Default. Each of the following events shall constitute an “Event of Default” for purposes of this Note:

- (a) if the Company fails to pay any amount payable under this Note and such default is not cured within 5 days of written notice from the Holder;
- (b) if the Company breaches any of its representations, warranties or covenants set forth in this Note and such breach is not cured within thirty (30) days of notice of such breach;
- (c) the commencement of an involuntary case against the Company or any of its subsidiaries under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or the appointing of a receiver, liquidator, assignee, custodian, trustee or similar official of the Company or for any substantial part of the Company or one of its subsidiary’s property, or ordering the winding-up or liquidation of the Company or one of its subsidiary’s affairs;
- (d) if the Company or any of its subsidiaries shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or similar official of the Company or its subsidiary or for any substantial part of the Company or one of its subsidiary’s property, or shall make any general assignment for the benefit of creditors, or shall take any corporate action in furtherance of any of the foregoing; or
- (e) if the Company’s business shall fail, as determined in good faith by the Holder and evidenced by the Company’s inability to pay its ongoing debts as such debts become due.

8.2 Acceleration Upon Event of Default. If any Event of Default shall have occurred and be continuing, for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise), the unpaid principal amount of, and the accrued interest on, this Note shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by the Company.

9. Investment Representations of the Holder. With respect to the purchase of this Note, the Holder hereby represents and warrants to the Company as follows:

9.1 Experience. The Holder has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests.

9.2 Investment. The Holder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. The Holder is an “accredited investor” within the meaning of Regulation D, Section 501(a), promulgated by the Securities and Exchange Commission.

9.3 Access to Data. The Holder has had an opportunity to discuss the Company’s business, management and financial affairs with the Company’s management and has also had an opportunity to ask questions of the Company’s officers, which questions were answered to its satisfaction.

10. Miscellaneous.

10.1 Invalidity of Any Provision. If any provision or part of any provision of this Note shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Note and this Note shall be construed as if such invalid, illegal or unenforceable provisions or part hereof had never been contained herein, but only to the extent of its invalidity, illegality or unenforceability.

10.2 Governing Law. The Note shall be governed in all respects by the laws of the State of Delaware, excluding its conflict of laws.

10.3 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given (i) on the date of delivery if delivered personally, (ii) one (1) business day after transmission by facsimile transmission with a written confirmation copy sent by first class mail, or (iii) five (5) days after mailing if mailed by first class mail, to the following addresses:

If to the Company:           CECO Environmental Corp.  
  3120 Forrer Street  
  Cincinnati, Ohio 45209  
  Attention: Dennis W. Blazer

And if to the Holder, to the address or facsimile number of Holder as set forth on the Company’s records, or such other address as the Holder has provided to the Company by notice duly given.

10.4 Notice of a Sale Transaction. The Company shall give the Holder of this Note notice of the Closing of a Sale Transaction at least thirty (30) days prior to such Closing.

10.5 Collection. If the indebtedness represented by this Note or any part thereof is collected at law or in equity or in bankruptcy, receivership or other judicial proceedings or if this Note is placed in the hands of attorneys for collection after the occurrence of an Event of Default, the Company agrees to pay, in addition to the outstanding principal and accrued interest payable hereon, reasonable attorneys' fees and costs incurred by the Holder, or on behalf of the Holder by a representative of the Holder.

10.6 Successors and Assigns. The rights and obligations of the Company and the Holder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10.7 Waivers. The Company and any endorsers, sureties, guarantors, and all others who are, or may become liable for the payment hereof severally: (a) waive presentment for payment, demand, notice of demand, notice of nonpayment or dishonor, protest and notice of protest of this Note, and all other notices in connection with the delivery, acceptance, performance, default, or enforcement of the payment of this Note, (b) consent to all extensions of time, renewals, postponements of time of payment of this Note or other modifications hereof from time to time prior to or after the maturity date hereof, whether by acceleration or in due course, without notice, consent or consideration to any of the foregoing, (c) agree to any substitution, exchange, addition, or release of any of the security for the indebtedness evidenced by this Note or the addition or release of any party or person primarily or secondarily liable hereon, (d) agree that Holder shall not be required first to institute any suit, or to exhaust its remedies against the Company or any other person or party to become liable hereunder or against the security in order to enforce the payment of this Note and (e) agree that, notwithstanding the occurrence of any of the foregoing (except by the express written release by Holder of any such person), the Company shall be and remain, directly and primarily liable for all sums due under this Note.

10.8 Time. Time is of the essence in this Note.

10.9 Captions. The captions of sections of this Note are for convenient reference only, and shall not affect the construction or interpretation of any of the terms and provisions set forth in this Note.

10.10 Number and Gender. Whenever used in this Note, the singular number shall include the plural, and the masculine shall include the feminine and the neuter, and *vice versa*.

10.11 Remedies. All remedies of the Holder shall be cumulative and concurrent and may be pursued singly, successively, or together at the sole discretion of the Holder and may be exercised as often as occasion therefor shall arise. No act of omission or commission of the Holder, including specifically any failure to exercise any right, remedy or recourse shall be effective unless it is set forth in a written document executed by the Holder and then only to the extent specifically recited therein. A waiver or release with reference to one event shall not be construed as continuing as a bar to or as a waiver or release of any subsequent right, remedy, or recourse as to any subsequent event.

10.12 No Waiver by Holder. The acceptance by Holder of any payment under this Note which is less than the amount then due or the acceptance of any amount after the due date thereof, shall not be deemed a waiver of any right or remedy available to Holder nor nullify the prior exercise of any such right or remedy by Holder. None of the terms or provisions of this Note may be waived, altered, modified or amended except by a written document executed by Holder and then only to the extent specifically recited therein. No course of dealing or conduct shall be effective waive, alter, modify or amend any of the terms or provisions hereof. The failure or delay to exercise any right or remedy available to Holder shall not constitute a waiver of the right of the Holder to exercise the same or any other right or remedy available to Holder at that time or at any subsequent time.

10.13 Submission to Jurisdiction. BORROWER, AND ANY ENDORSERS, SURETIES, GUARANTORS AND ALL OTHERS WHO ARE, OR WHO MAY BECOME, LIABLE FOR THE PAYMENT HEREOF SEVERALLY, IRREVOCABLY AND UNCONDITIONALLY (A) AGREE THAT ANY SUIT, ACTION, OR OTHER LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OTHER AGREEMENT, DOCUMENT OR INSTRUMENT DELIVERED PURSUANT TO, OR IN CONNECTION WITH THIS NOTE SHALL BE BROUGHT AND MAINTAINED IN THE COURTS IN AND FOR HAMILTON COUNTY, OHIO, OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO; (B) CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING; AND (C) WAIVE ANY OBJECTION WHICH IT OR THEY MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION, OR PROCEEDING IN ANY OF SUCH COURTS.

10.14 Waiver of Trial by Jury. HOLDER AND BORROWER HEREBY KNOWINGLY, IRREVOCABLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT EITHER MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, PROCEEDING OR COUNTERCLAIM BASED ON THIS NOTE, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION THEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR HOLDER TO MAKE THE LOAN EVIDENCED BY THIS NOTE.

[signature page follows]

**CECO ENVIRONMENTAL CORP.,**  
a Delaware corporation

By: /s/ Dennis W. Blazer  
Dennis W. Blazer  
Vice President - Finance and Administration  
and Chief Financial Officer

**ICARUS INVESTMENT CORP.,**  
an Ontario corporation

By: /s/ Phillip DeZwirek  
Phillip DeZwirek  
President

RESTRICTED STOCK AWARD AGREEMENT

THIS RESTRICTED STOCK AWARD AGREEMENT (the “**Agreement**”) is made and entered into as of May 21, 2009, by and between CECO Environmental Corp., a Delaware corporation (the “**Company**”), and Dennis W. Blazer (the “**Participant**”) relating to the grant and issuance of shares of Common Stock of the Company under the CECO Environmental Corp. 2007 Equity Incentive Plan (the “**Plan**”).

Statement of Purpose

WHEREAS, the Company desires to grant to the Participant, and the Participant accepts the grant of, 41,600 shares of Common Stock (the “Shares”);

WHEREAS, the Company has duly made all determinations necessary or appropriate in connection with the grant of the Shares hereunder.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

**1. Definitions.** Unless otherwise defined herein, capitalized terms in this Agreement shall have the same meaning as defined in the Plan.

**2. Grant, Vesting and Settlement of Restricted Shares.**

(a) Grant. As of May 21, 2009, the Company hereby grants and issues to the Participant, and the Participant hereby accepts the grant of the Shares in such number as is specified in attached Exhibit A. Concurrent with the execution and delivery of the Agreement, the Company will cause the stock certificates representing the Shares to be issued in Participant’s name. To the extent the Participant hereby acquires the Shares and the Shares are not fully vested as of the date hereof, such Shares shall constitute “Restricted Shares” and shall be subject to all of the restrictions described herein. Stock certificates representing Restricted Shares shall be held by the Company until such time as the Shares vest.

(b) Vesting and Settlement. The Restricted Shares shall cease to constitute Restricted Shares, and shall become unrestricted Shares, pursuant to the vesting schedule attached as Exhibit A.

**3. Restriction on Transfer; Legend.** Restricted Shares or any interest therein may not be directly or indirectly sold, transferred, pledged, hypothecated, or otherwise disposed of. The Restricted Share certificates shall bear the following legend:

The shares represented by this certificate are subject to restrictions on transfer and may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of except in accordance with and subject to all of the terms and conditions of a Restricted Stock Award Agreement dated as of May 21, 2009, a copy of which the Company shall furnish to the holder of this certificate upon request and without charge.

When the restrictions on any Shares lapse, the Corporation shall cause a replacement stock certificate for those Shares, without the legend referred to above, to be issued and delivered to Participant as soon as practicable.

**4. Tax Consequences.** The Company shall not be liable or responsible in any way for any and all tax (including any withholding tax) consequences relating to the Shares, and the Participant agrees to undertake to determine, and be responsible for, any and all tax (including any withholding tax) consequences to himself or herself with respect to the Shares. Notwithstanding any other provision of this Agreement, the Shares, shall not be released to the Participant unless, the Participant shall have paid to the Company, or made arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to the grant of the Shares or the lapse of restrictions otherwise imposed by this Agreement.

**5. Section 83(b) Election.** The Participant understands that Section 83 of the Code may tax as compensation income the difference between the amount paid for the Restricted Shares, if any, and the fair market value of the Restricted Shares as of the date any restrictions on the Restricted Shares lapse in the absence of an election under Section 83(b) of the Code. In this context, “restriction” means the forfeitability of the Restricted Shares pursuant to the terms of this Agreement. In the event the Common Shares are registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), “restriction” with respect to the officers, directors, and 10% stockholders may also mean the six-month period after the acquisition of the Restricted Shares during which sales of certain securities by such officers, directors, and ten percent (10%) stockholders would give rise to liability under Section 16(b) of the Exchange Act. The Participant understands that he may elect to be taxed at the time the Participant receives the Restricted Shares and while the Restricted Shares are subjected to restrictions rather than waiting to be taxed on the Restricted Shares when and as the restrictions lapse. The Participant realizes that he may choose this tax treatment by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the date hereof and by filing a copy of such election with his tax return for the tax year in which the Restricted Shares were subjected to the restrictions. The participant acknowledges that it is the participant’s sole responsibility and not the Company’s to timely file the election under Section 83(b) of the code. The participant acknowledges that he shall consult his own tax advisers regarding the advisability or non-advisability of making the election under Section 83(b) of the code and acknowledges that he shall not rely on the company or its advisers for such advice.

**6. Voting.** Participant shall have the rights and privileges of a stockholder of the Company as to the Shares, including the right to receive dividends and the right to vote such Shares.

**7. No Employment Rights.** No provision of this Agreement shall give the Participant any right to continue in the employ of the Company, create any inference as to the length or term of Participant’s employment, affect the right of the Company to terminate Participant’s employment, with or without cause, or give the Participant any right to participate in any employee welfare or benefit plan or other program of the Company.

**8. Termination.** This Agreement shall only be terminated, modified or amended upon written mutual agreement of the Company and the Participant.

**9. Notices.** Any notice given hereunder must be in writing and shall be deemed given when either personally delivered or placed in the United States mail by registered or certified mail, return receipt requested, postage prepaid, addressed to the parties to whom such notice is being given at the following addresses:

As to the Company:                   CECO Environmental Corp.  
3120 Forrer Street  
Cincinnati, OH 45209  
Attn: Chief Financial Officer

As to Participant:                   last address shown on the books of the Company

**10. Remedies.** Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provisions of this Agreement and to exercise all other rights existing in its favor. Participant agrees and acknowledges that money damages will not be an adequate remedy for any breach of the provisions of this Agreement and the Company shall be entitled to specific performance and/or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

**11. Gifts.** Nothing contained in this Agreement shall be construed or interpreted so as to authorize or permit Participant to transfer the Restricted Shares by gift to any person or entity.

**12. Entire Agreement.** The Plan and this Agreement contains the entire understanding and agreement by and between the parties hereto relating to the subject matter hereof and all prior or contemporaneous oral or written agreements or instruments are superseded hereby. No amendment to or modification of this Agreement shall be effective unless the same is in writing and signed by all parties hereto. No waiver by any party of any breach by the other of any provision of this Agreement shall be deemed to be a waiver of any other breaches thereof or the waiver of any such or other provision of this Agreement. Subject to the restrictions on assignment and transfer set forth hereinabove, this Agreement shall be binding upon and inure to the benefit of the parties hereto, their estates, personal representatives, successors and assigns.

**13. Severability.** If any provision of this Agreement is declared invalid or unenforceable as a matter of law, such invalidity or unenforceability shall not affect or impair the validity or enforceability of any other provisions of this Agreement or the remainder of this Agreement as a whole.

**14. Applicable Law.** If any question arises at any time as to the validity, construction, interpretation or performance of this Agreement the laws of the State of Delaware shall govern and control. The parties hereto hereby acknowledge that venue is proper in Hamilton County, Ohio.

**15. Construction.** Paragraph headings and subheadings have been inserted herein for convenience only and shall not be deemed to have any legal effect whatever in the interpretation of this Agreement. As used herein, the singular shall include the plural and the plural and singular. The word “any” means one or more or all, and the conjunction “or” includes both the conjunctive and disjunctive.

**16. Execution.** This Agreement may be executed in multiple originals, each of which shall be deemed to be an original hereof.

IN WITNESS WHEREOF, the Company and Participant have caused the execution of this Agreement under seal as of the date hereof, each intending to be legally bound hereby

CECO ENVIRONMENTAL CORP.

By: /s/ Richard J. Blum

Its: President

/s/ Dennis W. Blazer

Dennis W. Blazer

CECO Environmental Corporation Restricted Stock Award Agreement  
**Dennis W. Blazer**

Vesting of Restricted Stock

**1. Number of Restricted Shares**

The number of Shares granted under the Agreement shall be a total of 41,600 Restricted Shares.

**2. Vesting of Restricted Shares**

(a) 2009 Fiscal Year Plan Financial Goal. Subject to Subsection (b) below, on March 31, 2010, 41,600 Restricted Shares shall become earned and vested if income from operations before executive bonuses for fiscal year 2009 exceeds \$10.7 million, as determined by the Compensation Committee.

(b) Termination from Employment. Notwithstanding anything to the contrary in this Section 2, if Participant's employment with the Company terminates prior to any of the above vesting date(s), then Participant shall have no further rights with respect to such unvested Restricted Shares, except that (i) if Participant's termination of employment is due to death or Disability, then the Compensation Committee may in its sole discretion cause any unvested Restricted Shares to vest. In addition, upon the occurrence of Change in Control, the Board may in its sole discretion cause any unvested Restricted Shares to vest.

RESTRICTED STOCK AWARD AGREEMENT

THIS RESTRICTED STOCK AWARD AGREEMENT (the “**Agreement**”) is made and entered into as of May 21, 2009, by and between CECO Environmental Corp., a Delaware corporation (the “**Company**”), and David D. Blum (the “**Participant**”) relating to the grant and issuance of shares of Common Stock of the Company under the CECO Environmental Corp. 2007 Equity Incentive Plan (the “**Plan**”).

Statement of Purpose

WHEREAS, the Company desires to grant to the Participant, and the Participant accepts the grant of, 41,600 shares of Common Stock (the “Shares”);

WHEREAS, the Company has duly made all determinations necessary or appropriate in connection with the grant of the Shares hereunder.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

**1. Definitions.** Unless otherwise defined herein, capitalized terms in this Agreement shall have the same meaning as defined in the Plan.

**2. Grant, Vesting and Settlement of Restricted Shares.**

(a) Grant. As of May 21, 2009, the Company hereby grants and issues to the Participant, and the Participant hereby accepts the grant of the Shares in such number as is specified in attached Exhibit A. Concurrent with the execution and delivery of the Agreement, the Company will cause the stock certificates representing the Shares to be issued in Participant’s name. To the extent the Participant hereby acquires the Shares and the Shares are not fully vested as of the date hereof, such Shares shall constitute “Restricted Shares” and shall be subject to all of the restrictions described herein. Stock certificates representing Restricted Shares shall be held by the Company until such time as the Shares vest.

(b) Vesting and Settlement. The Restricted Shares shall cease to constitute Restricted Shares, and shall become unrestricted Shares, pursuant to the vesting schedule attached as Exhibit A.

**3. Restriction on Transfer; Legend.** Restricted Shares or any interest therein may not be directly or indirectly sold, transferred, pledged, hypothecated, or otherwise disposed of. The Restricted Share certificates shall bear the following legend:

The shares represented by this certificate are subject to restrictions on transfer and may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of except in accordance with and subject to all of the terms and conditions of a Restricted Stock Award Agreement dated as of May 21, 2009, a copy of which the Company shall furnish to the holder of this certificate upon request and without charge.

When the restrictions on any Shares lapse, the Corporation shall cause a replacement stock certificate for those Shares, without the legend referred to above, to be issued and delivered to Participant as soon as practicable.

**4. Tax Consequences.** The Company shall not be liable or responsible in any way for any and all tax (including any withholding tax) consequences relating to the Shares, and the Participant agrees to undertake to determine, and be responsible for, any and all tax (including any withholding tax) consequences to himself or herself with respect to the Shares. Notwithstanding any other provision of this Agreement, the Shares shall not be released to the Participant unless the Participant shall have paid to the Company, or made arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to the grant of the Shares or the lapse of restrictions otherwise imposed by this Agreement.

**5. Section 83(b) Election.** The Participant understands that Section 83 of the Code may tax as compensation income the difference between the amount paid for the Restricted Shares, if any, and the fair market value of the Restricted Shares as of the date any restrictions on the Restricted Shares lapse in the absence of an election under Section 83(b) of the Code. In this context, “restriction” means the forfeitability of the Restricted Shares pursuant to the terms of this Agreement. In the event the Common Shares are registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), “restriction” with respect to the officers, directors, and 10% stockholders may also mean the six-month period after the acquisition of the Restricted Shares during which sales of certain securities by such officers, directors, and ten percent (10%) stockholders would give rise to liability under Section 16(b) of the Exchange Act. The Participant understands that he may elect to be taxed at the time the Participant receives the Restricted Shares and while the Restricted Shares are subjected to restrictions rather than waiting to be taxed on the Restricted Shares when and as the restrictions lapse. The Participant realizes that he may choose this tax treatment by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the date hereof and by filing a copy of such election with his tax return for the tax year in which the Restricted Shares were subjected to the restrictions. The participant acknowledges that it is the participant’s sole responsibility and not the Company’s to timely file the election under Section 83(b) of the code. The participant acknowledges that he shall consult his own tax advisers regarding the advisability or non-advisability of making the election under Section 83(b) of the code and acknowledges that he shall not rely on the company or its advisers for such advice.

**6. Voting.** Participant shall have the rights and privileges of a stockholder of the Company as to the Shares, including the right to receive dividends and the right to vote such Shares.

**7. No Employment Rights.** No provision of this Agreement shall give the Participant any right to continue in the employ of the Company, create any inference as to the length or term of Participant’s employment, affect the right of the Company to terminate Participant’s employment, with or without cause, or give the Participant any right to participate in any employee welfare or benefit plan or other program of the Company.

**8. Termination.** This Agreement shall only be terminated, modified or amended upon written mutual agreement of the Company and the Participant.

**9. Notices.** Any notice given hereunder must be in writing and shall be deemed given when either personally delivered or placed in the United States mail by registered or certified mail, return receipt requested, postage prepaid, addressed to the parties to whom such notice is being given at the following addresses:

As to the Company:                   CECO Environmental Corp.  
3120 Forrer Street  
Cincinnati, OH 45209  
Attn: Chief Financial Officer

As to Participant:                   last address shown on the books of the Company

**10. Remedies.** Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provisions of this Agreement and to exercise all other rights existing in its favor. Participant agrees and acknowledges that money damages will not be an adequate remedy for any breach of the provisions of this Agreement and the Company shall be entitled to specific performance and/or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

**11. Gifts.** Nothing contained in this Agreement shall be construed or interpreted so as to authorize or permit Participant to transfer the Restricted Shares by gift to any person or entity.

**12. Entire Agreement.** The Plan and this Agreement contains the entire understanding and agreement by and between the parties hereto relating to the subject matter hereof and all prior or contemporaneous oral or written agreements or instruments are superseded hereby. No amendment to or modification of this Agreement shall be effective unless the same is in writing and signed by all parties hereto. No waiver by any party of any breach by the other of any provision of this Agreement shall be deemed to be a waiver of any other breaches thereof or the waiver of any such or other provision of this Agreement. Subject to the restrictions on assignment and transfer set forth hereinabove, this Agreement shall be binding upon and inure to the benefit of the parties hereto, their estates, personal representatives, successors and assigns.

**13. Severability.** If any provision of this Agreement is declared invalid or unenforceable as a matter of law, such invalidity or unenforceability shall not affect or impair the validity or enforceability of any other provisions of this Agreement or the remainder of this Agreement as a whole.

**14. Applicable Law.** If any question arises at any time as to the validity, construction, interpretation or performance of this Agreement the laws of the State of Delaware shall govern and control. The parties hereto hereby acknowledge that venue is proper in Hamilton County, Ohio.

**15. Construction.** Paragraph headings and subheadings have been inserted herein for convenience only and shall not be deemed to have any legal effect whatever in the interpretation of this Agreement. As used herein, the singular shall include the plural and the plural and singular. The word “any” means one or more or all, and the conjunction “or” includes both the conjunctive and disjunctive.

**16. Execution.** This Agreement may be executed in multiple originals, each of which shall be deemed to be an original hereof.

IN WITNESS WHEREOF, the Company and Participant have caused the execution of this Agreement under seal as of the date hereof, each intending to be legally bound hereby

CECO ENVIRONMENTAL CORP.

By: /s/ Dennis W. Blazer

Its: CFO

/s/ David D. Blum

David D. Blum

CECO Environmental Corporation Restricted Stock Award Agreement  
**David D. Blum**

Vesting of Restricted Stock

**1. Number of Restricted Shares**

The number of Shares granted under the Agreement shall be a total of 41,600 Restricted Shares.

**2. Vesting of Restricted Shares**

(a) 2008 Fiscal Year Plan Financial Goal. Subject to Subsection (b) below, on March 31, 2010, 41,600 Restricted Shares shall become earned and vested if income from operations before executive bonuses for fiscal year 2009 exceeds \$10.7 million, as determined by the Compensation Committee.

(b) Termination from Employment. Notwithstanding anything to the contrary in this Section 2, if Participant's employment with the Company terminates prior to any of the above vesting date(s), then Participant shall have no further rights with respect to such unvested Restricted Shares, except that (i) if Participant's termination of employment is due to death or Disability, then the Compensation Committee may in its sole discretion cause any unvested Restricted Shares to vest. In addition, upon the occurrence of Change in Control, the Board may in its sole discretion cause any unvested Restricted Shares to vest.

RESTRICTED STOCK AWARD AGREEMENT

THIS RESTRICTED STOCK AWARD AGREEMENT (the “**Agreement**”) is made and entered into as of May 21, 2009, by and between CECO Environmental Corp., a Delaware corporation (the “**Company**”), and Richard J. Blum (the “**Participant**”) relating to the grant and issuance of shares of Common Stock of the Company under the CECO Environmental Corp. 2007 Equity Incentive Plan (the “**Plan**”).

Statement of Purpose

WHEREAS, the Company desires to grant to the Participant, and the Participant accepts the grant of, 55,200 shares of Common Stock (the “Shares”);

WHEREAS, the Company has duly made all determinations necessary or appropriate in connection with the grant of the Shares hereunder.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

**1. Definitions.** Unless otherwise defined herein, capitalized terms in this Agreement shall have the same meaning as defined in the Plan.

**2. Grant, Vesting and Settlement of Restricted Shares.**

(a) Grant. As of May 21, 2009, the Company hereby grants and issues to the Participant, and the Participant hereby accepts the grant of the Shares in such number as is specified in attached Exhibit A. Concurrent with the execution and delivery of the Agreement, the Company will cause the stock certificates representing the Shares to be issued in Participant’s name. To the extent the Participant hereby acquires the Shares and the Shares are not fully vested as of the date hereof, such Shares shall constitute “Restricted Shares” and shall be subject to all of the restrictions described herein. Stock certificates representing Restricted Shares shall be held by the Company until such time as the Shares vest.

(b) Vesting and Settlement. The Restricted Shares shall cease to constitute Restricted Shares, and shall become unrestricted Shares, pursuant to the vesting schedule attached as Exhibit A.

**3. Restriction on Transfer; Legend.** Restricted Shares or any interest therein may not be directly or indirectly sold, transferred, pledged, hypothecated, or otherwise disposed of. The Restricted Share certificates shall bear the following legend:

The shares represented by this certificate are subject to restrictions on transfer and may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of except in accordance with and subject to all of the terms and conditions of a Restricted Stock Award Agreement dated as of May 21, 2009, a copy of which the Company shall furnish to the holder of this certificate upon request and without charge.

When the restrictions on any Shares lapse, the Corporation shall cause a replacement stock certificate for those Shares, without the legend referred to above, to be issued and delivered to Participant as soon as practicable.

**4. Tax Consequences.** The Company shall not be liable or responsible in any way for any and all tax (including any withholding tax) consequences relating to the Shares, and the Participant agrees to undertake to determine, and be responsible for, any and all tax (including any withholding tax) consequences to himself or herself with respect to the Shares. Notwithstanding any other provision of this Agreement, the Shares shall not be released to the Participant unless the Participant shall have paid to the Company, or made arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to the grant of the Shares or the lapse of restrictions otherwise imposed by this Agreement.

**5. Section 83(b) Election.** The Participant understands that Section 83 of the Code may tax as compensation income the difference between the amount paid for the Restricted Shares, if any, and the fair market value of the Restricted Shares as of the date any restrictions on the Restricted Shares lapse in the absence of an election under Section 83(b) of the Code. In this context, “restriction” means the forfeitability of the Restricted Shares pursuant to the terms of this Agreement. In the event the Common Shares are registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), “restriction” with respect to the officers, directors, and 10% stockholders may also mean the six-month period after the acquisition of the Restricted Shares during which sales of certain securities by such officers, directors, and ten percent (10%) stockholders would give rise to liability under Section 16(b) of the Exchange Act. The Participant understands that he may elect to be taxed at the time the Participant receives the Restricted Shares and while the Restricted Shares are subjected to restrictions rather than waiting to be taxed on the Restricted Shares when and as the restrictions lapse. The Participant realizes that he may choose this tax treatment by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the date hereof and by filing a copy of such election with his tax return for the tax year in which the Restricted Shares were subjected to the restrictions. The participant acknowledges that it is the participant’s sole responsibility and not the Company’s to timely file the election under Section 83(b) of the code. The participant acknowledges that he shall consult his own tax advisers regarding the advisability or non-advisability of making the election under Section 83(b) of the code and acknowledges that he shall not rely on the company or its advisers for such advice.

**6. Voting.** Participant shall have the rights and privileges of a stockholder of the Company as to the Shares, including the right to receive dividends and the right to vote such Shares.

**7. No Employment Rights.** No provision of this Agreement shall give the Participant any right to continue in the employ of the Company, create any inference as to the length or term of Participant’s employment, affect the right of the Company to terminate Participant’s employment, with or without cause, or give the Participant any right to participate in any employee welfare or benefit plan or other program of the Company.

**8. Termination.** This Agreement shall only be terminated, modified or amended upon written mutual agreement of the Company and the Participant.

**9. Notices.** Any notice given hereunder must be in writing and shall be deemed given when either personally delivered or placed in the United States mail by registered or certified mail, return receipt requested, postage prepaid, addressed to the parties to whom such notice is being given at the following addresses:

As to the Company:                   CECO Environmental Corp.  
3120 Forrer Street  
Cincinnati, OH 45209  
Attn: Chief Financial Officer

As to Participant:                   last address shown on the books of the Company

**10. Remedies.** Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provisions of this Agreement and to exercise all other rights existing in its favor. Participant agrees and acknowledges that money damages will not be an adequate remedy for any breach of the provisions of this Agreement and the Company shall be entitled to specific performance and/or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

**11. Gifts.** Nothing contained in this Agreement shall be construed or interpreted so as to authorize or permit Participant to transfer the Restricted Shares by gift to any person or entity.

**12. Entire Agreement.** The Plan and this Agreement contains the entire understanding and agreement by and between the parties hereto relating to the subject matter hereof and all prior or contemporaneous oral or written agreements or instruments are superseded hereby. No amendment to or modification of this Agreement shall be effective unless the same is in writing and signed by all parties hereto. No waiver by any party of any breach by the other of any provision of this Agreement shall be deemed to be a waiver of any other breaches thereof or the waiver of any such or other provision of this Agreement. Subject to the restrictions on assignment and transfer set forth hereinabove, this Agreement shall be binding upon and inure to the benefit of the parties hereto, their estates, personal representatives, successors and assigns.

**13. Severability.** If any provision of this Agreement is declared invalid or unenforceable as a matter of law, such invalidity or unenforceability shall not affect or impair the validity or enforceability of any other provisions of this Agreement or the remainder of this Agreement as a whole.

**14. Applicable Law.** If any question arises at any time as to the validity, construction, interpretation or performance of this Agreement the laws of the State of Delaware shall govern and control. The parties hereto hereby acknowledge that venue is proper in Hamilton County, Ohio.

**15. Construction.** Paragraph headings and subheadings have been inserted herein for convenience only and shall not be deemed to have any legal effect whatever in the interpretation of this Agreement. As used herein, the singular shall include the plural and the plural and singular. The word “any” means one or more or all, and the conjunction “or” includes both the conjunctive and disjunctive.

**16. Execution.** This Agreement may be executed in multiple originals, each of which shall be deemed to be an original hereof.

IN WITNESS WHEREOF, the Company and Participant have caused the execution of this Agreement under seal as of the date hereof, each intending to be legally bound hereby

CECO ENVIRONMENTAL CORP.

By: /s/ Dennis W. Blazer

Its: CFO

/s/ Richard J. Blum

Richard J. Blum

CECO Environmental Corporation Restricted Stock Award Agreement  
**Richard J. Blum**

Vesting of Restricted Stock

**1. Number of Restricted Shares**

The number of Shares granted under the Agreement shall be a total of 55,200 Restricted Shares.

**2. Vesting of Restricted Shares**

(a) 2009 Fiscal Year Plan Financial Goal. Subject to Subsection (b) below, on March 31, 2010, 55,200 Restricted Shares shall become earned and vested if income from operations before executive bonuses for fiscal year 2009 exceeds \$10.7 million, as determined by the Compensation Committee.

(b) Termination from Employment. Notwithstanding anything to the contrary in this Section 2, if Participant's employment with the Company terminates prior to any of the above vesting date(s), then Participant shall have no further rights with respect to such unvested Restricted Shares, except that (i) if Participant's termination of employment is due to death or Disability, then the Compensation Committee may in its sole discretion cause any unvested Restricted Shares to vest. In addition, upon the occurrence of Change in Control, the Board may in its sole discretion cause any unvested Restricted Shares to vest.

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

I, Phillip DeZwirek, certify that:

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

/s/ Phillip DeZwirek  
Phillip DeZwirek  
Chairman of the Board and Chief Executive Officer

Date: August 10, 2009

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

I, Dennis W. Blazer, certify that:

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

/s/ Dennis W. Blazer

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Dennis W. Blazer

V.P. – Finance and Administration and Chief  
Financial Officer

Date: August 10, 2009

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

In connection with the Report of CECO Environmental Corp. (the "Company") on Form 10-Q for the period ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip DeZwirek, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Phillip DeZwirek  
Phillip DeZwirek  
Chairman of the Board and Chief Executive Officer

Date: August 10, 2009

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

In connection with the Report of CECO Environmental Corp. (the "Company") on Form 10-Q for the period ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis W. Blazer, V.P. – Finance and Administration and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Dennis W. Blazer

Dennis W. Blazer

V.P. – Finance and Administration and Chief  
Financial Officer

Date: August 10, 2009