# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark one)**

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

**For the quarterly period ended June 30, 2017**

**or**

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

**For the transition period from to**

**Commission File No. 0-7099**

# CECO ENVIRONMENTAL CORP.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of Incorporation or organization)** | **13-2566064**<br>**(IRS Employer Identification No.)** |
| **14651 North Dallas Parkway, Dallas, Texas**<br>**(Address of principal executive offices)** | **75254**<br>**(Zip Code)** |

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

**4625 Red Bank Road, Cincinnati, Ohio, 45227**
**Former Address**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☐ | Accelerated Filer | ☒ |
| Non-Accelerated Filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: 34,640,189 shares of common stock, par value $0.01 per share, as of August 2, 2017

**CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES**
QUARTERLY REPORT ON FORM 10-Q
For the quarter ended June 30, 2017

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**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

## CONDENSED CONSOLIDATED BALANCE SHEETS

| (dollars in thousands, except per share data) | (unaudited) JUNE 30, 2017 | DECEMBER 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 27,166 | $ 45,824 |
| Restricted cash | 1,150 | 1,498 |
| Accounts receivable, net | 66,131 | 83,062 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 40,774 | 38,123 |
| Inventories, net | 21,931 | 21,487 |
| Prepaid expenses and other current assets | 12,791 | 13,560 |
| Prepaid income taxes | 1,064 | 1,590 |
| Assets held for sale | 8,108 | 7,834 |
| Total current assets | 179,115 | 212,978 |
| Property, plant and equipment, net | 25,532 | 27,270 |
| Goodwill | 170,847 | 170,153 |
| Intangible assets-finite life, net | 55,449 | 60,728 |
| Intangible assets-indefinite life | 22,268 | 22,042 |
| Deferred charges and other assets | 5,149 | 5,463 |
| | $ 458,360 | $ 498,634 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of debt | $ 7,742 | $ 8,827 |
| Accounts payable and accrued expenses | 81,592 | 95,610 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 23,545 | 35,085 |
| Note payable | 5,300 | 5,300 |
| Income taxes payable | 322 | 1,536 |
| Total current liabilities | 118,501 | 146,358 |
| Other liabilities | 25,326 | 34,864 |
| Debt, less current portion | 107,045 | 114,366 |
| Deferred income tax liability, net | 12,870 | 12,964 |
| Total liabilities | 263,742 | 308,552 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, $.01 par value; 10,000 shares authorized, none issued | — | — |
| Common stock, $.01 par value; 100,000,000 shares authorized, 34,626,715 and 34,300,209 shares issued at June 30, 2017 and December 31, 2016, respectively | 346 | 343 |
| Capital in excess of par value | 246,974 | 244,878 |
| Accumulated loss | (41,501) | (41,741) |
| Accumulated other comprehensive loss | (10,845) | (13,042) |
| | 194,974 | 190,438 |
| Less treasury stock, at cost, 137,920 shares at June 30, 2017 and December 31, 2016 | (356) | (356) |
| Total shareholders' equity | 194,618 | 190,082 |
| | $ 458,360 | $ 498,634 |

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

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(unaudited)**

| (dollars in thousands, except per share data) | THREE MONTHS ENDED JUNE 30, 2017 | THREE MONTHS ENDED JUNE 30, 2016 | SIX MONTHS ENDED JUNE 30, 2017 | SIX MONTHS ENDED JUNE 30, 2016 |
|---|---|---|---|---|
| Net sales | $ 93,870 | $ 112,258 | $ 186,521 | $ 215,433 |
| Cost of sales | 65,384 | 78,328 | 126,106 | 149,917 |
| Gross profit | 28,486 | 33,930 | 60,415 | 65,516 |
| Selling and administrative expenses | 21,476 | 20,131 | 44,732 | 41,076 |
| Acquisition and integration expenses | — | 324 | — | 361 |
| Amortization and earn-out (income) expenses, net | (2,245) | 4,914 | 5,078 | 9,711 |
| Income from operations | 9,255 | 8,561 | 10,605 | 14,368 |
| Other income (expense), net | 360 | (399) | 251 | 381 |
| Interest expense | (1,645) | (1,980) | (3,356) | (4,082) |
| Income before income taxes | 7,970 | 6,182 | 7,500 | 10,667 |
| Income tax expense | 2,484 | 2,145 | 1,976 | 3,575 |
| Net income | $ 5,486 | $ 4,037 | $ 5,524 | $ 7,092 |
| Net loss attributable to noncontrolling interest | $ — | $ (13) | $ — | $ (58) |
| Net income attributable to CECO Environmental Corp. | $ 5,486 | $ 4,050 | $ 5,524 | $ 7,150 |
| Earnings per share: | | | | |
| Basic | $ 0.16 | $ 0.12 | $ 0.16 | $ 0.21 |
| Diluted | $ 0.16 | $ 0.12 | $ 0.16 | $ 0.21 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 34,473,688 | 33,946,117 | 34,345,317 | 33,937,128 |
| Diluted | 34,806,808 | 34,161,543 | 34,685,687 | 34,139,087 |

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

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**(unaudited)**

| (dollars in thousands) | THREE MONTHS ENDED JUNE 30, 2017 | THREE MONTHS ENDED JUNE 30, 2016 | SIX MONTHS ENDED JUNE 30, 2017 | SIX MONTHS ENDED JUNE 30, 2016 |
|---|---|---|---|---|
| Net income | $ 5,486 | $ 4,037 | $ 5,524 | $ 7,092 |
| Other comprehensive income (loss), net of tax: | | | | |
| Interest rate swap | (115) | (349) | 28 | (624) |
| Foreign currency translation | 1,763 | (1,773) | 2,169 | (1,452) |
| Comprehensive income | 7,134 | 1,915 | 7,721 | 5,016 |
| Net loss attributable to noncontrolling interest | — | (13) | — | (58) |
| Comprehensive income attributable to CECO Environmental Corp. | $ 7,134 | $ 1,902 | $ 7,721 | $ 4,958 |

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(unaudited)**

| (dollars in thousands) | SIX MONTHS ENDED JUNE 30, 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 5,524 | $ 7,092 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,168 | 10,328 |
| Unrealized foreign currency gain | (1,497) | (414) |
| Net (gain) loss on interest rate swaps | (129) | 404 |
| Fair value adjustments to earnout liabilities | (1,755) | 1,033 |
| Earnout payments | (7,797) | — |
| Loss on sale of property and equipment | 83 | 189 |
| Debt discount amortization | 504 | 539 |
| Share-based compensation expense | 677 | 1,149 |
| Bad debt expense | 960 | 294 |
| Inventory reserve expense | 316 | 838 |
| Deferred income taxes | (46) | (644) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 17,342 | 14,612 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (1,646) | 1,248 |
| Inventories | (407) | 4,443 |
| Prepaid expense and other current assets | 1,808 | (3,755) |
| Deferred charges and other assets | 792 | 1,119 |
| Accounts payable and accrued expenses | (8,018) | (3,613) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (11,828) | 11,160 |
| Income taxes payable | (1,367) | (1,081) |
| Other liabilities | (9) | (871) |
| Net cash provided by operating activities | 1,675 | 44,070 |
| Cash flows from investing activities: | | |
| Acquisitions of property and equipment | (641) | (552) |
| Proceeds from sale of property and equipment | 44 | 291 |
| Net cash used in investing activities | (597) | (261) |
| Cash flows from financing activities: | | |
| Decrease in short-term and long-term restricted cash | 424 | 319 |
| Net repayments on revolving credit lines | (1,107) | (9,202) |
| Repayments of debt | (7,656) | (16,207) |
| Deferred financing fees paid | (171) | — |
| Earnout payments | (7,396) | (2,341) |
| Proceeds from sale-leaseback transactions | — | 11,000 |
| Payments on capital lease and sale-leaseback financing liability | (375) | (33) |
| Proceeds from employee stock purchase plan, exercise of stock options, and dividend reinvestment plan | 1,246 | 471 |
| Repurchases of common stock | — | (188) |
| Dividends paid to common shareholders | (5,173) | (4,486) |
| Net cash used in financing activities | (20,208) | (20,667) |
| Effect of exchange rate changes on cash and cash equivalents | 472 | (730) |
| Net (decrease) increase in cash and cash equivalents | (18,658) | 22,412 |
| Cash and cash equivalents at beginning of period | 45,824 | 34,194 |
| Cash and cash equivalents at end of period | $ 27,166 | $ 56,606 |
| Cash paid during the period for | | |
| Interest | $ 2,842 | $ 3,523 |
| Income taxes | $ 2,704 | $ 1,747 |
| Non-cash transactions | | |
| Property, plant and equipment acquired under capital leases | $ — | $ 3,296 |
| Earnout settled through an exchange of accounts receivable | $ — | $ 3,190 |

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

## 1. Basis of Reporting for Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements of CECO Environmental Corp. and its subsidiaries (the “Company”, “we”, “us”, or “our”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). 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 condensed 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, 2017 and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2017 and 2016. The results of operations for the three-month and six-month periods ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2016 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, 2016 as filed with the SEC.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) 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.

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 for the year ended December 31, 2016 filed with the SEC.

Unless otherwise indicated, all balances within tables are in thousands, except per share amounts.

The Company’s consolidated financial statements include the accounts of all wholly-owned and majority-owned subsidiaries for all periods presented. All significant inter-company accounts and transactions have been eliminated in consolidation. On July 12, 2016, the Company entered into an agreement with the noncontrolling owner of Peerless Propulsys China Holdings LLC (“Peerless Propulsys”) and acquired 100% ownership in the equity and earnings of Peerless Propulsys by acquiring the remaining 40% interest.

## 2. New Financial Accounting Pronouncements

### Accounting Standards Adopted in Fiscal 2017

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates Step 2 of the former goodwill impairment test along with amending other parts of the goodwill impairment test. Under this ASU, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods therein with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company has adopted ASU 2017-04 effective beginning as of January 1, 2017. The provisions of ASU 2017-04 did not have a material effect on the Company’s financial condition, results of operations, or cash flows.

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting,” which changes the accounting for certain aspects of share-based payments to employees. The new guidance requires, among its other provisions, that excess tax benefits (which represent the excess of actual tax benefits received at the date of vesting or settlement over the benefits recognized over the vesting period or upon issuance of share-based payments) and tax deficiencies (which represent the amount by which actual tax benefits received at the date of vesting or settlement is lower than the benefits recognized over the vesting period or upon issuance of share-based payments) be recorded in the income statement as an increase or decrease in income taxes when the awards vest or are settled. This is in comparison to the prior requirement that these excess tax benefits be recognized in additional paid-in capital and these tax deficiencies be recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement. The new guidance also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows rather than, as previously required, a financing activity. The new guidance allows companies to elect a change to an accounting policy to account for forfeitures as they occur. The new guidance is effective for the first quarter of our fiscal year ending December 31, 2017, with early adoption permitted.

We have adopted ASU 2016-09 effective January 1, 2017 on a prospective basis where permitted by the new standard. As a result of this adoption:

- We recognized discrete tax benefits of $0.4 million in the income tax expense (benefit) line item of our Condensed Consolidated Statement of Income for the six months ended June 30, 2017 related to excess tax benefits upon vesting or settlement in that period.

- We elected to adopt the cash flow presentation of the excess tax benefits prospectively, commencing with our Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2017, where these benefits are classified along with other income tax cash flows as an operating activity.

- We have elected to change our accounting policy to account for forfeitures as they occur. This change was applied on a modified retrospective basis with a cumulative effect adjustment to reduce retained earnings by $0.1 million as of January 1, 2017.

- We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the three and six month periods ended June 30, 2017.

In March 2016, the FASB issued ASU 2016-05, "Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." ASU 2016-05 amends Topic 815 to clarify that novation of a derivative (replacing one of the parties to a derivative instrument with a new party) designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship. ASU 2016-05 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted ASU 2016-05 on a prospective basis. The provisions of ASU 2016-05 had no effect on the Company's financial condition, results of operations, or cash flows.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." ASU 2015-11 requires inventory within the scope of the ASU (i.e., first-in, first-out ("FIFO") or average cost) to be measured using the lower of cost and net realizable value. Inventory excluded from the scope of the ASU (i.e., last-in, first-out ("LIFO") or the retail inventory method) will continue to be measured at the lower of cost or market. The ASU also amends some of the other guidance in Topic 330, "Inventory," to more clearly articulate the requirements for the measurement and disclosure of inventory. ASU 2015-11 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted ASU 2015-11 on a prospective basis. The provisions of ASU 2015-11 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

In December 2016, the FASB issued ASU 2016-19, "Technical Corrections and Improvements." The amendments cover a wide range of topics in the Accounting Standards Codification, guidance clarification, reference corrections, simplification, and minor improvements. The adoption of ASU 2016-19 is effective for annual periods, including interim periods, within those annual periods, beginning after December 15, 2016. The Company has adopted ASU 2016-19 on a prospective basis. The provisions of ASU 2016-19 did not have a material effect on the Company's financial condition, results of operations, or cash flows.

**Accounting Standards Yet to be Adopted**

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as a modification. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. We plan to adopt the standard on January 1, 2018. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under existing GAAP, an entity is required to present all components of net periodic pension cost and net periodic postretirement benefit cost aggregated as a net amount in the income statement, and this net amount may be capitalized as part of an asset where appropriate. ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The amendments in ASU 2017-07 shall be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. ASU 2017-07 becomes effective for the Company on January 1, 2018. Early adoption is permitted. We plan to adopt this standard on January 1, 2018. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The amendment seeks to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The adoption of ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective dates. The Company is evaluating the effect of this standard on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” The amendments in ASU 2016-18 will require the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The Company is currently in the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 provides guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. ASU 2016-15 will require adoption on a retrospective basis, unless it is impracticable to apply, in which case we would be required to apply the amendments prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. We plan to adopt this standard on January 1, 2018. The Company is currently in the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company believes that the new standard will have a material impact on its consolidated balance sheet due to the recognition of ROU assets and liabilities for the Company’s operating leases but it will not have a material impact on its liquidity. The Company is continuing to evaluate potential impacts to our financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue From Contracts With Customers.” ASU 2014-09 supersedes nearly all existing revenue recognition principles under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services using a defined five-step process. More judgment and estimates may be required to achieve this principle than under existing GAAP. In 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses and determining if a company is the principal or agent in a revenue arrangement. ASU 2014-09 and its clarifying amendments are effective for annual periods beginning after December 15, 2017, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a modified retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption, which includes additional footnote disclosures. We currently expect to adopt ASU 2014-09 as of January 1, 2018, under the modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. The FASB has issued and may issue in the future, interpretative guidance, which may cause our evaluation to change. The Company will not be able to make a complete determination about the impact of the standard until the time of adoption based upon outstanding contracts at that time.

However, the Company will continue to evaluate our business processes, systems and controls, and potential differences, if any, in the timing and method of revenue recognition.

## 3. Accounts Receivable

| *(Table only in thousands)* | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Trade receivables | $ 13,204 | $ 11,976 |
| Contract receivables | 55,108 | 72,835 |
| Allowance for doubtful accounts | (2,181) | (1,749) |
| | $ 66,131 | $ 83,062 |

Balances billed but not paid by customers under retainage provisions in contracts amounted to approximately $3.0 million and $3.2 million at June 30, 2017 and December 31, 2016, respectively. Retainage receivables on contracts in progress are generally collected within a year after contract completion.

The provision for doubtful accounts was $0.7 million and $0.2 million for the three-month periods ended June 30, 2017 and 2016, respectively, and $1.0 million and $0.3 million for the six-month periods ended June 30, 2017 and 2016, respectively.

## 4. Costs and Estimated Earnings on Uncompleted Contracts

Revenues from contracts are primarily recognized on the percentage of completion method, measured by the percentage of contract costs incurred to date compared with estimated total contract costs for each contract. This method is used because management considers contract costs to be the best available measure of progress on these contracts. For contracts where the duration is short, total contract revenue is insignificant, or reasonably dependable estimates cannot be made, revenues are recognized on a completed contract basis, when risk and title passes to the customer, which is generally upon shipment of product.

Our contracts have various lengths to completion ranging from a few days to several months. We anticipate that a majority of our current contracts will be completed within the next twelve months.

| *(Table only in thousands)* | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 187,190 | $ 186,609 |
| Estimated earnings | 72,553 | 77,709 |
| | 259,743 | 264,318 |
| Less billings to date | (242,514) | (261,280) |
| | $ 17,229 | $ 3,038 |
| Included in the accompanying condensed consolidated balance sheets under the following captions: | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 40,774 | $ 38,123 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 23,545 | 35,085 |
| | $ 17,229 | $ 3,038 |

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes to job performance, job conditions, and estimated profitability may result in revisions to contract revenue and costs and are recognized in the period in which the revisions are made. A provision of $0.3 million for estimated losses on uncompleted contracts was recognized at June 30, 2017. No provision for estimated losses on uncompleted contracts was required at December 31, 2016.

## 5. Inventories

| *(Table only in thousands)* | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials | $ 19,871 | $ 17,889 |
| Work in process | 2,886 | 3,986 |
| Finished goods | 1,269 | 1,508 |
| Obsolescence allowance | (2,095) | (1,896) |
| | $ 21,931 | $ 21,487 |

Amounts credited to the allowance for obsolete inventory and charged to cost of sales amounted to $0.2 million and $0.6 million for the three-month periods ended June 30, 2017 and 2016, respectively, and $0.3 million and $0.8 million for the six-month periods ended June 30, 2017 and 2016, respectively.

## 6. Goodwill and Intangible Assets

| *(Table only in thousands)* | Six months ended June 30, 2017 | | Year ended December 31, 2016 | |
|---|---|---|---|---|
| **Goodwill / Indefinite Life Tradenames** | **Goodwill** | **Tradenames** | **Goodwill** | **Tradenames** |
| Beginning balance | $ 170,153 | $ 22,042 | $ 220,163 | $ 26,337 |
| Acquisitions and related adjustments | — | — | 4,205 | — |
| Impairment | — | — | (53,762) | (4,161) |
| Foreign currency translation | 694 | 226 | (453) | (134) |
| | $ 170,847 | $ 22,268 | $ 170,153 | $ 22,042 |

| *(Table only in thousands)* | As of June 30, 2017 | | As of December 31, 2016 | |
|---|---|---|---|---|
| **Intangible assets – finite life** | **Cost** | **Accum. Amort.** | **Cost** | **Accum. Amort.** |
| Technology | $ 15,867 | $ 7,472 | $ 15,867 | $ 6,360 |
| Customer lists | 77,497 | 30,524 | 77,497 | 26,041 |
| Noncompetition agreements | 1,118 | 588 | 1,118 | 478 |
| Tradename | 1,390 | 371 | 1,390 | 301 |
| Foreign currency adjustments | (1,900) | (432) | (2,964) | (1,000) |
| | $ 93,972 | $ 38,523 | $ 92,908 | $ 32,180 |

Activity for the six months ended June 30, 2017 and 2016 is as follows:

| *(Table only in thousands)* | 2017 | 2016 |
|---|---|---|
| Intangible assets – finite life, net at beginning of period | $ 60,728 | $ 74,957 |
| Amortization expense | (5,772) | (7,645) |
| Foreign currency adjustments | 493 | 76 |
| Intangible assets – finite life, net at end of period | $ 55,449 | $ 67,388 |

Amortization expense of finite life intangible assets was $2.9 million and $3.7 million for the three-month periods ended June 30, 2017 and 2016, respectively, and $5.8 million and $7.6 million for the six-month periods ended June 30, 2017 and 2016, respectively.

The Company did not identify any triggering events during the three-month and six-month periods ended June 30, 2017 that would require an interim impairment assessment of goodwill or indefinite life intangible assets. There was no impairment of goodwill or indefinite life intangible assets during the three-month and six-month periods ended June 30, 2017.

## 7. Accounts Payable and Accrued Expenses

| *(Table only in thousands)* | | June 30, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Trade accounts payable, including due to subcontractors | $ | 54,375 | $ | 58,985 |
| Compensation and related benefits | | 5,747 | | 8,232 |
| Current portion of earn-out liability | | 6,970 | | 13,527 |
| Accrued warranty | | 4,482 | | 2,684 |
| Other accrued expenses | | 10,018 | | 12,182 |
| | $ | 81,592 | $ | 95,610 |

The activity in the Company's current portion of earn-out liability and long-term portion of earn-out liability was as follows for the six months ended June 30, 2017 and 2016:

| *(Table only in thousands)* | | Energy Segment | | Environmental Segment | Total[(1)] |
|---|---|---|---|---|---|
| Balance of earn-out at December 31, 2016 | $ | 24,214 | $ | — | $ 24,214 |
| Fair value adjustment | | (1,755) | | — | (1,755) |
| Compensation expense adjustment | | 597 | | — | 597 |
| Foreign currency translation adjustment | | 523 | | — | 523 |
| Payment | | (15,193) | | — | (15,193) |
| Total earn-out liability as of June 30, 2017 | $ | 8,386 | $ | — | $ 8,386 |
| Less: current portion of earn-out | | (6,970) | | — | (6,970) |
| Balance of long term portion of earn-out recorded in Other liabilities at June 30, 2017 | $ | 1,416 | $ | — | $ 1,416 |

| *(Table only in thousands)* | | Energy Segment | | Environmental Segment | Total[(1)] |
|---|---|---|---|---|---|
| Balance of earn-out at December 31, 2015 | $ | 29,304 | $ | 3,367 | $ 32,671 |
| Fair value adjustment | | 1,533 | | (500) | 1,033 |
| Compensation expense adjustment | | 610 | | — | 610 |
| Foreign currency translation adjustment | | (529) | | — | (529) |
| Settlement through an exchange of accounts receivable | | (3,190) | | — | (3,190) |
| Payment | | (1,241) | | (1,100) | (2,341) |
| Total earn-out liability as of June 30, 2016 | $ | 26,487 | $ | 1,767 | $ 28,254 |
| Less: current portion of earn-out | | (17,580) | | (667) | (18,247) |
| Balance of long term portion of earn-out recorded in Other liabilities at June 30, 2016 | $ | 8,907 | $ | 1,100 | $ 10,007 |

(1) The Fluid Handling and Filtration segment does not have any earn-out arrangements associated with the segment.

## 8. Senior debt

Debt consisted of the following at June 30, 2017 and December 31, 2016:

| *(Table only in thousands)* | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Outstanding borrowings under Credit Facility (defined below). Term loan payable in quarterly principal installments of $1.5 million through September 2017, $2.0 million through September 2018, and $2.5 million thereafter with balance due upon maturity in September 2020. | | |
| - Term loan | $ 117,415 | $ 125,072 |
| - Unamortized debt discount and debt issuance costs | (2,841) | (3,175) |
| Total outstanding borrowings under Credit Facility | 114,574 | 121,897 |
| Outstanding borrowings (U.S. dollar equivalent) under China Facility (defined below) | — | 1,296 |
| Outstanding borrowings (U.S. dollar equivalent) under Aarding Facility (defined below) | 213 | — |
| Total outstanding borrowings | 114,787 | 123,193 |
| Less: current portion | 7,742 | 8,827 |
| Total debt, less current portion | $ 107,045 | $ 114,366 |

During the three-month and six-month periods ended June 30, 2017, the Company made prepayments of $2.0 million and $4.3 million, respectively, on the outstanding balance of the term loan. These prepayments were applied to future principal payments due under the term loan. Scheduled principal payments under our Credit Facility is $3.5 million for the remainder of 2017, $8.5 million in 2018, $10.0 million in 2019, and $95.3 million in 2020.

United States Debt

As of June 30, 2017 and December 31, 2016, $20.7 million and $18.0 million of letters of credit were outstanding, respectively. Total unused credit availability under the Company's senior secured term loan, senior secured U.S. dollar revolving loans with sub-facilities for letters of credit and swing-line loans and senior secured multi-currency revolving credit facility for U.S. dollar and specific foreign currency loans (collectively, the "Credit Facility") was $59.3 million and $62.0 million at June 30, 2017 and December 31, 2016, respectively. Revolving loans may be borrowed, repaid and reborrowed until September 3, 2020, at which time all amounts borrowed pursuant to the Credit Facility must be repaid.

The weighted average interest rate on outstanding borrowings was 3.47% and 3.26% at June 30, 2017 and December 31, 2016, respectively.

In accordance with the Credit Facility terms, the Company entered into an interest rate swap on December 30, 2015 to hedge against interest rate exposure related to approximately one-third of the outstanding debt indexed to LIBOR market rates. The fair value of the interest rate swap had no impact on the Condensed Consolidated Balance Sheet as of June 30, 2017. The fair value of the interest rate swap was a liability totaling $0.2 million at December 31, 2016, which is recorded in "Accounts payable and accrued expenses" on the Condensed Consolidated Balance Sheets. The Company did not designate the interest rate swap as an effective hedge until the first quarter of 2016, and accordingly the change in the fair value until the date of designation of $0.5 million was recorded in earnings in "Other income (expense), net" in the Condensed Consolidated Statements of Income for the six-month period ended June 30, 2016. From the date of designation, a significant portion of the changes to the fair value of the interest rate swap have been recorded in other comprehensive income (loss) as the hedge is deemed effective.

The Company amended the Credit Agreement as of June 9, 2017. The Credit Agreement was amended to, among other things, (a) modify the calculation of Consolidated EBITDA and Consolidated Fixed Charges to exclude certain pro forma adjustments related to certain acquisitions and other transactions and (b) modify the Consolidated Leverage Ratio covenant. As a result of the amendment to the Credit Agreement, the maximum consolidated leverage ratio remains consistent at 3.25 until March 31, 2019, when it is set to decrease to 3.00 until the end of the term of the Credit Agreement.

As of June 30, 2017 and December 31, 2016, the Company was in compliance with all related financial and other restrictive covenants under the Credit Agreement.

Foreign Debt

A subsidiary of the Company located in the Netherlands has a Euro denominated facilities agreement with ING Bank N.V. ("Aarding Facility") with a total borrowing capacity of $14.9 million. As of June 30, 2017 and December 31, 2016, the borrowers were in compliance with all related financial and other restrictive covenants. As of June 30, 2017, $4.7 million of the bank guarantee and $0.2 million of the overdraft facility are being used by the Company. As of December 31, 2016, $5.3 million of the bank guarantee and none of the overdraft facility was being used by the Company. There is no stated expiration date on the Aarding Facility.

A subsidiary of the Company located in China has a Chinese Yuan Renminbi denominated short-term loan with Bank of America ("China Facility") with an amount outstanding of $1.3 million as of December 31, 2016 at an interest rate of 4.79%. This loan was paid down in full in the second quarter of 2017. The total amount of available for borrowing under the China Facility was $4.4 million and $4.3 million as of June 30, 2017 and December 31, 2016, respectively.

As a result of the PMFG, Inc. ("PMFG") acquisition, the Company acquired a 60% equity investment in Peerless Propulsys that entitled the Company to 80% of Peerless Propulsys's earnings. In prior periods, the noncontrolling interest of Peerless Propulsys was reported as a separate component on the Consolidated Balance Sheets. During July 2016, the Company entered into an agreement with the noncontrolling owner of Peerless Propulsys and issued a promissory note in the amount of $5.3 million due on July 11, 2019 in exchange for the remaining interest in Peerless Propulysys, which increased the Company's ownership to 100% in the equity and earnings of Peerless Propulsys. The interest rate on the note payable is 1.50%, which approximates the market rate given the short-term duration of the note payable. The note payable is guaranteed by the Company. As of December 31, 2016 and June 30, 2017, $5.3 million of the principal amount of the note payable was outstanding. The note is payable at the earlier of July 11, 2019 or 30 days subsequent to the sale of building and land that the Company owns in China. As the Company intends to sell this building and land within one year of June 30, 2017, this note payable is currently classified as a current liability in the Consolidated Balance Sheets as of June 30, 2017.

## 9. Earnings and Dividends per Share

The computational components of basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2017 and 2016 are below.

| | For the three-month period ended June 30, 2017 | | |
|---|---|---|---|
| | Numerator (Income) | Denominator (Shares) | Per Share Amount |
| Basic net income and earnings per share | $ 5,486 | 34,474 | $ 0.16 |
| Effect of dilutive securities and notes: | | | |
| Common stock equivalents arising from stock options, restricted stock awards, and employee stock purchase plan | — | 333 | — |
| Diluted earnings and earnings per share | $ 5,486 | 34,807 | $ 0.16 |

| | For the three-month period ended June 30, 2016 | | |
|---|---|---|---|
| | Numerator (Income) | Denominator (Shares) | Per Share Amount |
| Basic net income and earnings per share | $ 4,050 | 33,946 | $ 0.12 |
| Effect of dilutive securities and notes: | | | |
| Common stock equivalents arising from stock options, restricted stock awards, and employee stock purchase plan | — | 216 | — |
| Diluted earnings and earnings per share | $ 4,050 | 34,162 | $ 0.12 |

| | For the six-month period ended June 30, 2017 | | |
|---|---|---|---|
| | Numerator (Income) | Denominator (Shares) | Per Share Amount |
| Basic net income and earnings per share | $ 5,524 | 34,345 | $ 0.16 |
| Effect of dilutive securities and notes: | | | |
| Common stock equivalents arising from stock options, restricted stock awards, and employee stock purchase plan | — | 341 | — |
| Diluted earnings and earnings per share | $ 5,524 | 34,686 | $ 0.16 |

| | For the six-month period ended June 30, 2016 | | |
|---|---|---|---|
| | Numerator (Income) | Denominator (Shares) | Per Share Amount |
| Basic net income and earnings per share | $ 7,150 | 33,937 | $ 0.21 |
| Effect of dilutive securities and notes: | | | |
| Common stock equivalents arising from stock options, restricted stock awards, and employee stock purchase plan | — | 202 | — |
| Diluted earnings and earnings per share | $ 7,150 | 34,139 | $ 0.21 |

Options, restricted stock units and warrants included in the computation of diluted earnings per share are calculated using the treasury stock method. For the three-month periods ended June 30, 2017 and 2016, 0.6 million and 1.5 million, respectively, and 0.7 million and 1.6 million during the six-month periods ended June 30, 2017 and 2016, respectively, of outstanding options and warrants were excluded from the computation of diluted earnings per share due to their having an anti-dilutive effect.

Once a restricted stock unit vests, it is included in the computation of weighted average shares outstanding for purposes of basic and diluted earnings per share.

On May 10, 2017, the Company declared and, on June 30, 2017, paid to common stockholders a quarterly dividend of $0.075 per share. The dividend policy and the payment of cash dividends under that policy are subject to the Board of Directors' continuing determination that the dividend policy and the declaration of dividends are in the best interest of the Company's stockholders. Future dividends and the dividend policy may be changed or cancelled at the Company's discretion at any time. Payment of dividends is also subject to the continuing compliance with our financial covenants under our Credit Facility.

## 10. Share-Based Compensation

The Company's 2017 Equity and Incentive Compensation Plan (the "2017 Plan") was approved by the Company's stockholders on May 16, 2017. The 2017 Plan permits the granting of stock options, which are granted with an exercise price equal to or greater than the fair market value of the Company's common stock at the date of the grant, and other stock-based awards, including appreciation rights, restricted stock, restricted stock unit, performance shares and dividend equivalents. As of May 16, 2017, no further grants will be made under the Company's 2007 Equity Incentive Plan (the "2007 Plan"), but outstanding awards under the 2007 Plan prior to such date will continue to be unaffected in accordance with their terms.

The Company accounts for stock-based compensation in accordance with ASC Topic 718, "Compensation – Stock Compensation," which requires the Company to recognize compensation expense for stock-based awards, measured at the fair value of the awards at the grant date. The Company recognized expense of $0.7 million and $0.6 million during the three-month periods ended June 30, 2017 and 2016, respectively, and $0.7 million and $1.1 million during the six-month periods ended June 30, 2017 and 2016, respectively. Share based compensation expense was lower in 2017 primarily due to a large amount of forfeitures related to the former Chief Executive Officer's departure from the Company.

The Company granted approximately 128,000 options during the three-month period ended June 30, 2017 and no options during the three-month period ended June 30, 2016. The Company granted approximately 128,000 and 100,000 options during the six-month periods ended June 30, 2017 and 2016, respectively. The weighted-average fair value of stock options granted during the six months ended June 30, 2017 and 2016 was estimated at $2.68 and $2.07 per option, respectively, using the Black-Scholes option-pricing model based on the following assumptions:

*Expected Volatility:* The Company utilizes a volatility factor based on the Company's historical stock prices for a period of time equal to the expected term of the stock option utilizing weekly price observations. For the six months ended June 30, 2017 and 2016, the Company utilized a weighted-average volatility factor of 39%.

*Expected Term:* For the six months ended June 30, 2017, and 2016, the Company utilized a weighted-average expected term factor of 6.3 years and 6.5 years, respectively.

*Risk-Free Interest Rate:* The risk-free interest rate factor utilized is based upon the implied yields currently available on U.S. Treasury zero-coupon issues over the expected term of the stock options. For the six months ended June 30, 2017 and 2016, the Company utilized a weighted-average risk-free interest rate factor of 2.1%.

*Expected Dividends:* The Company utilized a weighted average expected dividend rate of 3.3% and 3.6% to value options granted during the six months ended June 30, 2017 and 2016, respectively.

The Company granted approximately 351,000 and 90,000 restricted stock units during the three-month periods ended June 30, 2017 and 2016, respectively, and approximately 405,000 and 100,000 restricted stock units during the six-month periods ended June 30, 2017 and 2016, respectively. The weighted-average fair value of restricted stock units granted during the six months ended June 30, 2017 and 2016 was estimated at $9.87 and $7.77 per unit, respectively, using the value of stock in the open market on the date of grant.

On June 10, 2017, the Company granted 700,000 performance units to our Chief Executive Officer whose total value was determined to be $175,000 and will be expensed over the vesting period. The maximum shares of common stock that the participant could receive upon his performance units vesting is 77,778 shares. The performance units are earned based upon the Company's stock price during 30 consecutive trading days within a specified date range of approximately two years. The performance units are settled in the Company's common stock subsequent to this specified date range and vest approximately three years from the date of the grant. The estimated grant date fair value and compensation expense of each performance share is determined on the date of grant by using the Monte Carlo valuation model.

The fair value of the stock-based awards, including the performance units, granted is recorded as compensation expense on a straight-line basis over the vesting periods of the awards.

There were approximately 282,000 and 51,000 options exercised during the six months ended June 30, 2017 and 2016, respectively. The Company received $1.1 million and $0.3 million in cash from employees and directors exercising options during the six months ended June 30, 2017 and 2016, respectively. The intrinsic value of options exercised during the six months ended June 30, 2017 and 2016 was $1.8 million and $0.1 million, respectively.

## 11. Pension and Employee Benefit Plans

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

We also sponsor a postretirement health care plan for office employees retired before January 1, 1990. The plan allowed retirees who 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:

| *(Table only in thousands)* | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Pension plan: | | | | |
| Service cost | $ 101 | $ 112 | $ 214 | $ 223 |
| Interest cost | 329 | 356 | 657 | 713 |
| Expected return on plan assets | (431) | (457) | (861) | (914) |
| Amortization of net actuarial loss | 57 | 53 | 113 | 106 |
| Net periodic benefit cost | $ 56 | $ 64 | $ 123 | $ 128 |
| Health care plan: | | | | |
| Interest cost | $ 1 | $ 1 | $ 2 | $ 2 |
| Amortization of loss | 2 | 3 | 4 | 5 |
| Net periodic benefit cost | $ 3 | $ 4 | $ 6 | $ 7 |

We made contributions to our defined benefit plans during the six months ended June 30, 2017 and 2016 totaling $0.3 million and $29,000, respectively. We anticipate $1.7 million and $25,000 of further contributions to fund the pension plans and the retiree health care plan, respectively, during the remainder of 2017. The unfunded liability of the plans of $10.9 million and

$11.1 million as of June 30, 2017 and December 31, 2016, respectively, is included in Other liabilities on our unaudited Condensed Consolidated Balance Sheets.

## 12. Income Taxes

The Company files income tax returns in various federal, state and local jurisdictions. Tax years from 2014 and onward remain open for examination by federal authorities. Tax years from 2012 and onward remain open for all significant state and foreign authorities.

The Company accounts for uncertain tax positions pursuant to ASC Topic 740, “Income Taxes.” As of June 30, 2017 and December 31, 2016, the liability for uncertain tax positions totaled approximately $0.4 million, which is included in Other liabilities on our unaudited Condensed Consolidated Balance Sheets. The Company recognizes interest accrued related to uncertain tax positions in interest expense and penalties in income tax expense. The Company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because of management’s intent to indefinitely reinvest such earnings.

## 13. Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets, foreign debt and accounts payable, which approximate fair value at June 30, 2017 and December 31, 2016, due to their short-term nature or variable, market-driven interest rates.

The fair value of the debt issued under the Credit Agreement was $117.4 million and $125.1 million at June 30, 2017 and December 31, 2016, respectively. The fair value of the note payable was $5.3 million at June 30, 2017 and December 31, 2016, respectively.

In accordance with the terms of the Credit Agreement, the Company entered into an interest rate swap on December 30, 2015 to hedge against interest rate exposure related to a portion of the outstanding debt indexed to LIBOR market rates. See Note 8 for further information regarding the interest rate swap.

At June 30, 2017 and December 31, 2016, we had cash and cash equivalents of $27.2 million and $45.8 million, respectively, of which $15.0 million and $25.6 million, respectively, was held outside of the United States, principally in the Netherlands, United Kingdom, China, and Canada.

Restricted cash is held by the Company to collateralize letters of credit issued in foreign jurisdictions to support Company operations. The Company occasionally enters into letters of credit with durations in excess of one year.

## 14. Commitments and Contingencies – Legal Matters

*Asbestos cases*

Our subsidiary, Met-Pro Technologies LLC (“Met-Pro”), beginning in 2002, began to be named in asbestos-related lawsuits filed against a large number of industrial companies including, in particular, those in the pump and fluid handling industries. In management’s opinion, the complaints typically have been vague, general and speculative, alleging that Met-Pro, along with the numerous other defendants, sold unidentified asbestos-containing products and engaged in other related actions which caused injuries (including death) and loss to the plaintiffs. Counsel has advised that more recent cases typically allege more serious claims of mesothelioma. The Company’s insurers have hired attorneys who, together with the Company, are vigorously defending these cases. Many cases have been dismissed after the plaintiff fails to produce evidence of exposure to Met-Pro’s products. In those cases where evidence has been produced, the Company’s experience has been that the exposure levels are low and the Company’s position has been that its products were not a cause of death, injury or loss. The Company has been dismissed from or settled a large number of these cases. Cumulative settlement payments from 2002 through June 30, 2017 for cases involving asbestos-related claims were $1.2 million, of which together with all legal fees other than corporate counsel expenses; $1.1 million have been paid by the Company’s insurers. The average cost per settled claim, excluding legal fees, was approximately $27,000.

Based upon the most recent information available to the Company regarding such claims, there were a total of 221 cases pending against the Company as of June 30, 2017 (with Connecticut, New York, Pennsylvania and West Virginia having the largest number of cases), as compared with 229 cases that were pending as of December 31, 2016. During the six months ended June 30, 2017, 27 new cases were filed against the Company, and the Company was dismissed from 30 cases and settled five cases. Most of the pending cases have not advanced beyond the early stages of discovery, although a number of cases are on schedules leading to, or are scheduled for trial. The Company believes that its insurance coverage is adequate for the cases currently pending against the Company and for the foreseeable future, assuming a continuation of the current volume, nature of cases and settlement amounts. However, the Company has no control over the number and nature of cases that are filed against it, nor as to the financial health of its insurers or their position as to coverage. The Company also presently believes that none of the pending cases will have a material adverse impact upon the Company's results of operations, liquidity or financial condition.

*Valero*

One of our subsidiaries, Fisher-Klosterman, Inc. ("FKI"), was a defendant in a products liability lawsuit filed in Harris County, Texas on August 23, 2010 by three Valero refining companies. The plaintiffs claimed that FKI (and its co-Defendants) used an allegedly defective refractory material included in cyclones it supplied to Valero that caused damages to refineries they own and operate. Plaintiffs claimed to have suffered property damages, including catalyst loss, regenerator repair costs, replacement part costs, damage to other property and business interruption loss. During 2014, the Company reached a settlement with the plaintiffs for $0.5 million and, accordingly, recorded a corresponding charge to operations. In addition, the Company reached an agreement with a supplier to recover $0.2 million related to this matter. The recovery was also recorded during 2014. The Company's insurer, Valley Forge Insurance Company ("Valley Forge"), who had paid for the legal defense in this matter, initiated a new case in the Southern District of Ohio against the Company in October 2014 seeking, among other things, recoupment of past legal costs paid. Valley Forge claims that it did not have an obligation to defend FKI and is entitled to recoup all amounts paid to defend FKI. The Court rejected Valley Forge's position on the duty to defend as contrary to Ohio law. The Court found that if Valley Forge could prove that FKI breached its duty to cooperate in defending the Valero Suit, Valley Forge may be relieved of its duty to defend to some extent. Valley Forge moved for reconsideration of the Court's opinion in May 2016,which the court ruled against. The Court ruled in 2017 that Valley Forge could amend its complaint. The Company is vigorously disputing this claim, and is seeking to pursue counterclaims against the insurer.

*Summary*

The Company is also a party to routine contract and employment-related litigation matters and routine audits of state and local tax returns arising in the ordinary course of its business.

The final outcome and impact of open matters, and related claims and investigations that may be brought in the future, are subject to many variables, and cannot be predicted. In accordance with ASC 450, "Contingencies," and related guidance, we record reserves for estimated losses relating to claims and lawsuits when available information indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. The Company expenses legal costs as they are incurred.

We are not aware of pending claims or assessments, other than as described above, which may have a material adverse impact on our liquidity, financial position, results of operations, or cash flows.

## 15. Business Segment Information

The Company's operations are organized and reviewed by management along its product lines or end market that the segment serves and presented in three reportable segments.

### *Energy Segment*

Our Energy segment provides customized solutions for the power generation and petrochemical industry. This includes natural gas turbine exhaust systems, dampers and diverters, gas and liquid separation and filtration equipment, selective catalytic reduction ("SCR") and selective non-catalytic reduction ("SNCR") systems, acoustical components and silencers, secondary separators (nuclear plant reactor vessels) and expansion joints, the design and manufacture of technologies for flue gas and diverter dampers, non-metallic expansion joints, and silencer and precipitator applications, primarily for natural gas and coal-fired power plants, refining, oil production and petrochemical processing, as well as a variety of other industries.

### *Environmental Segment*

Our Environmental segment provides the air pollution control technologies that enable our customers to reduce their carbon footprint, lower energy consumption, minimize waste and meet compliance targets for toxic emissions, fumes, volatile organic compounds, process and industrial odors. These products and solutions include chemical and biological scrubbers, fabric filters and cartridge collectors, thermal and catalytic oxidation systems, cyclones, separators, gas absorbers and industrial ventilation systems. In addition, this segment designs and manufactures fluid catalytic cracking unit cyclones used in the petroleum and petrochemical refining process. This segment also provides component parts for industrial air systems and provides cost effective alternatives to traditional duct components, as well as custom metal engineered fabrication services. These products and services are applicable to a wide variety of industries.

***Fluid Handling and Filtration Segment***

Our Fluid Handling and Filtration segment provides the design and manufacture of high quality pump, filtration and fume exhaust solutions. This includes centrifugal pumps for corrosive, abrasive and high temperature liquids, filter products for air and liquid filtration, precious metal recovery systems, carbonate precipitators, and technologically advanced air movement and exhaust systems. These products are applicable to a wide variety of industries, particularly the aquarium/aquaculture, plating and metal finishing, food and beverage, chemical/petrochemical, wastewater treatment, desalination and pharmaceutical markets.

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC. Interest income and expense are not included in the measure of segment profit reviewed by management. Income taxes are also not included in the measure of segment operating profit reviewed by management. The operating results of the segments are reviewed through to the "Income from operations" line on the Condensed Consolidated Statements of Income.

The financial segment information is presented in the following tables:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2017 | 2016 | 2017 | 2016 |
| **Net Sales (less intra-, inter-segment sales)** | | | | |
| Energy Segment | $ 37,416 | $ 52,867 | $ 78,499 | $ 100,799 |
| Environmental Segment | 37,879 | 44,211 | 73,808 | 83,333 |
| Fluid Handling and Filtration Segment | 18,348 | 15,413 | 34,164 | 32,008 |
| Corporate and Other[1] | 227 | (233) | 50 | (707) |
| **Net sales** | $ 93,870 | $ 112,258 | $ 186,521 | $ 215,433 |

(1) Includes adjustment for revenue on intercompany jobs.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2017 | 2016 | 2017 | 2016 |
| **Income from Operations** | | | | |
| Energy Segment | $ 7,528 | $ 6,367 | $ 9,141 | $ 11,563 |
| Environmental Segment | 4,777 | 6,119 | 9,886 | 10,865 |
| Fluid Handling and Filtration Segment | 4,148 | 3,200 | 7,457 | 6,398 |
| Corporate and Other[2] | (6,769) | (6,618) | (14,780) | (13,537) |
| Eliminations | (429) | (507) | (1,099) | (921) |
| Income from operations | $ 9,255 | $ 8,561 | $ 10,605 | $ 14,368 |

(2) Includes corporate compensation, professional services, information technology, acquisition and integration expenses, and other general and administrative corporate expenses / income. This figure excludes earn-out expenses / income, which are recorded in the segment in which the expense / income occurs. See Note 7 for the earn-out expenses / income by segment.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2017 | 2016 | 2017 | 2016 |
| **Property and Equipment Additions** | | | | |
| Energy Segment | $ 114 | $ 220 | $ 350 | $ 304 |
| Environmental Segment | 31 | 115 | 40 | 228 |
| Fluid Handling and Filtration Segment[3] | 72 | 3,301 | 221 | 3,310 |
| Corporate and Other | 14 | 2 | 30 | 6 |
| Property and equipment additions | $ 231 | $ 3,638 | $ 641 | $ 3,848 |

(3) Includes non-cash additions of $3,296 for property, plant, and equipment acquired under capital leases during the second quarter of 2016.

| (dollars in thousands) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Depreciation and Amortization** | | | | |
| Energy Segment | $ 1,966 | $ 2,939 | $ 4,030 | $ 5,741 |
| Environmental Segment | 842 | 907 | 1,687 | 1,874 |
| Fluid Handling and Filtration Segment | 1,197 | 1,254 | 2,395 | 2,648 |
| Corporate and Other | 25 | 32 | 56 | 65 |
| Depreciation and Amortization | $ 4,030 | $ 5,132 | $ 8,168 | $ 10,328 |

| (dollars in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Identifiable Assets** | | |
| Energy Segment | $ 229,918 | $ 257,566 |
| Environmental Segment | 109,215 | 118,680 |
| Fluid Handling and Filtration Segment | 104,924 | 104,294 |
| Corporate and Other[4] | 14,303 | 18,094 |
| Identifiable Assets | $ 458,360 | $ 498,634 |

(4) Corporate assets primarily consist of cash and income tax related assets.

| (dollars in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Goodwill** | | |
| Energy Segment | $ 76,521 | $ 75,827 |
| Environmental Segment | 48,203 | 48,203 |
| Fluid Handling and Filtration Segment | 46,123 | 46,123 |
| Goodwill | $ 170,847 | $ 170,153 |

**Intra-segment and Inter-segment Revenues**

The Company has multiple divisions that sell to each other within segments (intra-segment sales) and between segments (inter-segment sales) as indicated in the following tables:

| | Three Months Ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Less Inter-Segment Sales | | | | |
| (dollars in thousands) | Total Sales | Intra-Segment Sales | Environmental | Energy | FHF | Corp and Other | Net Sales to Outside Customers |
| **Net Sales** | | | | | | | |
| Energy Segment | $ 40,255 | $ (2,839) | $ — | $ — | $ — | $ — | $ 37,416 |
| Environmental Segment | 38,718 | (800) | — | — | (39) | — | 37,879 |
| Fluid Handling and Filtration Segment | 19,160 | (539) | (258) | (15) | — | — | 18,348 |
| Corporate and Other[5] | — | — | — | — | — | 227 | 227 |
| **Net Sales** | $ 98,133 | $ (4,178) | $ (258) | $ (15) | $ (39) | $ 227 | $ 93,870 |

| | Three Months Ended June 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Less Inter-Segment Sales | | | | |
| (dollars in thousands) | Total Sales | Intra-Segment Sales | Environmental | Energy | FHF | Corp and Other | Net Sales to Outside Customers |
| **Net Sales** | | | | | | | |
| Energy Segment | $ 53,740 | $ (654) | $ (219) | $ — | $ — | $ — | $ 52,867 |
| Environmental Segment | 45,522 | (844) | — | (427) | (40) | — | 44,211 |
| Fluid Handling and Filtration Segment | 16,045 | (452) | (180) | — | — | — | 15,413 |
| Corporate and Other(5) | — | — | — | — | — | (233) | (233) |
| **Net Sales** | $115,307 | $ (1,950) | $ (399) | $ (427) | $ (40) | $ (233) | $112,258 |

| | Six Months Ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Less Inter-Segment Sales | | | | |
| (dollars in thousands) | Total Sales | Intra-Segment Sales | Environmental | Energy | FHF | Corp and Other | Net Sales to Outside Customers |
| **Net Sales** | | | | | | | |
| Energy Segment | $ 83,668 | $ (5,147) | $ (22) | $ — | $ — | $ — | $ 78,499 |
| Environmental Segment | 76,266 | (1,690) | — | (729) | (39) | — | 73,808 |
| Fluid Handling and Filtration Segment | 35,852 | (1,157) | (422) | (109) | — | — | 34,164 |
| Corporate and Other(5) | — | — | — | — | — | 50 | 50 |
| **Net Sales** | $195,786 | $ (7,994) | $ (444) | $ (838) | $ (39) | $ 50 | $186,521 |

| | Six Months Ended June 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Less Inter-Segment Sales | | | | |
| (dollars in thousands) | Total Sales | Intra-Segment Sales | Environmental | Energy | FHF | Corp and Other | Net Sales to Outside Customers |
| **Net Sales** | | | | | | | |
| Energy Segment | $102,321 | $ (1,145) | $ (377) | $ — | $ — | $ — | $100,799 |
| Environmental Segment | 87,575 | (2,598) | — | (1,467) | (177) | — | 83,333 |
| Fluid Handling and Filtration Segment | 33,057 | (855) | (194) | — | — | — | 32,008 |
| Corporate and Other(5) | — | — | — | — | — | (707) | (707) |
| **Net Sales** | $222,953 | $ (4,598) | $ (571) | $ (1,467) | $ (177) | $ (707) | $215,433 |

(5) Includes adjustment for revenue on intercompany jobs.

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

The Company's Condensed Consolidated Statements of Income for the three-month and six-month periods ended June 30, 2017 and 2016 reflect the consolidated operations of the Company and its subsidiaries.

CECO is a diversified global provider of leading engineered technologies to the energy, environmental and fluid handling and filtration industrial segments, targeting specific niche-focused end markets through an attractive asset-light business model. We provide a wide spectrum of products and services including dampers & diverters, cyclonic technology, thermal oxidizers, separation and filtration systems, selective catalytic reduction ("SCR") and selective non-catalytic reduction ("SNCR") systems, scrubbers, dampers and silencers, exhaust systems, fluid handling equipment and plant engineered services and engineered design build fabrication. CECO's products play a vital role in helping companies achieve exacting production standards, meeting increasing plant needs and stringent emissions control regulations around the globe. The Company serves a broad range of markets and industries, including power, municipalities, chemical, industrial manufacturing, mid-stream pipeline natural gas transmission, refining, petrochemical, metals, minerals & mining companies, as well as hospitals and universities. Therefore, our business is not concentrated within a single industry or with a single customer.

We are a global corporation with worldwide operations. As a global business, our operations are affected by worldwide, regional and industry-specific economic factors, wherever we operate or do business. Our geographic and industry diversity, and the breadth of our product and services portfolios, have helped mitigate the impact of any one industry or the economy of any single country on our consolidated operating results.

We believe growth for our products and services is driven by the increasing demand for energy consumption and a shift towards cleaner sources such as natural gas, nuclear, and renewable sources. These trends should stimulate investment in new power generation facilities, pipeline expansion and related infrastructure, and in upgrading existing facilities.

With a shift to cleaner, more environmentally responsible power generation, power providers and industrial power consumers are building new facilities that use cleaner fuels. In developed markets, natural gas is increasingly becoming one of the energy sources of choice. We supply product offerings throughout the entire natural gas infrastructure value chain and believe expansion will drive growth within our Energy segment for our pressure products and SCR systems for natural-gas-fired power plants. Increased global natural gas production as a percent of total energy consumption, miles of new pipeline being added globally, and an increase in liquification capacity all stand to drive the need for our products.

We also believe there is a trend in both developed and emerging markets to control and reduce emissions of harsher fuel sources for which our air pollution control equipment is required. In emerging markets, including China, India, and South East Asia, our business is positioned to benefit from tightening of air pollution standards. In developed markets, growth of industrialization will drive greater output of emissions requiring our equipment as well. In both markets, we expect capital expenditures for our equipment to increase and the need for our aftermarket services to grow as companies seek to meet new standards.

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

**Operations Overview**

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

Our three reportable segments are: the Energy segment, which produces customized solutions for the power and petrochemical industry; the Environmental segment, which provides a variety of air pollution control and catalytic product recovery technologies; and the Fluid Handling and Filtration segment, which produces high quality pump, filtration and fume exhaust solutions. It is through combining the efforts of some or all of these groups that we are able to offer complete turnkey systems to our customers and leverage operational efficiencies.

Our contracts are obtained either through competitive bidding or as a result of negotiations with our customers. Contract terms offered by us are generally dependent on the complexity and risk of the project as well as the resources that will be required to complete the project. Our focus is on increasing our operating margins as well as our gross margin percentage, which translates into higher net income.

Our cost of sales is principally driven by a number of factors, including material prices and labor cost and availability. Changes in these factors may have a material impact on our overall gross profit margins.

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

- Subcontracts—Electrical work, concrete work and other subcontracts necessary to produce our products;
- Labor—Our direct labor both in the shop and in the field;
- Material—Raw material that we buy to build our products;
- Equipment—Fans, motors, control panels and other equipment necessary for turnkey systems; and
- Factory overhead—Costs of facilities and supervision wages necessary to produce our products.

In general, subcontracts provide us the most flexibility in margin followed by labor, material, and equipment. Across our various product lines, the relative relationships of these factors change and cause variations in gross margin percentage. Material costs have also increased faster than labor costs, which also reduces gross margin percentage. As material cost inflation occurs, the Company seeks to pass this cost onto our customers as price increases.

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

**Note Regarding Use of Non-GAAP Financial Measures**

The Company’s unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These GAAP financial statements include certain charges the Company believes are not indicative of its core ongoing operational performance.

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

The Company has provided the non-GAAP financial measure of non-GAAP operating income and non-GAAP operating margin as a result of items that the Company believes are not indicative of its ongoing operations. These include charges associated with the Company’s acquisition and integration of acquisitions and the items described below in “Consolidated Results.” The Company believes that evaluation of its financial performance compared with prior and future periods can be enhanced by a presentation of results that exclude the impact of these items. As a result of the Company’s completed acquisitions, the Company has incurred charges associated with the acquisition and integration of these companies. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat these charges as special items in its future presentation of non-GAAP results.

## Results of Operations

### *Consolidated Results*

Our Condensed Consolidated Statements of Income for the three-month and six-month periods ended June 30, 2017 and 2016 are as follows:

| (dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Net sales | $ 93.9 | $ 112.3 | $ 186.5 | $ 215.4 |
| Cost of sales | 65.4 | 78.4 | 126.1 | 149.9 |
| Gross profit | $ 28.5 | $ 33.9 | $ 60.4 | $ 65.5 |
| *Percent of sales* | *30.4%* | *30.2%* | *32.4%* | *30.4%* |
| Selling and administrative expenses | $ 21.4 | $ 20.0 | $ 44.7 | $ 41.1 |
| *Percent of sales* | *22.8%* | *17.8%* | *24.0%* | *19.1%* |
| Acquisition and integration expenses | $ — | $ 0.4 | $ — | $ 0.4 |
| *Percent of sales* | — | *0.4%* | — | *0.2%* |
| Amortization and earn-out (income) expenses, net | $ (2.2) | $ 4.9 | $ 5.1 | $ 9.7 |
| *Percent of sales* | *(2.3)%* | *4.4%* | *2.7%* | *4.5%* |
| Operating income | $ 9.3 | $ 8.6 | $ 10.6 | $ 14.4 |
| *Operating margin* | *9.9%* | *7.7%* | *5.7%* | *6.7%* |

To compare operating performance between the three-month and six-month periods ended June 30, 2017 and 2016, the Company has adjusted GAAP operating income to exclude (1) executive transition expenses, including severance for its former Chief Executive Officer, fees incurred in the search for a new Chief Executive Officer, and expenses associated with hiring a new Chief Financial Officer, (2) acquisition and integration related expenses, including legal, accounting, and banking expenses, (3) amortization and contingent acquisition expenses, including amortization of acquisition related intangibles, retention, severance, and earn-out expenses, (4) gain on insurance settlement, (5) facility exit expenses associated with the closure of certain leased facilities, (6) legacy design repair expenses related to costs to rectify issues on products that are no longer in production and (7) inventory valuation and plant, property and equipment valuation adjustments related to acquisitions. See “Note Regarding Use of Non-GAAP Financial Measures” above. The following table presents the reconciliation of GAAP operating income and GAAP operating margin to non-GAAP operating income and non-GAAP operating margin:

| (dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Operating income as reported in accordance with GAAP | $ 9.3 | $ 8.6 | $ 10.6 | $ 14.4 |
| *Operating margin in accordance with GAAP* | *9.9%* | *7.7%* | *5.7%* | *6.7%* |
| Legacy design repairs | 1.8 | — | 2.0 | — |
| Inventory valuation adjustment | — | — | — | 0.1 |
| Plant, property and equipment valuation adjustment | 0.1 | 0.1 | 0.3 | 0.3 |
| Gain on insurance settlement | — | (1.0) | — | (1.0) |
| Acquisition and integration expenses | — | 0.4 | — | 0.4 |
| Amortization and earn-out (income) expenses, net | (2.2) | 4.9 | 5.1 | 9.7 |
| Executive transition expenses | 0.4 | — | 1.3 | — |
| Facility exit expenses | — | — | 0.2 | — |
| Non-GAAP operating income | $ 9.4 | $ 13.0 | $ 19.5 | $ 23.9 |
| *Non-GAAP operating margin* | *10.0%* | *11.6%* | *10.5%* | *11.1%* |

Consolidated net sales for the second quarter of 2017 decreased $18.4 million, or 16.4%, to $93.9 million compared with $112.3 million in the second quarter of 2016. The decrease is primarily attributable to a sales volume decline period over period attributable to a decline in demand for the Company’s solid fuel power generation and natural gas turbine exhaust systems within the Company’s Energy segment and a decline in demand for the Company’s duct work and related equipment, and refinery related products within the Company’s Environmental segment. These declines were offset by increased sales in the Company’s Fluid Handling & Filtration segment.

Consolidated net sales for the first six months of 2017 decreased $28.9, or 13.4%, to $186.5 million compared with $215.4 million in the first six months of 2016. The decrease is primarily attributable to a sales volume decline period over period attributable to a decline in demand for the Company’s solid fuel power generation, natural gas turbine exhaust systems within the Company’s Energy segment and a decline in demand for the Company’s regenerative thermal oxidizers, and refinery related products within the

Company's Environmental segment. These declines were offset by increased sales in the Company's Fluid Handling & Filtration segment.

Gross profit decreased $5.4 million, or 15.9%, to $28.5 million in the second quarter of 2017 compared with $33.9 million in the same period of 2016. The lower gross profit was primarily attributable to a sales volume decline period over period. Gross profit as a percentage of sales was 30.4% in the second quarter of 2017 compared with 30.2% in the second quarter of 2016. The higher gross profit margin in the second quarter of 2017 was primarily due to a more favorable project mix during this period. This increase was partially offset by the Company incurring $1.6 million in warranty expense and $1.8 million in legacy design repairs during the second quarter of 2017, compared to warranty expense of $0.2 million in the second quarter of 2016. The increase in warranty expense is primarily attributable to a superseded product design issue. The Company believes that all corrections related to this issue have been satisfactorily addressed. The increase in legacy design repairs is primarily attributable to specific issues on certain past projects. With respect to the legacy design repairs, the Company believes that we have expensed and accrued for our expectation of total costs. Until the Company has satisfactorily assessed all repairs, the possibility of future risk exists.

Gross profit decreased $5.1 million, or 7.8%, to $60.4 million in the first six months of 2017 compared with $65.5 million in the same period of 2016. The lower gross profit was primarily attributable to a sales volume decline period over period. Gross profit as a percentage of sales was 32.4% in the first six months of 2017 compared with 30.4% in the first six months of 2016. The higher gross profit margin in the first six months of 2017 was primarily due to a more favorable project mix during this period. This increase was partially offset by the Company incurring $2.4 million in warranty expense and $2.0 million in legacy design repairs during the first six months of 2017, compared to warranty expense of $0.3 million during the first six months of 2016. The increase in warranty expense is primarily attributable to a superseded product design issue. The increase in legacy design repairs is primarily attributable to specific issues on certain past projects.

Orders booked were $87.2 million during the second quarter of 2017 and $171.2 million during the first six months of 2017 as compared with $108.8 million during the second quarter of 2016 and $228.9 million during the first six months of 2016. The decrease is primarily attributable to lower bookings by the Energy and Environmental Segment that is partially attributable to lower near term demand for natural gas turbine exhaust systems and solid fuel power generation equipment, as well as a reduction in refinery related capital expenditures impacting the Company's bookings related to cyclone products.

Selling and administrative expenses increased $1.4 million to $21.4 million for the second quarter of 2017 compared with $20.0 million for the second quarter of 2016. Additionally, selling and administrative expenses increased as a percentage of sales from 17.8% in the second quarter of 2016 compared to 22.8% in the second quarter of 2017. The increase is primarily attributable to the Company recording a gain of $1.0 million during the second quarter of 2016 related to a life insurance settlement and the Company recording $0.4 million of executive transition expenses during the second quarter of 2017.

Selling and administrative expenses increased $3.6 million to $44.7 million for the first six months of 2017 compared with $41.1 for the first six months of 2016. Additionally, Selling and administrative expenses increased as a percentage of sales from 19.1% in the first six months of 2016 compared to 24.0% in the first six months of 2017. The increase is primarily attributable to executive transition expenses related to the Company's transition and search for a new Chief Executive Officer which occurred during the first and second quarters of 2017 of $1.3 million, facility exit expenses of $0.2 million, additional investments in selling and finance personnel incurred in 2017 and the Company recording a gain on a life insurance settlement of $1.0 million during the first six months of 2016.

Acquisition and integration expenses were zero and $0.4 million during the second quarter of 2017 and 2016, respectively, and zero and $0.4 million during the first six months of 2017 and 2016, respectively. The acquisition and integration expenses in 2016 were related to the PMFG, Inc. ("PMFG") acquisition which occurred during the third quarter of 2015.

Amortization and earn-out expense (income) was $(2.2) million for the second quarter of 2017 compared with $4.9 million for the second quarter of 2016. The decrease in expense was primarily attributable to earn-out adjustments resulting in income of $5.7 million in the second quarter of 2017 related to the acquisition of Zhongli Industrial Technology Co. Ltd. ("Zhongli Acquisition") in the fourth quarter of 2014 due to lower than expected operational profit in 2017. Included in the second quarter of 2016 expense was $0.7 million of expense related to the fair value adjustment of the Zhongli Acquisition earn-out during the period due to higher than expected operational profit at Zhongli after the acquisition.

Amortization and earn-out expense (income) was $5.1 million for the first six months of 2017 compared with $9.7 million for the first six months of 2016. The decrease in expense was primarily attributable to earn-out adjustments resulting in income of $1.8 million in the first six months of 2017 for the Zhongli Acquisition due to lower than expected operational profit in 2017. Included in the first six months of 2016 expense was $1.5 million related to the fair value adjustment of the Zhongli Acquisition earn-out during this period due to higher than expected operational profit at Zhongli after the acquisition. The decrease was also partially attributable to decreased amortization expense of $1.9 million period over period due to certain intangible assets becoming fully amortized.

Operating income increased $0.7 million to $9.3 million in the second quarter of 2017 compared with $8.6 million of income during the second quarter of 2016.  The increase is primarily attributable to higher gross profit margins, lower acquisition and integration expenses, and lower amortization and earn-out expenses offset by a decrease in gross profit due to decreased sales during the second quarter of 2017.

Operating income decreased $3.8 million to $10.6 million in the first six months of 2017 compared with $14.4 million during the first six months of 2016.  The decrease is primarily due to increased selling and administrative expenses and decreased gross profit primarily attributable to decreased sales during the first six months of 2017 offset by decreased amortization and earn-out expenses and lower acquisition and integration expenses.

Non-GAAP operating income was $9.4 million for the second quarter of 2017 compared with $13.0 million for the second quarter of 2016.  The decrease is primarily due to increased selling and administrative expenses as described above and the impact of a lower volume of sales, which led to a decrease in gross profit.  Non-GAAP operating income as a percentage of sales decreased to 10.0% for the second quarter of 2017 from 11.6% for the second quarter of 2016.

Non-GAAP operating income was $19.5 million for the first six months of 2017 compared with $23.9 million for the first six months of 2016.  The decrease is primarily due to increased selling and administrative expenses as described above and the impact of a lower volume of sales, which led to a decrease in gross profit.  Non-GAAP operating income as a percentage of sales decreased to 10.5% for the first six months of 2017 from 11.1% for the first six months of 2016.

Other income/expense, net was $0.4 million of income in the second quarter of 2017 compared with $0.4 million of expense in the second quarter of 2016.  During the second quarter of 2017, the net amount was due to $1.2 million of income from the impact of the strengthening of the Euro on an intercompany loan with a foreign subsidiary, offset by net foreign currency exchange losses from normal business operations of $0.8 million.  During the second quarter of 2016, the net $0.4 million of expense was due primarily to $0.5 million of expense from the impact of the weakening of the Euro on an intercompany loan with a foreign subsidiary, which was offset by net foreign currency exchange gains from normal business operations of $0.1 million.

Other income/expense, net was $0.3 million of income in the first six months of 2017 compared with $0.4 million of income in the first six months of 2016.  During the first six months of 2017, the net $0.3 million of income was due to $1.5 million of income from the impact of the strengthening of the Euro on an intercompany loan with a foreign subsidiary, offset by net foreign currency exchange losses from normal business operations of $1.2 million.  During the first six months of 2016, the net $0.4 million of income was due to $0.4 million of income from the effect of the strengthening of the Euro on an intercompany loan with a foreign subsidiary, and net foreign currency exchange gains from normal business operations of $0.5 million, partially offset by a $0.5 million loss on our interest rate swap prior to being designated as an effective hedge.

Interest expense decreased to $1.6 million in the second quarter of 2017 from $2.0 million in the second quarter of 2016. The decrease is due to debt repayments made throughout 2016 that decreased the amount of outstanding debt in 2017.

Interest expense decreased to $3.4 million in the first six months of 2017 from $4.1 million in the first six months of 2016.  The decrease is due to debt repayments made throughout 2016 that decreased the amount of outstanding debt in 2017.

Income tax expense was $2.5 million for the second quarter of 2017 compared with $2.1 million for the same quarter of 2016. The effective income tax rate for the second quarter of 2017 was 31.2% compared with 34.7% for the comparable period of 2016.  Income tax expense was $2.0 million for the first six months of 2017 compared with $3.6 million for the same period of 2016.  The effective income tax rate for the first six months of 2017 was 26.3% compared with 33.5% for the comparable period of 2016.  This rate change for the three and six month periods is due primarily to changes in income before taxes, discrete tax benefits of $0.4 million in the first six months of 2017 related to stock compensation, and a decrease in permanent differences related to non-deductible acquisition and earn-out expenses.  Our effective tax rate is affected by certain permanent differences, including non-deductible incentive stock-based compensation and earn-out expenses, and decreased tax rates in certain foreign jurisdictions.

***Business Segments***

The Company's operations are organized and reviewed by management along its product lines or end market that the segment serves and are presented in three reportable segments. The results of the segments are reviewed through to the "Income from operations" line on the unaudited Condensed Consolidated Statements of Operations.

| (dollars in thousands) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Net Sales (less intra-, inter-segment sales)** | | | | |
| Energy Segment | $ 37,416 | $ 52,867 | $ 78,499 | $ 100,799 |
| Environmental Segment | 37,879 | 44,211 | 73,808 | 83,333 |
| Fluid Handling and Filtration Segment | 18,348 | 15,413 | 34,164 | 32,008 |
| Corporate and Other[1] | 227 | (233) | 50 | (707) |
| **Net sales** | $ 93,870 | $ 112,258 | $ 186,521 | $ 215,433 |

(1) Includes adjustment for revenue on intercompany jobs.

| (dollars in thousands) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Income from Operations** | | | | |
| Energy Segment | $ 7,528 | $ 6,367 | $ 9,141 | $ 11,563 |
| Environmental Segment | 4,777 | 6,119 | 9,886 | 10,865 |
| Fluid Handling and Filtration Segment | 4,148 | 3,200 | 7,457 | 6,398 |
| Corporate and Other[2] | (6,769) | (6,618) | (14,780) | (13,537) |
| Eliminations | (429) | (507) | (1,099) | (921) |
| Income from operations | $ 9,255 | $ 8,561 | $ 10,605 | $ 14,368 |

(2) Includes corporate compensation, professional services, information technology, acquisition and integration expenses, and other general and administrative corporate expenses / income. This figure excludes earn-out expenses / income, which are recorded in the segment in which the expense / income occurs. See Note 7 for the earn-out expenses / income by segment.

*Energy Segment*

Our Energy Segment net sales decreased $15.5 million to $37.4 million in the second quarter of 2017 compared with $52.9 million in the same period of 2016. The decrease is due primarily to sales volume decreases for our products and services within Europe and Asia primarily due to a decline in the Company's natural gas turbine exhaust systems related products and services and solid fuel power generation period over period. The decrease is primarily attributable to a temporary weakening of the solid fuel power generation market in China and a temporary weakening in the gas turbine powered market due to over capacity.

Our Energy Segment net sales decreased $22.3 million to $78.5 million in the first six months of 2017 compared with $100.8 million in the same period of 2016. The decrease is due primarily to sales volume decreases for our products and services within Europe and Asia primarily due to a decline in the Company's natural gas turbine exhaust systems related products and services and solid fuel power generation period over period. The decrease is primarily attributable to a temporary weakening of the solid fuel power generation market in China and a temporary weakening in the gas turbine powered market due to over-capacity.

Operating income for the Energy Segment increased $1.1 million to $7.5 million in the second quarter of 2017 compared with $6.4 million of income in the second quarter of 2016. Operating income in the second quarter 2017 and 2016 included $5.7 million of income and $0.7 million of expense, respectively, related to the fair value adjustment of the Zhongli Acquisition earn-out during these periods due to changes in operational profit from amounts previously forecasted. The decrease in operating income excluding the earn-out adjustment was primarily due to the Energy Segment incurring $1.5 million in warranty expense and $1.8 million in legacy design repairs during the second quarter of 2017, compared to warranty expense of $0.2 million in the second quarter of 2016. The increase in warranty expense is primarily attributable to a superseded product design issue. The increase in legacy design repairs is primarily attributable to specific issues on certain past projects. The decrease in operating income was also partially attributable to lower gross profit on decreased sales.

Operating income for the Energy Segment decreased $2.4 million to $9.1 million in the first six months of 2017 compared with $11.6 million in operating income in the same period of 2016. Operating income in the first six months of 2017 and 2016 income included $1.8 million of income and $1.5 million of expense, respectively, related to the fair value adjustment of the Zhongli earn-out during these periods. The decrease in operating income excluding the earn-out adjustment was primarily due to the Energy Segment incurring $2.3 million in warranty expense and $2.0 million in legacy design repairs during the first six months of 2017, compared to warranty expense of $0.2 million during the first six months of 2016. The increase in warranty expense is primarily attributable to a superseded product design issue. The increase in legacy design repairs is primarily attributable to specific issues on certain past projects. The decrease in operating income was also partially attributable to lower gross profit on decreased sales.

*Environmental Segment*

Our Environmental Segment net sales decreased $6.3 million to $37.9 million in the second quarter of 2017 compared with $44.2 million in the same period of 2016. The decrease is due primarily to volume decreases for the Company's refinery related products and services as well as decreases in volume related to the installation and fabrication of duct work and related equipment period over period. The decrease is primarily attributable to a cyclical deferral of maintenance and capital expenditures by the Company's customers in refinery related end markets.

Our Environmental Segment net sales decreased $9.5 million to $73.8 million in the first six months of 2017 compared with $83.3 million in the same period of 2016. The decrease is due primarily to volume decreases for the Company's refinery related products and services as well as decreases in the volume of the Company's regenerative thermal oxidizers sold period over period. The decrease is primarily attributable to a cyclical deferral of maintenance and capital expenditures by the Company's customers in refinery related end markets.

Operating income for the Environmental Segment decreased $1.3 million to $4.8 million in the second quarter of 2017 from $6.1 million in the same period of 2016. This decrease was primarily due to the Environmental Segment achieving lower gross profit on decreased sales volumes as well as increases in selling and administrative expenses during the second quarter of 2017.

Operating income for the Environmental Segment decreased $1.0 million to $9.9 million in the first six months of 2017 from $10.9 million in the same period of 2016. This decrease was primarily due to the Environmental Segment achieving lower gross profit on decreased sales volumes as well as increases in selling and administrative expenses during the first six months of 2017.

*Fluid Handling and Filtration Segment*

Our FHF Segment net sales increased $2.9 million to $18.3 million in the second quarter of 2017 compared with $15.4 million in the same period of 2016. The increase is due to a sales volume increase within the segment period over period, which is primarily attributable to increased international sales and a strengthening of the FHF Segment's North American Industrial Market in the second quarter of 2017.

Our FHF Segment net sales increased $2.2 million to $34.2 million in the first six months of 2017 compared with $32.0 million in the first six months of 2016. The increase is due to a sales volume increase within the segment period over period, which is primarily attributable to increased international sales and a strengthening of the FHF Segment's North American Industrial Market in the first six months of 2017.

Operating income for FHF increased $0.9 million to $4.1 million in the second quarter of 2017 compared with $3.2 million in the second quarter of 2016. The increase is due primarily to the sales volume increase described above.

Operating income for FHF increased $1.1 million to $7.5 million in the first six months of 2017 compared with $6.4 million in the same period of 2016. The increase is due primarily to the sales volume increase described above.

*Corporate and Other Segment*

Operating expense for Corporate and Other Segment increased $0.2 million to $6.8 million in the second quarter of 2017 compared with $6.6 million in the same period of 2016. The increase in the loss period over period is primarily attributable to the recording of a gain of $1.0 million during the second quarter of 2016 related to a life insurance settlement, which decreased the operating loss in the second quarter of 2016. This increase in the loss is offset by decreased incentive compensation expenses of $0.4 million primarily attributable to decreased operating performance and decreased professional services expenses of $0.4 million during the second quarter of 2017.

Operating expense for Corporate and Other Segment increased $1.3 million to $14.8 million in the first six months of 2017 compared with a $13.5 million loss in the same period of 2016. The increase in the loss period over period is primarily attributable to the increase in executive transition expenses of $1.3 million during the first six months of 2017.

**Backlog**

Backlog is a representation of the amount of revenue expected from complete performance of firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next twelve-month to eighteen-month period. Our customers may have the right to cancel a given order. Our backlog as of June 30, 2017, was $167.9 million compared with $197.0 million as of December 31, 2016. During the second quarter of 2017, the Company removed $9.7 million of orders that were previously disclosed as backlog in prior quarters, which were idle due to inactivity by the customer. Backlog is not defined by GAAP and our methodology for calculating backlog may not be consistent with methodologies used by other companies. There can be no assurances that backlog will be replicated, increased or translated into higher revenues in the future. The success of our business depends on a multitude of factors related to our backlog and the orders secured during the subsequent periods. Certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability.

**New Accounting Pronouncements**

For information regarding recent accounting pronouncements, see Note 2 to the unaudited condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q.

**Liquidity and Capital Resources**

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

The Company considers its level of cash on hand, borrowing capacity, current ratio and working capital levels to be its most important measures of short-term liquidity. For long-term liquidity indicators, the Company believes its ratio of long-term debt to equity and its historical levels of net cash flows from operating activities to be the most important measures.

At June 30, 2017, the Company had working capital of $60.6 million, compared with $66.6 million at December 31, 2016. The ratio of current assets to current liabilities was 1.51 to 1 as compared with a ratio of 1.46 to 1 at December 31, 2016. The $6.0 million decrease in working capital from December 31, 2016 to June 30, 2017 was primarily related to the net effect of decreased cash and cash equivalents ($18.7 million) and a decrease in accounts receivable ($16.9 million), offset by a decrease in billing in excess of costs and estimated earnings on uncompleted contracts ($11.5 million), a decrease in accounts payable and accrued expenses ($14.0 million), an increase in costs and estimated earnings in excess of billings on uncompleted contracts ($2.7 million), and a decrease in the current portion of debt ($1.1 million). During the six months ended June 30, 2017, the Company made a prepayment of $4.3 million on the outstanding balance of the term loan, of which $3.0 million was applied to the long-term portion of the debt balance, which caused a reduction in working capital. Total repayments of term loan debt during the six months ended June 30, 2017 was $7.7 million. The Company has a strategy of aggressively managing working capital, including reduction of the accounts receivable days sales outstanding (DSO), and reduction of inventory levels, without reducing service to its customers.

At June 30, 2017 and December 31, 2016, cash and cash equivalents totaled $27.2 million and $45.8 million, respectively. As of June 30, 2017 and December 31, 2016, $15.0 million and $25.6 million, respectively, of our cash and cash equivalents were held by certain non-U.S. subsidiaries, as well as being denominated in foreign currencies.

Debt consisted of the following at June 30, 2017 and December 31, 2016:

*Credit Agreement*

| *(Table only in thousands)* | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Outstanding borrowings under Credit Facility (defined in the paragraph below). Term loan payable in quarterly principal installments of $1.5 million through September 2017, $2.0 million through September 2018, and $2.5 million thereafter with balance due upon maturity in September 2020. | | |
| - Term loan | $ 117,415 | $ 125,072 |
| - Unamortized debt discount and debt issuance costs | (2,841) | (3,175) |
| Total outstanding borrowings under Credit Facility | 114,574 | 121,897 |
| Outstanding borrowings (U.S. dollar equivalent) under China Facility | — | 1,296 |
| Outstanding borrowings (U.S. dollar equivalent) under Aarding Facility | 213 | — |
| Total outstanding borrowings | 114,787 | 123,193 |
| Less: current portion | 7,742 | 8,827 |
| Total debt, less current portion | $ 107,045 | $ 114,366 |

The Company's outstanding borrowings in the United States consist of senior secured term loan, senior secured US. Dollar revolving loans with sub-facilities for letters of credit and swing-line loans and senior secured multi-currency revolving credit facility for U.S. dollar and specific foreign currency loans (collectively, the "Credit Facility"). As of June 30, 2017 and December 31, 2016, the Company was in compliance with all related financial and other restrictive covenants under the Credit Facility.

See Note 8 to the condensed consolidated financial statements for further information regarding the Company's outstanding debt.

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

| (dollars in millions) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Credit Facility, U.S. Dollar revolving loans | $ 60.5 | $ 60.5 |
| Draw down | — | — |
| Letters of credit open | (20.7) | (18.0) |
| Credit Facility, Multi-currency revolving facilities | 19.5 | 19.5 |
| Draw down | — | — |
| Netherlands facilities (€13.0 million at June 30, 2017 and December 31, 2016 in U.S. Dollar equivalent) | 14.9 | 13.7 |
| Draw down | (0.2) | — |
| Letters of credit open | (4.7) | (5.3) |
| China facility | 4.4 | 4.3 |
| Draw down | — | (1.3) |
| Total unused credit availability | $ 73.7 | $ 73.4 |
| Amount available based on borrowing limitations | $ 53.7 | $ 71.1 |

**Overview of Cash Flows and Liquidity**

| | For the six months ended June 30, | |
|---|---|---|
| (dollars in thousands) | 2017 | 2016 |
| Net cash provided by operating activities | $ 1,675 | $ 44,070 |
| Net cash used in investing activities | (597) | (261) |
| Net cash used in financing activities | (20,208) | (20,667) |
| Effect of exchange rate changes on cash and cash equivalents | 472 | (730) |
| Net (decrease) increase in cash | $ (18,658) | $ 22,412 |

For the six months ended June 30, 2017, $1.7 million of cash was provided by operating activities compared with $44.1 million provided by operating activities in the prior-year period. The $42.4 million decrease in cash flow from operating activities was partially due to a decrease in net income of $1.6 million, a decrease in expense of the fair value adjustments to earnout liabilities of $2.8 million, and a decrease in cash flow due to payments of earnouts classified as operating activities of $7.8 million. Additionally, there were unfavorable net working capital items in the first six months of 2017 compared with the same period in 2016. The incremental cash used was comprised of $4.9 million in inventories, $23.0 million in billings in excess of costs and estimated earnings on uncompleted contracts, $2.9 million in costs and estimated earnings in excess of billings on uncompleted contracts, and $4.4 million in accounts payable and accrued expenses. These unfavorable decreases in cash were partially offset by the incremental cash provided from $2.7 million in accounts receivable, and $5.6 million in prepaid expenses and other current assets.

For the six months ended June 30, 2017, net cash used in investing activities was $0.6 million compared with net cash used in investing activities of $0.3 million in the prior-year period. In the current year period, cash used in investing activities was primarily the result of cash used for the acquisitions of property and equipment totaling $0.6 million. In the prior-year period, cash used in investing activities was primarily the result of cash used for additions to property and equipment of $0.6 million offset by the proceeds from sales of property and equipment, including assets held for sale, totaling $0.3 million.

For the six months ended June 30, 2017, net cash used in financing activities was $20.2 million due principally to net term loan repayments of $7.7 million, net payments on revolving credit facilities of $1.1 million, earn-out payments classified as financing activities of $7.4 million, and $5.2 million in dividends paid to common stockholders, which was partially offset by proceeds from the employee stock purchase plan, exercise of stock options and dividend reinvestment plan of $1.2 million. In the prior-year period, net cash used in financing activities was $20.7 million due principally to term loan repayments of $16.2 million, net payments on revolving credit facilities of $9.2 million, earnout payments classified as operating activities of $2.3 million and $4.5 million in dividends paid to common stockholders, which was partially offset by proceeds from sale-leaseback transactions of $11.0 million.

Our dividend policy and the payment of cash dividends under that policy are subject to the Board of Directors' continuing determination that the dividend policy and the declaration of dividends are in the best interest of the Company's stockholders. Future dividends and the dividend policy may be changed or cancelled at the Company's discretion at any time. Payment of dividends is also subject to the continuing compliance with the financial covenants under our Credit Facility.

When we undertake large jobs, our working capital objective is to make these projects self-funding. We work to achieve this by obtaining initial down payments, progress billing contracts, when possible, utilizing extended payment terms from material suppliers, and paying sub-contractors after payment from our customers, which is an industry practice. Our investment in net working capital is funded by cash flow from operations and by our revolving line of credit.

**Critical Accounting Policies and Estimates**

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's condensed consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. Such estimates include revenue recognition, the valuation of trade receivables, inventories, goodwill, intangible assets, other long-lived assets, legal contingencies, earnout liabilities, guarantee obligations and assumptions used in the calculation of income taxes, assumptions used in business combination accounting and related balances, and pension and post-retirement benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors. Management monitors the economic conditions and other factors and will adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Management believes there have been no significant changes during the three-month and six-month periods ended June 30, 2017 to the items that the Company disclosed as its critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**Forward-Looking Statements**

This Quarterly Report on 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 Quarterly Report on 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. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. Potential risks, among others, that could cause actual results to differ materially are discussed under "Part I – Item 1A. Risk Factors" of the Company's

Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and include, but are not limited to: liabilities arising from faulty services or products that could result in significant professional or product liability, warranty, or other claims; our ability to successfully integrate acquired businesses and realize the synergies from acquisitions, as well as a number of factors related to our business, including economic and financial market conditions generally and economic conditions in CECO's service areas; dependence on fixed price contracts and the risks associated therewith, including actual costs exceeding estimates and method of accounting for contract revenue; fluctuations in operating results from period to period due to cyclicality or seasonality of the business; the effect of growth on CECO's infrastructure, resources, and existing sales; the ability to expand operations in both new and existing markets; the potential for contract delay or cancellation; changes in or developments with respect to any litigation or investigation; failure to meet timely completion or performance standards that could result in higher cost and reduced profits or, in some cases, losses on projects; the potential for fluctuations in prices for manufactured components and raw materials; the substantial amount of debt incurred in connection with our acquisitions and our ability to repay or refinance it or incur additional debt in the future; the impact of federal, state or local government regulations; economic and political conditions generally; and the effect of competition in the environmental, energy and fluid handling and filtration industries. Many of these risks are beyond management's ability to control or predict. Should one or more of these risks or uncertainties materialize, or should the assumptions prove incorrect, actual results may vary in material aspects from those currently anticipated. Investors are cautioned not to place undue reliance on such forward-looking statements as they speak only to our views as of the date the statement is made. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the SEC, we undertake no obligation to update or review any forward-looking statements, whether as a result of new information, future events or otherwise.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks, primarily changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. For the Company, these exposures are primarily related to changes in interest rates. We do not currently hold any derivatives or other financial instruments purely for trading or speculative purposes. However, we do have an interest rate swap in place as of June 30, 2017 to hedge against a portion of our interest rate exposure related to debt indexed to LIBOR market rates. See Note 8 to the condensed consolidated financial statements for further information on this interest rate swap.

The carrying value of the Company's long-term debt and current maturities of long-term debt was $114.8 million at June 30, 2017. Market risk was estimated as the potential decrease (increase) in future earnings and cash flows resulting from hypothetical 10% increase (decrease) in the Company's estimated weighted average borrowing rate at June 30, 2017. Most of the interest on the Company's debt is indexed to either the LIBOR or EURIBOR market rates. The estimated impact of a hypothetical 10% change in the estimated weighted average borrowing rate, excluding the portion of debt which has an interest rate fixed by the interest rate swap described above, at June 30, 2017 is $0.3 million on an annual basis.

The Company has wholly-owned subsidiaries located in the Netherlands, Canada, the People's Republic of China, Mexico, United Kingdom, Singapore, and Chile. In the past, we have not hedged our foreign currency exposure, and fluctuations in exchange rates have not materially affected our operating results. Future changes in exchange rates may positively or negatively impact our revenues, operating expenses and earnings.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2017. Management believes that the condensed consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for each of the periods presented in this report.

### Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the fiscal quarter ended June 30, 2017, that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Information with respect to legal proceedings can be found in Note 14 “Commitments and Contingencies – Legal Matters” to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ITEM 1A. RISK FACTORS

There have been no material changes in the Company’s risk factors that we disclosed in “Part I – Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

| | |
|---|---|
| 3.1 | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the SEC on June 12, 2017 (File No. 000-07099)). |
| 10.1 | Amendment No. 2 to Amended and Restated Credit Agreement |
| 10.2 | Form of Incentive Stock Option Agreement |
| 10.3 | Form of Nonqualified Stock Option Agreement |
| 10.4 | Form of Restricted Stock Units Agreement for Directors |
| 10.5 | Form of Restricted Stock Units Agreement for Employees |
| 10.6 | Executive Employment Agreement, dated as of June 10, 2017, between the Company and Dennis Sadlowski (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 12, 2017 (File No. 000-07099)). |
| 10.7 | CECO Environmental Corp. 2017 Equity and Incentive Compensation Plan (incorporated herein by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 filed on May 16, 2017 (Registration No. 333-218030)). |
| 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) |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

## SIGNATURES

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.

By: /s/ Matthew Eckl

**Matthew Eckl**

**Chief Financial Officer and Secretary**

Date: August 9, 2017