# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Form: 10-K

## Date Filed: 2011-03-15

Corporate Issuer CIK: 3197

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# U.S. SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C.20549**

# FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010**

**or**

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

**Commission File No. 0-7099**

# CECO ENVIRONMENTAL CORP.

**(Exact Name of Registrant as Specified in Its Charter)**

| **Delaware** | **13-2566064** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **4625 Red Bank Road Cincinnati, Ohio** | **45227** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

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

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

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

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

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

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

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

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

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

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller reporting company x
(Do not check if smaller reporting company)

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

Aggregate market value of common stock held by non-affiliates of Registrant computed based on the closing sale price as of the last business day of Registrant's most recently completed second fiscal quarter (June 30, 2010): $39,363,699. Assumes for this purpose that affiliates include officers, directors and each person known by the registrant to own 10% or more of the outstanding common stock. Exclusion of shares should not be construed to indicated that the holder of such shares possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such holder is controlled by or under common control with the registrant.

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: 14,330,306

shares of common stock, par value $0.01 per share, as of March 1, 2011.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2011 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III.

**FORM 10-K**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the 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 Annual Report on Form 10-K are forward-looking. We use words such as believe, expect, anticipate, intends, estimate, forecast, project, should and similar expressions to identify forward-looking statements. Forward-looking statements are based on management's current expectations of our near-term results, based on current information available pertaining to us and are inherently uncertain. We wish to caution investors that any forward-looking statements made by or on our behalf are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to: the affect of the unfavorable global, national and local economic conditions on our customers and our businesses, the changing political conditions in the United States and other countries, governmental laws and regulations surrounding various matters such as environmental remediation, contract pricing, international trading restrictions, customer product acceptance, and continued access to capital markets, and foreign currency risks. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management's expectations, are described in greater detail in Item 1A, "Risk Factors," which describes some, but not all, of the factors that could cause actual results to differ significantly from management's expectations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements we make, whether as a result of new information, future events, or otherwise.

## PART I

### Item 1. *Business*

*General*

CECO Environmental Corp. was incorporated in New York State in 1966 and reincorporated in Delaware in January 2002. We operate as a provider of air pollution control products and services through four principal product groups: our Contracting/Services Group, which produces air pollution control and industrial ventilation systems, our Engineered Equipment and Parts Group, which produces various types of air pollution control equipment, our Component Parts Group, which manufactures products used by us and other air pollution control companies and contractors, and our Engineering Group, which provides industrial ventilation engineering and source emission testing services. It is through combining the efforts of some or all of these groups that we are able to offer complete turnkey systems to our customers and leverage the operational efficiencies between our family of companies.

Unless the context indicates otherwise, the terms “CECO,” “Company,” “we,” “us,” and “our,” as used herein refer to CECO Environmental Corp. and its subsidiaries.

Our business is characterized by the breadth and diversity of our product and service offerings, customer base, and end market applications. We market our products and services under multiple brands, including “Kirk & Blum,” “kbd/Technic,” “CECO Filters,” “Busch International,” “CECO Abatement Systems,” “K&B Duct,” “Effox,” “Fisher-Klosterman,” “Buell,” “A.V.C.,” “FKI,” and “Flextor,” to multiple end markets, a broad group of customers and for a wide range of applications.

We have created a family of companies, each playing a specialized role in the creation of clean air solutions. In December 1999, we acquired Kirk & Blum, one of the largest sheet metal fabricators in the country. This major acquisition significantly changed our focus and capabilities by transforming the Company from a manufacturing operation to a full-service product, engineering and design service provider of air pollution control solutions. We have built upon this end-to-end platform strategy by broadening our offerings through both acquisitions and the creation of new service offerings. Other important organizational developments include the following:

- Acquired the assets of Effox, Inc., (“Effox”) a leading producer of dampers and expansion joints, in February 2007 to continue the execution of our “horizontal integration” strategy, broadening our exposure to the multibillion-dollar energy, power and utility markets.
- Acquired in February 2008, the assets of Fisher-Klosterman, Inc., (“FKI”), which produces air pollution and particulate recovery products in the fields of petroleum refinery, power production, petrochemicals, and manufacturing. The acquisition also expands our operations into China with FKI’s 30,000 square foot facility in Shanghai, China.
- Acquired in August 2008, Flextor, Inc., (“Flextor”), of Montreal, Canada. Flextor, like Effox, is a producer of dampers and expansion joints. The addition of Flextor gives us a greater international presence in that market, especially in Latin America.
- Acquired in August 2008, the assets of A.V.C. Specialists, (“A.V.C.”). A.V.C. produces replacement parts for electrostatic precipitators. Their primary markets are the refining and power industries. A.V.C.’s operations fit well as a division of FKI.

*Competitive Strengths*

*Leading Market Position as a Complete Solution Provider.* We believe we are the leading provider of complete turnkey solutions to the air pollution control and industrial ventilation industry and one of the largest and most diversified turnkey solutions providers in North America. The multibillion-dollar global air pollution control market is highly fragmented with numerous small and regional contracting firms separately supplying

engineering services, fabrication, installation, testing and monitoring, products and spare parts. Through the vertical integration of our family of companies we offer our customers a complete end-to-end solution from engineering and project management services to procurement and fabrication to construction and installation to aftermarket support and sale of consumables, which allows them to avoid dealing with multiple vendors when managing projects.

*Long standing experience and customer relationships in growing industry.*We have serviced the environmental needs of the industrial workplace for over 100 years and we believe our extensive experience and expertise in providing a turnkey solution for the air pollution control and industrial ventilation industry further enhances our overall customer relationships and provides us a competitive advantage in our markets relative to other companies in the industry. We believe this is evidenced by our strong customer relationships with blue chip customers. We believe that no single competitor has the resources to offer a similar portfolio of product and service capabilities. Our family of companies offers the depth of a large organization while our lean organizational structure keeps us close to our customers and markets, allowing us to offer fast responses to each unique situation.

*Global Diversification and Broad Customer Base.* The global diversity of our operations and customer base provides us with multiple growth opportunities. As of December 31, 2010, we had a diversified customer base of more than 3,000 active customers across a range of industries. Our customers represent some of the largest aerospace, automotive, refining, chemical, foundry, ethanol, power and metals companies, including General Motors Corporation, The Procter & Gamble Company, Nissan Motor Co., Ltd., Houston Refining, Ecopetrol, Toyota North America, Inc., The Babcock & Wilcox Company, Alcoa, Inc., Valero, Alstom, Matheson Tri-Gas, Exxon, Allegheny Steel, and Vale. In addition, we believe that the diversity of our customers and end markets mitigates our risk of a potential fluctuation or downturn in demand from any individual industry or particular client. We believe we have the resources and capabilities to meet the operating needs of our customers as they upgrade and expand domestically as well as into new international markets. Once systems have been installed and a relationship has been established with the customer, we often win repetitive service and maintenance business as the customers' processes change and modifications or additions to systems become necessary.

*Experienced Management and Engineering Team.* Our senior management team has an average of approximately 23 years of experience in the air pollution control and industrial ventilation industry. In addition, in February 2010, we hired a new Chief Executive Officer, Jeff Lang, who has more than 30 years of executive operating management experience. The business experience of our management team creates a strong skill set for the successful execution of our strategy. Our senior management team is supported by a strong operating management team, which possesses extensive operational and managerial experience, averaging over 20 years of industry experience, most of which has been with CECO Environmental and our family of companies. Our workforce includes approximately 106 engineers, designers, and project managers whose significant specialized industry experience and technical expertise enables them to have a deep understanding of the solutions that will best suit the needs of our customers. The experience and stability of our management, operating and engineering team has been crucial to our growth, developing and maintaining customer relationships and increasing our market share.

*Disciplined Acquisition Program with Successful Integration.*We believe that we have demonstrated an ability to successfully acquire and integrate air pollution control and industrial ventilation companies with complementary product or service offerings into our family of companies. In February 2007, we acquired Effox, Inc., which has granted us access to the multi-billion dollar energy, power and utility markets. More recently, in February 2008, we acquired FKI, which we believe has given us expanded access to the petroleum and power industries and gives us a manufacturing presence in China. In August 2008, we acquired Flextor which added an international scope to Effox's business. In that same month we also acquired A.V.C., which added more parts capability to FKI. We believe that the breadth and diversity of our products and services and our ability to deliver a turnkey solution to various end markets provides us with multiple sources of stable growth and a competitive advantage relative to other players in the industry.

*Industry Overview*

We serve a large industry that has grown steadily over the last several years. The market for air pollution control and industrial ventilation products is a multi-billion dollar market that has grown rapidly and is highly fragmented. Today, more so than ever, people demand to live in a world of clean air and water and an environment that is free of industrial pollutants.

We believe demand for air pollution control and industrial ventilation products in the U.S. and globally has recently and will continue to be driven by several key factors:

- *Favorable Regulatory Environment.* The adoption of increasingly stringent environmental regulations in the U.S. and globally forces businesses to pay strict attention to environmental protection. Businesses and industries of all types—from aerospace, brick, cement, ceramics, and metalworking to ethanol, automobile, food, foundries, power plants, woodworking, printing, tobacco and pharmaceuticals—must comply with these various international, federal, state and local government environmental regulations or potentially face substantial fines or be forced to suspend production or alter their production processes. Regulations range from the air quality standards promulgated by the Environmental Protection Agency ("EPA") to Occupational Safety and Health Administrative Agency ("OSHA") standards regulating allowable contaminants in workplace environments.

  Increasingly stringent air quality standards and the need for improved industrial workplace environments are chief among the factors that drive our business. Some of the underlying federal legislation that affects air quality standards are the Clean Air Act of 1970 and the Occupational Safety and Health Act of 1970. The EPA and OSHA, as well as other state and local agencies, administer air quality standards. Industrial air quality has been improving through EPA mandated Maximum Achievable Control Technology standards and OSHA established Threshold Limit Values for more than 1,000 industrial contaminants. Any of these factors, individually or collectively, tend to cause increases in industrial capital spending that are not directly impacted by general economic conditions, expansion or capacity increases. Favorable conditions in the economy generally lead to plant expansions and the construction of new industrial sites. However, in a weak economy customers tend to lengthen the time from their initial inquiry to the purchase order or defer purchases.

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

*Recent Company Developments*

During 2010, our operational efficiency and profitability improved significantly due to streamlining and consolidation of our facilities and reduced overhead expenses across all business units. Our Contracting/Services Group closed manufacturing facilities in Cincinnati, Ohio, Lexington, Kentucky and Indianapolis, Indiana and consolidated their operations into our remaining Contracting/Services Group locations at Louisville, Kentucky, Columbia, Tennessee and Greensboro, North Carolina which are now more fully utilized.

Additionally, we closed our GMD manufacturing facility, which is part of our Engineered Equipment and Parts Group, in Fort Worth Texas and we will maintain and manage the GMD product lines from our Fisher-Klosterman facility in Louisville, Kentucky.

*Strategy and Vision*

The core principles that drive our strategy and vision are: Significant Growth, Operational Excellence, Developing our Employees, Customer Service—Quality Excellence, Market Coverage, and Safety.

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

*Expand Customer Base and Penetrate End Markets through Global Market Coverage.*We constantly look for opportunities to penetrate new customers, geographic locations and end markets with existing products and services or acquired new product or service opportunities. For example, we have successfully expanded our sales to new customers and entered new end markets through the strategic acquisition of Effox in February 2007, the strategic acquisition of Flextor in August 2008 and the strategic acquisition of AVC in August 2008. Our strategic acquisition of Effox has allowed us to access the multibillion-dollar energy, power and utilities markets. The acquisition of Flextor in August 2008 further expanded Effox's business internationally. Our acquisition of FKI expanded our access to the petroleum and power markets and also provides us with a manufacturing facility in China, which experienced significant growth in revenues and operating income in 2010. The acquisition of A.V.C. added additional parts sales to FKI's business. We intend to continue to expand our sales force, customer base and end markets and have identified a number of attractive growth opportunities both domestically and abroad, including international projects in China, India, Latin America, Europe and the Middle East.

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

*Maintain Strong Customer Focus.*We enjoy a diversified customer base of more than 3,000 active customers as of December 31, 2010, across a broad base of industries, including aerospace, brick, cement, steel, ceramics, metalworking, ethanol, printing, paper, food, foundries, power plants, metal plating, refineries, wood working, chemicals, tobacco, glass, automotive and pharmaceuticals. We believe that there are multiple opportunities for us to expand our penetration of existing markets and customers.

*Pursue Selective Acquisitions.* We will continue to explore selective acquisition opportunities that:

- Further broaden the breadth of our product and service offering;
- Allow us to enter new end markets or strengthen our presence in an existing end market; and
- Extend our industry leadership position.
- Are accretive to earnings.

The air pollution control and industrial ventilation industry is highly fragmented, which may present acquisition opportunities, particularly companies that produce types of pollution control equipment that we do not currently manufacture or companies that have system expertise in a particular industry that we do not currently serve or feel that we under serve, or who, by integrating into our existing family of companies would make us a dominant player in that particular market. In short we are looking to expand into horizontal markets that will strategically broaden our product and service offering and gain access to new customers and end markets. We believe that there is an ongoing trend among customers to utilize fewer suppliers in order to

simplify procurement, increase manufacturing efficiency and generally reduce costs. We believe our reputation as an established, reliable and responsible provider of complete turnkey solutions makes us an attractive acquirer.

Our ability to expand through acquisition is much stronger now due to a much improved balance sheet which reflects a significant reduction in our bank debt, a strong cash position and convertible debt that we believe will be converted to equity in the near future.

*Products and Services*

We believe that we are recognized as a leading provider in the air pollution control industry. We focus on engineering, designing, building, and installing systems that capture, clean and destroy airborne contaminants from industrial facilities as well as equipment that controls emissions from such facilities. We now market these turnkey pollution control services through all our companies with Kirk & Blum providing project management. With a diversified base of more than 3,000 active customers, we provide services to a myriad of industries including aerospace, brick, cement, steel, ceramics, metalworking, printing, paper, food, foundries, utilities, metal plating, woodworking, chemicals, glass, automotive, ethanol, pharmaceuticals, and refining. The table below illustrates how our family of companies are spread over this diversified customer base, providing a broad range of applications.

| Divisions | Capabilities (products and services) | Typical Industries | Typical Applications |
|---|---|---|---|
| **Contracting/Services** | | | |
| Kirk & Blum | • Turnkey Design, Build, Install:<br>- Dust Collectors<br>- Oil Mist Collectors<br>- Chip Conveyance Systems<br>• Custom Sheet Metal | • Aerospace<br>• Automotive<br>• Food<br>• Foundry<br>• Glass<br>• Primary Metals<br>• Printing | • Collection:<br>- Dust<br>- Oil Mist<br>- Fume Exhaust<br>• Exhaust/Make-up Air<br>• Paint/Finishing Booths<br>• Pneumatic Conveying |
| **Engineered Equipment and Parts** | | | |
| CECO Abatement | • Regenerative Thermal Oxidation<br>• Catalytic and Thermal Oxidation<br>• Selective and Regenerative Catalytic Reduction | • Chemical Processing<br>• Ethanol<br>• Paint Booth Emissions<br>• Wastewater Treatment<br>• Wood Products<br>• Asphalt | • High Efficiency Destruction:<br>- Volatile Organic Compounds<br>- Fumes<br>- Industrial Odors |
| Effox Flextor | • Design and manufacture:<br>- Dampers<br>- Expansion Joints<br>• Aftermarket service | • Coal-Fired Power Plants<br>• Chemical Processing<br>• Refining<br>• Metals<br>• Wood Products | • Steam Heat Recovery<br>• Flue Gas Desulphurization<br>• Catalytic (NOx) Reduction |

| Divisions | Capabilities (products and services) | Typical Industries | Typical Applications |
|---|---|---|---|
| CECO Filters | • Fiber-Bed Filter Mist Collectors<br>• Catenary Grid and Narrow Gap Venturi Scrubbers<br>• Replacement Filters<br>• Repack Services | • Asphalt<br>• Chemical<br>• Fertilizer<br>• Metals<br>• Semiconductors | • Acid/Caustic Mist<br>• Storage Tank Emissions<br>• Lubricant Emissions<br>• Nitric Acid<br>• Platinum Recovery<br>• Wet Bench Acid Mist |
| BUSCH INTERNATIONAL | • Heavy Duty Air Handling and Conditioning<br>• Fume Exhaust Systems<br>• Air-Curtain Hoods<br>• JET*STAR Strip/ Coil Coolers and Dryers | • Aluminum<br>• Chemical<br>• Paper<br>• Power<br>• Steel | • Rolling Mill Oil Mist Collection<br>• Heavy Gauge Strip and Coil:<br>- Coolers<br>- Dryers<br>• General Ventilation |
| SOLUTIONS TO POLLUTION | • Design, Manufacture and/or Install:<br>- Industrial Cyclones<br>- FCC Cyclones<br>- Air Classifiers<br>- Scrubbers<br>- Venturi<br>- Packed Bed<br>- Multiple Purpose<br>• Electrostatic Precipitators - New, Rebuilds, Conversions to Fabric Filtration and/or Parts and Service<br>• Medial Filtration:<br>- Baghouse Fabric Filters<br>- Cartridge Collectors<br>• Pneumatic Conveying and Industrial Ventilation | • Refineries<br>• Utilities<br>• Bio Fuels<br>• Petrochemicals<br>• Pharmaceutical<br>• Forest Products<br>• Manufacturing<br>• Food | • Air Pollution Control<br>• Product Recovery and Capture<br>• Petroleum Refining<br>• Catalyst Recovery<br>• Manufactured Sand<br>• Protection of Downstream Process and Pollution Control Equipment<br>• Flyash Beneficiation |
| **Component Parts** | | | |
| KB Kirk & Blum | • Component Parts for Industrial Air Systems | • Industrial Sheet Metal Contractors | • Industrial Ventilation Systems |

| Divisions | Capabilities (products and services) | Typical Industries | Typical Applications |
|---|---|---|---|
| K&B DUCT | • Clamp-Together Componentized Ducting Systems | • Industrial Sheet Metal Contractors<br>• Chemical<br>• Food<br>• Furniture<br>• Metals<br>• Pharmaceuticals | • Capture in Moderately Abrasive Environments<br>- Dust Particles<br>- Fumes<br>- Oil Mist |
| **Engineering** | | | |
| KBD TECHNIC | • Air Flow and Contaminant Engineering and Design<br>• Ventilation System Testing and Balancing<br>• Emission Testing for Regulatory Compliance | • Automotive<br>• Food<br>• Furniture<br>• Glass<br>• Metals<br>• Plastics<br>• Smelters | • Emission Testing and Compliance<br>• Systems Analysis<br>• Industrial Ventilation:<br>- Engineering<br>- Design |

***Contracting/Services Group***

Our Contracting/Services Group is comprised of the contracting and services operations of our Kirk & Blum divisions. Under the Kirk & Blum trade name we have four principal lines of business. All have evolved from the original air pollution systems business (contracting, fabricating, parts and clamp-together duct systems). The largest line, with three strategic locations throughout the Midwest and Southeast United States, is air pollution control systems and industrial ventilation. These systems, primarily sold on a turnkey basis, include oil mist collection, dust collection, industrial exhaust, chip collection, make-up air, as well as automotive spray booth systems, industrial and process piping, and other industrial sheet metal work. We provide a cost effective engineered solution to in-plant process problems in order to control airborne pollutants. Representative customers include General Electric Company, General Motors Corporation, The Procter & Gamble Company, Nissan Motor Co., Ltd., Honda Motor Co., Inc., Toyota Motor North America, Inc., The Boeing Company, Lafarge, Corning Incorporated, RR Donnelley, and Alcoa Inc. North America is the principal market served. We have, at times, supplied equipment and engineering services in certain global markets. We have completed several major contracts in Mexico as well as projects in China.

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

***Engineered Equipment and Parts Group***

Our Engineered Equipment and Parts Group is comprised of CECO Filters, Busch International, CECO Abatement, Effox, FKI, Flextor and A.V.C. We added the CECO Abatement Systems division in 2001 to extend

our penetration into the thermal oxidation market. We enable our customers to meet BACT requirements and compliance targets for fumes, volatile organic compounds, process, and industrial odors. Our services eliminate toxic emission fumes and volatile organic compounds from large-scale industrial processes. We have a presence in the chemical processing, ethanol, paint booth emissions, wastewater treatment, and wood products industries.

We acquired the assets of Effox in Cincinnati, Ohio in February 2007, to continue the execution of our horizontal integration strategy. This acquisition broadens our exposure to the multibillion dollar electric power generation market, coal and gas, and the ethanol, metals and mineral products markets. We provide dampers and expansion joints for flue gas and process air systems with emphasis on steam heat recovery, flue gas desulphurization, and catalytic (NOx) reduction. For existing systems, Effox provides rebuilding and repair services, including basic design modification. Flextor, which was acquired in 2008, is quite similar to Effox but its business is more international with an emphasis on Latin America.

In February 2008, we acquired the assets of FKI, to further expand our access to the petrochemical, petroleum and power markets. FKI produces cyclones, classifiers, electrostatic precipitator parts and service, air filtration equipment and scrubbers. A.V.C., acquired in August 2008, added to FKI's parts business.

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

We design and build air handling equipment and systems for filtering, cooling, heating, and capture of emissions in the metal industries under the Busch International name. Our fume exhaust systems with industry recognized hood designs provide high efficiency control of oil mist and fumes, removing liquid particles and vapor phase emissions from rolling mill, machining, and other oil mist generating processes. We also provide systems for corrosion protection, fugitive emissions control, evaporative cooling, and other ventilation and air handling applications. We also market a strip cooler under the JET*STAR name that is designed to cool metal strip coatings even at high strip speeds. This engineered equipment is globally marketed to the steel and aluminum industries.

***Component Parts Group***

We market component parts for industrial air systems to contractors, distributors and dealers throughout the United States under the Kirk & Blum Parts division. In 2001, we started the K&B Duct product line to provide a cost effective alternative to traditional duct. Primary users for this product line are those that generate dry particulate such as furniture manufacturers, metal fabricators, and any other users desiring flexibility in a duct system. Customers include end users, contractors, and dealers.

***Engineering Group***

Our Engineering Group is marketed under the kbd/Technic trade name to provide engineering services directly to customers. We routinely conduct stack tests for compliance demonstrations and provide customers with engineering evaluations of process or pollution control equipment. Our testing capabilities include the measurement of particulate emissions and particle size distribution including PM-10, sulfur oxides, nitrogen oxides, volatile organic compounds (VOCs), metals, and acid gases. Our industrial ventilation system designs enable reduced construction, operating, and maintenance costs by optimizing airflow. Representative customers

include General Motors Corporation, Ford Motor Company, Toyota Motor North America, Inc., The Quaker Oats Company, Nissan Motor Co., Ltd. and Honda Motor Co., Inc.

*Project Design and Development*

We focus our development efforts on designing and introducing new and improved approaches and methodologies which produce for our customers better system performance and often improve customer process performance. For example, the patented JET*STAR strip cooler produced by Busch International routinely allows customers to increase the speed of galvanizing lines, thus enhancing productivity, while at the same time increasing product quality by, through the use of the cooling air, holding the strip more stable as the zinc coating cools. We produce specialized products, which are often tailored to the specifications of a customer or application. We continually collaborate with our customers to develop the proper solution and ensure customer satisfaction. During 2010 and 2009, costs expended in development were not significant. Such costs are generally included as factors in determining pricing.

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

*Sales, Marketing and Support*

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

We sell and market our products and services with our own direct workforce in conjunction with outside sales representatives in the U.S., Mexico, Canada, Asia, Europe and South America. We have direct employees in India, Mexico, China and South America. We intend to expand our sales and support capabilities and our network of outside sales representatives in key regions domestically and internationally.

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

Our customer service organization or sales force provides our customers with technical assistance, use and maintenance information as well as other key information regarding their purchase. We also actively provide our customers with access to key information regarding changes in environment regulations and potentially pending changes as well as new product or service developments. We believe that maintaining a close relationship with

our customers and providing them with the support they request improves their level of satisfaction and enables us to foresee their potential future product needs or service demands. Moreover, it leads to sales of annual service and support contracts as well as consumables. Our website also provides our customers with online tools and technical resources.

*Quality Assurance*

In engineered systems, quality is defined as system performance. We carefully review with our customers, before the contract is signed, the level of contaminant capture required and the efficiency of the equipment that will remove the contaminant from the air stream prior to it being exhausted to the atmosphere. We then review these same parameters internally to assure that guarantees will be met. Standard project management and production management tools are used to ensure that all work is done to specification, that project schedules are met, and that the system is started up in the proper manner. Equipment is tested at the site to ensure it is functioning properly. Every fiber bed filter we build is tested at the factory, whether built in China, India or the US. Historically, warranty expense is very low.

*Customers*

We are not dependent upon any single customer, with no customer comprising 10% or more of our consolidated revenues for 2010 or 2009 and we do not believe that the loss of any of our customers would have a material adverse effect on us and our subsidiaries, taken as a whole.

*Suppliers and Subcontractors*

We purchase our angle iron and sheet plate products from a variety of sources. When possible, we secure these materials from steel mills. Other materials are purchased from a variety of steel service centers. Steel prices have been volatile but we typically mitigate the risk of higher prices by including a “surcharge” on our standard products. On contract work, we mitigate the risk of higher prices by including the current price in our estimate.

We purchase chemical grade fiberglass as needed from Johns Manville Corporation, which we believe is the only domestic supplier of such fiberglass.

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

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

*Backlog*

Backlog is a representation of the amount of revenue expected from complete performance of uncompleted signed firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 months. Our customers may have the right to cancel a given order, although historically cancellations have been rare. Backlog from continuing operations was approximately $54.3 million and $66.5 million at the end of the fiscal years 2010 and 2009, respectively. Substantially all 2009 backlog was completed in 2010. Approximately 90% of the 2010 backlog is expected to be completed in 2011. Backlog is not defined by generally accepted accounting principles and our methodology for calculating backlog may not be consistent with methodologies used by other companies.

*Competition*

We believe that there are no singly dominant companies in the industrial ventilation and air pollution control markets in which we participate. These markets are fragmented with numerous smaller and regional participants. Due to the size and shipping weight of many of our projects, localized manufacturing/fabrication capabilities is very important to our customers. As a result, competition varies widely by region and industry. The market for
our products is highly competitive and is characterized by technological change, continuously changing environment regulations and evolving customer requirements. We believe that the principle competitive factors in our markets include:

- Breadth and diversity of product offerings;
- Ability to design standard and custom products that meet customers' needs;
- Ability to provide a reliable solution in a timely manner;
- Quality customer service and support; and
- Financial and operational stability, including reputation.

We believe we compete favorably with respect to these factors.

*Seasonality*

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

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

*Government Regulations*

We believe our operations are in material compliance with applicable environmental laws and regulations. We believe that changes in environmental laws and regulations will not have a material adverse effect on our operations. Given the nature of our business, such changes create opportunity.

We are also subject to the requirements of OSHA and comparable state statutes. We believe we are in material compliance with OSHA and state requirements, including general industry standards, record keeping requirements and monitoring of occupational exposures. In general, we expect to increase our expenditures to comply with stricter industry and regulatory safety standards such as those described above. Although such expenditures cannot be accurately estimated at this time, we do not believe that they will have future material adverse effect on our financial position, results of operations or cash flows.

*Intellectual Property*

Our business has historically relied on technical know-how and experience rather than patented technology. We hold three patents that relate to the Busch International JET* STAR systems. We hold a US patent for our N-SERT and X-SERT prefilters and for our Cantenary Grid scrubber. We also hold a US patent for a fluoropolymer fiber bed for a mist eliminator, a US patent for a fluted filter, and a US patent for a multiple in-duct filter system. We do not view our patents to be material to our business.

*Financial Information about Geographic Areas*

For 2010 and 2009, sales from continuing operations to customers outside the United States, including export sales, accounted for approximately 19% and 12% respectively, of consolidated net sales. Sales were made in 29 countries in 2010. The largest portion of these sales was destined for Canada. Generally, sales are denominated in U.S. dollars.

In March 2008, we acquired Fisher-Klosterman, Inc. which leases a 40,000 square foot facility in Shanghai, China and in August 2008 we acquired Flextor Inc. which at that time, leased a 15,000 square foot facility in Montreal, Canada. That production facility is now scheduled to be closed in April of 2011 and a smaller sales and technical services office will be leased.

We currently are not materially reliant on any one of our foreign operations. We anticipate that our sales to customers outside of the United States will continue to rise.

*Employees*

We had 552 full-time employees and 4 part-time employees as of December 31, 2010. The facilities acquired with the acquisition of Kirk & Blum are unionized except for selling, engineering, design, administrative and operating management personnel. None of our other employees are subject to a collective bargaining agreement. We consider our relationship with our employees to be satisfactory. In total, as of December 31, 2010 approximately 194 employees were represented by international or independent labor unions under various union contracts that expire at various intervals.

*Executive Officers of Registrant*

The following are the executive officers of the Company as of March 1, 2011. The terms of all officers expire at the next annual meeting of the board of directors and upon the election of the successors of such officers. The ages given are as of March 1, 2011.

| Name | Age | Position with CECO |
|---|---|---|
| Phillip DeZwirek | 73 | Chairman of the Board of Directors |
| Jeffrey Lang | 54 | Chief Executive Officer, Director |
| Dennis W. Blazer | 63 | Vice President-Finance and Administration; Chief Financial Officer; Assistant Secretary |
| Jason DeZwirek | 40 | Secretary; Director |

*Phillip DeZwirek* became a director and the Chairman of the Board in August 1979. Mr. DeZwirek also served as Chief Executive Officer from August 1979 through February 15, 2010. Mr. DeZwirek also serves as a member of the boards of directors of the Company's subsidiaries. In addition to serving as our Chairman, Mr. DeZwirek's principal occupations during the past five years have been serving as President of Icarus Investment Corp., an Ontario corporation ("Icarus") (since 1990) and a director and the Chairman, Chief Executive Officer and Treasurer of API Electronics Group, Corp. (from May 2002 through January 2011) and a director and the Chairman of its parent, API Technologies Corp. (from November 2006 through January 2011), a publicly traded company (OTCBB:ATNY) that is a prime contractor in electronics, highly engineered systems, secure communications and electronic components and sub-systems for the defense and aerospace industries. Mr. DeZwirek is also involved in private investment activities. Mr. DeZwirek is the father of Mr. Jason DeZwirek.

*Jeffrey Lang* has served as our Chief Executive Officer since February 15, 2010 and as a director since May 20, 2010. Prior to joining the Company, Mr. Lang was the Executive Vice President, Operating Officer of McJunkin Red Man Corporation, a Goldman Sachs Capital Partners portfolio company, from 2007 to 2009, a $4.5 billion distributor of pipes, valves and fittings and related services serving the petrochemical, petroleum

refining, pulp and paper, oil industry and utilities. He was the Senior Vice President and Operating Officer of Red Man Pipe and Supply Company from 2006 to 2007, a $1.8 billion pipe distribution company, which merged with McJunkin Corporation to form McJunkin Red Man Corporation. Mr. Lang was employed by Ingersoll Rand Company, a global industrial company, for twenty-five years from 1980 to 2005. He started out as a sales engineer in 1980, became a Sales and Service Branch Manager in 1985, the Southeast U. S. Area Manager, Air Solutions in 1995, and by 1999 was the Director and General Manager, North American Distributor Division and from 2002 to 2005 served as the Director and General Manager, North American industrial Air Solutions, reporting directly to the President of the Air Solutions Group.

*Dennis W. Blazer* became the Chief Financial Officer and the Vice President-Finance and Administration of the Company on December 13, 2004. From 2003 to 2004, Mr. Blazer served as a financial consultant to GTECH Corporation, a leading global information technology corporation. From 1998 to 2003, he served as the Chief Financial Officer of Interlott Technologies, Inc., which stock traded on the American Stock Exchange and which was a worldwide provider of vending technologies for the lottery industry prior to its acquisition by GTECH Corporation in 2003. From 1973 to 1998, Mr. Blazer also served in varying capacities leading up to the position of Vice President of Finance and Administration for The Plastic Moldings Corporation, a custom manufacturer of precision molded plastic components. Mr. Blazer is a Certified Public Accountant.

*Jason DeZwirek* became a director of the Company in February 1994. He became Secretary of the Company on February 20, 1998. He also serves as a member of the boards of directors of the Company's subsidiaries. He was the founder (1999), Chairman and CEO of Kaboose, Inc., which was listed on the Toronto Stock Exchange and was the largest independent family focused online media company in the world. Kaboose Inc. was sold to Disney and Barclays Private Equity in 2009. Mr. DeZwirek also previously served as a director and the Secretary of API Technologies Corp., a publicly traded company engaged in the manufacture of electronic components and systems for the defense and communications industries from November 2006 through January 2011. Mr. DeZwirek is and has also been involved in private investments activities.

## Item 1A. *Risk Factors*

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

### Risks Related to Our Business and Industry

*Over the past few years, global economic conditions have created turmoil in the credit and general industrial markets that had an adverse impact on our operations. If these economic conditions persist, they could continue to have an adverse impact on our business.*

Our financial performance depends, in large part, on varying conditions in the markets that we serve, particularly the general industrial markets. Demand in these markets fluctuates in response to overall economic conditions, although the replacement nature of our products helps mitigate the effects of these changes. The prior year's weakened economy resulted in decreased demand for our services, and the current economic uncertainties may cause our customers or prospective customers to continue to defer or reduce spending on the air pollution control products and services that we provide, which could reduce future earnings and cash flow.

Furthermore, the current economic climate may cause some of our customers or vendors to reduce or discontinue operations, which may adversely affect our operations. If, as a result of adverse economic conditions, one or more of our customers enter bankruptcy or liquidate their operations, our revenues and accounts receivable could be materially adversely affected.

If the current economic conditions persist or deteriorate, they could also have a significant adverse impact on our operations by:

- Decreasing our customers' demand for or ability to pay for capital improvements;
- Adversely affecting our customers' ability to obtain credit to fund operations, which in turn would affect their ability to timely make payments on our contracts;
- Increasing our interest expense and, unless these conditions abate, making it more difficult for us to refinance or extend our credit facility with Fifth Third Bank (the "Bank Facility") at its maturity on April 1, 2013; and
- Limiting our ability to expand through acquisitions due to the tightening of the credit markets.
- Increasing the possibility that we may incur losses in the future.

*Changes in current environmental legislation could have an adverse impact on the sale of our environmental control systems and products and on our operating results.*

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

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

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

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

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

- Increases in cost or shortages of components, materials or labor;
- Unanticipated technical problems;
- Required project modifications not initiated by the customer; and
- Suppliers' or subcontractors' failure to perform.

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

*We have indebtedness, which may adversely affect our ability to operate our business, remain in compliance with debt covenants, make payments on our debt and limit our growth.*

As of March 1, 2011, the aggregate amount of our convertible debt was $10.6 million and we had no outstanding indebtedness under the Bank Facility. Our convertible debt is convertible at $4.00 per share at any time at the election of the holder and because the current stock price exceeds that threshold, we anticipate that at least portions of this debt will be converted to equity. If we incur additional debt in the future, any outstanding indebtedness could have important consequences for investors, including the following:

- it may be more difficult for us to satisfy our obligations with respect to our Bank Facility and subordinated debt, and any failure to comply with the obligations of any of the agreements governing such indebtedness, including financial and other restrictive covenants, could result in an event of default under such agreements;
- the covenants contained in our debt agreements limit our ability to borrow money in the future for acquisitions, capital expenditures or to meet our operating expenses or other general corporate obligations;
- the amount of our interest expense may increase because certain of our borrowings are at variable rates of interest, which, if interest rates increase, could result in higher interest expense;

- we may need to use a portion of our cash flows to pay principal and interest on our debt, which will reduce the amount of money we have for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other business activities;
- we may have a higher level of debt than some of our competitors, which could put us at a competitive disadvantage;
- we may be more vulnerable to economic downturns and adverse developments in our industry or the economy in general; and
- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

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

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

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

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

Our backlog from continuing operations has declined from approximately $66.5 million at December 31, 2009 to approximately $54.3 million at December 31, 2010. Our ability to meet customer delivery schedules for our backlog is dependent on a number of factors including, but not limited to, access to the raw materials required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects, sufficient manufacturing plant capacity and appropriate planning and scheduling of manufacturing resources. Our failure to deliver in accordance with customer expectations may result in damage to existing customer relationships and result in the loss of future business. Failure to deliver backlog in accordance with expectations could negatively impact our financial performance and cause adverse changes in the market price of our common stock.

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

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

Conversely, the first quarter of our fiscal year is typically our weakest quarter. This is caused to some extent by winter weather constraints on outside construction activity but also by the seasonality of capital improvement

projects as discussed relating to the fourth quarter. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

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

Our annual revenues and earnings have varied in the past and are likely to vary in the future. Our contracts generally stipulate customer specific delivery terms and may have contract cycles of a year or more, which subjects these contracts to many factors beyond our control. In addition, contracts that are significantly larger in size than our typical contracts tend to intensify their impact on our annual operating results. Furthermore, as a significant portion of our operating costs are fixed, an unanticipated decrease in our revenues, a delay or cancellation of orders in backlog, or a decrease in the demand for our products, may have a significant impact on our annual operating results. Therefore, our annual operating results may be subject to significant variations and our operating performance in one period may not be indicative of our future performance.

*Percentage-of-completion method of accounting for contract revenue may result in material adjustments that would adversely affect our operating results.*

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

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

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

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

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

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

Customers may cancel or delay projects for reasons beyond our control, including due to current economic conditions. Our orders normally contain cancellation provisions which permit us to recover our costs, and, for

most contracts, a portion of our anticipated profit in the event a customer cancels an order. If a customer elects to cancel an order, we may not realize the full amount of revenues included in our backlog. If projects are delayed, the timing of our revenues could be affected and projects may remain in our backlog for extended periods of time. Revenue recognition occurs over long periods of time and is subject to unanticipated delays. If we receive relatively large orders in any given quarter, fluctuations in the levels of our quarterly backlog can result because the backlog in that quarter may reach levels that may not be sustained in subsequent quarters. As a result, our backlog may not be indicative of our future revenues. With rare exceptions, we are not issued contracts until a customer is ready to start work on a project. Thus, it is our experience that the only relation between the length of a project and the possibility that a project may be cancelled is simply the fact that there is more time involved. In a year- long project there is more time for the customer to have some business downturn causing it to cancel than there is in a three-month project.

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

Certain of our products have higher gross profit margins than others. Consequently, changes in the product mix of our sales from quarter-to-quarter or from year-to-year can have a significant impact on our reported gross profit margins. For example, in the fourth quarter of 2010, we experienced an increase in gross margin as a percent of net sales due to a change in product mix. Certain of our products also have a much higher internally manufactured cost component. Therefore, changes from quarter-to-quarter or from year-to-year can have a significant impact on our reported gross margins. In addition, contracts with a higher percentage of subcontracted work or equipment purchases may result in lower gross profit margins.

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

As of December 31, 2010, goodwill and intangibles represented approximately $18.9 million, or 25.3% of our total assets. Goodwill and indefinite lived intangible assets are no longer amortized, but instead are subject to impairment evaluation based on related estimated fair values, with such testing to be done at least annually. In 2009, we wrote down goodwill by $17.1 million as described in Note 7 of our financial statements included in this Form 10-K. Major factors that influence our analyses are our estimates for future revenue and expenses associated with the reporting units. This is the most sensitive of our estimates related to our fair value calculations. Other factors considered in our fair value calculations include assumptions as to the business climate, industry and economic conditions. These assumptions are subjective and different estimates could have a significant impact on the results of our analyses. While management, based on current forecasts and outlooks, believes that the assumptions and estimates are reasonable, we can make no assurances that future actual operating results will be realized as planned and that there will not be material impairment charges as a result. In particular, a prolonged continuation of the current economic slump could continue to have a material adverse impact on our customers thereby forcing them to reduce or curtail doing business with us and such a result may materially affect the amount of cash flow generated by our future operations. Any write-down of goodwill or intangible assets resulting from future periodic evaluations would, as applicable, either decrease our net income or increase our net loss and those decreases or increases could be material.

*We face significant competition in the markets we serve.*

The industries in which we compete are all highly competitive and highly fragmented. We compete against a number of local, regional and national contractors and manufacturers in each of our product or service lines, many of which have been in existence longer than us and some of which have substantially greater financial resources than we do. Our products primarily compete on the basis of price, performance, speed of delivery, quality, customer support and single source responsibility. We believe new entrants that are large corporations may be able to compete with us on the basis of price and as a result may have a material adverse affect on the results of our operations. In addition, we cannot assure you that other companies will not develop new or enhanced products that are either more effective than ours or would render our products non-competitive or

obsolete. Any failure by us to compete effectively in the markets we serve could have a material adverse effect on our business, results of operations and financial condition.

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

We use a broad range of manufactured components and raw materials in our products, including raw steel, steel-related components, filtration media, and equipment such as fans, motors, etc. Materials and subcontracting costs comprise the largest component of our costs, representing over 61% of the costs of our net sales in fiscal 2010. Further increases in the price of these items could further materially increase our operating costs and materially adversely affect our profit margins. Similarly, transportation and health care costs have risen steadily over the past few years and represent an increasingly important burden for us. Although we try to contain these costs wherever possible, and although we try to pass along increased costs in the form of price increases to our customers, we may be unsuccessful in doing so for competitive reasons, and even when successful, the timing of such price increases may lag significantly behind our incurrence of higher costs.

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

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

*We may make future acquisitions, which involve numerous risks that could impact our business and results of operations.*

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

- difficulties in integrating the acquired businesses, product or service lines, assets or technologies;
- diverting management’s attention from normal daily operations of the business;
- entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- unanticipated costs and exposure to undisclosed or unforeseen liabilities;
- potential loss of key employees and customers of the acquired businesses, product or service lines, assets or technologies;
- our ability to properly establish and maintain effective internal controls over an acquired company; and
- increasing demands on our operational and information technology systems.

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

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

*Our manufacturing operations are dependent on third-party suppliers.*

Although we are not dependent on any one supplier, we are dependent on the ability of our third-party suppliers to supply our raw materials, as well as certain specific component parts. We purchase all of our chemical grade fiberglass from one domestic supplier, which we believe is the only domestic supplier of such fiberglass, and certain specialty items from only two domestic suppliers. These items also can be purchased from foreign suppliers. Failure by our third-party suppliers to meet our requirements could have a material adverse effect on us. We cannot assure you that our third-party suppliers will dedicate sufficient resources to meet our scheduled delivery requirements or that our suppliers will have sufficient resources to satisfy our requirements during any period of sustained demand. Failure of manufacturers or suppliers to supply, or delays in supplying, our raw materials or certain components, or allocations in the supply of certain high demand raw components could materially adversely affect our operations and ability to meet our own delivery schedules on a timely and competitive basis.

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

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in each of our annual reports on Form 10-K, a report containing our management's assessment of the effectiveness of our internal control over financial reporting. These laws, rules and regulations continue to evolve and could become increasingly stringent in the future. We have undertaken actions to enhance our ability to comply with the requirements of the Sarbanes-Oxley Act of 2002, including, but not limited to, the engagement of consultants, the documentation of existing controls and the implementation of new controls or modification of existing controls as deemed appropriate.

We continue to devote substantial time and resources to the documentation and testing of our controls, and to planning for and implementation of remedial efforts in those instances where remediation is indicated. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory actions, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition, results of operations and cash flows. We believe that the out-of-pocket costs, the diversion of management's attention from running our day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 will continue to be significant.

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

While we continue to take action to ensure compliance with the internal control, disclosure control and other requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the Securities and Exchange Commission, or SEC, implementing these requirements, there are inherent limitations in our ability to control all circumstances. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the

objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be evaluated in relation to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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

In 2010, approximately 19% of our total revenue was derived from products or services ultimately delivered or provided to end-users outside the United States. As part of our operating strategy, we intend to expand our international operations through internal growth and selected acquisitions. Operations outside of the United States, particularly in emerging markets, are subject to a variety of risks which are different from or additional to the risks we face within the United States. Among others, these risks include:

- local, economic, political and social conditions, including potential hyperinflationary conditions and political instability in certain countries;
- imposition of limitations on the remittance of dividends and payments by foreign subsidiaries;
- adverse currency exchange rate fluctuations, including significant devaluations of currencies;
- tax-related risks, including the imposition of taxes and the lack of beneficial treaties, that result in a higher effective tax rate for us;
- difficulties in enforcing agreements and collecting receivables through certain foreign local systems;
- domestic and foreign customs, tariffs and quotas or other trade barriers;
- increased costs for transportation and shipping;
- difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- managing and obtaining support and distribution channels for overseas operations;
- hiring and retaining qualified management personnel for our overseas operations;
- legal and regulatory requirements, including import, export, defense regulations and foreign exchange controls;
- imposition or increase of restrictions on investment; and
- required compliance with a variety of local laws and regulations which may be materially different than those to which we are subject in the United States.

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

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

The air pollution control and filtration industry is characterized by ongoing technological developments and changing customer requirements. As a result, our success and continued growth depend, in part, on our ability in

a timely manner to develop or acquire rights to, and successfully introduce into the marketplace, enhancements of existing products or new products that incorporate technological advances, meet customer requirements and respond to products developed by our competition. We cannot assure you that we will be successful in developing or acquiring such rights to products on a timely basis or that such products will adequately address the changing needs of the marketplace.

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

The air pollution control and filtration industry is characterized by changing technology, competitively imposed process standards and regulatory requirements, each of which influences the demand for our products and services. Changes in legislative, regulatory or industrial requirements may render certain of our filtration products and processes obsolete. Acceptance of new products and services may also be affected by the adoption of new government regulations requiring stricter standards. Our ability to anticipate changes in technology and regulatory standards and to develop and introduce new and enhanced products successfully on a timely basis will be a significant factor in our ability to grow and to remain competitive. We cannot assure you that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain of our products or services will not become obsolete.

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

We hold various patents and licenses relating to certain of our products. We cannot assure you as to the breadth or degree of protection that existing or future patents, if any, may afford us, that our patents will be upheld, if challenged, or that competitors will not develop similar or superior methods or products outside the protection of any patent issued to us. Although we believe that our products do not and will not infringe patents or violate the proprietary rights of others, it is possible that our existing patent rights may not be valid or that infringement of existing or future patents or proprietary rights may occur. In the event our products infringe patents or proprietary rights of others, we may be required to modify the design of our products or obtain a license for certain technology. We cannot assure you that we will be able to do so in a timely manner, upon acceptable terms and conditions, or at all. Failure to do any of the foregoing could have a material adverse effect upon our business. In addition, we cannot assure you that we will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violations action which may be brought against us. Moreover, if our products infringe patents or proprietary rights of others, we could, under certain circumstances, become liable for damages, which also could have a material adverse effect on our business.

*Work stoppages, labor union issues or similar difficulties could significantly disrupt our operations or affect profitability.*

As of March 1, 2011, 164 of our 504 employees are represented by international or independent labor unions under various union contracts that expire from May 31, 2011 to May 1, 2014. It is possible that our workforce will become more unionized in the future. Although we consider our employee relations to generally be good, our existing labor agreements may not prevent a strike or work stoppage at one or more of our facilities in the future and we may be affected by other labor disputes. A work stoppage at one or more of our facilities may have a material adverse effect on our business. Unionization activities could also increase our costs, which could have an adverse effect on our profitability. In addition, we are subject from time to time by grievances by labor unions related to our employees represented by a labor union, which may adversely affect our personnel resources and increase our costs, which could have an adverse effect on our business.

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

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

Despite our quality assurance measures, we may be exposed to product liability claims, other claims and litigation in the event that the use of our products results, or is alleged to result, in bodily injury and/or property damage or our products actually or allegedly fail to perform as expected. For example, we are currently a defendant in a wrongful death case (see Item 3 of this Form 10- K). While we maintain insurance coverage with respect to certain product liability and other claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against product liability and other claims. Any future damages that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our financial condition and results of operations. In addition, product liability and other claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome.

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

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

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

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

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

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

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

A portion of our consolidated revenues are generated outside the United States. Consequently, we are subject to fluctuations in foreign currency exchange rates. Translation losses resulting from currency fluctuations

may adversely affect the profits from our operations and have a negative impact on our financial results. Foreign currency fluctuations may also make our systems and products more expensive for our customers, which could have a negative impact on our sales. In addition, we purchase some foreign-made products directly and through our subcontractors. Due to the multiple currencies involved in our business, foreign currency positions partially offset and are netted against one another to reduce exposure. We cannot assure that fluctuations in foreign currency exchange rates will not make these products more expensive to purchase. Increases in our direct or indirect cost of purchasing these products could negatively impact our financial results if we are not able to pass those increased costs on to our customers.

*Our business is subject to risks of terrorist acts, acts of war and natural disasters.*

Terrorist acts, acts of war, or national disasters may disrupt our operations and information and distribution systems, as well as those of our customers. These types of acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could weaken the domestic/global economies and create additional uncertainties, thus forcing our customers to reduce their capital spending, or cancel or delay already planned construction projects, which could have a material adverse impact on our business, operating results and financial condition.

**Risks Related to Our Common Stock**

*Our executive officers and directors are able to exercise significant influence over CECO, and their interests may conflict with those of our other stockholders.*

As of March 1, 2011, our executive officers and directors beneficially own approximately 35% of our outstanding common stock, assuming the exercise of currently exercisable warrants and options beneficially held by them. The interests of management with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings and other corporate opportunities and attempts to acquire us, may conflict with the interests of our other stockholders. Management's continued concentrated ownership may have the effect of delaying or preventing a change of control of us, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

*We have engaged in the past, and continue to engage, in related party transactions and such transactions present possible conflicts of interest.*

We have engaged in the past, and continue to engage, in several related party transactions, including issuance of subordinated debt, management consulting services, and office space and other expenses related to our Toronto office. All such transactions were approved by the Audit Committee of our Board of Directors, which believed that the transactions were in our best interest. Transactions of this nature present the possibility of a conflict of interest whereby the other party may advance its economic or business interests or objectives that may conflict with or be contrary to our best interests. Any such conflict could have a material adverse effect on our financial conditions and results of operations.

*The limited liquidity for our common stock could affect your ability to sell your shares at a satisfactory price.*

Our common stock is relatively illiquid. As of March 1, 2011, we had 14,330,306 shares of common stock outstanding. The average daily trading volume in our common stock during the 60 calendar days ended March 1, 2011 was approximately 20,600 shares. A more active public market for our common stock, however, may not develop, which would continue to adversely affect the trading price and liquidity of our common stock. Moreover, a thin trading market for our stock causes the market price for our common stock to fluctuate significantly more than the stock market as a whole. Without a large float, our common stock is less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock

may be more volatile. In addition, in the absence of an active public trading market, you may be unable to liquidate your investment in us at a satisfactory price.

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

The stock market has experienced and may in the future experience volatility that has often been unrelated to the operating performance of particular companies. The market price of our common stock has experienced, and may continue to experience, substantial volatility. During the twelve-month period ended March 1, 2011, the sale prices of our common stock on The NASDAQ Global Market have ranged from a low of $3.31 to a high of $6.53 per share. We expect our common stock to continue to be subject to fluctuations. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- the relatively low float of our common stock caused, among other reasons, by the holdings of our principal shareholders;
- adverse general economic conditions, such as those currently being experienced, including withdrawals of investments in the stock markets generally and a tightening of credit available to potential acquirers of businesses, that result in a lower average prices being paid for public company shares and lower valuations being placed on businesses;
- other domestic and international macroeconomic factors unrelated to our performance;
- our failure to meet the expectations of the investment community;
- industry trends and the business success of our customers;
- loss of key customers;
- announcements of technological advances by us or our competitors;
- current events affecting the political and economic environment in the United States;
- conditions or trends in our industry, including demand for our products and services, technological advances and governmental regulations;
- litigation involving or affecting us; and
- additions or departures of our key personnel.

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

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

We have reserved 2.0 million shares of our common stock for issuance under our 2007 Equity Incentive Plan (“2007 Plan”), which may include option grants, stock grants and restricted stock grants. As of December 31, 2010, approximately 1.2 million options or restricted stock have been issued under the 2007 Plan. Icarus, an affiliate of Phillip DeZwirek and Jason DeZwirek, also owns warrants to purchase 250,000 shares of common stock that have piggy-back rights granting it the right to require that we register such shares in the event we file any registration statements in the future.

We had outstanding options to purchase approximately 293,000 shares of our common stock as of December 31, 2010 under our 1997 Stock Option Plan and outstanding options to purchase approximately

0.9 million shares under our 2007 plan. The shares under both plans are registered for resale on currently effective registration statements. We also have subordinated promissory notes issued to several private investors that may be converted into 2.65 million shares of our common stock as of March 1, 2011.

We may issue additional restricted securities or register additional shares of common stock under the Securities Act of 1933, as amended (the “Securities Act”) in the future. The issuance of a significant number of shares of common stock upon the exercise of stock options or warrants, or the availability for sale, or resale, of a substantial number of the shares of common stock under registration statements, under Rule 144 or otherwise, could adversely affect the market price of the common stock.

*Issuance of shares under our stock incentive plan, under our convertible debentures or in connection with financing transactions will dilute current stockholders.*

Pursuant to our stock incentive plan, our management is authorized to grant stock awards to our employees, directors and consultants. You will incur dilution upon exercise of any outstanding stock awards. In addition, we have issued convertible debentures that may be converted into 2.65 million shares as of March 1, 2011, the conversion of which will cause you to incur dilution. If we raise additional funds by issuing additional common stock, or securities convertible into or exchangeable or exercisable for common stock, further dilution to our existing stockholders will result, and new investors could have rights superior to existing stockholders.

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

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

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

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

*Because we have no plans to pay any dividends for the foreseeable future, investors must look solely to stock appreciation for a return on their investment in us.*

We have never paid cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings to support our operations and growth. Any payment of cash dividends in the future will be dependent on the amount of funds legally available, our earnings, financial condition, capital requirements and other factors that our board of directors may deem relevant. Additionally, our Bank Facility restricts the payment of dividends. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

**Item 1B.** ***Unresolved Staff Comments***

Not Applicable.

**Item 2.** ***Properties***

Our principal operating offices are headquartered in Cincinnati, Ohio at a 7,000 square foot facility that we lease.

We have an executive office in Toronto, Canada, at facilities maintained by an affiliate of our Chairman of the Board and our Secretary, who work at the Toronto office. We reimburse such affiliate $10,000 per month for the use of the space and other office expenses.

We own a 35,000 square foot manufacturing facility in Louisville, Kentucky, which is subject to a collateral mortgage to secure the amounts owed under the Bank Facility.

In 2010, we closed and sold our Contracting/Services Group group manufacturing facilities in Lexington, Kentucky, Indianapolis, Indiana and Cincinnati, Ohio and another of our Indianapolis properties was also closed in 2010 and was sold in February 2011.

We lease the following facilities:

| Location | Square Footage | Annual Rent | Expiration | Type |
|---|---|---|---|---|
| Cincinnati, Ohio | 96,400 | $ 313,300 | November 2016 | Mfg. |
| Cincinnati, Ohio | 7,000 | $ 91,000 | June 2016 | Admin. |
| Columbia, Tennessee | 34,800 | $ 127,000 | August 2013 | Mfg. |
| Greensboro, North Carolina | 30,000 | $ 122,400 | August 2011 | Mfg. |
| Pittsburgh, Pennsylvania | 4,000 | $ 55,000 | May 2011 | Sales |
| Chicago, Illinois | 1,250 | $ 24,800 | January 2012 | Sales |
| Indianapolis, Indiana | 5,000 | $ 21,650 | September 2012 | Sales |
| Conshohocken, Pennsylvania | 30,000 | $ 198,300 | April 2011 | Mfg. |
| Canton Mississippi | 20,100 | $ 35,900 | July 2013 | Mfg. |
| Coimbatore, India | 11,300 | $ 21,250 | December 2011 | Mfg. |
| Louisville, Kentucky | 61,095 | $ 98,700 | March 2013 | Mfg. |
| Shanghai, China | 40,000 | $ 154,700 | March 2013 | Mfg. |
| Salt Lake City, Utah | 13,600 | $ 45,600 | Month to month | Mfg. |
| Lebanon, Pennsylvania | 8,200 | $ 51,600 | Sept. 2011 | Sales |
| Montreal, Canada | 15,000 | $ 132,500 | July 2011 | Mfg. |

It is anticipated that all leases coming due in the near future will be renewed at expiration with the exception of Montreal, Canada.

The Contracting/Services Group primarily uses the properties in Columbia, Tennessee, Louisville, Kentucky and Canton, Mississippi; the Engineered Equipment and Parts Group the properties in Cincinnati, Ohio, Chicago, Illinois, Pittsburgh, Pennsylvania, Conshohocken, Pennsylvania, Lebanon, Pennsylvania, Coimbatore, India, Shanghai, China, and Montreal, Canada; and the Component Parts Group the properties in Greensboro, North Carolina and Salt Lake City, Utah.

Our current capacity, with limited capital additions, is expected to be sufficient to meet production requirements for the near future. We believe our production facilities are suitable and can meet our future production needs.

**Item 3.** ***Legal Proceedings***

A lawsuit was filed on September 10, 2009 in Marion County Superior Court, State of Indiana. A wrongful death claim has been made by the estate of Terry David Walk for an accident that occurred in March 2008 at the worksite of a customer of the Company relating to a baghouse system. The defendants include CECO and its subsidiaries, The Kirk & Blum Manufacturing Company ("Kirk & Blum"), kbd/Technic, Inc., and CECO Abatement Systems, Inc. The complaint contains causes of action for negligence and a cause of action for breach of implied warranties, and the complainant is asking for unspecified compensatory damages and costs. The matter was submitted to court-ordered mediation in January 2011, which was unsuccessful. It is believed that the matter will proceed to trial in the third quarter of 2011. The Company's insurance carriers have agreed to defend the claims, pursuant to reservation of rights letters, and have retained counsel to defend the Company. At this time, we believe that the claims are without merit and we intend to vigorously defend this suit. While there is a potential for an adverse verdict, the Company believes that any such loss other than $25,000 would be covered by insurance. No loss is considered probable at this time.

On January 13, 2011, the SEC initiated a non-public formal investigation relating to possible insider trading by affiliates of the Company. We have been cooperating with and intend to continue to cooperate with the SEC. We have been informed by our Chairman of the Board that he has received a subpoena in connection with such inquiry. In accordance with the terms of our bylaws and the General Corporation Law of Delaware, we are advancing expenses incurred by our Chairman in this matter. Because the matter is ongoing, we cannot predict the outcome of this formal inquiry at this time, and, as a result, no conclusion can be reached as to what impact, if any, this inquiry may have on us or our operations.

One of the unions that represents employees of Kirk & Blum, Local Union 24 of the Sheet Metal Workers International Association ("Local 24"), has demanded to bargain with Kirk & Blum over the decision to close our Oakley facility and the effects of the closure in connection with the layoffs of approximately 40 unionized Kirk & Blum employees from that facility in 2010. Local 24 is requesting severance payments and other non-monetary consideration. No agreement has yet been reached; negotiations remain ongoing. Also, in September of 2010 Local 24 filed a grievance against Kirk & Blum under its collective bargaining agreement alleging improper subcontracting to an outside vendor. In January of 2011, the grievance was heard by a panel of the National Joint Adjustment Board for the Sheet Metal Industry, which resulted in a deadlock. The next National Adjustment Board panel hearing is expected to take place in June 2011. In addition, in September and November of 2010, the Sheet Metal Workers International Association ("SMWIA") requested certain information relating to the Company's facility closure decisions, the subcontracting of work to outside vendors, and related matters such as equipment transfers and union employee layoffs. The Company has responded to SMWIA's requests and SMWIA has not at this time taken any further action. If any of these matters is not resolved to the satisfaction of the parties, SMWIA and/or Local 24 may take legal action such as filing unfair labor practice charges with the National Labor Relations Board and/or filing additional grievances under the applicable collective bargaining agreement(s). Should this occur, the Company intends to contest any such claims or charges vigorously, which the Company believes to be without merit. No loss is considered probable or estimable at this time for these union matters.

The final outcome and impact of these matters, and related claims and investigations that may be brought in the future, are subject to many variables, and cannot be predicted. We establish accruals only for those matters where we determine that a loss is probable and the amount of loss can be reasonably estimated. As a result, we have not accrued for any liability with respect to these matters. The Company expenses legal costs as they are incurred. While it is currently not possible to reasonably estimate the aggregate amount of costs which we may incur in connection with these matters, such costs could have a material adverse effect on our financial position, liquidity, or results of operations.

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

**Item 4.** ***Reserved***

## PART II

### Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

**Market Information**

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

| 2009 | High | Low | 2010 | High | Low |
|---|---|---|---|---|---|
| 1st Quarter | $3.25 | $1.80 | 1st Quarter | $4.16 | $3.31 |
| 2nd Quarter | 4.51 | 2.92 | 2nd Quarter | 5.58 | 3.82 |
| 3rd Quarter | 4.21 | 2.63 | 3rd Quarter | 6.11 | 4.68 |
| 4th Quarter | 4.25 | 3.10 | 4th Quarter | 6.28 | 5.16 |

**Holders**

The approximate number of registered shareholders of record of our common stock as of March 1, 2011 was 141, although there is a larger number of beneficial owners.

**Dividends**

We have never paid cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. Our credit agreement contains provisions which may prevent us from paying any dividends to our stockholders.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Information about securities authorized for issuance under our equity compensation plans is contained in Item 12—Security Ownership of Certain Beneficial Owners of Management and Related Stockholder Matters.

**Recent Sales of Unregistered Securities**

We did not sell any unregistered equity securities in 2010.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

We did not purchase any shares of our common stock during the fourth quarter of 2010.

### Item 6. *Selected Financial Data*

A smaller reporting company is not required to provide the information in this Item.

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

**Overview**

We are one of the leading providers of air-pollution control products and services. These products and services are marketed under the "Kirk & Blum", "CECO Filters", "CECOaire", "Busch International", "CECO Abatement Systems", "kbd/Technic", "K&B Duct", "Effox", "GMD", "Fisher Klosterman", "Flextor" and "A.V.C." trade names. Our revenues are generated by our services of engineering and designing as well as

building equipment, and installing systems that capture, clean and destroy airborne contaminants from industrial facilities and equipment that controls emissions from such facilities. We have a diversified base of more than 3,000 active customers among a myriad of industries including aerospace, brick, cement, steel, ceramics, metal working, ethanol, printing, paper, food, foundry, power, refining, mining, metal plating, woodworking, chemicals, tobacco, glass, automotive, and pharmaceuticals. Therefore, our business is not concentrated in a single industry or customer.

We operate in three segments: the Contracting/Services Group, which produces air pollution control and industrial ventilation systems, the Engineered Equipment and Parts Group, which produces various types of air pollution control equipment and the Component Parts Group, which manufactures products used by us and other air pollution control companies and contractors. It is through combining the efforts of some or all of these groups that we are able to offer complete turnkey systems to our customers and leverage the operational efficiencies between our family of companies. Due to the relative size of our Engineering Group, our reportable segment disclosures in our financial statements include this group's results with our corporate and other disclosures.

We believe that as economic conditions continue to improve, there will be an increase in the level of pollution control capital expenditures driven by an elevated focus on environmental issues such as global warming and energy saving alternatives as well as a U.S. Government supported effort to reduce our independence on foreign oil through the use of bio-fuels like ethanol and electrical energy generated by our abundant domestic supply of coal. We also feel that similar opportunities will continue to develop outside the United States.

We continue to focus on increasing revenues and profitability. Our operating strategy has involved horizontally expanding our scope of products and services through selective acquisitions and the formation of new business units that are then vertically integrated into our growing family of turnkey system providers. By employing this strategy, we have expanded our business and increased our revenues by adding CECO Abatement Systems, K&B Duct, CECO Filters, India, Effox, FKI, Flextor and A.V.C. At the same time, we have been able to consolidate these new entities into our existing corporate structure without increasing costs proportionally.

Much of our business is driven by various regulatory standards and guidelines governing air quality in and outside factories.

**Recent Developments**

Current United States and worldwide economic conditions are showing signs of improvement. These economic conditions which created dramatic and rapid shifts in market conditions and governments throughout the world in 2009 and early 2010 have begun to ease and we are now beginning to see improving financial, general industrial and labor market conditions, although there is no assurance that such conditions will continue and the timing of the economic recovery remains uncertain.

We continue to optimize our factory footprint to eliminate excess capacity. As part of this process we have recently closed our Contracting/Services Group manufacturing facilities in Lexington, Kentucky, Indianapolis, Indiana and Cincinnati, Ohio. The gain from the sale at auction of operating machinery and equipment related to these closures was $0.3 million. Additionally, we realized a gain of approximately $0.3 from the sale of our Buell-Classifier Division which was sold in its entirety to another company. The historical operating results of this division were not significant. We do not anticipate any future losses or restructuring charges from these closures. The remaining machinery and equipment has been transferred to other facilities and the Cincinnati and Lexington properties were sold for a profit in December 2010. The Indianapolis property was sold in February of 2011 and the loss on this property has been accrued and accounted for in 2010. The net effect of these transactions is reflected in the financial statements as a gain on the sale of operating equipment of $396,000.

We have shifted production to our other more productive and cost effective facilities and reduced staff by 122 employees in 2010, and we believe these moves will save us approximately $2.0 million in annualized expenses going forward, which will lower our cost of goods sold and continue to improve our gross margins. All related severance costs have been recorded in 2010.

Our GMD Environmental facility in Fort Worth, Texas was closed in the fourth quarter of 2010 and the lease for this property was terminated. Work from this facility has been transferred to our Fisher-Klosterman division in Louisville, Kentucky and will continue to be marketed and sold under the GMD Environmental trade name.

As of January 1, 2011, Richard Blum is no longer serving as President of CECO Environmental and has resigned as director.

**Operations Overview**

Our contracts are obtained either through competitive bidding or as a result of negotiations with our customers. Contract terms offered by us are generally dependent on the complexity and risk of the project as well as the resources that will be required to complete the project. For example, a contract that can be performed primarily by subcontractors and that does not require us to use our fabrication and assembly facilities can be quoted at a lower gross margin than a more typical contract that will require additional factory overhead and administrative expenses. Our focus is on increasing our operating margins as well as our gross margin percentage which translates into higher net income. Our sales typically peak in the fourth quarter due to a tendency of customers to want to fully utilize annual capital budgets and due to the fact that many industrial facilities shut down for the holiday season and that creates demand for maintenance and renovation work that can be done at no other time.

CECO Filters secures international sales through the efforts of its operation in India and also through a network or sales representatives around the globe. System sales, such as those secured by Busch and Kirk & Blum, are secured through relationships built up over the years in various industries. Some of these relationships are at American companies building plants overseas and some are through the global reputation of Busch. Kirk & Blum has long done business in Mexico. In March 2008, we acquired Fisher-Klosterman/Buell, a Louisville, Kentucky based company which has, among other locations, a facility in Shanghai, China which gives us a platform for developing business in this vast market. In August of 2008, we acquired Flextor, a Montreal based maker of dampers and expansion joints that has significant international sales experience in South America.

Cost of sales as a percent of 2010 revenue is 77% and includes approximately 55% material and subcontracting expenses as well as 16% labor, plus factory overhead. Our cost of sales is principally driven by a number of factors including material prices and labor cost and availability. Changes in these factors may have a material impact on our overall gross profit margins. For example, in larger contracts, we may incur sub-contract work or direct equipment purchases, which may only be marked-up to a limited extent and consequently, the gross margins of the Company are affected. However, profitability is enhanced through the absorption of fixed operating costs, including SG&A and factory overhead.

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

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

In general, labor is the factor we are able to mark up the most followed by material and equipment and subcontracts. Across our various product lines the relative relationships of these factors change thus causing variations in gross margin percentage. Material costs have also increased faster than labor costs, which also reduces gross margin percentage. The important factor is that gross margin dollars increase even though margin percentages are reduced.

Selling and administrative expense principally includes advertising and marketing expenditures and 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.

**How We Manage our Business**

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.

**Strategy**

We believe there are significant opportunities for us to increase our revenue, profitability and market position in both the United States and abroad. Our strategy for growth consists of the following elements:

- Expand our customer base, enter new end markets and further penetrate existing end markets;
- Develop innovative solutions;
- Maintain strong customer focus; and
- Pursue selective acquisitions.

**Results of Operations**

***Segment Analysis***

**Net Sales by Business Segment**

| ($'s in millions) | For the year ended December 31, 2010 | 2009 |
|---|---|---|
| Engineered Equipment and Parts Group | $ 97.3 | $ 90.8 |
| Contracting/Services Group | 37.1 | 41.5 |
| Component Parts Group | 18.2 | 14.0 |
| Corporate and eliminations | (12.0) | (7.3) |
| | $ 140.6 | $ 139.0 |

**Operating Income (Loss) by Business Segment**

| ($'s in millions) | For the year ended December 31, 2010 | 2009 |
|---|---|---|
| Engineered Equipment and Parts Group | $ 9.3 | $ 0.4 |
| Contracting/Services Group | — | (1.4) |
| Component Parts Group | 2.8 | 0.6 |
| Corporate and eliminations | (7.1) | (15.4) |
| | $ 5.0 | $ (15.8) |

The amounts presented above and following comments at the reportable business segment level include both external and intersegment net sales and operating income (loss). See Note 18 to the Consolidated Financial Statements.

*Engineered Equipment and Parts Group*

Our Engineered Equipment and Parts Group segment net sales were $97.3 million in 2010, an increase of $6.5 million, or 7.2%, compared to $90.8 million in 2009. This increase is primarily due to $3.9 million in increased revenues from our FKI Shanghai division coupled with increased revenues at CECO Filters, Busch and CECO Abatement. These revenue increases were partially offset by reduced revenues at our Effox-Flextor divisions of $2.7 million which was primarily due to reduced demand for dampers and expansion joints from the power industry.

Operating income from the Engineered Equipment and Parts Group segment totaled $9.3 million in 2010, an increase of $8.9 million compared to $0.4 million in 2009. This increase is primarily due to increased operating income from our FKI-Shanghai division of $1.4 million, a combined increased operating income from other FKI divisions, CECO Filters, Busch, and CECO Abatement of $1.7 million and a goodwill impairment charge of $8.6 milion recorded in 2009, offset by a decline in operating income from Effox-Flextor of $2.9 million.

*Contracting/Services Group*

Our Contracting /Services Group segment net sales were $37.1 million in 2010, a decrease of $4.4 million, or 10.6%, compared to $41.5 million in 2009. This decrease is primarily due to reduced demand for these services which resulted from the economic decline.

Operating income for the Contracting/Services Group segment was essentially break-even for 2010 compared to an operating loss of $1.4 million for 2009. This improvement is primarily due to reduced costs in 2010 from facilities consolidations and streamlining efforts as well as better project management and more aggressive pricing strategies.

*Component Parts Group*

Our Component Parts Group segment net sales were $18.2 million in 2010, an increase of $4.2 million, or 30.0%, compared to $14.0 million in 2009. This increase is primarily due to increased demand for our component parts and clamp together duct products which is the result of many smaller contractors buying these products instead of producing them in-house.

Operating income for the Component Parts Group segment was $2.8 million for 2010, an increase of $2.2 million from $0.6 million for 2009. This increase is primarily due to increased revenues as described above and increased pricing strategies.

***Consolidated Results***

Our consolidated statements of operations for the years ended December 31, 2010 and 2009, reflect our operations consolidated with the operations of our subsidiaries.

| ($'s in millions) | For the year ended December 31, 2010 | 2009 |
|---|---|---|
| Net sales from continuing operations | $140.6 | $139.0 |
| Cost of goods sold from continuing operations | 107.9 | 108.0 |
| Gross profit from continuing operations | $ 32.7 | $ 31.0 |
| Percent of sales | 23.3% | 22.3% |
| Selling and administrative expenses from continuing operations | $ 27.5 | $ 28.9 |
| Percent of sales | 19.6% | 20.8% |
| Goodwill impairment charge | — | $ 17.1 |
| Percent of sales | — | 12.3% |
| Operating income (loss) from continuing operations | $ 5.0 | $ (15.8) |
| Percent of sales | 3.6% | (11.4)% |

Consolidated sales from continuing operations in 2010 were $140.6 million, an increase of $1.6 million or 1.1% compared to $139.0 million in 2009. This increase was primarily due to increased demand for our products and services created by certain industrial sectors such as small independent contractors that purchase component parts which created a 30% increase in our Component Parts Group sales as well as an increase in Engineered Equipment and Parts Group sales of 7.2% created by demand in the refining and steel sectors. These increases were offset by a decrease in Contracting/Services Group sales of 10.6%.

Demand for our products and services is created by increasingly strict EPA mandated industry Maximum Achievable Control Technology standards and OSHA established Threshold Limit Values, as well as existing pollution control and energy legislation.

Orders booked in 2010 were $128.5 million compared to $141.5 million in 2009. The decrease in bookings was due primarily to continued weak industrial demand and generally unchanged economic conditions as well as our strategic initiative in 2010 to focus on higher margin jobs with shorter cycles. We continue to experience an active level of customer inquiry and quoting activities and have seen increased demand in 2011 as compared to the same period in 2010.

Gross profit from continuing operations increased by 5.5% or $1.7 million to $32.7 million in 2010 compared with $31.0 million in 2009. Gross profit from continuing operations as a percentage of sales was 23.3% in 2010 compared to 22.3% in 2009. The net increase in the gross profit margin from continuing operations was primarily due to a shift in product mix to the higher margin parts and engineered equipment products and services.

Selling and administrative expenses from continuing operations decreased by $1.4 million to $27.5 million in 2010 and selling and administrative expenses as a percentage of revenues decreased from 20.8% in 2009 to 19.6 % in 2010. This decrease in spending was due primarily to reductions in wages and benefits of $0.9 million, reductions in professional services of $0.2 million as well as $0.1 million in lower advertising costs. The decrease in the percentage of selling and administrative expenses relative to revenue was due to the significant reductions in spending as a result of our continuous streamlining, consolidation and cost reduction efforts.

Depreciation for 2010 was $1.3 million, the majority of which is included in cost of goods sold. This is a decrease of $0.5 million from $1.8 million in 2009, which was due primarily to a significant portion of the machinery and equipment that was acquired in the Kirk & Blum acquisition in 1999 becoming fully depreciated in 2009.

Amortization, which is primarily related to acquisition intangibles, decreased from $0.8 million in 2009 to $0.5 million in 2010. This $0.3 million decrease was due primarily to intangibles related to 2007 and 2008 acquisitions becoming fully amortized in 2010.

Goodwill impairment charges were $0 in 2010 compared to impairment charges in 2009 of $17.1 million. As required by current accounting rules, we complete an annual (or more often if circumstances require) impairment test for our goodwill and those tests in 2010 did not indicate an impairment. In performing this assessment, the carrying value of each reporting unit was compared to its estimated fair value, as calculated by the discounted present value of future cash flows method. The estimated fair value of all reporting units was greater than their respective carrying value and consequently no impairment charge was recorded. Major factors that influence our cash flow analyses are our estimates for future revenue and expenses associated with the reporting units. This is the most sensitive of our estimates related to our fair value calculations. Other factors considered in our fair value calculations include assumptions as to the business climate, industry and economic conditions. These assumptions are subjective and different estimates could have a significant impact on the results of our analyses.

The 2010 gain on the sale of operating equipment is comprised of a gain of $300,000 on the sale of our Buell/Classifier division to an outside third party and a net gain of $96,000 from the sale of our Cincinnati, Ohio and Lexington, Kentucky manufacturing facilities and related operating equipment as well as an accrued loss on the pending sale of our Indianapolis, Indiana property that was sold in February of 2011. No such gains or losses were recorded in 2009.

Operating income from continuing operations, was $5.0 million in 2010 compared to an operating loss from continuing operations in 2009 of $15.8 million, which included a goodwill impairment charge of $17.1 million. This increase in operating results from continuing operations is due to the various factors previously mentioned.

Inflation and changing prices did not have a material effect on our revenues or results of operations.

Other expense from continuing operations for the year ended December 31, 2010 was $135,000 compared to $760,000 in 2009. The 2009 expense was primarily the result of unrealized foreign currency transaction losses related to now retired subordinated debt which was denominated in Canadian currency.

Interest expense decreased to $1.2 million in 2010 compared to $1.3 million for the same period of 2009. This decrease was primarily due to lower outstanding balances on our credit facility offset by higher interest expenses on our convertible debt.

Federal and state income tax expense from continuing operations was $1.4 million in 2010 compared with a tax benefit of $3.1 million in 2009. The effective income tax rate for 2010 was 37.3% compared with 17.6% in 2009. The effective tax rate during 2010 was affected by certain permanent differences including non-deductible incentive stock based compensation, reversals of certain income tax reserves and tax credits from foreign operations. The effective tax rate during 2009 was significantly affected by non-deductible differences associated with goodwill impairment charges.

Net income from continuing operations was $2.3 million in 2010 compared to a net loss from continuing operations of $14.8 million in 2009.

Net loss from the discontinued operations of H. M. White, Inc. was $200,000 in 2010 compared to a net loss from discontinued operations in 2009 of $265,000. These losses represent the net after tax results of our H.M. White unit which has been closed. The decrease in the loss is due to the reduced activity and lower expenses in 2010 compared to 2009.

**Liquidity and Capital Resources**

*Financing*

Our principal sources of liquidity are cash flow from operations and available borrowings under our revolving credit facility. At December 31, 2010 and December 31, 2009, cash and cash equivalents totaled $5.8 million and $1.4 million, respectively. Generally, we do not carry significant cash and cash equivalent balances because excess amounts are used to pay down our revolving line of credit or other indebtedness. In 2010, proceeds from the sale of operating equipment and real estate were used to pay off the outstanding balances on our credit line and our term note.

Total bank debt at December 31, 2010 was $0 and at December 31, 2009 was $2.7 million. The Bank Facility, as amended, includes a revolving line of credit of up to $20 million, including letters of credit. Amounts outstanding under the revolver were $0 at December 31, 2010 and December 31, 2009. Unused credit availability under our $20.0 million revolving line of credit at December 31, 2010 was $11.7 million. Interest on the outstanding borrowings is charged at the daily LIBOR rate plus 3.5% or the tranche LIBOR rate plus 3.0% for the revolver and the daily LIBOR rate plus 3.75% or the tranche LIBOR rate plus 3.25% for the term note. The weighted average interest rate under the Bank Facility as of December 31, 2010 was 3.82%. Availability is limited as determined by a borrowing base formula contained in the credit agreement as follows:

| $ in millions | 12/31/10 | 12/31/09 |
|---|---|---|
| Eligible accounts receivable at 70% | $ 14.4 | $ 13.0 |
| Net unbilled revenues at 50% up to $1.0 million | 0.0 | 0.0 |
| Eligible inventory at 50% up to $7.5 million | 1.9 | 2.2 |
| Borrowing base reserves required by lender | 0.5 | 0.5 |
| Borrowing base | $ 16.8 | $ 15.7 |
| Revolving loan principal amount outstanding | (0.0) | (0.0) |
| Letters of credit open | (5.1) | (4.9) |
| Loan availability | $ 11.7 | $ 10.8 |

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

On August 6, 2010, the Company entered into an amended and restated credit agreement effective as of June 30, 2010, which amends and restates in its entirety the Bank Facility and extends the termination date of the Line of Credit to April 1, 2013 and the term loan to April 1, 2014. The amendment and restatement also increases the limit on letters of credit from $5.0 million to $10.0 million, resets the pricing grid to level one, which temporarily increased our interest rates by 0.5% until the next pricing grid determination date of December 31, 2010, at which time the pricing level was re-determined based on the Company's trailing twelve month fixed charge ratio to be at level three which reduced our interest rates by 0.5%. The maximum commitment under the line of credit remained at $20.0 million. No fees were paid for this amendment.

Terms of the Bank Facility, as amended, include financial covenants which require compliance at June 30, 2010 and each quarter through March 31, 2013. The maximum capital expenditures financial covenant is $2.5 million per year. The minimum Fixed Charge Coverage Ratio is 2.5:1.0 for each quarter through the quarter ended June 30, 2010 and 1.25:1.0 thereafter. The maximum funded debt to EBITDA covenant is 3.0 to 1. Our Bank Facility also contains cross-default provisions with respect to our subordinated debt. Also, if we fail to pay (after grace periods) any other debt or lease that, individually or in the aggregate involves indebtedness in excess of $100,000, and such default gives any creditor or lessor the right to accelerate the maturity of any such indebtedness or lease payments, then absent a waiver from the lender, it would result in a default under our Bank Facility and the acceleration of the maturity of outstanding debt under our Bank Facility. As of December 31, 2010, we were in compliance with all related financial and other restrictive covenants, and expect continued

compliance. In the future, if we cannot comply with the terms of the Bank Facility covenants it will be necessary for us to obtain a waiver or renegotiate our loan covenants, and there can be no assurance that such negotiations would be successful. In the event that we are not successful in obtaining a waiver or an amendment, we would be declared in default, which could cause all amounts owed to be immediately due and payable. We paid the term loan off in 2010 and have no outstanding borrowings under the line of credit as of December 31, 2010. Our property and equipment, accounts receivable, investments and inventory serve as collateral for our bank debt. Our debt agreements contain customary covenants and events of default.

On August 14, 2008, the Company issued a Subordinated Convertible Promissory Note (the “Convertible Subdebt Note”) in the amount of Canadian $5.0 million to Icarus, which is controlled by Phillip DeZwirek, our Chairman and former Chief Executive Officer, and Jason DeZwirek, our Secretary and one of our Directors. The Convertible Subdebt Note provided for interest to accrue at the rate of 10% per annum in 2008, 11% per annum in 2009, and 12% per annum commencing January 1, 2010 until paid. The outstanding principal and accrued interest under the Convertible Subdebt Note was convertible at any time, into common stock of the Company at a per share price of $4.75 which was the closing bid price immediately preceding the issuance of the Convertible Subdebt Note. The Convertible Subdebt Note was amended in February 2009 to provide for interest payments to be payable monthly, instead of semi-annually, subject to the Subordination Agreement between Fifth Third Bank and Icarus. The Convertible Subdebt Note was further amended on May 1, 2009 to extend its maturity date to October 1, 2011 from July 31, 2010. We repaid Canadian $3.7 million under the Convertible Subdebt Note on March 31, 2009 and fully repaid the outstanding balance of $1.2 million on November 26, 2009. Foreign exchange translation losses of $121,000 were recognized during the twelve months ended December 31, 2009 as other expense.

On May 15, 2009, the Company issued a Promissory Note (“Note”) to Icarus in the amount of $3.0 million. The Note, which was subordinated to the Company’s Bank Facility, bore interest at 12% per annum with interest payable monthly. The maturity date of the note was the earlier of May 15, 2012 or six months after repayment of the Bank Facility. At the option of Icarus, the note was repayable in Canadian funds with a stated conversion rate of 1.1789, or CAD $3.5 million, representing the conversion rate at the issuance date of the Note. In accordance with ASC 815 “Derivatives and Hedging”, this option was bifurcated and recorded at fair value. Gains and losses resulting from the revaluation of this liability are included in other income (expense) in the consolidated statements of operations and were losses of $103,000 for the quarter and $359,008 for the year ended December 31, 2009, respectively. The Note and accrued interest was fully repaid on November 26, 2009 in the amount of $3.3 million.

On November 26, 2009, the Company issued $10.8 million principal amount subordinated convertible promissory notes to a group of investors (the “Investor Notes”) which includes related parties: Icarus Investment Corp, which is controlled by Phillip DeZwirek, our Chairman and former Chief Executive Officer, ($2,200,000), Jason DeZwirek ($800,000), and Harvey Sandler Revocable Trust ($800,000), which trust owns over 10% of our outstanding common stock. Interest accrues under the Investor Notes at the annual rate of 6% and is payable as of the end of each calendar quarter. Interest paid on the investor notes for 2010 and 2009 was $648,000 and $69,000, respectively. We used the proceeds of the Investor Notes to repay all of our previously existing subordinated debt in the amount of approximately $4.5 million, which debt was accruing interest at rates between 11-12%. The balance of the proceeds were available to be used for general working capital. Fees of $320,000 were paid for the issuance of this debt and are being amortized over the term of the Investor Notes.

The Investor Notes are due on November 26, 2014 and are not repayable prior to maturity except upon a change of control, or upon the consent of the holder. The outstanding principal amount of the Investor Notes or any portion thereof, but not the interest, is convertible at the holder’s option, at any time after the issuance of the Investor Notes at a conversion price of $4.00 per share, such price being greater than the Company’s share price at the date of issuance of the Investor Notes. Following three years from the date of the Investor Notes, if the closing price of the common stock of the Company is greater than $8.00 for five consecutive days, the Company

can cause conversion of the Investor Notes. The outstanding balance of the Investor Notes at December 31, 2010 was $10.8 million. In February 2011, $200,000 principal of the Investor Notes was converted to 50,000 shares of our common stock.

**Overview of Cash Flows and Liquidity**

| ($'s in thousands) | For the year ended December 31, 2010 | 2009 |
|---|---|---|
| Total operating cash flow from continuing operations | $ 1,928 | $ 12,584 |
| Purchases of property and equipment | (654) | (999) |
| Proceeds from sale of equipment | 5,158 | — |
| Net cash provided by( used in) investing activities from continuing operations | 4,504 | (999) |
| Proceeds from exercise of stock options | 11 | — |
| Net bank (repayment) borrowing | (2,707) | (19,878) |
| Net subordinated debt borrowings | — | 6,231 |
| Cash paid for deferred financing costs | (347) | — |
| Net cash (used in) provided by financing activities | (3,043) | (13,647) |
| Net increase in cash from continuing operations | 3,389 | (2,062) |
| Net cash provided by discontinued operations | 1,010 | 2,308 |
| Net increase in cash and cash equivalents | $ 4,399 | $ 246 |

In 2010, $1.4 million was provided by continuing operating activities compared to $12.6 million provided by continuing operating activities in 2009. This $11.2 million decrease in cash provided by continuing operating activities was due primarily to a an overall net increase in working capital requirements. Accounts receivable used cash of 3.0 million in 2010 compared to cash provided by accounts receivable of $14.1 million in 2009 for a net change of $17.1 million. Billings in excess of cost and estimated earnings on uncompleted contracts used $2.6 million in 2010 compared to cash provided of $3.0 million in 2009 and inventories used cash of $43,000 in 2010 compared to cash provided in 2009 of $1.2 million. Working capital items that provided more cash in 2010 as compared to 2009 were accrued income taxes which provided cash of $1.6 million in 2010 compared to cash used of $2.4 million in 2009 and costs in excess of billings which provided cash of $2.3 million in 2010 compared to cash provided of $0.3 million in 2009. Accounts payable and accrued expenses used cash of $1.9 million in 2010, which is $5.6 million less cash than the $7.5 million that was used in 2009.

The increases in accounts receivable, costs in excess of billings, inventory and other liabilities were mainly the result of increases in our Component Parts Group and Engineered Equipment and Parts Group revenues in 2010 compared to 2009, due to improving economic conditions and were partially offset by working capital changes due to a decline in our Contracting/Services Group business.

Net income from continuing operations in 2010 did not include any non cash charges for goodwill impairment (net of tax benefit) compared to $14.3 million of these charges in 2009. Depreciation and amortization amounted to $1.8 million in 2010 compared to $2.5 million for depreciation and amortization in 2009. This decrease in depreciation and amortization was due primarily to decreased amortization of definite life intangibles from recent acquisitions which are now fully amortized. 2010 net income from continuing operations also included $0.8 million for non cash stock awards compared to $1.0 million in 2009. Our net investment in working capital (excluding cash and cash equivalents and current portion of debt) at December 31, 2010 was

$16.1 million as compared to $14.5 million at December 31, 2009. Looking forward, we will continue to manage our net investment in working capital. We believe that our working capital needs will remain constant unless we experience a significant increase or decrease in sales and operating income or make additional acquisitions.

In 2010, net cash provided by investing activities included cash provided by the sale of operating equipment of $5.2 million compared to $0 in 2009. Capital expenditures for property and equipment were $0.7 million in 2010 compared with $1.0 million in 2009. We are managing our capital expenditures in light of the current level of sales.

In 2010, financing activities used cash of $3.0 million, compared to cash used of $13.6 million in 2009. Current year financing activities included net repayments of $2.7 million of our bank debt compared to net repayments in 2009 of $19.9 million.

When we undertake large jobs, our working capital objective is to make these projects self-funding. We try 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. Inventory remains relatively constant from year to year. Accordingly, changes in inventory do not constitute a significant part of our investment in working capital.

Based on our historical results, management's experience, our current business strategy and current cash flows, we believe that our existing cash resources will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months. In addition, as necessary, we believe that we will be able to adjust operating expenses in order to maintain positive operating cash flow. Nevertheless, if we generate insufficient cash flows from operations or are unable to draw the amounts needed from our Bank Facility to meet our short-term liquidity needs, we may borrow additional funds. Although management believes that we will be able to fund our operations from current resources, there is no guarantee that we will be able to do so, however, alternative sources of funding are potentially available in the form of additional term debt to be provided by our lender, which may be collateralized by our real estate and equipment, as well as subordinated debt to be provided by a related party. However, we cannot provide any assurances that such financing will be available to us on favorable terms or at all.

**Dividends**

We have never paid cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. We are party to various loan documents which prevent us from paying any dividends.

**Debt Covenants**

The Bank Facility was amended throughout 2009 and again in February and June 2010. Terms of the Bank Facility, as amended, include financial covenants which require compliance at June 30, 2010, and each quarter through March 31, 2013. The covenants include a maximum capital expenditures financial covenant during the term of the Bank Facility of $2.5 million. The minimum Fixed Charge Coverage Ratio is 1.5 to 1 and the maximum funded debt to EBITDA covenant is 3.0 to 1. Our Bank Facility also contains cross-default provisions with respect to our subordinated debt. Also, if we fail to pay (after grace periods) any other debt or lease that, individually or in the aggregate involves indebtedness in excess of $100,000, and such default gives any creditor or lessor the right to accelerate the maturity of any such indebtedness or lease payments, then absent a waiver from the lender, it would result in a default under our Bank Facility and the acceleration of the maturity of outstanding debt under our Bank Facility.

As of December 31, 2010, we were in compliance with all related financial and other restrictive covenants, and expect continued compliance.

In the future, if we cannot comply with the terms of the Bank Facility agreements it will be necessary for us to obtain a waiver or renegotiate our loan covenants, and there can be no assurance that such negotiations would be successful. In the event that we are not successful in obtaining a waiver or an amendment, we would be declared in default, which could cause all amounts owed to be immediately due and payable.

**Employee Benefit Obligations**

Based on the assumptions used to value other postretirement obligations, life insurance benefits and retiree healthcare benefits, in the fourth quarter of 2010, cash payments for these benefits are expected to be in the range of $345,000 to $434,000 in each of the next 5 years. Based on current assumptions, estimated contributions of
$345,000 may be required in 2011 for the pension plan and $28,000 for the retiree healthcare plan. The amount and timing of required contributions to the pension trust depends on future investment performance of the pension funds and interest rate movements, among other things and, accordingly, we cannot reasonably estimate actual required payments. Currently, our pension plan is under-funded. As a result, absent major increases in long-term interest rates, above average returns on pension assets and/or changes in legislated funding requirements, we will be required to make contributions to our pension trust of varying amounts in the long-term.

**Off Balance Sheet Arrangements**

None

**Critical Accounting Policies and Estimates**

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

*Revenue Recognition*

A substantial portion of our revenue is derived from contracts, which are accounted for under the percentage of completion method of accounting. Percentage completion is measured by the percentage of contract costs incurred to date compared to estimated total contract costs to be the best available measure of progress on these contracts. Contract costs include direct material and labor costs related to contract performance. This method requires a higher degree of management judgment and use of estimates than other revenue recognition methods. The judgments and estimates involved include management's ability to accurately estimate the contracts' percentage of completion and the reasonableness of the estimated costs to complete, among other factors, at each financial reporting period. In addition, certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability. For contracts that are less than 50% complete, a maximum of 10% to 25% of gross profit will be recognized depending on the division and the type of contract.

Selling and administrative expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes to job performance, job conditions, and estimated profitability may result in revisions to contract revenue and costs and are recognized in the period in which the revisions are made. We provided for estimated losses on uncompleted contracts of $38,000 and $30,000 at December 31, 2010, and 2009 respectively.

*Property, Plant and Equipment*

Property plant and equipment are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, our impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of our assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. We conduct annual reviews for idle and underutilized equipment, and review business plans for possible impairment. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset and an impairment charge is recorded for the difference between the carrying value and fair values.

As of December 31, 2010, we have $5.9 million of net property, plant, and equipment recorded on the consolidated balance sheet. The carrying value of our Indianapolis, Indiana property, which was held for sale as of December 31, 2010 and under contract to be sold, was reduced in value to reflect the contract price and a $324,000 impairment charge was recorded. No other indications of impairment were noted as of December 31, 2010.

*Impairment of Long-Lived Assets, including Goodwill*

Our indefinite life intangible assets are reviewed for potential impairment at least annually. Goodwill is also tested at least annually for any indication of impairment on a reporting unit level.

The Company is organized into three divisions, including a Contracting/Services Group, an Engineered Equipment and Parts Group and a Component Parts Group. Each of these groups meets the criteria for treatment as an operating segment. Each of these operating segments is comprised of one or more components on which discrete financial information is available and on which operating results are regularly reviewed by segment management and each of these components is considered to be a reporting unit for purposes of our goodwill impairment analysis.

As of December 31, 2010, we have $14.7 million of goodwill, $1.0 million of amortizable intangible assets and $3.2 million of indefinite life intangible assets recorded on the consolidated balance sheet.

For all amortizable intangible assets, if any events or changes in circumstances occur that indicate possible impairment, our impairment review is based on an undiscounted cash flow analysis. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset and an impairment charge is recorded for the difference between the carrying value and the net present value of estimated future cash flows. The Company also evaluates the remaining useful life at each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life.

We complete an annual (or more often if circumstances require) impairment test for our indefinite life intangible assets. We utilize the relief from royalty method to determine the fair value of these assets. In performing these assessments, the carrying value of the asset is considered impaired if the fair value is less than the carrying value of the asset. If this occurs, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its fair value. The test in 2010 indicated no impairment to our indefinite life intangible assets.

We complete an annual (or more often if circumstances require) impairment test for our goodwill and those tests in 2010 did not indicate an impairment. In performing this assessment, the carrying value of each reporting

unit was compared to its estimated fair value, as calculated by the discounted present value of future cash flows method. The fair value measurement method used in the Company's impairment analysis utilizes a number of significant unobservable inputs or Level 3 assumptions. These assumptions include, among others, projections of our future operating results, the implied fair value of these assets using an income approach by preparing a discounted cash flow analysis and other subjective assumptions. Our analysis indicated that the carrying value of our reporting units was significantly lower than their fair values. While management, based on current forecasts and outlooks, believes that the estimated fair value is reasonable, we can make no assurances that future actual operating results will be realized as planned and that there will not be material impairment charges as a result. Major factors that influence our cash flow analyses are our estimates for future revenue and expenses associated with the reporting units. This is the most sensitive of our estimates related to our fair value calculations. Other factors considered in our fair value calculations include assumptions as to the business climate, industry and economic conditions. As a result of our test in 2010, no goodwill impairment charges were recorded in 2010 compared to impairment charges in 2009 of $17.1 million.

In our goodwill assessment at the end of 2010, management considered that the Company's market capitalization as of December 31, 2010 was $86.2 million based on our stock price at that date. Our consolidated book value at that date was $35.2 million. We note that our reporting units that carry goodwill do not represent 100% of the operations of our Company. The goodwill assessment of our reporting units does not include an allocation of our debt to those reporting units.

*Income Taxes*

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. We recognize penalties and interest related to unrecognized tax benefits in income tax expense.

*Pension and Postretirement Benefit Plan Assumptions*

We sponsor a pension plan for certain union employees. We also sponsor a postretirement healthcare benefit plan for certain office employees retiring before January 1, 1990. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to these plans. These factors include key assumptions, such as a discount rate and expected return on plan assets. In addition, our actuarial consultants use subjective factors such as withdrawal and mortality rates to estimate these liabilities. The actuarial assumptions we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may

result in a significant impact to the amount of pension or postretirement healthcare benefit expenses we have recorded or may record in the future. An analysis for the expense associated with our pension plan is difficult due to the variety of assumptions utilized. For example, one of the significant assumptions used to determine projected benefit obligation is the discount rate. At December 31, 2010, a 25 basis point change in the discount rate would change the projected benefit obligation by approximately $216,000 and the annual pension expense by less than $18,000. Additionally, a 25 basis point change in the expected return on plan assets would change the pension expense by approximately $13,000.

*Stock Based Compensation*

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

*Use of Estimates*

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

*Other significant accounting policies*

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

**Backlog**

Our backlog consists of orders we have received for products and services. Our backlog from continuing operations was $54.3 million at December 31, 2010 and $66.5 at December 31, 2009. Our total backlog, as of December 31, 2010 was $54.3 million compared to $66.9 million as of December 31, 2009. There can be no assurances that backlog will be replicated, increased or translated into higher revenues in the future. The success of our business depends on a multitude of factors related to our backlog and the orders secured during the subsequent period(s). Certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the project, weather, and labor availability also can have an effect on a contract's profitability.

**New Accounting Pronouncements**

*New Financial Accounting Pronouncements Adopted*

ASC 820—In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures About Fair Value Measurements." This guidance amends Subtopic 820-10 to require new disclosures and clarify existing disclosures. This guidance requires new disclosures of amounts and reasons for significant transfers between Level 1 and Level 2 fair value

measurements. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), separate presentation of information about purchases, sales, issuances and settlements is required. The guidance clarifies that fair value measurement disclosures for each class of assets and liabilities may constitute a subset of assets and liabilities within a line item on a reporting entity's balance sheet. The guidance also clarifies disclosure requirements about inputs and valuation techniques for both recurring and nonrecurring fair value measurements (Level 2 or Level 3). The ASU also amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity for Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, including interim periods within those fiscal years. The Company has not had and does not expect that the adoption of this remaining guidance will have a material effect on the Company's consolidated results of operations, financial position or cash flows.

ASC 815—In March 2010, the FASB issued ASU 2010-11, "Scope Exception Related to Embedded Credit Derivatives" to address questions that have been raised in practice about the intended breadth of the embedded credit derivative scope exception in paragraphs 815-15-15-8 through 815-15-15-9 of ASC 815, "Derivatives and Hedging". The amended guidance clarifies that the scope exception applies to contracts that contain an embedded credit derivative that is only in the form of subordination of one financial instrument to another. This guidance is effective on July 1, 2010 for the Company. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

*Recently Issued Accounting Pronouncements*

Accounting Standards Codification ("ASC") 605-25—In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13 for updated revenue recognition guidance under the provisions of ASC 605-25, "Multiple-Element Arrangements." The previous guidance has been retained for criteria to determine when delivered items in a multiple-deliverable arrangements should be considered separate units of accounting, however the updated guidance removes the previous separation criterion that objective and reliable evidence of fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. This guidance is effective for fiscal years beginning on or after June 15, 2010. The Company does not expect that the adoption of this guidance will have a material effect on the Company's consolidated results of operations, financial position or cash flows.

ASC 350—In December 2010, the FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units With Zero or Negative Carrying Amounts" to modify step one of the goodwill impairment test for entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing step one of the goodwill impairment test is zero or negative. For those entities which have one or more reporting units, the entity is required to perform step two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The ASU is effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2010. The Company does not expect that the adoption of this guidance will have a material effect on the Company's consolidated results of operations, financial position or cash flows.

ASC 805—In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations" to address diversity in practice about the interpretation of pro forma revenue and earnings disclosure requirements for business combinations. The amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma

adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The ASU is effective prospectively for business combinations whose acquisition date is at or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

**Item 7A.** ***Quantitative and Qualitative Disclosure About Market Risk.***

A smaller reporting company is not required to provide the information in this Item.

**Item 8.** ***Financial Statements and Supplementary Data***

The consolidated financial statements of CECO Environmental Corp. and subsidiaries for the years ended December 31, 2010 and 2009 and other data are included in this Report following the signature page of this Report:



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

None.

**Item 9A.** ***Controls and Procedures***

**Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures," as such term is defined under Securities Exchange Act Rule 13a- 15(e), that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the "Exchange Act") reports 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 our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. Based upon their evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2010 our disclosure controls and procedures were effective in ensuring that information we are required to disclose in reports that are filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in SEC rules and forms.

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

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in

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

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2010, based on the framework and criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the fourth fiscal quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B.** ***Other Information***

None.

## PART III

### Item 10. *Directors, Executive Officers and Corporate Governance*

Pursuant to General Instruction G of Form 10-K, the information called for by Item 10 of Part III of Form 10-K is incorporated by reference to the information set forth in the Company's definitive proxy statement relating to its 2011 Annual Meeting of Stockholders (the "2011 Proxy Statement") to be filed pursuant to Regulation 14-A under the Exchange Act, in response to Items 401, 405 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K under the Securities Act and the Exchange Act ("Regulation S-K"). Reference is also made to the information appearing in Item 1 of Part I of this Annual Report on Form 10-K under the caption "Business— Executive Officers of the Registrant."

### Code of Ethics

We have adopted a Code of Ethics that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller and persons performing similar functions). The Code of Ethics is posted on our website at www.cecoenviro.com on the Investor Information section. We will post on our website any amendments to or waivers of the Code of Ethics for executive officers or directors in accordance with applicable laws and regulations.

### Item 11. *Executive Compensation*

Pursuant to General Instruction G of Form 10-K, the information called for by Item 11 of Part III of Form 10-K is incorporated by reference to the information set forth in the 2011 Proxy Statement.

### Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Pursuant to General Instruction G of Form 10-K, the information called for by Item 12 of Part III of Form 10-K is incorporated by reference to the information set forth in the 2011 Proxy Statement in response to Item 403 of Regulation S-K.

### Securities Authorized for Issuance Under Equity Compensation Plans

**EQUITY COMPENSATION PLAN INFORMATION**

| December 31, 2010 | (a) | (b) | (c) |
|---|---|---|---|
| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights, compensation plans | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity compensation plans approved by security holders | | | |
| 1997 Stock Option Plan[1] | 292,605 | $ 7.06 | — |
| 2007 Equity Incentive Plan[2] | 890,400 | $ 3.84 | 832,792 |
| Employee Stock Purchase Plan[3] | 22,808 | $ 3.32 | 1,477,192 |
| Equity compensation plans not approved by security holders | None | None | None |
| TOTAL | 1,205,813 | $ 2.62 | 2,309,984 |

[1] The 1997 Stock Option Plan (the "1997 Plan") was replaced with the 2007 Equity Incentive Plan. The 1997 Plan remains in effect solely for the purpose of the continued administration of the options currently outstanding under the 1997 Plan.

[2] The 2007 Equity Incentive Plan was approved by the shareholders on May 23, 2007. 727,000 options were awarded to plan participants under the 2007 Equity Incentive Plan in 2010.

[3] The Employee Stock Purchase Plan was approved by the shareholders on May 21, 2009.

**Item 13.** ***Certain Relationships And Related Transactions, and Director Independence***

Pursuant to General Instruction G of Form 10-K, the information called for by this Item 13 of Part III of Form 10-K is incorporated by reference to the information set forth in the 2011 Proxy Statement.

**Item 14.** ***Principal Accountant Fees and Services***

Pursuant to General Instruction G of Form 10-K, the information called for by Item 14 of Part III of Form 10-K is incorporated by reference to the information set forth in the 2011 Proxy Statement.

## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***

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

2. Financial statement schedules are omitted because they are not applicable or because the required information is shown in the financial statements or in the notes thereto.

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

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

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

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

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

10.3 Mortgage dated October 28, 1991 by CECO and the Montgomery County Industrial Development Corporation (Incorporated by reference to CECO's Annual Report on Form 10-K dated December 31, 1991)

10.4 Installment Sale Agreement dated October 28, 1991 between CECO and MCIDC (Incorporated by reference to CECO's Annual Report on Form 10-K dated December 31, 1991)

10.5 Consulting Agreement dated as of January 1, 1994 and effective as of July 1, 1994 between the Company and CECO Filters, Inc. (Incorporated by reference to Exhibit 10.1 to Form 10-QSB dated September 30, 1994 of the Company)

10.6 Kbd/Technic, Inc. Voting Trust Agreement, dated as of December 7, 1999, Richard J. Blum, trustee (Incorporated by reference to Exhibit 10.13 from the Company's Form 8-K filed December 22, 1999 with respect to event that occurred December 7, 1999)

**10.7 Amended and Restated 2006 Executive Incentive Compensation Plan (Incorporated by reference to Exhibit 10.38 from the Company's 10-K dated December 31, 2006)

10.8 Warrant Agreement between the Company and Icarus Ontario dated December 28, 2006. (Incorporated by reference to Exhibit 10.3 from the Company's Form 8-K dated December 28, 2006)

**10.9 Consulting Agreement between Icarus Ontario and the Company dated March 26, 2007 (Incorporated by reference to Exhibit 10.55 from the Company's Form 10-K dated December 31, 2006)

**10.10 CECO Environmental Corp. 2007 Equity Incentive Plan (Incorporated by reference to Exhibit B to CECO Environmental Corp.'s definitive proxy statement on Schedule 14A filed on April 20, 2007)

**10.11 Form of Restricted Stock Award Agreement. (Incorporated by reference to Exhibit 10.41 from the Company's Form 10-K for the year ended December 31, 2008)

**;*10.12 Form of Incentive Stock Option Agreement

** ; *10.13 Form of Non-Statutory Stock Option Agreement

10.14 Registration Rights Agreement dated February 29, 2008 (Incorporated by reference from Exhibit 10.4 of the Company's Current Report on Form 8-K filed on March 3, 2008)

**10.15 CECO Environmental Corp. Employee Stock Purchase Plan (Incorporated by reference to Exhibit A to CECO Environmental Corp.'s definitive proxy statement on Schedule 14A filed with the Security Exchange Commission on April 13, 2009)

**10.16 First Amendment to CECO Environmental Corp. 2007 Equity Incentive Plan (Incorporated by reference to Exhibit B to CECO Environmental Corp.'s definitive proxy statement on Schedule 14A filed with the Security Exchange Commission on April 13, 2009)

**10.17 Change in Control Agreement dated October 16, 2009 (Incorporated by reference to Exhibit 10.1 from the Company's Current Report on Form 8-K filed October 16, 2009)

10.18 Form of Investor Note (Incorporated by reference to Exhibit 10.1 from the Company's Current Report on Form 8-K filed December 1, 2009)

10.19 Employment Agreement of Jeffrey Lang dated February 15, 2010 (Incorporated by reference to Exhibit 10.4 from the Company's Quarterly Report on Form 10-Q filed May 14, 2010)

10.20 Severance Agreement and General Waiver and Release between David Blum and the Company (Incorporated by reference to Exhibit 10.1 from the Company's Quarterly Report on Form 10-Q filed August 13, 2010)

10.21 Ninth Amendment to Credit Agreement dated February 12, 2010, effective as of December 31, 2009 (Incorporated by reference to Exhibit 10.1 from the Company's Current Report on Form 8-K filed February 19, 2010)

10.22 Fifth Amended and Restated Revolving Credit Promissory Note, effective date December 31, 2009 (Incorporated by reference to Exhibit 10.2 from the Company's Current Report on Form 8-K filed February 19, 2010)

10.23 Amended and Restated Term Promissory Note, effective date December 31, 2009 (Incorporated by reference to Exhibit 10.3 from the Company's Current Report on Form 8-K filed February 19, 2010)

*10.24 Amended and Restated Credit Agreement between CECO and its US corporate affiliates and Fifth Third Bank entered into August 17, 2010, effective date June 30, 2010

10.25 Sixth Amended and Restated Revolving Credit Promissory Note, effective date June 30, 2010 (Incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K filed August 19, 2010)

10.26 Amended and Restated Term Promissory Note, effective date June 30, 2010 (Incorporated by reference from Exhibit 10.3 of the Company's Current Report on Form 8-K filed August 19, 2010)

10.27 Purchase Agreement dated August 19, 2010 (Incorporated by reference to Exhibit 10.4 from the Company's Quarterly Report on Form 10-Q filed November 15, 2010)

*21 Subsidiaries of the Company

*23.1 Consent of BDO USA, LLP

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

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

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

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

* Filed herewith
** Management contracts or compensation plans or arrangement

## SIGNATURES

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

CECO ENVIRONMENTAL CORP.

By: /S/ JEFFREY LANG
**Jeffrey Lang**
**Chief Executive Officer**
**Dated: March 15, 2011**

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

Principal Executive Officer

| | |
|---|---|
| /S/ JEFFREY LANG<br>**Jeffrey Lang**<br>**Chief Executive Officer, Director** | March 15, 2011 |

Principal Financial and Accounting Officer

| | |
|---|---|
| /S/ DENNIS W. BLAZER<br>**Dennis W. Blazer**<br>**Vice President-Finance and Administration;**<br>**Chief Financial Officer** | March 15, 2011 |
| /S/ PHILLIP DEZWIREK<br>**Phillip DeZwirek**<br>**Chairman of the Board, Director** | March 15, 2011 |
| /S/ ARTHUR CAPE<br>**Arthur Cape**<br>**Director** | March 15, 2011 |
| /S/ JASON DEZWIREK<br>**Jason DeZwirek**<br>**Director** | March 15, 2011 |
| /S/ THOMAS J. FLAHERTY<br>**Thomas J. Flaherty**<br>**Director** | March 15, 2011 |
| /S/ RONALD E. KRIEG<br>**Ronald E. Krieg**<br>**Director** | March 15, 2011 |
| /S/ JASON D. MERETSKY<br>**Jason D. Meretsky**<br>**Director** | March 15, 2011 |
| /S/ DONALD WRIGHT<br>**Donald A. Wright**<br>**Director** | March 15, 2011 |

**CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CECO Environmental Corp.
Cincinnati, Ohio

We have audited the accompanying consolidated balance sheets of CECO Environmental Corp. as of December 31, 2010 and 2009 and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CECO Environmental Corp. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Chicago, Illinois
March 15, 2011

**CECO ENVIRONMENTAL CORP.**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| | Dollars in thousands, except per share data | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,792 | $ 1,393 |
| Accounts receivable, net (Note 3) | 26,772 | 23,751 |
| Costs and estimated earnings in excess of billings on uncompleted contracts (Note 4) | 8,345 | 10,681 |
| Inventories, net (Note 5) | 4,432 | 4,877 |
| Prepaid expenses and other current assets | 2,509 | 2,969 |
| Assets held for sale (Note 19) | 526 | — |
| Current assets of discontinued operations (Note 17) | 76 | 1,877 |
| Total current assets | 48,452 | 45,548 |
| Property, plant and equipment, net (Note 6) | 5,880 | 11,362 |
| Goodwill (Note 7) | 14,713 | 14,591 |
| Intangible assets—finite life, net (Note 7) | 966 | 1,470 |
| Intangible assets—indefinite life (Note 7) | 3,225 | 3,209 |
| Deferred income tax asset, net (Note 14) | 602 | 348 |
| Deferred charges and other assets | 953 | 930 |
| Non-current assets of discontinued operations (Note 17) | — | 57 |
| | $74,791 | $77,515 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of debt (Note 9) | $ — | $ 836 |
| Accounts payable and accrued expenses (Note 8) | 17,041 | 18,622 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (Note 4) | 7,810 | 10,373 |
| Accrued income taxes (Note 14) | 1,646 | — |
| Current liabilities of discontinued operations (Note 17) | — | 648 |
| Total current liabilities | 26,497 | 30,479 |
| Other liabilities | 2,320 | 2,605 |
| Senior debt, less current portion (Note 9) | — | 1,871 |
| Convertible subordinated notes (including related parties notes of $3,800) (Note 10) | 10,800 | 10,800 |
| Total liabilities | 39,617 | 45,755 |
| Commitments and contingencies (Note 13) | | |
| Shareholders' equity: | | |
| Preferred stock, $.01 par value; 10,000 shares authorized, none issued | — | — |
| Common stock, $.01 par value; 100,000,000 shares authorized, 14,456,659 and 14,427,251 shares issued in 2010 and 2009, respectively | 144 | 144 |
| Capital in excess of par value | 43,237 | 42,341 |
| Accumulated deficit | (6,243) | (8,348) |
| Accumulated other comprehensive loss | (1,608) | (2,021) |
| | 35,530 | 32,116 |
| Less treasury stock, at cost, 137,920 shares in 2010 and 2009 | (356) | (356) |
| Total shareholders' equity | 35,174 | 31,760 |
| | $74,791 | $77,515 |

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

## CECO ENVIRONMENTAL CORP.

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | Dollars in thousands, except per share data | |
| Net sales | $ 140,602 | $ 138,985 |
| Cost of sales | 107,949 | 108,043 |
| Gross profit | 32,653 | 30,942 |
| Selling and administrative | 27,512 | 28,903 |
| Amortization | 501 | 759 |
| Gain on sale of operating property and equipment | (396) | — |
| Goodwill impairment | — | 17,110 |
| Income (loss) from operations | 5,036 | (15,830) |
| Other expense, net | (135) | (760) |
| Interest expense (including related parties interest of $228 and $456, respectively) | (1,225) | (1,321) |
| Income (loss) from continuing operations before income taxes | 3,676 | (17,911) |
| Income tax expense (benefit) | 1,371 | (3,144) |
| Income (loss) from continuing operations | 2,305 | (14,767) |
| Loss from discontinued operations (see Note 17), net of tax | (200) | (265) |
| Net income (loss) | $ 2,105 | $ (15,032) |
| Per share data: | | |
| Basic income (loss) from continuing operations | $ 0.16 | $ (1.04) |
| Basic loss from discontinued operations | (0.01) | (0.02) |
| Basic net income (loss) | $ 0.15 | $ (1.06) |
| Diluted income (loss) from continuing operations | $ 0.16 | $ (1.04) |
| Diluted loss from discontinued operations | (0.01) | (0.02) |
| Diluted net income (loss) | $ 0.15 | $ (1.06) |
| Weighted average number of common shares outstanding: | | |
| Basic | 14,308,130 | 14,221,095 |
| Diluted | 17,102,357 | 14,221,095 |

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

## CECO ENVIRONMENTAL CORP.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
## (in thousands)

| | Common Stock | | Capital in excess of | Accum. (Deficit) | Accum. Other Comp. | Treasury Stock | | | Total Comp. (Loss) |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | par value | Earnings | Loss | Shares | Amount | Total | Income |
| Balance January 1, 2009 | 15,087 | $ 150 | $ 42,924 | $ 6,684 | $ (3,303) | (764) | $ (1,942) | $ 44,513 | |
| Net loss for the year ended December 31, 2009 | | | | (15,032) | | | | (15,032) | $(15,032) |
| Share based compensation earned | (34) | — | 997 | | | | | 997 | |
| Retirement of treasury shares | (626) | (6) | (1,580) | | | 626 | 1,586 | — | |
| Other comp. income (loss) | | | | | | | | | |
| Adjustment for minimum pension post retirement liability, net of tax of $192 | | | | | 288 | | | 288 | 288 |
| Translation gain | | | | | 994 | | | 994 | 994 |
| Balance December 31, 2009 | 14,427 | 144 | 42,341 | (8,348) | (2,021) | (138) | (356) | 31,760 | $(13,750) |
| Net income for the year ended December 31, 2010 | | | | 2,105 | | | | 2,105 | 2,105 |
| Exercise of options | 5 | — | 11 | | | | | 11 | |
| Share based compensation earned | 23 | — | 885 | | | | | 885 | |
| Other comp. income (loss) | | | | | | | | | |
| Adjustment for minimum pension/post retirement liability, net of tax of $84 | | | | | 126 | | | 126 | 126 |
| Translation gain | | | | | 287 | | | 287 | 287 |
| Balance December 31, 2010 | 14,455 | $ 144 | $ 43,237 | $ (6,243) | $ (1,608) | (138) | $ (356) | $ 35,174 | $ 2,518 |

### Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss in shareholders' equity:

| Dollars in thousands | Translation (loss) gain | Minimum pension/post retirement liability adjustment | Accumulated other comprehensive loss |
|---|---|---|---|
| January 1, 2009 | $ (1,323) | $ (1,980) | $ (3,303) |
| 2009 activity | 994 | 288 | 1,282 |
| Balance December 31, 2009 | (329) | (1,692) | (2,021) |
| 2010 activity | 287 | 126 | 413 |
| Balance December 31, 2010 | $ (42) | $ (1,566) | $ (1,608) |

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

## CECO ENVIRONMENTAL CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | Dollars in thousands | |
| Cash flows from operating activities: | | |
| Net income (loss) | $ 2,105 | $ (15,032) |
| Net loss from discontinued operations | (200) | (265) |
| Net income (loss) from continuing operations | 2,305 | (14,767) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,758 | 2,519 |
| Interest expense | 108 | 30 |
| Loss on remeasurement of subordinated debt | — | 480 |
| Gain on forfeit of land sale deposit | — | (175) |
| Gain on sale of operating plant and equipment | (396) | — |
| Loss on goodwill impairment | — | 17,110 |
| Share based compensation expense | 885 | 997 |
| Bad debt (recoveries) expense | (71) | 491 |
| Inventory reserve | 192 | — |
| Deferred income tax benefit | (399) | (2,848) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,950) | 14,118 |
| Inventories | (135) | 1,191 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 2,336 | 304 |
| Prepaid expenses and other current assets | 521 | (928) |
| Deferred charges and other assets | 216 | 562 |
| Accounts payable and accrued expenses | (1,905) | (7,527) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (2,563) | 3,000 |
| Accrued income taxes | 1,646 | (2,402) |
| Other liabilities | 380 | 429 |
| Net cash provided by continuing operating activities | 1,928 | 12,584 |
| Net cash provided by discontinued operating activities | 1,010 | 2,308 |
| Net cash provided by operating activities | 2,938 | 14,892 |
| Cash flows from investing activities: | | |
| Acquisitions of property and equipment | (654) | (999) |
| Net proceeds from sale of equipment (including $57 from discontinued operations in 2010) | 5,158 | — |
| Net cash provided by (used in) investing activities | 4,504 | (999) |
| Cash flows from financing activities: | | |
| Net repayments on revolving credit line | (457) | (17,878) |
| Proceeds from exercise of stock options | 11 | — |
| Subordinated debt borrowings | — | 13,800 |
| Subordinated debt repayments | — | (7,569) |
| Cash paid for deferred financing costs | (347) | — |
| Repayments of term debt | (2,250) | (2,000) |
| Net cash used in financing activities | (3,043) | (13,647) |
| Net increase in cash and cash equivalents | 4,399 | 246 |
| Cash and cash equivalents at beginning of year | 1,393 | 1,147 |
| Cash and cash equivalents at end of year | $ 5,792 | $ 1,393 |

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

## CECO ENVIRONMENTAL CORP.

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | 2010 | 2009 |
|---|---|---|
| | Dollars in thousands | |
| **Cash paid (received) during the year for:** | | |
| Interest | $1,097 | $ 1,412 |
| Income taxes | $ (247) | $ 2,433 |

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 2010 and 2009**

## 1. Nature of Business and Summary of Significant Accounting Policies

*Nature of business*—The principal business of CECO Environmental Corp. and its subsidiaries (the "Company") is to provide innovative solutions to industrial ventilation and air quality problems through dust, mist and fume control systems and particle and chemical technologies to industrial and commercial customers, primarily in the United States.

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

| | % Owned As Of December 31, 2010 |
|---|---|
| CECO Group, Inc. ("Group") | 100% |
| CECO Filters, Inc. and Subsidiaries ("CFI") | 99% |
| The Kirk & Blum Manufacturing Company ("K&B") | 100% |
| kbd/Technic, Inc ("kbd") | 100% |
| CECO Abatement Systems, Inc ("CAS") | 100% |
| CECOaire, Inc ("CAI") | 100% |
| H.M. White, Inc. ("H.M. White") | 100% |
| EFFOX, Inc. ("Effox") | 100% |
| GMD Environmental Technologies, Inc. ("GMD") | 100% |
| Fisher-Klosterman, Inc. ("FKI") | 100% |
| Flextor, Inc. ("Flextor") | 100% |

CFI includes two wholly owned subsidiaries, New Busch Co., Inc. ("Busch") and CECO Environmental India Private Limited (f.k.a. CECO Filter India Private Limited). The non-controlling interest in CFI is not material. FKI includes the wholly owned subsidiary, A.V.C., Inc. ("A.V.C.").

During 2009, the Company discontinued the operations of its subsidiary, H.M. White, Inc. ("H.M. White"). The Company terminated its facility lease in Detroit, Michigan, and all property and equipment held by H.M. White was sold at net book value to its former owner as of January 1, 2010. In accordance with the provisions of FASB ASC Subtopic 205-20, the results of H.M. White are presented as discontinued operations for all periods in the consolidated financial statements. The Company did not allocate general corporate interest expense to H.M. White—see Footnote 17 for additional details.

All intercompany balances and transactions have been eliminated.

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

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

*Accounts Receivable*—Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment generally within 30 days from the invoice date unless otherwise determined by specific

contract, generally due to retainage provisions. The Company's estimate of the allowance for doubtful accounts for trade receivables is primarily determined based upon the length of time that the receivables are past due. In addition, management estimates are used to determine probable losses based upon an analysis of prior collection experience, specific account risks and economic conditions. The Company has a series of actions that occur based upon the aging of past due trade receivables, including letters, statements, direct customer contact and liens. Accounts are deemed uncollectible based on past account experience and current account financial condition.

*Inventories*—The Company's inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) inventory costing method.

*Property, plant and equipment*—Property, plant and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Depreciation and amortization are provided using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives (buildings and improvements – generally 10 to 40 years; machinery and equipment – 2 to 15 years).

Property, plant and equipment are reviewed whenever events or changes in circumstances occur that indicate possible impairment. If events or changes in circumstances occur that indicate possible impairment, our impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of our assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. We conduct annual reviews for idle and underutilized equipment, and review business plans for possible impairment. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset and an impairment charge is recorded for the difference between the carrying value and the estimated fair value. An impairment charge of $324,000 was recorded in the fourth quarter of 2010, included in the gain on sale of property and equipment on the consolidated statements of operations, to reflect the loss on the pending sale of our facility in Indianapolis, Indiana which was under contract and was sold in February 2011. These assets are classified as held for sale as of December 31, 2010 on the consolidated balance sheets.

*Intangible assets*—Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents, backlog, customer lists and employment contracts. Finite life intangible assets are amortized on a straight line basis over their estimated useful lives of 17 years for patents, 12 to 18 months for backlog, 5 years for customer lists and 3 years for employment contracts.

For all amortizable intangible assets, if any events or changes in circumstances occur that indicate possible impairment, our impairment review is based on an undiscounted cash flow analysis. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset and an impairment charge is recorded for the difference between the carrying value and the net present value of estimated future cash flows. The Company also evaluates the remaining useful life each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life.

The Company completes an annual (or more often if circumstances require) impairment assessment of its indefinite life intangible assets. In performing this assessment, the carrying value of the asset is considered

impaired if the fair value is less than the carrying value of the asset. If this occurs, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated using the discounted future cash flow method.

*Goodwill*—The Company completes an annual (or more often if circumstances require) impairment assessment of its goodwill on a reporting unit level. For management purposes, the Company is organized into three reportable segments, including an Engineered Equipment and Parts segment, a Contracting/Services segment and a Component Parts segment. Each of these operating segments is comprised of one or more components on which discrete financial information is available and on which operating results are regularly reviewed by segment management and each of these components is considered to be a reporting unit for purposes of our impairment analysis.

In performing the goodwill impairment assessment, the carrying values of the Company's reporting units are compared to their estimated fair values, as calculated by the discounted cash flow method. If the estimated fair value of a reporting unit is less than its carrying value, an impairment charge is recorded for the amount by which the carrying value of the goodwill exceeds its calculated implied fair value.

*Deferred charges*—Deferred charges primarily represent deferred financing costs, which are amortized to interest expense over the life of the related loan. Amortization expense was $108,000 and $95,000 for 2010 and 2009, respectively, and is classified as interest expense.

*Financial Instruments*—All derivative instruments, including those embedded in other contracts are recognized as either assets or liabilities and those financial instruments are measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation. We are exposed to market risk from changes in interest rates. Our policy is to manage interest rate costs using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, we may enter into interest rate swaps or other hedge type arrangements, in which we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. We do not use derivative instruments for speculative purposes. We currently have no interest rate swap agreements.

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

The asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed. The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes to job performance, job conditions, and estimated profitability may result in revisions to contract revenue and costs and are recognized in the period in which the revisions are made. We provided for estimated losses on uncompleted contracts of $38,000 and $30,000 at December 31, 2010 and 2009, respectively.

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

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

*Claims*—Change orders arise when the scope of the original project is modified for a variety of reasons. The Company will negotiate the extent of the modifications, its expected costs and recovery with the customer. Costs related to change orders are recognized in the period they are incurred and added to the expected total cost of the project. To the extent such costs are probable of being recovered from the customer, estimated total contract revenues are also adjusted up to the amount of change order costs incurred. In cases where contract revenues are assured beyond a reasonable doubt to be increased in excess of the expected costs of the change order, incremental profit also is recognized on the contract. Such assurance is generally only achieved when the customer approves in writing the scope and pricing of the change order. Change orders that are in dispute are effectively handled as claims.

Claims are amounts in excess of the agreed contract price that the Company seeks to collect from customers or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price. Costs attributable to claims are treated as contract costs as incurred.

The Company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. In such circumstances revenues are recognized only to the extent of the cost with no increase in the estimated profit margin and no additional profit is recognized until such time as the customer or other parties agree in writing to the amount of the claim to be recovered by the Company. At that point, the amount of the claim becomes contractual and is accounted for as an increase in the contract's total estimated revenue and estimated cost. As actual costs are incurred and revenues are recognized under percentage-of-completion accounting, a corresponding percentage of the revised total estimated profit will therefore be recognized.

Should it become probable that the claim will not result in additional contract revenue, the Company removes the related contract revenues from its previous estimate of total revenues, which effectively reduces the estimated profit margin on the job and negatively impacts profit for the period.

*Pre-contract costs*—Pre-contract costs are not significant. The Company expenses all pre-contract costs as incurred regardless of whether or not the bids are successful. A majority of our business is obtained through a bidding process and this activity is on-going with multiple bids in process at any one time. These costs consist primarily of engineering, sales and project manager wages, fringes and general corporate overhead and it is deemed impractical to track activities related to any one specific contract.

*Selling and administrative expenses*—Selling and administrative expenses include sales and administrative wages and associated benefits, selling and office expenses, bad debt expense, changes in life insurance cash surrender value and depreciation. Selling and administrative expenses are charged to expense as incurred.

*Sales Taxes*—The Company records taxes collected from customers and remitted to governmental authorities on a net basis in the Consolidated Statements of Operations.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

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

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Beginning balance | $ 496 | $ 574 |
| Provision | 292 | 335 |
| Payments | (333) | (413) |
| Ending balance | $ 455 | $ 496 |

*Advertising costs*—Advertising costs are charged to operations in the year incurred and totaled $324,000 and $606,000 in 2010 and 2009, respectively.

*Research and development*—Research and development costs are charged to expense as incurred. The amounts charged to operations were $53,000 and $22,000 in 2010 and 2009, respectively.

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

*Earnings per share*—The number of shares outstanding for calculation of earnings (loss) per share ("EPS") is as follows:

| | 2010 | 2009 |
|---|---|---|
| Weighted-average shares outstanding-basic | 14,308,130 | 14,221,095 |
| Effect of potentially dilutive securities | 2,794,227 | — |
| Weighted-average shares outstanding-diluted | 17,102,357 | 14,221,095 |

Options and warrants to purchase 0.5 million and 3.6 million shares as of December 31, 2010 and 2009, respectively, were not included in the computation of diluted earnings (loss) per share due to their having an anti-dilutive effect. Pursuant to the if converted method, diluted earnings per share for 2010 includes a $389,000 after tax addback of interest expense and 2.7 million additional shares related to the assumed conversion of the convertible Subdebt Note described in Note 10.

Holders of restricted stock awards participate in nonforfeitable dividend rights on a one-for-one basis with holders of common stock. Holders of these awards are not obligated to share in losses of the Company. Therefore, these share awards are included in the computation of basic earnings (loss) per share during periods of net income using the two-class method, but are excluded from such computation in periods of net loss. Should the Company declare a dividend on its common stock, the related dividend on shares of unvested restricted stock that are not expected to vest would be recorded as additional compensation expense and therefore excluded from the two-class method computations; however, no such dividends have been declared to date. Undistributed earnings included in the two-class method computations are allocated equally to each share of common stock outstanding, including all shares of unvested restricted common shares.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

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

*Foreign Currency*—Assets and liabilities of foreign operations are translated using period-end exchange rates, and revenues and expenses are translated using average exchange rates during each period. Translation gains and losses are reported in accumulated other comprehensive income/(loss) as a component of shareholders' equity.

Transaction loss of $135,000 and $734,000 were recognized by the Company in 2010 and 2009, respectively. The 2009 loss was principally due to the translation of a $5 million subordinated note denominated in Canadian dollars and a $3 million subordinated note payable in Canadian dollars both due to a related party. The transaction (loss)/ gain is recorded on the "Other (expense) income" line of the Statement of Operations. Additional details on the subordinated notes are provided in Note 10.

*Reclassifications*—Certain prior year amounts have been reclassified in order to conform to the current year presentation. In 2010, it was determined that due to reductions in the amount of intercompany transactions among our business units, individual operating segments were more clearly defined and as such we have added additional segment disclosures for 2009 and 2010—see Note 18.

*New Financial Accounting Pronouncements Adopted*

ASC 820—In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASU) No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures About Fair Value Measurements." This guidance amends Subtopic 820-10 to require new disclosures and clarify existing disclosures. This guidance requires new disclosures of amounts and reasons for significant transfers between Level 1 and Level 2 fair value measurements. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), separate presentation of information about purchases, sales, issuances and settlements is required. The guidance clarifies that fair value measurement disclosures for each class of assets and liabilities may constitute a subset of assets and liabilities within a line item on a reporting entity's balance sheet. The guidance also clarifies disclosure requirements about inputs and valuation techniques for both recurring and nonrecurring fair value measurements (Level 2 or Level 3). The ASU also amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity for Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, including interim periods within those fiscal years. The Company has not had and does not expect that the adoption of this remaining guidance will have a material effect on the Company's consolidated results of operations, financial position or cash flows.

ASC 815—In March 2010, the FASB issued ASU 2010-11, "Scope Exception Related to Embedded Credit Derivatives" to address questions that have been raised in practice about the intended breadth of the embedded credit derivative scope exception in paragraphs 815-15-15-8 through 815-15-15-9 of ASC 815, "Derivatives and Hedging". The amended guidance clarifies that the scope exception applies to contracts that contain an embedded credit derivative that is only in the form of subordination of one financial instrument to another. This guidance is effective on July 1, 2010 for the Company. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

*Recently Issued Accounting Pronouncements*

Accounting Standards Codification ("ASC") 605-25—In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13 for updated revenue recognition guidance under the provisions of ASC 605-25, "Multiple-Element Arrangements". The previous guidance has been retained for criteria to determine when delivered items in a multiple-deliverable arrangements should be considered separate units of accounting, however the updated guidance removes the previous separation criterion that objective and reliable evidence of fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. This guidance is effective for fiscal years beginning on or after June 15, 2010. The Company does not expect that the adoption of this guidance will have a material effect on the Company's consolidated results of operations, financial position or cash flows.

ASC 350—In December 2010, the FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units With Zero or Negative Carrying Amounts" to modify step one of the goodwill impairment test for entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing step one of the goodwill impairment test is zero or negative. For those entities which have one or more reporting units, the entity is required to perform step two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The ASU is effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2010. The Company does not expect that the adoption of this guidance will have a material effect on the Company's consolidated results of operations, financial position or cash flows.

ASC 805—In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations" to address diversity in practice about the interpretation of pro forma revenue and earnings disclosure requirements for business combinations. The amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The ASU is effective prospectively for business combinations whose acquisition date is at or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

## 2. Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, receivables and certain other assets, accounts payable and debt obligations. The carrying values of these financial instruments approximate fair value at December 31, 2010, due to their short term nature.

The carrying amounts of most of our debt obligations approximate fair value based on future payments discounted at current interest rates for similar obligations or interest rates which fluctuate with the market.

*Concentrations of credit risk:*

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

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

## 3. Accounts Receivable

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Trade receivables | $ 2,989 | $ 2,672 |
| Contract receivables | 24,204 | 21,555 |
| Allowance for doubtful accounts | (421) | (476) |
| | $26,772 | $23,751 |

Balances billed, but not paid by customers under retainage provisions in contracts, amounted to approximately $567,000 and $797,000 at December 31, 2010 and 2009, respectively. Retainage receivables on contracts in progress are generally collected within a year after contract completion.

(Recoveries) provision for doubtful accounts was approximately $(71,000) and $491,000 during 2010 and 2009, respectively, while accounts (recovered) charged to the allowance were $(16,000) and $312,000 during 2010 and 2009, respectively.

## 4. Costs and Estimated Earnings on Uncompleted Contracts

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 76,137 | $ 74,908 |
| Estimated earnings | 17,471 | 16,897 |
| | 93,608 | 91,805 |
| Less billings to date | (93,073) | (91,497) |
| | $ 535 | $ 308 |
| Included in the accompanying consolidated balance sheets under the following captions: | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 8,345 | $ 10,681 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (7,810) | (10,373) |
| | $ 535 | $ 308 |

## 5. Inventories

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Raw material and subassemblies | $2,973 | $3,322 |
| Finished goods | 1,144 | 1,044 |
| Parts for resale | 562 | 566 |
| Obsolescence allowance | (247) | (55) |
| | $4,432 | $4,877 |

Amounts credited to the allowance for obsolete inventory and charged to cost of sales amounted to $192,000 and $55,000 during 2010 and 2009, respectively. Items charged to the allowance for inventory recoveries were $0 and $0 during 2010 and 2009, respectively.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Years Ended December 2010 and 2009

## 6. Property, Plant and Equipment

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Land | $ 75 | $ 1,460 |
| Building and improvements | 2,248 | 5,745 |
| Machinery and equipment | 15,649 | 17,882 |
| | 17,972 | 25,087 |
| Less accumulated depreciation | (12,092) | (13,725) |
| | $ 5,880 | $ 11,362 |

Depreciation expense was $1.3 million and $1.8 million for 2010 and 2009, respectively.

## 7. Goodwill and Intangible Assets

| $ in thousands | 2010 | | 2009 | |
|---|---|---|---|---|
| Goodwill / Tradename | Goodwill | Tradename | Goodwill | Tradename |
| Beginning balance | $14,591 | $ 3,209 | $ 31,116 | $ 3,165 |
| Impairment | — | — | (17,110) | — |
| Foreign currency adjustments | 122 | 16 | 585 | 44 |
| | $14,713 | $ 3,225 | $ 14,591 | $ 3,209 |

The Company's fourth quarter 2009 annual evaluation for goodwill impairment indicated an impairment of the goodwill for four of the Company's reporting units. As a result, the Company estimated the implied fair value of the goodwill of these reporting units compared to carrying amounts and recorded total impairment charges of $17.1 million at December 31, 2009 to impair a portion of the goodwill recorded on these reporting units. The decrease in the fair value of the reporting units was due to deteriorating market conditions resulting from the global economic downturn. No impairment of goodwill was identified related to the Company's other reporting units. No additional impairment was recorded in the year ended December 31, 2010 or prior to 2009. As of December 31, 2010, the Company has an aggregate amount of Goodwill acquired of $31.8 million and an aggregate amount of impairment losses recognized of $17.1 million. The estimated fair values of each reporting unit exceeded its carrying value by at least 31%.

The fair value measurement method used in the Company's impairment analysis utilizes a number of significant unobservable inputs or Level 3 assumptions. These assumptions include, among others, projections of our future operating results, the implied fair value of these assets using an income approach by preparing a discounted cash flow analysis and other subjective assumptions.

| $ in thousands | 2010 | | 2009 | |
|---|---|---|---|---|
| Intangible assets—finite life | Cost | Accum. Amort. | Cost | Accum. Amort |
| Patents | $1,414 | $1,111 | $1,412 | $1,024 |
| Customer lists | 1,661 | 1,022 | 1,644 | 685 |
| Employment contracts | 424 | 400 | 420 | 305 |
| Other | 136 | 136 | 130 | 122 |
| | $3,635 | $2,669 | $3,606 | $2,136 |

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

Amortization expense of finite life intangible assets was $501,000 and $759,000 for 2010 and 2009, respectively. Amortization over the next five years for finite life intangibles is $424,000 in 2011, $316,000 in 2012, $130,000 in 2013, $69,000 in 2014 and $6,000 in 2015.

## 8. Accounts Payable and Accrued Expenses

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Trade accounts payable | $ 9,712 | $11,235 |
| Compensation and related benefits | 1,851 | 1,535 |
| Accrued interest | 215 | 223 |
| Subcontractor accrued expenses | 2,602 | 2,434 |
| Other accrued expenses | 2,661 | 3,195 |
| | $17,041 | $18,622 |

## 9. Senior debt

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Bank credit facilities | $— | $2,707 |
| Less current portion | — | (836) |
| | $— | $1,871 |

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

On August 6, 2010, the Company entered into an amended and restated credit agreement effective as of June 30, 2010, which amends and restates in its entirety the Bank Facility and extends the termination date of the Line of Credit to April 1, 2013 and the term loan to April 1, 2014. The amendment and restatement also increases the limit on letters of credit from $5.0 million to $10.0 million, resets the pricing grid, which temporarily increased our interest rates by 0.5% until the next pricing grid determination date of December 31, 2010, at which time the pricing level was re-determined based on the Company's trailing twelve month fixed charge ratio which resulted in a reduction to our interest rates by 0.5%. The maximum commitment under the line of credit remained at $20.0 million. Fees of $23,000 were paid for this amendment.

Terms of the Bank Facility, as amended, include financial covenants which require compliance at June 30, 2010 and each quarter through March 31, 2013. The maximum capital expenditures financial covenant is $2.5 million per year. The minimum Fixed Charge Coverage Ratio is 2.5:1.0 for each quarter through the quarter ended June 30, 2010 and 1.25:1.0 thereafter. The maximum funded debt to EBITDA covenant is 3.0 to 1. Our Bank Facility also contains cross-default provisions with respect to our subordinated debt. Also, if we fail to pay (after grace periods) any other debt or lease that, individually or in the aggregate involves indebtedness in excess of $100,000, and such default gives any creditor or lessor the right to accelerate the maturity of any such indebtedness or lease payments, then absent a waiver from the lender, it would result in a default under our Bank Facility and the acceleration of the maturity of outstanding debt under our Bank Facility. As of December 31, 2010, we were in compliance with all related financial and other restrictive covenants, and expect continued compliance. In the future, if we cannot comply with the terms of the Bank Facility covenants it will be necessary for us to obtain a waiver or renegotiate our loan covenants, and there can be no assurance that such negotiations

would be successful. In the event that we are not successful in obtaining a waiver or an amendment, we would be declared in default, which could cause all amounts owed to be immediately due and payable. We paid the term loan off in 2010 and have no outstanding borrowings under the line of credit as of December 31, 2010. Borrowings are subject to a borrowing base limitation, and at December 31, 2010, $11.7 million could be borrowed. Our property and equipment, accounts receivable, investments and inventory serve as collateral for our bank debt. Our debt agreements contain customary covenants and events of default.

**10. Subordinated Notes**

On August 14, 2008, the Company issued a Subordinated Convertible Promissory Note (the “Convertible Subdebt Note”) in the amount of Canadian $5.0 million to Icarus, which is controlled by Phillip DeZwirek, our Chairman and former Chief Executive Officer, and Jason DeZwirek, our Secretary and one of our Directors. The Convertible Subdebt Note provided for interest to accrue at the rate of 10% per annum in 2008, 11% per annum in 2009, and 12% per annum commencing January 1, 2010 until paid. The outstanding principal and accrued interest under the Convertible Subdebt Note was convertible at any time, into common stock of the Company at a per share price of $4.75 which was the closing bid price immediately preceding the issuance of the Convertible Subdebt Note. The Convertible Subdebt Note was amended in February 2009 to provide for interest payments to be payable monthly, instead of semi-annually, subject to the Subordination Agreement between Fifth Third Bank and Icarus. The Convertible Subdebt Note was further amended on May 1, 2009 to extend its maturity date to October 1, 2011 from July 31, 2010. We repaid Canadian $3.7 million under the Convertible Subdebt Note on March 31, 2009 and fully repaid the outstanding balance of $1.2 million on November 26, 2009. Foreign exchange translation losses of $121,000 were recognized during the twelve months ended December 31, 2009 as other expense.

On May 15, 2009, the Company issued a Promissory Note (“Note”) to Icarus in the amount of $3.0 million. The Note, which was subordinated to the Company’s Bank Facility, bore interest at 12% per annum with interest payable monthly. The maturity date of the note was the earlier of May 15, 2012 or six months after repayment of the Bank Facility. At the option of Icarus, the note was repayable in Canadian funds with a stated conversion rate of 1.1789, or CAD $3.5 million, representing the conversion rate at the issuance date of the Note. In accordance with ASC 815 “Derivatives and Hedging”, this option was bifurcated and recorded at fair value. Gains and losses resulting from the revaluation of this liability are included in other income (expense) in the consolidated statements of operations and were losses of $359,008 for the year ended December 31, 2009. The Note and accrued interest was fully repaid on November 26, 2009 in the amount of $3.3 million.

On November 26, 2009, the Company issued $10.8 million principal amount subordinated convertible promissory notes to a group of investors (the “Investor Notes”) which includes related parties: Icarus Investment Corp, which is controlled by Phillip DeZwirek, our Chairman and former Chief Executive Officer, ($2,200,000), Jason DeZwirek ($800,000), and Harvey Sandler Revocable Trust ($800,000), which trust owns over 10% of our outstanding common stock. Interest accrues under the Investor Notes at the annual rate of 6% and is payable as of the end of each calendar quarter. Interest paid on the Investor Notes for 2010 and 2009 was $648,000 and $69,000 respectively. We used the proceeds of the Investor Notes to repay all of our previously existing subordinated debt in the amount of approximately $4.5 million, which debt was accruing interest at rates between 11-12%. The balance of the proceeds were available to be used for general working capital. Fees of $320,000 were paid for the issuance of this debt and are being amortized over the term of the Investor Notes.

The Investor Notes are due on November 26, 2014 and are not repayable prior to maturity except upon a change of control, or upon the consent of the holder. The outstanding principal amount of the Investor Notes or any portion thereof, but not the interest, is convertible at the holder’s option, at any time after the issuance of the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

Investor Notes at a conversion price of $4.00 per share, such price being greater than the Company's share price at the date of issuance of the Investor Notes. Following three years from the date of the Investor Notes, if the closing price of the common stock of the Company is greater than $8.00 for five consecutive days, the Company can cause conversion of the Investor Notes. The outstanding balance of the Investor Notes at December 31, 2010 was $10.8 million. In February 2011, $200,000 principal of the Investor Notes was converted to 50,000 shares of our common stock.

## 11. Shareholders' Equity

### Share-Based Compensation

The 2007 Equity Incentive Plan (the "2007 Plan") was approved by shareholders on May 23, 2007 and replaced the 1997 Stock Option Plan (the "1997 Plan"). The 1997 Plan remains in effect solely for the purpose of the continued administration of the options outstanding under the 1997 Plan. The plans are administered by the Compensation Committee (the "Committee") of the Board of Directors. Like the 1997 Plan, the 2007 Plan permits the granting of stock options and awards which are granted at a price equal to or greater than the fair market value of the Company's common stock at the date of grant. Generally, stock options or awards granted to non-employee directors vest in one year from the date of grant. Stock options granted to employees generally vest equally over a period of 3 to 5 years from the date of grant. Stock awards granted to employees generally vest equally over a period of up to 3 years from the date of grant for awards subject to service requirements. Certain stock awards are granted and vest based on the achievement of certain performance requirements as established by the Committee. Stock awards may be granted without service or performance requirements, as determined by the Committee. The Committee, at its discretion, may establish other vesting periods and performance requirements when appropriate. During 2010 727,000 stock options were granted to plan participants under the 2007 Plan. No stock awards were granted in 2010 and no options were granted to non-employees. The number of shares reserved for issuance under the 2007 Plan is 2.0 million, of which 832,792 shares were available for future grant as of December 31, 2010. The number of shares reserved under the 1997 Plan for issuance was 1.5 million, of which 1,036,300 shares were left unused as of December 31, 2010.

Share-based compensation expense for stock options under these plans of $0.6 million and $0.5 million was recorded in the years ended December 31, 2010 and 2009, respectively. No equity compensation expense has been capitalized in inventory or fixed assets.

### Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan ("ESPP") was approved by shareholders on May 21, 2009.

The ESPP is administered by the Compensation Committee. The aggregate maximum number of shares of the Company's common stock that may be granted under the ESPP is 1.5 million shares over the ten year term of the ESPP, subject to adjustment in the event there is a reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, or similar transaction with respect to the common stock.

The ESPP allows employees to purchase shares of common stock at a 15% discount from market price and pay for the shares through payroll deductions. Eligible employees can enter the plan at specific "offering dates" which occur in six month intervals.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

The Company recognized employee stock purchase plan expense of $31,000 during the year ended December 31, 2010.

In addition to the Company's share-based compensation plans, certain other warrants have been issued that are compensatory in nature. See further discussion in the "Warrants to Purchase Common Stock" section of Note 11 below.

**Stock Options**

The weighted-average fair value of stock options granted during 2010 and 2009 was estimated at $2.64 and $2.65 per share, 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 2010 and 2009, the Company utilized weighted-average volatility factors of 62.6%, respectively.
- *Expected Term:* Due to limited historical exercise data, the Company utilizes the simplified method of determining the expected term based on the vesting schedules and terms of the stock options. For 2010 and 2009, the Company utilized weighted-average expected term factors of 7.3 years and 7.5 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 2010 and 2009, the Company utilized a weighted-average risk-free interest rate factors of 3.11%.
- *Expected Dividends:* Expected dividends were expected to be zero as the Company has not historically paid dividends. This will be re-evaluated if and when dividends are expected to be paid.

The fair value of the stock options granted is recorded as compensation expense on a straight-line basis over the vesting periods of the options adjusted for the Company's estimate of pre-vesting forfeitures. The pre-vesting forfeiture estimate is based on historical activity and is reviewed periodically and updated as necessary.

Information related to all stock options under the 2007 Plan and 1997 Plan for the year ended December 31, 2010 is shown in the table below:

| (Shares in thousands) | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Outstanding at December 31, 2009 | 598 | $ 6.13 | 6.1 years | |
| Granted | 727 | 4.04 | | |
| Forfeitures | (137) | 8.18 | | |
| Exercised | (5) | 1.98 | | |
| Outstanding at December 31, 2010 | 1,183 | 4.64 | 7.9 years | 2,294 |
| Exercisable at December 31, 2010 | 330 | 5.92 | 5.3 years | 581 |

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

The Company received $11,000 in cash from employees exercising options during the year ended December 31, 2010 and no cash from employees exercising options during the year ended December 31, 2009. The intrinsic value of options exercised during the year ended December 31, 2010 was $20,000.

**Restricted Shares**

Information related to all restricted stock awards under the 2007 Plan for the year ended December 31, 2010 is shown in the table below:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested, beginning of year | 48 | $ 10.34 |
| Granted | — | |
| Vested | (48) | 10.34 |
| Forfeited | — | |
| Nonvested, end of year | — | |

In 2010, the Company recorded expense for restricted stock awards of $225,000 and $509,000 for 2009.

The total fair value of restricted shares vested was $ 490,000 and $1.2 million during 2010 and 2009, respectively.

**Warrants to Purchase Common Stock**

The Company has historically issued warrants to purchase common shares in conjunction with business acquisitions, debt issuances and employment contracts. The estimated fair value of warrants granted in conjunction with employment agreements is reflected as compensation expense over their related vesting periods. Fair value of warrants is determined using a Black-Sholes valuation model with assumptions similar to the ones we used to value stock option awards.

On December 28, 2006, the Company issued warrants to purchase 250,000 shares to Icarus, a related party, at an exercise price of $9.07 and an expiration date of December 26, 2016. These warrants represent the only outstanding warrants as of December 31, 2010 and 2009.

**12. Pension and Employee Benefit Plans**

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

The following tables set forth the plans' changes in benefit obligations, plan assets and funded status on the measurement dates, December 31, 2010 and 2009, and amounts recognized in our consolidated balance sheets as of those dates.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| **$ in thousands** | **2010** | **2009** | **2010** | **2009** |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at beginning of year | $ 6,686 | $ 6,246 | n/a | n/a |
| Accumulated post retirement benefit obligation | n/a | n/a | $ 228 | $ 245 |
| Service cost | 214 | 176 | — | — |
| Interest cost | 375 | 381 | 11 | 14 |
| Actuarial (gain)/loss | 169 | 130 | (52) | 15 |
| Benefits paid | (287) | (247) | (31) | (46) |
| Projected benefit obligation at end of year | 7,157 | 6,686 | 156 | 228 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 4,739 | 3,929 | — | — |
| Actual return on plan assets | 465 | 697 | — | — |
| Employer contribution | 227 | 360 | 31 | 46 |
| Benefits paid | (287) | (247) | (31) | (46) |
| Fair value of plan assets at end of year | 5,144 | 4,739 | — | — |
| Funded status | $(2,013) | $(1,947) | $(156) | $(228) |
| Defined benefit liabilities included in accounts payable and accrued expenses | $ — | $ — | $ (27) | $ (38) |
| Defined benefit liabilities included in other liabilities | (2,013) | (1,947) | (129) | (190) |
| Deferred tax benefit/(expense) associated with AOCL | 1,086 | 1,149 | (39) | (20) |
| AOCL, net of tax | 1,626 | 1,723 | (60) | (30) |
| Net amount recognized | $ 699 | $ 925 | $(255) | $(278) |
| Other comprehensive income: | | | | |
| Net loss (gain) | $ 81 | $ (249) | $ (52) | $ 15 |
| Amortization of prior service cost | (22) | (9) | — | — |
| Amortization of net actuarial loss | (219) | (242) | 3 | 5 |
| Total recognized in other comprehensive income | $ (160) | $ (500) | $ (49) | $ 20 |
| Accumulated other comprehensive income (loss): | | | | |
| Net loss (gain) | $ 2,705 | $ 2,843 | $ (99) | $ (50) |
| Prior service cost | 7 | 29 | — | — |
| Amount recognized in accumulated other comprehensive income (loss) | $ 2,712 | $ 2,872 | $ (99) | $ (50) |
| Weighted-average assumptions used to determine benefit obligations for the year ended December 31: | | | | |
| Discount rate | 5.25% | 5.75% | 5.25% | 5.75% |
| Compensation increase rate | N/A | N/A | N/A | N/A |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

The basis of the long-term rate of return assumption reflects the current asset mix for the pension plan of approximately 40% debt securities and 60% equity securities with assumed average annual returns of approximately 4% to 6% for debt securities and 8% for equity securities. The investment portfolio for the pension plan will be adjusted periodically to maintain the current ratios of debt securities and equity securities. Additional consideration is given to the historical returns for the pension plan as well as future long range projections of investment returns for each asset category.

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

Included in other comprehensive income for our defined benefit plans, net of related tax effect, were a decrease in the minimum liability of $126,000 in 2010 and a decrease of $288,000 in 2009.

The details of net periodic benefit cost for pension benefits included in the accompanying consolidated statements of operations for the years ended December 31, 2010 and 2009 are as follows:

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Service cost | $ 214 | $ 176 |
| Interest cost | 375 | 381 |
| Expected return on plan assets | (377) | (318) |
| Net amortization and deferral | 241 | 251 |
| Net periodic benefit cost | $ 453 | $ 490 |
| Weighted-average assumptions used to determine net periodic benefit costs for the years ended December 31: | | |
| Discount rate | 5.75% | 6.25% |
| Expected return on assets | 8.00% | 8.00% |
| Compensation increase rate | N/A | N/A |

The net loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2011 are $251,000 and $741,000, respectively. The net gain for the healthcare plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2011 is $(11,000).

The net periodic benefit cost (representing interest cost only) for the healthcare plan included in the accompanying consolidated statements of operations was $9,000 for each of the years ended December 31, 2010 and 2009. The weighted average discount rate to determine the net periodic benefit cost for 2010 and 2009 was 5.75% and 6.25%, respectively.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

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

| | Target Allocation | Percentage of Plan Assets | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Asset Category: | | | |
| Equity securities | 60% | 63% | 60% |
| Debt securities | 40% | 37% | 40% |
| Total | 100% | 100% | 100% |

Estimated pension plan cash obligations are $345,000, $374,000, $402,000, $426,000, and $434,000 for 2011 – 2015, respectively, and a total of $2,555,000 for the years 2016 through 2020. Estimated healthcare plan cash obligations are $28,000, $25,000, $23,000, $20,000, and $18,000 for 2011–2015, respectively, and a total of $58,000 for the years 2016 through 2020.

*Fair Value Measurements of Pension Plan Assets*

Following is a description of the valuation methodologies used for pension assets measured at fair value:

- *Cash and cash equivalents:* Cash and cash equivalents consist of cash on deposit in a money market fund. Cash and cash equivalents are stated at cost, which approximates fair value.
- *U.S. government and agency securities:* Valued at closing price reported in the active market in which the individual security is traded.
- *Corporate bonds and notes:* Valued using market inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Inputs may be prioritized differently at certain times based on market conditions.
- *Mutual funds:* Valued at the net asset value (NAV) of shares held by the plans at year end. The NAV is calculated based on the underlying shares and investments held by the fund.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The levels assigned to the defined benefit plan assets as of December 31, 2010, are summarized in the tables below:

| $ in thousands | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Pension assets, at fair value: | | | | |
| Cash in money market fund | $ 675 | $ — | $ — | $ 675 |
| U.S. government and agency securities | 498 | — | — | 498 |
| Corporate bonds and notes | — | 571 | — | 571 |
| Mutual funds | 3,400 | — | — | 3,400 |
| Total assets | $4,573 | $ 571 | $ — | $5,144 |

The levels assigned to the defined benefit plan assets as of December 31, 2009, are summarized in the tables below:

| $ in thousands | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Pension assets, at fair value: | | | | |
| Cash in money market fund | $ 269 | $ — | $ — | $ 269 |
| U.S. government and agency securities | 693 | — | — | 693 |
| Corporate bonds and notes | — | 784 | — | 784 |
| Mutual funds | 2,993 | — | — | 2,993 |
| Total assets | $3,955 | $ 784 | $ — | $4,739 |

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

Amounts charged to pension expense under the above plans including the multi-employer plans totaled $2.1 million and $2.3 million for 2010 and 2009, respectively.

During July 2006, we merged the K&B and CFI's profit sharing and 401(k) savings retirement plans for non-union employees. The merged plan covers substantially all employees who have 6 months of service, completed 1,000 hours of service and who have attained 18 years of age. The plan allows us to make discretionary contributions and provides for employee salary deferrals of up to 22%. We increased, effective January 1, 2008, the matching contributions to 100% of the first 1% and 50% of the next 5% of the employee deferral for a maximum match of 3.5%. We made matching contributions and discretionary contributions of $509,000 and $570,000 during 2010 and 2009, respectively.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

## 13. Commitments and Contingencies

### Rent

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

| December 31, | Commitment $ in thousands |
|---|---|
| 2011 | $ 1,153 |
| 2012 | 727 |
| 2013 | 548 |
| 2014 | 418 |
| 2015 | 416 |
| | $ 3,262 |

Total rent expense under all operating leases for 2010 and 2009 was $1.5 million and $1.9 million, respectively.

### Employment Agreements

The Company has employment agreements with four executives as of December 31, 2010, which run up to four more years. The agreements generally provide for an annual salary, a retention bonus, and an annual bonus based on an incentive compensation plan tied to financial performance and attainment of goals.

### Legal Proceedings

A lawsuit was filed on September 10, 2009 in Marion County Superior Court, State of Indiana. A wrongful death claim has been made by the estate of Terry David Walk for an accident that occurred in March 2008 at the worksite of a customer of the Company relating to a baghouse system. The defendants include CECO and its subsidiaries, The Kirk & Blum Manufacturing Company (“Kirk & Blum”), kbd/Technic, Inc., and CECO Abatement Systems, Inc. The complaint contains causes of action for negligence and a cause of action for breach of implied warranties, and the complainant is asking for unspecified compensatory damages and costs. The matter was submitted to court-ordered mediation in January 2011, which was unsuccessful. It is believed that the matter will proceed to trial in the third quarter of 2011. The Company’s insurance carriers have agreed to defend the claims, pursuant to reservation of rights letters, and have retained counsel to defend the Company. At this time, we believe that the claims are without merit and we intend to vigorously defend this suit. While there is a potential for an adverse verdict, the Company believes that any such loss other than $25,000 would be covered by insurance. No loss is considered probable at this time.

On January 13, 2011, the SEC initiated a non-public formal investigation relating to possible insider trading by affiliates of the Company. We have been cooperating with and intend to continue to cooperate with the SEC. We have been informed by our Chairman of the Board that he has received a subpoena in connection with such inquiry. In accordance with the terms of our bylaws and the General Corporation Law of Delaware, we are advancing expenses incurred by our Chairman in this matter. Because the matter is ongoing, we cannot predict the outcome of this formal inquiry at this time, and, as a result, no conclusion can be reached as to what impact, if any, this inquiry may have on us or our operations.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

One of the unions that represents employees of Kirk & Blum, Local Union 24 of the Sheet Metal Workers International Association ("Local 24"), has demanded to bargain with Kirk & Blum over the decision to close our Oakley facility and the effects of the closure in connection with the layoffs of approximately 40 unionized Kirk & Blum employees from that facility in 2010. Local 24 is requesting severance payments and other non-monetary consideration. No agreement has yet been reached; negotiations remain ongoing. Also, in September of 2010 Local 24 filed a grievance against Kirk & Blum under its collective bargaining agreement alleging improper subcontracting to an outside vendor. In January of 2011, the grievance was heard by a panel of the National Joint Adjustment Board for the Sheet Metal Industry, which resulted in a deadlock. The next National Adjustment Board panel hearing is expected to take place in June 2011. In addition, in September and November of 2010, the Sheet Metal Workers International Association ("SMWIA") requested certain information relating to the Company's facility closure decisions, the subcontracting of work to outside vendors, and related matters such as equipment transfers and union employee layoffs. The Company has responded to SMWIA's requests and SMWIA has not at this time taken any further action. If any of these matters is not resolved to the satisfaction of the parties, SMWIA and/or Local 24 may take legal action such as filing unfair labor practice charges with the National Labor Relations Board and/or filing additional grievances under the applicable collective bargaining agreement(s). Should this occur, the Company intends to contest any such claims or charges vigorously, which the Company believes to be without merit. No loss is considered probable or estimable at this time for these union matters.

The final outcome and impact of these matters, and related claims and investigations that may be brought in the future, are subject to many variables, and cannot be predicted. We establish accruals only for those matters where we determine that a loss is probable and the amount of loss can be reasonably estimated. As a result, we have not accrued for any liability with respect to these matters. The Company expenses legal costs as they are incurred. While it is currently not possible to reasonably estimate the aggregate amount of costs which we may incur in connection with these matters, such costs could have a material adverse effect on our financial position, liquidity, or results of operations.

The Company is involved in certain litigation in the normal course of its business. Management intends to vigorously defend these cases.

## 14. Income Taxes

Income (loss) from continuing operations before income taxes was generated in the United States and abroad as follows:

| | 2010 | 2009 |
|---|---|---|
| Domestic | $1,978 | $(15,843) |
| Foreign | 1,698 | (2,068 |
| | $3,676 | $(17,911) |

The Company currently intends to indefinitely reinvest its unrepatriated Foreign earnings which is immaterial as of December 31, 2010.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

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

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Current: | | |
| Federal | $1,257 | $ (264) |
| State | 316 | 77 |
| Foreign | 197 | (109) |
| | 1,770 | (296) |
| Deferred: | | |
| Federal | (209) | (2,278) |
| State | (190) | (570) |
| | (399) | (2,848) |
| | $1,371 | $(3,144) |

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

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Tax expense (benefit) at statutory rate | $1,243 | $(6,090) |
| Increase (decrease) in tax resulting from: | | |
| State income tax, net of federal benefit (expense) | 144 | (946) |
| Domestic Production Activities deduction | (132) | -0- |
| Change in uncertain tax position reserves | (254) | (34) |
| Permanent differences, including certain Goodwill impairment charges | 317 | 4,035 |
| Impact of foreign rate differences and adjustments | 53 | (109) |
| | $1,371 | $(3,144) |

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

| $ in thousands | 2010 | 2009 |
|---|---|---|
| Current deferred tax assets (liabilities) attributable to: | | |
| Accrued expenses | $ 153 | $ 732 |
| Deferred state taxes | (52) | 13 |
| Reserves on assets | 820 | 223 |
| Inventory | 21 | — |
| Prepaid expenses | (235) | (322) |
| Current deferred tax asset (included in prepaid expenses and other current assets) | 707 | 646 |
| Noncurrent deferred tax assets (liabilities) attributable to: | | |
| Depreciation | (1,032) | (2,034) |
| Goodwill and intangibles | 514 | 1,133 |
| Other | (9) | 3 |
| Minimum pension and postretirement liability | 1,129 | 1,246 |
| Net noncurrent deferred income tax asset | 602 | 348 |
| Net deferred tax asset | $ 1,309 | $ 994 |

Gross deferred tax assets were $2.9 million and $4.9 million at December 31, 2010 and 2009, respectively. Gross deferred tax liabilities were $1.6 million and $3.9 million at December 31, 2010 and 2009, respectively.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

Included in Other noncurrent deferred income tax assets at December 31, 2010 are $114,000 of state net operating loss credit carry forwards, certain of which are net of an aggregate of $185,000 of valuation allowances. State net operating loss credit carry forwards expire from 2017 to 2029.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry forward periods), projected future taxable income, and tax-planning strategies in making this assessment. Based on this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2010. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company accounts for uncertain tax positions pursuant to FASB Accounting Standards Codification Topic 740. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. A reconciliation of the beginning and ending amount of uncertain tax position reserves is as follows:

| | 2010 | 2009 |
|---|---|---|
| Balance as of January 1 | $ 337,000 | $411,000 |
| Reductions for expirations on tax positions of prior years | (254,000) | (74,000) |
| Balance as of December 31 | $ 83,000 | $337,000 |

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the years ended December 31, 2010 and 2009, the Company recognized approximately $14,000 and $52,000 respectively, in interest, resulting in accruals, after expirations, of $3,000 and $50,000 as of December 31, 2010 and 2009 respectively. Tax years going back to 2007 remain open for Federal and all significant states. The favorable settlement of all uncertain tax positions would impact the Company's effective income tax rate.

## 15. Related Party Transactions

During 2010 and 2009, we paid Icarus $120,000 per year for use of its space and other office expenses of our Toronto office. During 2010 and 2009, we paid fees of $360,000 to Icarus for management consulting services. These services were provided by Phillip DeZwirek, the then Chief Executive Officer and current Chairman of our Board, through Icarus.

As described in Note 10, on November 26, 2009, the Company issued the Investor Notes to a group of investors which includes Icarus ($2,200,000), Jason DeZwirek ($800,000), and Harvey Sandler Revocable Trust ($800,000), which trust owns over 10% of our outstanding common stock.

## 16. Major Customers and Foreign Sales and Assets

No single customer represented greater than 10% of consolidated net sales or accounts receivable for 2010 or 2009.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

For 2010 and 2009, sales to customers outside the United States, including export sales, accounted for approximately 19% and 12% respectively, of consolidated net sales. The largest portion of these sales was destined for Canada. Generally, sales are denominated in U.S. dollars. Of consolidated long lived assets, $3.7 million and $3.6 million were located outside of the United States as of December 31, 2010 and 2009, respectively.

## 17. Discontinued Operations

During 2009, the Company discontinued the operations of H.M. White. The Company terminated its facility lease in Detroit, Michigan and all property and equipment held by H.M. White was sold at net book value to its former owner. Accordingly, there was no gain or loss associated with the sale of H.M. White's assets.

The results of H.M. White are presented as discontinued operations for all periods in the consolidated financial statements. The Company did not allocate general corporate interest expense to H.M. White.

Operating results of discontinued operations are as follows:

| $ in thousands | Year Ended December 31, 2010 | 2009 |
|---|---|---|
| Net sales | **$ 474** | **$5,529** |
| Loss from discontinued operations, before income taxes | $(317) | $ (465) |
| Income tax benefit | (117) | (200) |
| Loss from discontinued operations | **$(200)** | **$ (265)** |

Assets and liabilities related to discontinued operations consisted of the following:

| $ in thousands | December 31, 2010 | 2009 |
|---|---|---|
| Assets | | |
| Accounts receivable | $ 45 | $1,356 |
| Inventories | — | 37 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | — | 299 |
| Prepaid expenses and other | 31 | 185 |
| Total current assets of discontinued operations | 76 | 1,877 |
| Property, plant and equipment, net | — | 57 |
| Total assets of discontinued operations | $ 76 | $1,934 |
| Liabilities | | |
| Accounts payable and accrued expenses | $— | $ 533 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | — | 115 |
| Total current liabilities of discontinued operations | — | 648 |
| Other liabilities | — | — |
| Total liabilities of discontinued operations | $— | $ 648 |

## 18. Business Segment Information

CECO's operations are organized and reviewed by management along its product lines and presented in three reportable segments. The results of the segments are reviewed through to the "Operating income" line on the Statement of Operations.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

***Engineered Equipment and Parts Group***

Our Engineered Equipment and Parts Group is comprised of CECO Filters, Busch International, CECO Abatement, Effox, FKI, Flextor and A.V.C. We enable our customers to meet BACT requirements and compliance targets for fumes, volatile organic compounds, process, and industrial odors. Our services eliminate toxic emission fumes and volatile organic compounds from large-scale industrial processes. We have a presence in the chemical processing, ethanol, paint booth emissions, wastewater treatment, and wood products industries.

***Contracting/Services Group***

Our Contracting/Services Group is comprised of the contracting/services operations of our Kirk & Blum divisions. We provide custom metal fabrication services at our Kirk & Blum Columbia Tennessee and Louisville Kentucky locations. These facilities are used to fabricate parts, subassemblies, and customized products for air pollution and non-air pollution applications from sheet, plate, and structurals.

***Component Parts Group***

We market component parts for industrial air systems to contractors, distributors and dealers throughout the United States.

The accounting policies of the segments are the same as those in the consolidated financial statements and are discussed in Note 1.

**Summary of Business by Segment**

| $ in thousands | Engineered Equipment and Parts | Contracting/ Services | Component Parts | Corporate and other(a) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Gross revenues** | | | | | | |
| 2010 | $ 97,339 | $ 37,122 | $ 18,148 | $ 1,548 | $ (13,555) | $ 140,602 |
| 2009 | $ 90,841 | $ 41,451 | $ 14,067 | $ 1,462 | $ (8,836) | $ 138,985 |
| **Operating income (loss)** | | | | | | |
| 2010 | $ 9,314 | $ 28 | $ 2,798 | $ (6,830) | $ (274) | $ 5,036 |
| 2009 | $ 423 | $ (1,445) | $ 565 | $ (15,309) | $ (64) | $ (15,830) |
| **Identifiable assets** | | | | | | |
| 2010 | $107,649 | $ 46,251 | $ 4,616 | $ (20,161) | $ (63,564) | $ 74,791 |
| 2009 | $ 78,547 | $ 45,400 | $ 3,140 | $ (11,395) | $ (38,177) | $ 77,515 |
| **Goodwill** | | | | | | |
| 2010 | $ 14,713 | $ — | $ — | $ — | $ — | $ 14,713 |
| 2009 | $ 14,591 | $ — | $ — | $ — | $ — | $ 14,591 |
| **Property and equipment additions** | | | | | | |
| 2010 | $ 386 | $ 109 | $ 97 | $ 62 | $ — | $ 654 |
| 2009 | $ 101 | $ 465 | $ 45 | $ 388 | $ — | $ 999 |
| **Depreciation and amortization** | | | | | | |
| 2010 | $ 998 | $ 421 | $ 186 | $ 153 | $ — | $ 1,758 |
| 2009 | $ 1,296 | $ 855 | $ 260 | $ 108 | $ — | $ 2,519 |

(a) Includes Corporate expenses, and the operations of our Engineering Group. The Engineering Group is not significant to the overall operations of the Company.

**CECO ENVIRONMENTAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**For the Years Ended December 2010 and 2009**

## 19. Property and Equipment Held for Sale

In order to operate at a higher utilization rate and to increase operational efficiency, the Company determined to shift production it its North American facilities by scaling down the Kirk & Blum Contracting Services and Fabrication production at its plants in Cincinnati, Ohio; Indianapolis, Indiana; and Lexington, Kentucky and migrating such production to its facilities in Louisville, Kentucky; Columbia, Tennessee; Greensboro, North Carolina; and Canton, Mississippi. The Company closed the sale of the Cincinnati and Lexington plants in December 2010. An impairment charge of $324,000 was recorded in the fourth quarter of 2010 to reflect the loss on the pending sale of Indianapolis which was under contract and was sold in February 2011, and the assets of $526,000 are classified as held for sale as of December 31, 2010.

**INCENTIVE STOCK OPTION AGREEMENT**

CECO ENVIRONMENTAL CORP.
2007 EQUITY INCENTIVE PLAN

THIS AGREEMENT is dated and made effective as of (the "Effective Date")_____, 20__ by and between CECO ENVIRONMENTAL CORP., a Delaware corporation (the "Company"), and _____. ("Optionee").

WITNESSETH:

WHEREAS, Optionee on the date hereof is an employee of the Company or one of its Subsidiaries; and

WHEREAS, the Company desires to grant an incentive stock option to Optionee to purchase shares of the Company's Common Stock pursuant to the Company's 2007 Equity Incentive Plan, (the "Plan"); and

WHEREAS, the Compensation Committee of the Company has authorized the grant of a stock option to Optionee as of the Effective Date and has determined that, on the Effective Date, the Fair Market Value of the Common Stock of the Company is the exercise price per share provided below.

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

1. **Grant of Option**. The Company hereby grants to Optionee as of the date hereof the right and option (the "Option") to purchase up to _____ (_____) shares of Option Stock ("Shares") at an exercise price of $_____ per share on the terms and conditions set forth herein and subject to the terms and conditions of the Plan. This Option is intended to qualify as an "incentive stock option" within the meaning of Section 422, or any successor provision, of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder; provided however, that in the event Options to purchase Shares, which Shares have a Fair Market Value (determined as of the Effective Date) exceeding $100,000, become exercisable for the first time in any calendar year, such Options to purchase Shares in excess of the $100,000 limitation shall be considered Non-Statutory Stock Options.

All capitalized terms not defined in this Agreement shall have the meaning set forth in the Plan.

**2. Duration and Exercisability.**

a. Vesting/Exercise Period. The Option shall become exercisable as to portions of the Shares as follows: (i) the Option shall not be exercisable with respect to any of the Shares until the first anniversary of the Effective Date (the "First Vesting Date"); (ii) if Optionee has continuously provided services to the Company or any Subsidiary from the Effective Date through the First Vesting Date and has not been Terminated (as hereafter defined) on or before the First Vesting Date, then on the First

Vesting Date the Option shall become exercisable as to _____ Shares; and (iii) thereafter, provided that Optionee continuously provides services to the Company or any Subsidiary of the Company and is not Terminated, upon each successive anniversary of the First Vesting Date, the Option shall become exercisable as to an additional _____ Shares; provided, that the Option shall in no event ever become exercisable with respect to more than 100% of the Shares.

b. Expiration. The Option shall expire on the tenth anniversary of the Effective Date ("Expiration Date") and must be exercised, if at all, on or before the earlier of the Expiration Date and any date on which the Option terminated in accordance with the provisions of Section 3.

c. Lapse Upon Expiration. To the extent that this Option is not exercised prior to the applicable expiration date set forth in Section 2(b) or Section 3 of this Agreement, all rights of Optionee under this Option shall thereupon be forfeited.

3. **Termination.**

a. Termination for Any Reason Other than Death, Disability or a Change of Control If Optionee is Terminated for any reason other than his death, Disability or a Change of Control (both terms as hereafter defined), this Option shall be exercisable only to the extent the Option was exercisable on the date of Termination, but had not previously been exercised, and shall expire on the earlier of (i) the close of business ninety days after the Termination Date (as hereafter defined) and (ii) the Expiration Date. Notwithstanding the foregoing, if the Optionee has a Termination for Misconduct, then the Option shall terminate immediately on the Optionee's Termination Date.

b. Termination Because of Death or Disability. If Optionee is Terminated because of his death or his Disability (or Optionee dies within three (3) months after a Termination other than because of his Disability or because of the existence of Cause), then this Option shall be exercisable by Optionee, or the person or persons to whom Optionee's rights under this Option shall have passed by Optionee's will or by the laws of descent and distribution, only to the extent the Option was exercisable on the date of Optionee's Termination, but had not previously been exercised, and shall expire on the earlier of: (i) the close of business six months after Optionee's Termination Date and (ii) the Expiration Date.

c. Change of Control. Notwithstanding the provisions of Section 2(a), upon a Change of Control, the Option shall be fully vested and exercisable by Optionee. The provisions of Section 3(a) or 3(b) shall govern such Option thereafter, as the case may be.

d. Definition.

"Termination" or "Terminated" means that Optionee has for any reason ceased to provide services as an employee of the Company or Subsidiary of the Company, except in the case of sick leave, military leave, or any other leave of absence approved by the Committee, provided that such leave is for a period of not more than ninety (90) days, or reinstatement upon the expiration of such leave is guaranteed by contract or statute. The Committee shall have sole discretion to determine whether Optionee has ceased to provide services and the effective date on which Optionee ceased to provide services (the "Termination Date").

4. **Manner of Exercise**.

a. General. The Option may be exercised only by Optionee (or other proper party in the event of death or Disability), subject to the conditions of the Plan and this Agreement, and subject to such other administrative rules as the Committee deems advisable, by delivering written notice of exercise to the Company at its principal office. The notice shall state the number of Shares exercised and shall be accompanied by payment in full of the Option price for all Shares exercised pursuant to the notice. Any exercise of the Option shall be effective upon receipt of such notice by the Company together with payment that complies with the terms of the Plan and this Agreement. The Option may be exercised with respect to any number or all of the shares as to which it can then be exercised and, if partially exercised, may be so exercised as to the unexercised shares at any time and from time to time prior to expiration of the Option as provided in this Agreement.

b. Form of Payment. Subject to approval by the Committee, payment of the Option price by Optionee shall be in the form of cash, personal check, certified check, or where permitted by law and provided that a public market for the Company's stock exists: (i) through a "same day sale" commitment from Optionee and a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby Optionee irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the exercise price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; or (ii) through a "margin" commitment from Optionee and a NASD Dealer whereby Optionee irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company. Optionee shall be solely responsible for any income or other tax consequences from any payment for Shares with Optionee's Common Stock of the Company.

c. Stock Transfer Records. Provided that the notice of exercise and payment are in form and substance satisfactory to counsel for the Company, as soon as practicable after the effective exercise of all or any part of the Option, Optionee shall be recorded on the stock transfer books of the Company as the owner of the Shares purchased, and the Company shall deliver to Optionee, or to the NASD Dealer, as the case may be, one or more duly issued stock certificates evidencing such ownership. All requisite original issue or transfer documentary stamp taxes shall be paid by the Company. Optionee shall pay all other costs of the Company incurred to issue such Shares to such NASD Dealer.

Shares purchased pursuant to exercise hereunder: (i) may be deposited with a NASD Dealer designated by Optionee, in street name, if so provided in such exercise notice accompanied by all applications and forms reasonably required by the Committee to effect such deposit, or (ii) may be issued to Optionee and such other person, as joint owners with the right of survivorship, as is specifically described in such exercise notice. Optionee shall be solely responsible for any income or other tax consequences of such a designation of ownership hereunder (or the severance thereof).

5. **Miscellaneous**.

a. Employment Rights as Shareholder. This Agreement shall not confer on Optionee any right with respect to continuance of employment by the Company or any Subsidiary, nor shall it affect the right of the Company to Terminate such employment. Optionee shall have no rights as a shareholder with respect to Shares subject to this Option until such Shares are issued to Optionee upon the exercise of this Option. No adjustment shall be made for dividends (ordinary or extra-ordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 12 of the Plan.

b. Securities Law Compliance. The exercise of the Option and the issuance and transfer of Shares shall be subject to compliance by the Company and Optionee with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's Common Stock may be listed at the time of such issuance or transfer. The Company shall not be required to sell or issue any Shares if such issuance would constitute a violation of any provision of any law or regulation of any governmental authority.

c. Mergers, Recapitalization, Stock Splits, Etc. The provisions of Sections 14 and 17 of the Plan, as amended effective as of the Effective Date, shall govern all Options in the event of any reorganization, merger, consolidation, recapitalization, reclassification, change in par value, stock split-up, combination of shares or dividend payable in capital stock, or other such transaction described under Sections 14 and 17 of the Plan, and the Company reserves all discretion provided therein.

d. Withholding Taxes on Disqualifying Disposition. In the event of a disqualifying disposition of the Shares acquired through the exercise of this Option, Optionee hereby agrees to promptly provide the Company written notice of such disposition, which notice shall be deemed delivered when received by the Company. Upon notice of a disqualifying disposition, the Company may take such action as it deems appropriate to insure that, if necessary to comply with all applicable federal or state income tax laws or regulations, all applicable federal and state payroll, income or other taxes are withheld from any amounts payable by the Company to Optionee. If the Company is unable to withhold such federal and state taxes, for whatever reason, Optionee hereby agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal or state law. Optionee may, subject to the approval and discretion of the Committee or such administrative rules it may deem advisable, elect to have all or a portion of such tax withholding obligations satisfied by delivering shares of the Company's Common Stock having a fair market value equal to such obligations. For the purpose of this Section 5(d), a "disqualifying disposition" means a sale or other transfer of any Shares on or before the later of (i) the date two (2) years after the date hereof and (ii) the date one (1) year after transfer of such Shares to Optionee upon exercise of the Option, as more particularly set forth at Section 422(a)(1) of the Code

e. Nontransferability. The Option may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of Participant only by Participant. The terms of the Option shall be binding upon the executors, administrators, successors and assigns of Participant.

f. 2007 Equity Incentive Plan. The Option evidenced by this Agreement is granted pursuant to the Plan, a copy of which Plan has been made available to Optionee and is hereby incorporated into this Agreement. This Agreement shall be subject to and in all respects limited and conditioned as provided in the Plan. The Plan governs this Option and, in the event of any questions as to the construction of this Agreement or in the event of a conflict between the Plan and this Agreement, the Plan shall govern, except as the Plan otherwise provides.

g. Stock Legend. The Committee may require that the certificates for any Shares purchased by Optionee (or, in the case of death, Optionee's successors) bear an appropriate legend to reflect the restrictions of applicable law.

h. Scope of Agreement. This Agreement shall bind and inure to the benefit of the Company and its successors and assigns and Optionee and any successor or successors of Optionee permitted by Section 3 or Section 5(e) of this Agreement.

i. Interpretation. The Committee shall have the sole discretion to interpret and administer the Plan. Any determination made by the Committee with respect to any Option shall be final and binding on the Company and on all persons having an interest in the Option granted under this Agreement and the Plan.

j. Entire Option. The Plan, as amended, is incorporated herein by reference. This Agreement and the Plan constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersede all prior understandings and agreements with respect to such subject matter.

k. Successors and Assigns. The Company may assign any of its rights under the Option. The Option shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, the Option shall be binding upon Optionee and Optionee's heirs, executors, administrators, legal representatives, successors and assigns.

l. Governing Law. The Option shall be governed by and construed in accordance with the internal laws of the State of Delaware, without regard to that body of law pertaining to choice of law or conflict of law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

| | |
|---|---|
| CECO Environmental Corp. | OPTIONEE |
| By: _____ | _____ |
| Its: _____ | [Signature] |

**STOCK OPTION AGREEMENT**

**CECO ENVIRONMENTAL CORP.**
**2007 EQUITY INCENTIVE PLAN**

THIS AGREEMENT is dated and made effective as of_____ ("Effective Date") by and between CECO ENVIRONMENTAL CORP., a Delaware corporation (the "Company"), and _____ ("Optionee").

WITNESSETH:

WHEREAS, Optionee on the date hereof is a Director of the Company or one of its Subsidiaries; and

WHEREAS, the Company desires to grant a non-statutory stock option to Optionee to purchase shares of the Company's Common Stock pursuant to the Company's 2007 Stock Option Plan, as amended (the "Plan"); and

WHEREAS, the Compensation Committee of the Company has determined that, on the date hereof, the Fair Market Value of Options Stock of the Company is not less than the exercise price per share provided below.

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

1. **Grant of Option**. The Company hereby grants to Optionee as of the date hereof the right and option (the "Option") to purchase up to _____ ( ) shares of Option Stock ("Shares") at an exercise price of $_____ per share on the terms and conditions set forth herein and subject to the terms and conditions of the Plan. This option is not intended to qualify as an "incentive stock option" within the meaning of Section 422, or any successor provision, of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder.

All capitalized terms not defined in this Agreement shall have the meaning set forth in the Plan.

2. **Duration & Exercisability.**

a. Vesting and Exercise Period. Subject to Section 2(b) below, the Option shall become exercisable as to portions of the Shares as follows: (i) the Option shall not be exercisable with respect to any of the Shares until the first anniversary of the Effective Date (the "First Vesting Date"); (ii) on the First Vesting Date the Option shall become exercisable as to_____ percent ( %) of the shares; and (iii) thereafter, upon each of _____ successive anniversaries of the First Vesting Date (such anniversaries and the First Vesting Dare are collectively referred to as the "Vesting Dates"), the option shall become exercisable as to an additional _____ percent ( %) of the shares

b. Expiration. The Option shall expire on the earlier of (a) the date ninety (90) days from the date that Optionee no longer is a director of the Company or any of its subsidiaries for any reason, including without limitation, due to death or disability, or (b) the tenth anniversary of the Effective Date ("Expiration Date") and vested options to purchase Shares hereunder must be exercised, if at all, on or before the Expiration Date.

c. Lapse Upon Expiration. To the extent that this Option is not exercised prior to the Expiration Date set forth in Section 2(b),, all rights of Optionee under this Option shall thereupon be forfeited.

3. **Manner of Exercise**.

a. General. The Option may be exercised only by Optionee (or other proper party in the event of death or incapacity), subject to the conditions of the Plan and this Agreement, and subject to such other administrative rules as the Administrator deems advisable, by delivering written notice of exercise to the Company at its principal office, in the form attached hereto as Exhibit A. The notice shall state the number of Shares exercised and shall be accompanied by payment in full of the Option price for all Shares exercised pursuant to the notice. Any exercise of the Option shall be effective upon receipt of such notice by the Company, together with payment that complies with the terms of the Plan and this Agreement. The Option may be exercised with respect to any number or all of the shares as to which it can then be exercised and, if partially exercised, may be so exercised as to the unexercised shares at any time and from time to time prior to expiration of the Option as provided in this Agreement.

b. Form of Payment. Subject to approval by the Administrator, payment of the Option price by Optionee shall be in the form of cash, personal check, certified check, or where permitted by law and provided that a public market for the Company's stock exists: (i) through a "same day sale" commitment from Optionee and a broker-dealer that is a member of the Financial Industry Regulatory Authority, Inc. (a "FINRA Dealer") whereby Optionee irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the exercise price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; (ii) through a "margin" commitment from Optionee and a FINRA Dealer whereby Optionee irrevocably elects to exercise the Option and to pledge the Shares so purchased to the FINRA Dealer in a margin account as security for a loan from the FINRA Dealer in the amount of the exercise price, and whereby the FINRA Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company. Optionee shall be solely responsible for any income or other tax consequences from any payment for Shares with Optionee's Common Stock of the Company.

c. Stock Transfer Records. Provided that the notice of exercise and payment are in form and substance satisfactory to counsel for the Company, as soon as practicable after the effective exercise of all or any part of the Option, Optionee shall be recorded on the stock transfer books of the Company as the owner of the Shares purchased, and the Company shall deliver to Optionee, or to the FINRA Dealer, as the case may be, one or more duly issued stock certificates evidencing such ownership. All requisite original issue or transfer documentary stamp taxes shall be paid by the Company. Optionee shall pay all other costs of the Company incurred to issue such Shares to such FINRA Dealer.

Shares purchased pursuant to exercise hereunder: (i) may be deposited with a FINRA Dealer designated by Optionee, in street name, if so provided in such exercise notice accompanied by all applications and forms reasonably required by the Administrator to effect such deposit, or (ii) may be issued to Optionee and such other person, as joint owners with the right of survivorship, as is specifically described in such exercise notice. Optionee shall be solely responsible for any income or other tax consequences of such a designation of ownership hereunder (or the severance thereof).

4. **Miscellaneous**.

a. Rights as Shareholder. Optionee shall have no rights as a shareholder with respect to Shares subject to this Option until such Shares are issued to Optionee upon the exercise of this Option. No adjustment shall be made for dividends (ordinary or extra-ordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 14 of the Plan.

b. Securities Law Compliance. The exercise of the Option and the issuance and transfer of Shares shall be subject to compliance by the Company and Optionee with all applicable requirements of federal and state securities laws and with all applicable requirements of any securities exchange on which the Company's Common Stock may be listed at the time of such issuance or transfer. The Company shall not be required to sell or issue any Shares if such issuance would constitute a violation of any provision of any law or regulation of any governmental authority or self-regulatory organization.

c. Mergers, Recapitalization, Stock Splits, Etc. The provisions of Section 14 and 17 of the Plan, as amended effective as of the date hereof, shall govern the Option in the event of any reorganization, merger, consolidation, recapitalization, reclassification, change in par value, stock split-up, combination of shares or dividend payable in capital stock, or other such transaction described under Sections 14 and 17 of the Plan, and the Company reserves all discretion provided therein.

d. Nontransferability. The Option may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Option shall be binding upon the executors, administrators, successors and assigns of Optionee.

e. 2007 Equity Incentive Plan. The Option evidenced by this Agreement is granted pursuant to the Plan, as amended as of the Effective Date, a copy of which Plan has been made available to Optionee and is hereby incorporated into this Agreement. This Agreement shall be subject to and in all respects limited and conditioned as provided in the Plan. The Plan governs this Option and, in the event of any questions as to the construction of this Agreement or in the event of a conflict between the Plan and this Agreement, the Plan shall govern, except as the Plan otherwise provides.

f. Stock Legend. The Committee may require that the certificates for any Shares purchased by Optionee (or, in the case of death, Optionee's successors) bear an appropriate legend to reflect the restrictions of applicable law.

g. Interpretation. The Committee shall have the sole discretion to interpret and administer the Plan. Any determination made by the Administrator with respect to any Option shall be final and binding on the Company and on all persons having an interest in the Option granted under this Agreement and the Plan.

h. Entire Option. The Plan, as amended, is incorporated herein by reference. This Agreement and the Plan constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersede all prior understandings and agreements with respect to such subject matter.

j. Successors and Assigns. The Company may assign any of its rights under the Option. The Option shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, the Option shall be binding upon Optionee and Optionee's heirs, executors, administrators, legal representatives, successors and assigns.

l. Governing Law. The Option shall be governed by and construed in accordance with the internal laws of the State of Delaware, without regard to that body of law pertaining to choice of law or conflict of law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

**CECO ENVIRONMENTAL CORP.**

By: _____

Its: _____

**OPTIONEE**

_____

**EXHIBIT A**

**CECO ENVIRONMENTAL CORP.**
**2007 STOCK OPTION PLAN (the "Plan")**
**STOCK OPTION EXERCISE AGREEMENT**

I hereby elect to purchase the number of shares of Common Stock of CECO ENVIRONMENTAL CORP. (the "Company") as set forth below:

Optionee: _____
Social Security Number: _____
Address: _____
_____
Type of Option: [ ] Incentive Stock Option
[ ] Nonqualified Stock Option

Number of Shares Purchased: _____
Purchase Price per Share: _____
Aggregate Purchase Price: _____
Date of Option Agreement: _____
Exact Name of Title to Shares: _____

1. Delivery of Purchase Price. Optionee hereby delivers to the Company the Aggregate Purchase Price, to the extent permitted in the Option Agreement (the "Option Agreement"), as follows (check as applicable and complete):

❑ in cash (by check) in the amount of $_____, receipt of which is acknowledged by the Company;

If the Committee allowed payment by other means in the Stock Option Agreement, add one or more of the following, as applicable:

❑ by delivery of _____ fully-paid, nonassessable and vested shares of the Common Stock of the Company owned by Optionee for at least six (6) months prior to the date hereof (and which have been paid for within the meaning of SEC Rule 144), or obtained by Optionee in the open public market, and owned free and clear of all liens, claims, encumbrances or security interests, valued at the current Fair Market Value of $_____ per share;

❑ through a "same-day-sale" commitment, delivered herewith, from Optionee and the NASD Dealer named therein, in the amount of $_____; or

❑ through a "margin" commitment, delivered herewith from Optionee and the NASD Dealer named therein, in the amount of $_____.

2. Market Standoff Agreement. Optionee, if requested by the Company and an underwriter of Common Stock (or other securities) of the Company, agrees not to sell or otherwise transfer or dispose of any Common Stock (or other securities) of the Company held by Optionee during the period requested by the managing underwriter following the effective date of a registration statement of the Company filed under the Securities Act, provided that all officers and directors of the Company are required to enter into similar agreements. Such agreement shall be in writing in a form satisfactory to the Company and such underwriter. The Company may impose stop-transfer instructions with respect to the shares (or other securities) subject to the foregoing restriction until the end of such period.

3. Tax Consequences. OPTIONEE UNDERSTANDS THAT OPTIONEE MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF OPTIONEE'S PURCHASE OR DISPOSITION OF THE SHARES. OPTIONEE REPRESENTS THAT OPTIONEE HAS CONSULTED WITH ANY TAX CONSULTANT(S) OPTIONEE DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR DISPOSITION OF THE SHARES AND THAT OPTIONEE IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE.

4. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Agreement, the Plan and the Option Agreement constitute the entire agreement and understanding of the parties and supersede in their entirety all prior understandings and agreements of the Company and Optionee with respect to the subject matter hereof, and are governed by Delaware law except for that body of law pertaining to choice of law or conflict of law.

Date: _____

_____
Signature of Optionee

**Exhibit 10.24**

EXECUTION VERSION

# AMENDED AND RESTATED CREDIT AGREEMENT

This Amended and Restated Credit Agreement (this "Agreement"), entered into as of August 17, 2010 (the "Signature Date") to be effective as of June 30, 2010 (the "Effective Date"), by and among, on the one hand, **CECO ENVIRONMENTAL CORP**., a Delaware corporation ("Parent"), **CECO GROUP, INC**., a Delaware corporation ("Group"), **FKI, LLC**, a Delaware limited liability company ("FKI, LLC"), **CECO MEXICO HOLDINGS LLC**, a Delaware limited liability company ("CECO Mexico LLC"), and each of the following Subsidiaries of Parent as Borrowers under this Agreement: **CECO FILTERS, INC**., a Delaware corporation ("Filters"), **NEW BUSCH CO., INC**., a Delaware corporation ("New Busch"), **THE KIRK & BLUM MANUFACTURING COMPANY**, an Ohio corporation ("K&B"), **KBD/TECHNIC, INC**., an Indiana corporation ("Technic"), **CECOAIRE, INC**., a Delaware corporation ("Aire"), **CECO ABATEMENT SYSTEMS, INC**., a Delaware corporation ("Abatement"), **H.M. WHITE, INC**., a Delaware corporation ("H.M. White"), **EFFOX INC**., a Delaware corporation and formerly known as CECO ACQUISITION CORP. ("Effox"), **GMD ENVIRONMENTAL TECHNOLOGIES, INC.**, a Delaware corporation and formerly known as GMD ACQUISITION CORP. ("GMD"), **FISHER-KLOSTERMAN, INC**., a Delaware corporation and formerly known as FKI ACQUISITION CORP. ("Fisher-Klosterman"), and **AVC, INC.,** a Delaware corporation ("AVC, Inc."), and, on the other hand, **FIFTH THIRD BANK**, an Ohio banking corporation ("Lender"), is as follows:

## Preliminary Statements

A. Parent, Group, and the Existing Borrowers (as defined below) executed and delivered to Lender that certain Credit Agreement dated as of December 29, 2005, as amended by the First Amendment to Credit Agreement dated as of June 8, 2006, the Second Amendment to Credit Agreement dated as of February 28, 2007, the Third Amendment to Credit Agreement dated as of February 29, 2008, the Fourth Amendment to Credit Agreement dated as of August 1, 2008, the Fifth Amendment to Credit Agreement dated as of December 30, 2008, the Sixth Amendment to Credit Agreement dated to be effective as of March 31, 2009, the Seventh Amendment to Credit Agreement dated to be effective as of May 15, 2009, the Eighth Amendment to Credit Agreement dated to be effective as of November 26, 2009, and the Ninth Amendment to Credit Agreement dated to be effective as of December 31, 2009 (as amended, the "Existing Credit Agreement"). FKI, LLC and CECO Mexico LLC are additional parties to the Third Amendment, Fourth Amendment, Fifth Amendment, Sixth Amendment, Seventh Amendment, Eighth Amendment, and Ninth Amendment to the Existing Credit Agreement. AVC, Inc. is an additional party to the Sixth Amendment, Seventh Amendment, Eighth Amendment, and Ninth Amendment to the Existing Credit Agreement.

B. The Loan Parties have requested that Lender: (i) consent to the recognition of AVC as a "Borrower" under the Existing Credit Agreement; (ii) extend the stated Termination Date of (a) the Line of Credit to April 1, 2013 and (b) Term Loan C to April 1, 2014; and (iii) make certain other amendments to the Existing Credit Agreement and certain of the other Loan Documents, all as more specifically set forth herein.

C. Lender is willing to consent to such requests and so amend the Existing Credit Agreement and other Loan Documents to reflect such modifications, all on the terms, and subject to the conditions, of this Agreement and the other Loan Documents being amended by, or amended and restated in connection with, this Agreement, including, without limitation, on the condition that certain changes be made to the interest rates applicable to the Obligations.

**Statement of Agreement**

In consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lender and Loan Parties hereby agree as follows:

**Amendment and Restatement**

Effective on and after the Effective Date, the Existing Credit Agreement is amended and restated in its entirety by this Agreement, and this Agreement, the Exhibits and Schedules attached hereto, and the other Loan Documents will govern the present relationship between Lender and Loan Parties. This Agreement, however, is in no way intended, nor shall it be construed, to replace, impair or extinguish the creation, attachment, perfection or priority of the security interests in, and other Liens on, the Loan Collateral granted by any Loan Party to, or held by, Lender, which security interests and other Liens each Loan Party, by this Agreement, acknowledges, ratifies, reaffirms and confirms to Lender as security for the Obligations. Each Loan Party further acknowledges and confirms that the grants of the Liens to Lender on the Loan Collateral: (i) represent continuing Liens on all of the Loan Collateral, (ii) secure all of the Obligations, and (iii) represent valid, first priority and perfected Liens on all of the Loan Collateral except to the extent, if any, of any Permitted Liens.

The existing Loan Documents, except as amended (or, as applicable, as amended and restated) by this Agreement or by a separate agreement or instrument, shall remain in full force and effect, and each of them is hereby ratified and confirmed by Loan Parties and Lender. References in any of the Loan Documents to the Existing Credit Agreement shall, after the Effective Date, be deemed to be references to this Agreement. In addition, all obligations, liabilities and indebtedness created or existing under, pursuant to, or as a result of, the Existing Credit Agreement shall continue in existence within the definition of “Obligations” under this Agreement, which obligations, liabilities and indebtedness each Loan Party, by this Agreement, acknowledges, reaffirms and confirms. The principal balance outstanding under the Existing Credit Agreement and the other Loan Documents shall continue in all respects to be outstanding hereunder and under the other Loan Documents, and this Agreement shall not be deemed to evidence a novation or payment and refunding of that outstanding principal balance. Interest and fees (a) paid under the Existing Credit Agreement and the other Loan Documents prior to the Signature Date will remain paid and are non-refundable and (b) accrued and unpaid under the Existing Credit Agreement and the other Loan Documents remain accrued and unpaid hereunder and under the other Loan Documents and do not constitute any part of the principal amount due hereunder.

**Sections**

Section 1. Definitions; Construction.

1.1 Definitions. Certain capitalized terms have the meanings set forth on any exhibit hereto or in a Security Document. All financial terms used in this Agreement but not defined on the exhibits or in the other Loan Documents have the meanings given to them by GAAP. All other uncapitalized terms have the meanings given to them in the Uniform Commercial Code, as now or hereafter enacted in the State of Ohio. The following definitions are used herein:

"Adjusted EBITDA" means the total (without duplication and all as determined on a consolidated basis in accordance with GAAP), in Dollars, of EBITDA for the applicable period, (a) minus Non-financed Capital Expenditures for that same period; (b)minus the aggregate cash amount of the Parent and its Subsidiaries' income and franchise tax expense for that same period to the extent deducted in the determination of Net Income; (c) minus any gain or plus any non-cash loss arising from the sale of capital assets to the extent included or deducted in the determination of Net Income; (d) minus any gain arising from the write-up of any assets (excluding inventory) or plus any non-cash loss from the write-down of any assets, each to the extent included (or deducted in the case of non-cash losses) in the determination of Net Income; (e) minus any extraordinary gains and items of income to the extent included in the determination of Net Income or plus any non-cash extraordinary items of loss to the extent deducted in the determination of Net Income; (f) minus any gains (or plus any non-cash losses) recognized by the Parent and its Subsidiaries as earnings which relate to adjustments made by the Parent and its Subsidiaries as a result of any extraordinary accounting adjustment to the extent included (or deducted in the case of non-cash losses) in the determination of Net Income; (g) minus non-operating, non-recurring gains (or plus any non-cash losses) from time to time occurring to the extent included (or deducted in the case of non-cash losses) in the determination of Net Income; (h) plus any non-cash expense or minus any non-cash gain or income during such period resulting from (i) a change in the price of Parent's common stock opposite the strike price of its options and warrants and any other derivative assets or liabilities outstanding from time to time, (ii) stock award expenses, and (iii) impairment of goodwill; (i) minus the aggregate amount of any dividends to Parent's stockholders, if any, permitted expressly by Lender which are paid in cash by Parent during the applicable period; and (j) minus the aggregate amount of FKI Earn-out Payments, A.V.C Earn-out Payments or Flextor Earn-out Payments made by the Parent and its Subsidiaries in cash during the applicable period to the extent not deducted in the determination of Net Income which was used to determine such EBITDA. The term "applicable period" in this definition means (A) Test Period in the case of determining the Fixed Charge Coverage Ratio or the Maximum Total Funded Debt to Adjusted EBITDA Ratio and (B) Fiscal Year in the case of determining Excess Cash Flow.

"Affiliate" means, as to any Person (the "Subject Person"), any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, the Subject Person. For purposes of this definition, "control" of a Person means the power, direct or indirect, (a) to vote 5% or more of the securities (or other Ownership Interests) having voting power for the election of directors (or managers in the case of a limited liability company) of the Person or (b) otherwise to direct or cause the direction of the management and policies of the Person, whether by contract or otherwise. Without limiting the generality of the foregoing, each of the following will be deemed an Affiliate of a Borrower for purposes of this Agreement, Parent, Group, FKI, LLC, CECO Mexico LLC, CECO India, Fisher Klosterman Shanghai, CECO Environmental Mexico, CECO Environmental Services, and each officer and director of a Loan Party.

"Applicable Unused Line Fee Percentage" means, as of any date, the applicable percentage shown in the applicable column in the table below based on the then applicable Fixed Charge Coverage Ratio. As of the Effective Date, the Applicable Unused Line Fee Percentage is 0.75% (*i.e.*, Pricing Grid Level 1).

| Pricing Grid Level | **Fixed Charge Coverage Ratio** | Applicable Unused Line Fee Percentage |
|---|---|---|
| Level 1 | £ 1.50 to 1.0 | 0.75% |
| Level 2 | > 1.50 to 1.0 and £ 2.0 to 1.0 | 0.50% |
| Level 3 | > 2.0 to 1.0 | 0.50% |

"Applicable LOC Fee Percentage" means, as of any date, the applicable percentage shown in the applicable column in the table below based on the then applicable Fixed Charge Coverage Ratio. As of the Effective Date, the Applicable LOC Fee Percentage is 3.0% (*i.e.*, Pricing Grid Level 1).

| Pricing Grid Level | **Fixed Charge Coverage Ratio** | Applicable LOC Fee Percentage |
|---|---|---|
| Level 1 | £ 1.50 to 1.0 | 3.0% |
| Level 2 | > 1.50 to 1.0 and £ 2.0 to 1.0 | 2.50% |
| Level 3 | > 2.0 to 1.0 | 2.0% |

"A.V.C." means Shideler, Inc., formerly known as A.V.C. Specialists, Inc., a California corporation, and its successors and assigns.

"A.V.C. Acquisition" means the acquisition by Fisher-Klosterman of substantially all of the assets of A.V.C., all in accordance with, and pursuant to the terms of, the A.V.C. Acquisition Documents.

"A.V.C. Acquisition Agreement" means the Asset Purchase Agreement dated as of August 1, 2008 by and among Fisher-Klosterman, A.V.C. and Tom Shideler and Barbara Shideler.

"A.V.C. Acquisition Documents" means the A.V.C. Acquisition Agreement and every other document or agreement executed or delivered by any Loan Party in connection with the A.V.C. Acquisition.

"A.V.C. Earn-out Payment" means any Earn-out Amount (as defined in the A.V.C. Acquisition Agreement) paid by a Loan Party in accordance with the A.V.C. Acquisition Agreement.

"Bankruptcy Code" means the Bankruptcy Code of 1978, as amended, 11 U.S.C. § 101*et seq*.

"Borrower" means each of Filters, New Busch, K&B, Technic, Aire, Abatement, H.M. White, Effox, GMD, Fisher-Klosterman, AVC, Inc., and the Domestic Subsidiaries of Parent or Group hereafter becoming a party to this Agreement pursuant to Section 5.9(b), and "Borrowers" means, collectively, Filters, New Busch, K&B, Technic, Aire, Abatement, H.M. White, Effox, GMD, Fisher-Klosterman, AVC, Inc., and such additional Domestic Subsidiaries. To the extent a term or provision of this Agreement or any of the other Loan Documents is applicable to a "Borrower", it is applicable to each and every Borrower unless the context expressly indicates otherwise. For the avoidance of doubt, neither of FKI, LLC nor CECO Mexico LLC shall be a Borrower.

"Borrower Guaranties" means each guaranty made by a Borrower in favor of Lender and Lender's Affiliates of the Obligations.

"Borrower's Facilities" means, as to a Borrower, collectively, those facilities described onSchedule 1.1 which are owned or leased by such Borrower. "Borrower's Facility" means each of the foregoing facilities.

"Borrowing Base" means, as of the relevant date of determination, the sum of:

(a) 70% of the then net amount of Eligible Accounts (*i.e.*, less sales, excise or similar taxes, and less returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed);

plus (b) the lesser of: (i) $2,000,000 or (ii) 50% of the then Eligible Net Unbilled Revenue;

plus (c) the lesser of: (i) $7,500,000 or (ii) 50% of the then net amount of Eligible Inventory; and

less (d) all then Borrowing Base Reserves.

"Borrowing Base Reserves" means those reserves against the Borrowing Base implemented by Lender from time to time based on such credit and collateral considerations as Lender may deem appropriate to reflect contingencies or risks which may adversely affect any or all of the Loan Collateral, the business, operations, or financial condition of a Loan Party or the security of the Obligations, including (a) 100% of the aggregate mark-to-market exposure, as determined by Lender, of all Rate Management Obligations then owing by a Borrower to Lender or its Affiliate under a Rate Management Agreement and (b) a reserve for rent for any of Borrower's Facilities leased by a Borrower for which Borrowers have not obtained a landlord's waiver agreement on terms and in substance satisfactory to Lender, such reserve to be in an amount which is the longer of: (i) three months or (ii) the period under applicable law for which such landlord has been granted a Lien, as determined by Lender in the exercise of its discretion in good faith.

"Business Day" means (a) any day on which commercial banks in Cincinnati, Ohio are required by law to be open for business and (b) with respect to all notices and determinations in connection with, and payments of principal and interest on, Loans bearing interest with reference to the Tranche LIBOR Rate or the Daily LIBOR Rate, any day (other than a Saturday or Sunday) on which commercial banks are open for business in New York, New York and Cincinnati, Ohio, which is also a day on which dealings are conducted in the London Interbank Market. Periods of days referred to in this Agreement will be counted in calendar days unless Business Days are expressly prescribed.

"Canadian Acquisition Co." means 9199-3626 Quebec Inc. a company organized under the laws of the Province of Quebec, Canada, and its successors and assigns, including the successor of the Flextor Amalgamation.

"Cash Dominion Triggering Event" has the meaning given in Section 2.4(b).

"CECO Acquisition" means CECO Acquisition Corp., a Delaware corporation, and its successors and assigns.

"CECO Environmental Mexico" means CECO Environmental Mexico, S. de R.L. de C.V., a company organized under the laws of Mexico.

"CECO Environmental Services" means CECO Environmental Services, S. de R.L. de C.V., a company organized under the laws of Mexico.

"CECO India" means CECO Filters India Private Limited, a corporation organized and existing under the laws of India.

"Change in Control" means any of the following (or any combination of the following) whether arising from any single transaction or event or any series of transactions or events (whether as the most recent transaction in a series of transactions) which, individually or in the aggregate, results in:

(a) the acquisition by any Person or two or more Persons acting in concert (including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934), of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), other than the DeZwirek Shareholders, of (i) 35% or more of the outstanding voting Ownership Interests of Parent or (ii) the right to elect a majority of the Board of Directors of Parent;

(b) the election of a director of Parent as a result of which at least a majority of Parent's Board of Directors does not consist of Continuing Directors;

(c) Parent's ceasing to own, free and clear of all Liens (except for Liens in favor of Lender), 100% of the Ownership Interests of Group on a fully diluted basis;

(d) Group's ceasing to own, free and clear of all Liens (except for Liens in favor of Lender), 100% of the Ownership Interests of K&B, Technic, Aire, Abatement, H.M. White, Effox, GMD, Fisher-Klosterman, and CECO Mexico LLC on a fully diluted basis;

(e) Group's ceasing to own, free and clear of all Liens (except for Liens in favor of Lender), 99% of the Ownership Interests of Filters on a fully diluted basis;

(f) Filters' ceasing to own, free and clear of all Liens (except for Liens in favor of Lender), 100% of the Ownership Interests of New Busch on a fully diluted basis;

(g) Fisher-Klosterman's ceasing to own, free and clear of all Liens (except for Liens in favor of Lender), 100% of the Ownership Interests of FKI, LLC and AVC, Inc. on a fully diluted basis; or

(h) Richard J. Blum or his successor, Jeffrey Lang (or, as applicable, his Approved Successor) ceasing, for any reason, (i) to serve as a senior executive officer of Parent actively involved in Borrowers' management or (ii) to be a member of the Board of Directors of Parent. For purposes of the foregoing, an "Approved Successor" is a senior executive officer of Parent elected by the Continuing Directors of Parent not more than 30 days after Jeffrey Blum or his Approved Successor ceases to serve in the senior executive management of Parent and who is reasonably acceptable to Lender.

"Collection Account" has the meaning given in Section 2.4.

"Continuing Directors" means those directors on a Person's Board of Directors as of the Effective Date ("Current Board") or those directors who are recommended or endorsed for election to the Board of Directors of that Person by a majority of the Current Board or their successors so recommended or endorsed.

"Copyright Security Agreement" means the Copyright Security Agreement dated as of the Effective Date (as defined in the Third Amendment) between Fisher-Klosterman and Lender.

"Daily LIBOR Rate" has the meaning given in the Revolving Note.

"Daily LIBOR Rate Loan" means that portion of the Loans which, as of any date, bears interest at an interest rate per annum equal to the Daily LIBOR Rate plus the applicable margin as set forth in the applicable Note.

"DeZwirek Shareholders" means, collectively, Phillip DeZwirek; Jason Louis DeZwirek; IntroTech Investments, Inc., an Ontario corporation ("IntroTech"), to the extent that IntroTech is controlled by Jason Louis DeZwirek; and Icarus Investment Corp., a Delaware corporation ("Icarus"), to the extent that Icarus is controlled by either Phillip DeZwirek or Jason Louis DeZwirek.

"Dollars" and "$" means dollars in lawful currency of the United States of America unless otherwise indicated.

"Domestic Subsidiary" means an operating Subsidiary of Parent or Group that is incorporated under the laws of a state of the United States or the District of Columbia.

"EBITDA" means the total (without duplication), in Dollars, of Net Income for the applicable period,plus (a) the aggregate amount of the Parent and its Subsidiaries' depreciation and amortization expense determined on a consolidated basis in accordance with GAAP for such period to the extent deducted in the determination of Net Income, plus (b) the aggregate amount of the Parent and its Subsidiaries' interest expense determined on a consolidated basis in accordance with GAAP for such period to the extent deducted in the determination of Net Income, and plus (c) the aggregate amount of the Parent and its Subsidiaries' income and franchise tax expense for such period determined on a consolidated basis in accordance with GAAP to the extent deducted in the determination of Net Income. The term "applicable period" in this definition means Test Period in the case of determining the Fixed Charge Coverage Ratio or the Maximum Total Funded Debt to Adjusted EBITDA Ratio and Fiscal Year in the case of determining Excess Cash Flow.

"Effox Acquisition" means the acquisition by CECO Acquisition of substantially all of the assets of Effox, all in accordance with, and pursuant to the terms of, the Effox Acquisition Documents.

"Effox Acquisition Agreement" means the Asset Purchase Agreement dated as of February 28, 2007 by and among Parent, CECO Acquisition, Effox, and the other party thereto.

"Effox Acquisition Documents" means the Effox Acquisition Agreement and every other document or agreement executed or delivered by any Loan Party in connection with the Effox Acquisition.

"Effox Earn-out Payment" means any Earn-out Amount (as defined in the Effox Acquisition Agreement) paid by a Loan Party in accordance with the Effox Acquisition Agreement.

"Eighth Amendment" means the Eighth Amendment to this Agreement dated as of November 26, 2009.

"Eligible Accounts" means, as of the relevant date of determination, those trade accounts receivable owned solely by a Borrower, evidenced by such Borrower's standard invoice therefor, payable in cash in Dollars and which arise out of an outright, bona fide, lawful and final sale of finished goods Inventory or the provision of services in each case in the ordinary course of such Borrower's business as presently conducted by it to a Person who has issued a valid and binding purchase order therefor to such Borrower, and with respect to which the services covered thereby have been rendered and accepted by the account debtor or its designee or the finished goods Inventory covered thereby have been delivered to the account debtor or its designee and accepted by such account debtor or designee, (a) that are due and payable within 30 days after the invoice date, (b) that are subject to the first priority security interest of Lender and are not subject to any Lien of any other Person, (c) that comply with all of Borrowers' warranties and representations to Lender in the Loan Documents, and (d) with regard to which Borrowers comply with their covenants with Lender in the Loan Documents; *provided* that Eligible Accounts shall not include the following:

(i) Accounts with respect to which more than 90 days have elapsed since the date of the original invoice applicable thereto;

(ii) Accounts with respect to which the account debtor is a shareholder, member, partner, officer, employee or agent of a Borrower or any other Affiliate of a Borrower;

(iii) Accounts with respect to which the account debtor is (A) not a resident or citizen of the United States with respect to an individual or (B) with respect to a Person, other than an individual, (x) is not organized or qualified to do business under the laws of any State of the United States or (y) has its principal place of business or chief executive office outside of the United States unless, in either or both of such events (A) or (B), the Account is supported by (1) an irrevocable, clean letter of credit issued (I) by a financial institution satisfactory to Lender in its discretion exercised in good faith and (II) on terms acceptable to Lender in its discretion exercised in good faith, and, if so requested by Lender, delivered to Lender in pledge for negotiation and presentment or (2) foreign credit insurance (and from an insurer) satisfactory to Lender in its discretion exercised in good faith and as to which Lender is named as the loss payee on terms satisfactory to Lender in its discretion exercised in good faith;

(iv) Accounts with respect to which the account debtor is the United States or any department, agency or instrumentality of the United States unless the applicable Borrower has assigned its interests in such Accounts to Lender pursuant to any applicable governmental or regulatory rule or regulation, including the Federal Assignment of Claims Act of 1940, if applicable, so that Lender is recognized by the account debtor to have all the rights of an assignee with respect to such Accounts, or Lender has expressly waived that requirement with respect to specific Accounts;

(v) Accounts with respect to which the account debtor is any State of the United States or any city, town municipality or division thereof that requires (if applicable to an Account of a Borrower) (A) a Borrower to support its obligations to such account debtor with a Surety Bond issued by a Surety (as defined below) unless such Surety Bond is obtained or (B) Lender to comply with any State or municipal assignment of claims law or equivalent unless Lender is able to comply with such law;

(vi) Accounts that are subject to set-off by the account debtor or contras (except discounts allowed for prompt payment); *provided* that the net amount owed by such account debtor to Borrowers in respect of such Account, as determined by Lender in its discretion exercised in good faith, will, if otherwise eligible, be an Eligible Account;

(vii) Accounts owing from any single account debtor to the extent, as of any date, that the total amount of such account debtor's Indebtedness to any one or more Borrowers exceeds 35% of the face amount (less maximum discounts, credits and allowances which may be taken by, or granted to, such account debtor in connection therewith) of the then outstanding Eligible Accounts of such Borrower or Borrowers;

(viii) Accounts owed by a particular account debtor when 50% or more of the total Accounts of such account debtor are more than ninety (90) days past the invoice date thereof or are otherwise ineligible under the terms of this definition;

(ix) Accounts owed by an account debtor which does not meet Lender's standards of creditworthiness, in Lender's judgment exercised in good faith;

(x) Accounts owed by any account debtor which has filed or has had filed against it or its Affiliates a petition for relief under the Bankruptcy Code or suffered a receiver or a trustee to be appointed for any of its assets or affairs;

(xi) Accounts owed by an account debtor which has made an assignment for the benefit of creditors;

(xii) Accounts with respect to which the account debtor (the "Subject Customer") is located in any one or more of New Jersey, Minnesota, or West Virginia, unless, (A) with respect to Accounts with respect to which the Subject Customer is located in New Jersey, the applicable Borrower has properly qualified to do business as a foreign corporation in New Jersey, has filed a Notice of Business Activities Report with the New Jersey Division of Taxation for the then current year or is expressly exempt from such reporting requirements under the laws of such State, (B) with respect to Accounts with respect to which the Subject Customer is located in Minnesota, the applicable Borrower has properly qualified to do business as a foreign corporation in Minnesota, has filed a Notice of Business Activities Report with the Minnesota Division of Taxation for the then current year or is expressly exempt from such reporting requirements under the laws of such State, or (C) with respect to Accounts with respect to which the Subject Customer is located in West Virginia, the applicable Borrower has filed, or is exempt from filing, a Business Activity Report with the Tax Commissioner of the State of West Virginia for the then current year;

(xiii) Accounts with respect to which the terms or conditions prohibit or restrict assignment or collection rights or which are evidenced by a promissory note, chattel paper or other instrument;

(xiv) Accounts for which a Borrower was required to have issued a surety bond (whether bid, performance or otherwise) ("Surety Bond") with respect to such Borrower's performance of the services giving rise to the Account and, with respect to such Surety Bond, (A) the surety issuing such Surety Bond ("Surety") has declared a default by such Borrower under the applicable agreements, instruments, or other documents evidencing, governing, or otherwise relating to the issuance of such Surety Bond, (B) such Borrower's customer, to which, or for whose benefit, such Surety Bond was issued, has notified the Surety that such Borrower is in default of its obligations to such customer or the owner of the project with respect to which such Surety Bond was issued, or (C) the Surety has asserted any rights to such Accounts; and

(xv) Accounts deemed to be ineligible by Lender based upon such other credit and collateral considerations as Lender may deem appropriate, in Lender's judgment exercised in good faith. Accounts which are deemed to be Eligible Accounts, but which subsequently fail to meet the foregoing criteria for Eligible Accounts, shall immediately cease to be Eligible Accounts for the purpose of determining the Borrowing Base.

"Eligible Inventory" means, as of the relevant date of determination, Inventory owned solely by a Borrower and held at a Borrower's Facility which is comprised of: (a) finished goods sold by such Borrower in the ordinary course of business as presently conducted by it, (b) raw materials that will be converted or fabricated into finished goods in the ordinary course of such Borrower's business as presently conducted by it, and (c) replacement parts held for sale by a Borrower in the ordinary course of business as presently conducted by it, and excluding:

(i) raw materials comprised of hazardous materials and any work-in-process;

(ii) obsolete, slow-moving or unsalable items of Inventory or any reserves established in Borrowers' financial statements delivered to Lender in respect of any Inventory;

(iii) any Inventory which is not subject to a first priority and fully perfected security interest in favor of Lender;

(iv) Inventory located outside the continental United States;

(v) any Inventory (A) not in the actual possession and control of a Borrower or (B) located at any leased location, public warehouse or any other location owned or controlled by a third party except (subject to any additional requirements imposed by Lender, in its discretion exercised in good faith, to protect such Borrower's title thereto or Lender's Lien thereon): (1) Eligible Inventory in the possession of a warehouseman or other bailee (including an Inventory processor) if Lender has received a bailee waiver letter acceptable to Lender from such warehouseman or bailee and such warehousemen or bailee has not issued a negotiable document of title as to any of the Eligible Inventory and (2) Eligible Inventory located on premises leased by a Borrower if Lender has received a landlord's waiver acceptable to Lender with respect to such premises;

(vi) any Inventory subject to a Lien (exclusive of any Permitted Liens) or subject to a claim of title by a government authority under 48 C.F.R. Section 52.232.16;

(vii) Inventory which consists of supplies, packaging or hazardous substances under applicable law;

(viii) Inventory which has been consigned to or by a Borrower or has been sold to a Borrower in any sale on approval or sale and return transaction;

(ix) Inventory that is in transit to or from a Borrower's Facility other than Inventory that is in transit from a Borrower's Facility to another Borrower's Facility and that is in transit for less than 3 days;

(x) Inventory (A) with respect to which insurance proceeds are not payable to Lender as loss payee in accordance with the Loan Documents or (B) which is subject to a negotiable warehouse receipt or other negotiable instrument;

(xi) Inventory that is subject to any trademark, trade name, patent or licensing arrangement, any contractual arrangement, or any law, rule or regulation that could, in any instance in Lender's judgment exercised in good faith, limit or impair the ability of Lender to promptly exercise any of its rights with respect thereto; and

(xii) any other Inventory deemed ineligible by Lender, in its discretion exercised in good faith, based on such credit and collateral considerations as Lender may deem appropriate. Inventory which is deemed to be Eligible Inventory, but which subsequently fails to meet the foregoing criteria for Eligible Inventory, shall immediately cease to be Eligible Inventory for the purpose of determining the Borrowing Base.

"Eligible Net Unbilled Revenue" means, as of the relevant date of determination, the positive difference, if any, between (a) Borrowers' aggregate costs and estimated earnings in excess of billings on uncompleted contracts ("Unbilled Revenue") and (b) Borrowers' aggregate billings in excess of costs and estimated earnings on uncompleted contracts, all as determined by GAAP. Unbilled Revenue will be "Eligible Net Unbilled Revenue" to the extent (assuming it were an invoiced amount and therefore an account receivable) it would otherwise constitute an Eligible Account; *however,* as soon as the Unbilled Revenue is invoiced by a Borrower to its customer, it will be automatically become ineligible as "Eligible Net Unbilled Revenue", but, assuming that such formerly Eligible Net Unbilled Revenue (once invoiced by a Borrower) otherwise meets the criteria for Eligible Accounts, such aggregate Unbilled Revenue (once invoiced by a Borrower) will constitute Eligible Accounts subject to the terms of this Agreement.

"Environmental Laws" means all federal, state, local and foreign laws relating to pollution or protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial toxic or hazardous substances or wastes into the environment (including ambient air, surface water, ground water or land), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes, and any and all regulations, codes, plans, orders, decrees, judgments, injunctions, notices or demand letters issued, entered promulgated or approved thereunder.

"ERISA" means the federal Employee Retirement Income Security Act of 1974.

"Event of Loss" means, with respect to any Equipment or the Mortgaged Property, any of the following: (a) any loss, destruction or damage of such Equipment or Mortgaged Property or (b) any condemnation or taking by exercise of the power of eminent domain of such Equipment or Mortgaged Property by any governmental authority.

"Excess Cash Flow" means, for the applicable Fiscal Year, an amount equal to the sum of (a) the Adjusted EBITDA solely of the Loan Parties for the applicable Fiscal Year minus (b) the aggregate Fixed Charges solely of the Loan Parties for such Fiscal Year, *provided, however*, solely for the purposes of determining Excess Cash Flow, the principal and Suspended Interest (as defined in the Subordination Agreement) paid on the Subordinated Debt shall be excluded for purposes of determining Fixed Charges. All of the foregoing amounts will be determined based on the annual audited financial statements required to be delivered to Lender pursuant to Section 4.3(b).

"Excess Cash Flow Payment" has the meaning given in Section 2.2(c)(iv).

"Existing Borrowers" means, collectively, Filters, New Busch, K&B, Technic, Aire, Abatement, H.M. White, Effox, GMD, and Fisher-Klosterman.

"FCCR Adjustment Amount" means: (a) for the Test Period ending on June 30, 2010, an amount equal to $6,300,000, and (b) for any Test Period ending on or after September 30, 2010, an amount equal to zero Dollars.

"FIFO" means a first-in, first-out method of inventory cost accounting in accordance with GAAP.

"Filters Pledge Agreement" means the Pledge Agreement dated as of December 29, 2005 between Filters and Lender.

"Financial Covenants" means each of the financial covenants contained in Section 5.3, 5.10 and 5.11.

"First Amendment" means the First Amendment to this Agreement dated as of June 8, 2006.

"Fiscal Quarter" means, in respect of a date as of which the applicable Financial Covenant is being calculated, any fiscal quarter of a Fiscal Year, the first Fiscal Quarter beginning on January 1 and ending on March 31, the second Fiscal Quarter beginning on April 1 and ending on June 30, the third Fiscal Quarter beginning on July 1 and ending on September 30, and the fourth Fiscal Quarter beginning on October 1 and ending on December 31.

"Fisher Klosterman Shanghai" means Fisher Klosterman Buell Shanghai Company, Ltd., a company organized under the laws of China.

"Fiscal Year" means the Parent's fiscal year for financial accounting purposes, beginning on January 1st and ending on December 31st.

"Fixed Charges" means, for the applicable period, the total (without duplication), in Dollars, of (all as determined on a consolidated basis in accordance with GAAP): (a) the principal amount of the Parent and its Subsidiaries' long-term Indebtedness, in each case paid in cash during the applicable period, including those under Term Loan Note C (other than any Excess Cash Flow Payment with respect to Term Loan C) and the Subordinated Debt Notes (as defined in the Subordination Agreement) (whether classified, as of any date, as long-term Indebtedness); plus (b) scheduled capital lease payments by the Parent and its Subsidiaries during the applicable period; and plus (c) the Parent and its Subsidiaries' aggregate cash payments of interest for the applicable period, including interest paid on the Obligations, all capital lease obligations, the Subordinated Debt, and any other Indebtedness for the applicable period; *provided, however*, that the following amounts will be excluded for purposes only of determining Fixed Charges: (i) that portion of the Subordinated Debt which, with Lender's prior consent, is converted into shares of the Parent as a result of the exercise of the conversion rights of a Subordinated Creditor under a Subordinated Debt Note and (ii) the Existing Subordinated Debt Repayment (as defined in the Eighth Amendment) in an amount equal to $4,508,452.66, made by Parent on or about November 26, 2009 in accordance with Section 2 of the Eighth Amendment. The term "applicable period" in this definition means (A) Test Period in the case of determining the Fixed Charge Coverage Ratio or the Maximum Total Funded Debt to Adjusted EBITDA Ratio and (B) Fiscal Year in the case of determining Excess Cash Flow.

"FKI" means Fisher-Klosterman, Inc., a Kentucky corporation.

"FKI Acquisition" means the acquisition by Fisher-Klosterman of substantially all of the assets of FKI, all in accordance with, and pursuant to the terms of, the FKI Acquisition Documents.

"FKI Acquisition Agreement" means the Asset Purchase Agreement dated as of February 1, 2008 by and among Parent, Fisher-Klosterman, FKI, and the other parties thereto.

"FKI Acquisition Documents" means the FKI Acquisition Agreement and every other document or agreement executed or delivered by any Loan Party in connection with the FKI Acquisition.

"FKI Earn-out Payment" means any Earn-Out Payment (as defined in the FKI Acquisition Agreement) paid by a Loan Party in accordance with the FKI Acquisition Agreement.

"Flextor" means Flextor Inc., a Québec company, and its successors and assigns, including the successor of the Flextor Amalgamation.

"Flextor Acquisition" means the acquisition by Canadian Acquisition Co. of all of the shares of stock of Flextor, all in accordance with, and pursuant to the terms of, the Flextor Acquisition Documents,

"Flextor Acquisition Agreement" means the Stock Purchase Agreement dated as of August 1, 2008, by and among Parent, Canadian Acquisition Co., Michael dos Santos, an individual resident of Quebec, The Dos Santos Family Trust, a Québec trust and, 9162-2563 Québec Inc., a Québec company.

"Flextor Acquisition Documents" means the Flextor Acquisition Agreement and every other document or agreement executed or delivered by Canadian Acquisition Co., Flextor and any Loan Party in connection with the Flextor Acquisition.

"Flextor Amalgamation" means the amalgamation of Canadian Acquisition Co. and Flextor under the laws of Canada.

"Flextor Brazil" means Flextor do Brasil Importacao e Exportacao Ltda., a company organized under the laws of Brazil.

"Flextor Chile" means Flextor Chile S.A., a company organized under the laws of Chile.

"Flextor Earn-out Payment" means any Earn-out Amount (as defined in the Flextor Acquisition Agreement) paid by a Loan Party, Canadian Acquisition Co. or Flextor in accordance with the Flextor Acquisition Agreement.

"Flextor Loan" has the meaning given in Section 5.9(a)(F).

"Fourth Amendment" means the Fourth Amendment to this Agreement dated as of August 1, 2008.

"Funded Debt" means, as of any date, all Indebtedness of the Parent and its Subsidiaries: (a) in respect of any money borrowed, including the undrawn face amount (and any unreimbursed drawings under) any letters of credit or acceptance facilities (other than the Subordinated Debt); (b) evidenced by any loan or credit agreement, promissory note, debenture, bond (other than a Surety Bond), guaranty or other similar written obligation to pay money (other than the Subordinated Debt Documents); (c) under any capitalized lease, synthetic lease or any form of off-balance sheet financing; and (d) for the deferred and unpaid purchase price of any property or business or any services (other than trade accounts payable incurred in the ordinary course of business and constituting current liabilities not more than ninety (90) days in arrears measured from the date of billing), all as determined in accordance with GAAP.

"GAAP" means generally accepted accounting principles in the United States of America, consistently applied, as in effect at the time any determination is made or financial statement or information is required or furnished under this Agreement.

"Group Guaranty" means the guaranty made by Group in favor of Lender and Lender's Affiliates of the Obligations.

"Group Pledge Agreement" means the Pledge Agreement dated as of the December 29, 2005 between Group, Richard J. Blum as Voting Trustee under the KBD/Technic, Inc. Voting Trust Agreement dated December 7, 1999 and Lender.

"Guaranties" means, collectively, the Borrower Guaranties, the Group Guaranty, the Parent Guaranty and each guaranty made by FKI, LLC or CECO Mexico LLC in favor of Lender and Lender's Affiliates of the Obligations.

"Guarantors" means, collectively, each of the guarantors party to any of the Guaranties.

"Icarus" means Icarus Investment Corp., formerly known as Can-Med Technology, Inc. and formerly doing business as Green Diamond Oil Corporation, an Ontario corporation.

"Indebtedness" means all of a Person's indebtedness, obligations, and liabilities to any other Person, including: (a) the Obligations in respect of Borrowers, including any and all Rate Management Obligations, (b) all indebtedness, obligations, and liabilities of Guarantors under the Guaranties, (c) all indebtedness, obligations, and liabilities of any Person secured by a Lien on property owned by a Person, even though such Person has not assumed or become liable for the payment therefor, (d) all indebtedness, obligations, or liabilities created or arising under any guaranty or any lease of real or personal property, or conditional sales contract or other title retention agreement with respect to property used or acquired by a Person, even though the rights and remedies of the lessor, seller or lender thereunder are limited to repossession of such property, and (e) all other debts, claims and indebtedness, contingent, fixed or otherwise, heretofore, now and from time to time hereafter owing, due or payable, however evidenced, created, incurred, acquired or owing and however arising, whether under written or oral agreement, operation of law, or otherwise.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as codified at 26 U.S.C. §1*et seq*.

"Letter of Credit" means a Standby Letter of Credit issued by Lender pursuant to Section 2.3.

"Letter of Credit Availability" means, as at any time, an amount equal to the lesser of (a) an amount equal to (i) $10,000,000 less (ii) the then Letter of Credit Exposure and (b) the then Revolving Loan Availability.

"Letter of Credit Collateral Account" has the meaning given in Section 6.6.

"Letter of Credit Deficiency" means any failure of the Letter of Credit Availability to be greater than or equal to zero Dollars.

"Letter of Credit Documents" means, with respect to each and every Letter of Credit, (a) a letter of credit application and agreement on Lender's then customary form (the "Letter of Credit Application") and (b) any other agreements, certificates, documents and information as Lender may reasonably request relating to a Letter of Credit.

"Letter of Credit Exposure" means, as at any time, the sum of (a) the Letter of Credit Face Amount of all outstanding Letters of Credit and (b) all unreimbursed drawings under any Letters of Credit (whether or not outstanding).

"Letter of Credit Face Amount" of any Letter of Credit means, as at any time, the face amount of the Letter of Credit, after giving effect to all drawings paid thereunder and other reductions of the face amount and to all reinstatements of the face amount effected, pursuant to the terms of the Letter of Credit, prior to such time.

"Letter of Credit Obligations" means, as at any time, the sum of (a) the aggregate Letter of Credit Face Amount for all Letters of Credit plus (b) the aggregate amount of Borrowers' unpaid obligations in respect of all Letters of Credit (whether or not outstanding) under this Agreement and the Letter of Credit Documents, including any Indebtedness incurred or arising in connection with any Letters of Credit (including any drafts or acceptances thereunder, all amounts charged or chargeable to a Borrower or Lender, including any and all Lender charges, expenses, fees and commissions, and all duties and taxes and costs of insurance which may pertain either directly or indirectly to such Letters of Credit).

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, charge, security interest, encumbrance, lien (statutory or other), or any preference, priority or other security agreement or any preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any lease deemed under the Uniform Commercial Code to be intended for security, and the authorized filing by or against a Person as debtor of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).

"Life Insurance" means the life insurance policies owned by K&B and set forth onSchedule 2 attached in respect of David D. Blum, Lawrence J. Blum, and Richard J. Blum, having a death benefit in the face amounts set forth on Schedule 2 with the insurance companies listed on Schedule 2.

"Life Insurance Assignments" means, collectively, each assignment of the Life Insurance in favor of Lender pursuant to an assignment thereof duly executed and delivered by K&B, all on terms, in a form and in substance reasonably satisfactory to Lender.

"Loan Collateral" means, collectively, the Collateral (as defined in each Security Agreement), the Life Insurance, the Patent Collateral (as defined in each Patent Security Agreement), the Pledged Collateral (as defined in each Pledge Agreement), the Mortgaged Property, the Trademark Collateral (as defined in the Trademark Security Agreement), and any other security or collateral provided from time to time by, or on behalf of, a Loan Party or any other Person for the Obligations.

"Loan Documents" means, collectively, this Agreement, each Guaranty, the Letter of Credit Documents, the Notes, each Rate Management Agreement between a Loan Party and Lender or any of the other Affiliates of Fifth Third Bancorp, the Security Documents, and every other document or agreement executed by any Person evidencing, governing, guarantying or securing any of the Obligations, and "Loan Document" means any one of the Loan Documents, and as now in effect or as at any time after the date of this Agreement amended, modified, supplemented, restated, or otherwise changed and any substitute or replacement agreements, instruments, or documents accepted by Lender or an Affiliate of Lender.

"Loan Party" and "Loan Parties" mean each of Borrowers, Group, Parent, FKI, LLC, and CECO Mexico LLC, and collectively, Borrowers, Group, Parent, FKI, LLC, and CECO Mexico LLC, respectively.

"Loans" means the Revolving Loans (including the Letter of Credit Exposure), Term Loan C and any other loans or other extensions of credit or financial accommodations from time to time from Lender or its Affiliates to any one or more of Borrowers.

"Material Adverse Effect" means a material adverse effect, as determined by Lender in good faith, on (a) Borrowers' (taken as whole): (i) business, property, assets, operations, prospects or condition, financial or otherwise or (ii) ability to perform any of their respective payment, Financial Covenant or other negative covenants in Section 5, or other material obligations under this Agreement or any of the other Loan Documents, (b) the recoverable value of the Loan Collateral or Lender's rights or interests therein, (c) the enforceability of any of the Loan Documents, or (d) the ability of Lender to exercise any of its rights or remedies under the Loan Documents or under applicable law.

"Mortgages" means (a) a Mortgage, Security Agreement and Fixture Filing dated as of December 29, 2005 granted by K&B to Lender on K&B's fee simple interest in the real property described therein situated in Marion County, Indiana (commonly known as 3501 West Kelly Street, Indianapolis, Indiana 46241), (b) a Mortgage, Security Agreement and Fixture Filing dated as of December 29, 2005 granted by K&B to Lender on K&B's fee simple interest in the real property described therein situated in Fayette County, Kentucky (commonly known as 550 Horton Court, Lexington, Kentucky 40511), and (c) a Mortgage, Security Agreement and Fixture Filing dated as of December 29, 2005 granted by K&B to Lender on K&B's fee simple interest in the real property described therein situated in Jefferson County, Kentucky (commonly known as 1450 South 15th Street, Louisville, Kentucky 40210).

"Mortgaged Property" means each Property, as defined in each of the Mortgages.

"Multiemployer Plan" means a "multiemployer plan" as defined in ERISA.

"Net Proceeds" means any payments, proceeds, or other amounts received by a Loan Party, with respect to any of the matters described in Sections 2.2(c) or 2.2(e), net of (a) any applicable tax paid by a Loan Party, (b) any payment required on any Permitted Purchase Money Indebtedness secured by a Lien on any Equipment on which Lender does not have a first priority security interest to the extent permitted by this Agreement, and (c) any reasonable out- of-pocket expense incurred by a Loan Party, including reasonable attorneys' fees, to obtain such payment, proceed or other amount.

"Net Income" means, for the applicable 12 Month Period, the Parent and its Subsidiaries after tax net income as determined on a consolidated basis in accordance with GAAP.

"Ninth Amendment" means the Ninth Amendment to this Agreement dated to be effective as of December 31, 2009.

"Non-financed Capital Expenditures" means the total amount of capital expenditures for any period, as determined in accordance with GAAP, made by the Parent and its Subsidiaries on a consolidated basis determined exclusive of those capital expenditures made from (a) funds borrowed by the Parent or its Subsidiaries (for purposes of this clause (a) "funds borrowed" will not include funds borrowed from Lender as a Revolving Loan or from any other bank or lender as a revolving or working capital facility) or pursuant to any capitalized lease or (b) the proceeds of condemnation or eminent domain proceedings or any insurance proceeds resulting from any Event of Loss.

"Notes" means the Revolving Note (as defined in Section 2.1), Term Loan Note C (as defined in Section 2.2) and any other promissory note made from time to time by a Borrower in favor of Lender to evidence any of the Obligations.

"Obligations" means the Loans, the Letter of Credit Obligations, the Rate Management Obligations, all other loans, advances, and Indebtedness of any one or more of the Loan Parties owed to any one or more of Lender, the Affiliates of Lender and the other Affiliates of Fifth Third Bancorp of every kind and description, whether now existing or hereafter arising, including those owed by a Loan Party to others and acquired by Lender or any Affiliate of Fifth Third Bancorp, by purchase, assignment or otherwise, whether direct or indirect, primary or as guarantor or surety, absolute or contingent, liquidated or unliquidated, matured or unmatured, related or unrelated, whether arising out of overdrafts on checking, deposit or other accounts or electronic funds transfers (whether through wire transfers, automatic clearing houses or otherwise) or out of Lender's non-receipt of, or inability to collect, funds or otherwise not being made whole in connection with depository transfer checks or other similar arrangements, and whether or not secured by additional collateral, and including all liabilities, obligations and Indebtedness arising under this Agreement and the other Loan Documents, all obligations under all treasury and cash management agreements, all obligations with respect to any credit or debit cards issued by Lender (or any Affiliate of Lender), all obligations to perform or forbear from performing acts, all amounts represented by letters of credit now or hereafter issued by Lender for the benefit of or at the request of a Borrower, and all expenses and reasonable attorneys' fees incurred by Lender and any Affiliate of Fifth Third Bancorp under this Agreement or any other Loan Document.

"Other Taxes" means any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Notes or from the execution or delivery of, or otherwise with respect to, this Agreement, the Notes, or any other Loan Document.

"Ownership Interest" means all shares, interests, participations, rights to purchase, options, warrants, general or limited partnership interests, limited liability company interests or other equivalents (regardless of how designated) of or in a corporation, partnership, limited liability company or equivalent entity, whether voting or nonvoting, including common stock, preferred stock or any other "equity security" (as such term is defined in Rule 3a11-1 of the Rules and Regulations promulgated by the Securities and Exchange Commission (17 C.F.R. § 240.3a11-1) under the Securities and Exchange Act of 1934, as amended).

"Parent Guaranty" means the guaranty, dated as of December 29, 2005, made by Parent in favor of Lender and Lender's Affiliates of the Obligations.

"Parent Pledge Agreement" means the Pledge Agreement dated as of December 29, 2005 between Parent and Lender.

"Patent Security Agreements" means, collectively, (a) the Patent Assignment and Security Agreement dated as of December 29, 2005 between Filters and Lender, (b) the Patent Assignment and Security Agreement dated as of December 29, 2005 between K&B and Lender, (c) the Patent Assignment and Security Agreement dated as of December 29, 2005 between New Busch and Lender, (d) the Patent Assignment and Security Agreement dated as of the Effective Date (as defined in the Third Amendment) between Fisher-Klosterman and Lender, and (e) the Patent Assignment and Security Agreement dated as of the Effective Date (as defined in the Third Amendment) between GMD and Lender.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Pension Plan" means an "employee pension benefit plan", as defined in ERISA.

"Permitted Liens" means (a) current taxes and assessments not yet due and payable; (b) any Liens granted to Lender or its Affiliates to secure the repayment or performance of the Obligations; (c) any Liens arising from a Contested Claim in the manner, and to the extent, provided for in Section 4.6; (d) purchase money security interests granted by, or capital lease obligations incurred by, a Borrower in connection with Permitted Purchase Money Indebtedness; (e) the Liens listed on Schedule 3.9; (f) Liens of mechanics (including those Persons having the right to file a mechanics' lien), materialmen, shippers and warehousemen for services or materials incurred in the ordinary course of business for which payment is not yet due; (g) Liens on cash deposits in connection with bids, tenders or real property leases or as security for surety or appeal bonds in the ordinary course of business; (h) Liens resulting from any judgment that is not an Event of Default; and (i) easements, rights of way and other restrictions that do not materially interfere with or impair the use or operation of any of Borrower's Facilities.

"Permitted Purchase Money Indebtedness" means purchase money or capital lease Indebtedness incurred by a Borrower in connection with the acquisition of any Equipment if each of the following conditions is satisfied: (a) the total outstanding amount of purchase money and capital lease Indebtedness incurred by Borrowers does not, as of any date, exceed an aggregate amount equal to $250,000, (b) such purchase money and capital lease Indebtedness will not be secured by any of the Loan Collateral other than the specific Equipment financed thereby and the identifiable cash proceeds thereof, and (c) the principal amount of such purchase money and capital lease Indebtedness will not, at the time of the incurrence thereof, exceed the value of the property so acquired.

"Permitted Subordinated Debt Payments" has the meaning given in the Subordination Agreement.

"Person" means any individual, partnership, joint venture, trust, limited liability company, business trust, joint stock company, unincorporated association, corporation, institution, entity, or any governmental authority.

"Pledge Agreements" means, collectively, the Parent Pledge Agreement, the Group Pledge Agreement and the Filters Pledge Agreement.

"Prime Rate" has the meaning given in the Revolving Note.

"Rate Management Agreement" means any agreement, device or arrangement providing for payments which are related to fluctuations of interest rates, exchange rates, forward rates, or equity prices, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and any agreement pertaining to equity derivative transactions (*e.g.*, equity or equity index swaps, options, caps, floors, collars and forwards), including any ISDA Master Agreement between a Borrower and Lender or any Affiliate of Fifth Third Bancorp, and any schedules, confirmations and documents and other confirming evidence between the parties confirming transactions thereunder, all whether now existing or hereafter arising, and in each case as amended, modified or supplemented from time to time.

"Rate Management Obligations" means any and all obligations of a Borrower to Lender or any Affiliate of Fifth Third Bancorp, whether absolute, contingent or otherwise and howsoever and whensoever (whether now or hereafter) created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under or in connection with (i) any and all Rate Management Agreements, and (ii) any and all cancellations, buy-backs, reversals, terminations or assignments of any Rate Management Agreement.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, defease, amend, modify, supplement, restructure, replace, refund or repay (in full), or to issue other Indebtedness in exchange or replacement for, such Indebtedness in whole or in part. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Debt" means, as to any Indebtedness, the Refinancing of such Indebtedness, *provided* that the following conditions are satisfied:

(a) the weighted average life to maturity of such Refinancing Debt shall be greater than or equal to the weighted average life to maturity of the Indebtedness being refinanced;

(b) the principal amount of such Refinancing Debt shall be less than or equal to the sum of the principal amount then outstanding of, plus accrued and unpaid interest on and financing fees related to, the Indebtedness being refinanced;

(c) the respective obligor or obligors shall be the same on the Refinancing Debt as on the Indebtedness being refinanced;

(d) the priority of payment of such Refinancing Debt shall be the same as or lower than the ranking of the Indebtedness being Refinanced;

(e) the security, if any, for the Refinancing Debt shall be the same as that for the Indebtedness being refinanced (except to the extent that less security is granted to holders of the Refinancing Debt);

(f) the terms of such Refinancing Debt (including covenants, events of default and remedies) are no less favorable to the Loan Parties than the terms of this Agreement at the time such Indebtedness is being Refinanced;

(g) The Parent and its Subsidiaries are in compliance with the Financial Covenants, on a *pro forma* basis, after giving effect to the incurrence of such Refinancing Debt and the repayment of the Indebtedness being Refinanced. To determine whether there is *pro forma* compliance with the Financial Covenants, the Parent will, on a *pro forma* basis, provide a worksheet to Lender at least 10 days before incurring such Refinancing Debt, which (i) restates the financial statements received by Lender for the Fiscal Quarter or the Fiscal Year, as applicable, ended most closely before the date such Refinancing Debt is proposed to be incurred as if the proposed Refinancing Debt had been made, and the Indebtedness had been Refinanced, at the beginning of the applicable Test Period and (ii) calculate the Maximum Total Funded Debt to Adjusted EBITDA Ratio under Section 5.11 and the Fixed Charge Coverage Ratio under Section 5.10 taking into account such proposed Refinancing Debt as if the proposed Refinancing Debt had been made, and the Indebtedness had been refinanced, at the beginning of the applicable Test Period; and

(h) in the case of any Refinancing of the Subordinated Debt, the holders of the Refinancing Debt have entered into a subordination agreement with Lender on the then current terms of the Subordination Agreement.

"Revolving Credit Exposure" means, as of any date, the sum of the then Revolving Loans, the Letter of Credit Obligations, and all other Obligations related to the Revolving Loans and the Letter of Credit Obligations.

"Revolving Commitment" means $20,000,000 subject to Section 2.2(d) and 2.2(e).

"Revolving Loan Availability" means, as at any time, an amount, in Dollars, equal to:

(a) an amount equal to the lesser of: (i) the then Borrowing Base or (ii) the Revolving Commitment;

less (b) the then aggregate outstanding principal amount of all Revolving Loans and all due but unpaid interest on the Loans, and all fees, commissions, expenses and other charges posted to Borrowers' loan accounts with Lender; and

less (c) the then Letter of Credit Exposure.

"Revolving Loans" has the meaning given in Section 2.1(a).

"Second Amendment" means the Second Amendment to this Agreement dated as of February 28, 2007.

"Security Agreements" means, collectively, (i) each Security Agreement dated as of December 29, 2005 between a Borrower and Lender, (ii) the Security Agreement dated as of December 29, 2005 between Group and Lender, (iii) the Security Agreement dated as of December 29, 2005 between Parent and Lender, (iv) the Security Agreement dated as of the Effective Date (as defined in the First Amendment) between H.M. White and Lender, (v) the Security Agreement dated as of the Effective Date (as defined in the Second Amendment) between Effox and Lender, (vi) the Security Agreement dated as of the Effective Date (as defined in the Third Amendment) between Fisher-Klosterman and Lender, (vii) the Security Agreement dated as of the Effective Date (as defined in the Third Amendment) between GMD and Lender, and (viii) the Security Agreement dated as of the Effective Date between AVC, Inc. and Lender.

"Security Documents" means the Life Insurance Assignments, the Mortgages, the Patent Security Agreements, the Pledge Agreements, the Security Agreements, the Trademark Security Agreements, the Copyright Security Agreement, and all security agreements, pledge agreements, collateral assignments, mortgages, deeds of trust and other documents executed in connection with this Agreement and granting to Lender or Lender's Affiliates Liens on the Loan Collateral, together with all financing statements and other documents necessary to record or perfect the Liens granted by any of the foregoing.

"Seventh Amendment" means the Seventh Amendment to this Agreement dated as of August 17, 2009, to be effective as of May 15, 2009.

"Sixth Amendment" means the Sixth Amendment to this Agreement dated as of May 1, 2009, to be effective as of March 31, 2009.

"Subsidiary" means any Person as to which any Person owns, directly or indirectly at least 50% of the outstanding shares of Ownership Interests or other interests having ordinary voting power for the election of directors, officers, managers, trustees or other controlling Persons.

"Subordinated Creditors" means each of, and collectively, (a) the Subordinated Lenders (as defined in the Subordination Agreement), (b) subject to the Subordination Agreement, each of such Subordinated Lender's successors and assigns of the Subordinated Debt, and (c) any Person holding Refinancing Debt of the Subordinated Debt as permitted under this Agreement. Any reference in this Agreement or any other Loan Document to "Subordinated Creditor" shall be deemed to be a reference to each of the Subordinated Creditors.

"Subordinated Debt" means the Subordinated Debt, as defined in the Subordination Agreement.

"Subordinated Debt Default" means any of the following (or any combination of the following): (i) a default or breach of or under any of the Subordinated Debt Documents, (ii) any event or circumstance that would become a default or breach on the Subordinated Creditor's election or would become a default or breach after notice, the lapse of time, or on the satisfaction of any other condition, or all of the foregoing, (iii) the acceleration of any or all of the Subordinated Debt, or (iv) the maturity of the Subordinated Debt having a maturity date earlier than six months past the then Termination Date with respect to the Line of Credit.

"Subordinated Debt Documents" means, collectively, (i) the Subordinated Debt Notes (as defined in the Subordination Agreement), (ii) the Subordinated Debt Documents (as defined in the Subordination Agreement), and (iii) all other agreements, instruments, and documents signed or delivered by or on behalf of a Loan Party in connection with the Subordinated Debt, as any or all of the foregoing documents, instruments, and agreements are now in effect or, subject to Section 5.2, as at any time after the date of this Agreement amended, modified, supplemented, restated, renewed, extended, or otherwise changed and any documents, instruments, or agreements given, subject to Section 5.2, in substitution of any of them.

"Subordination Agreement" means the Subordination Agreement among Subordinated Creditors and Lender dated as of November 26, 2009.

"Surety Bond" has the meaning given in the definition of Eligible Accounts.

"Tax Refund" means any refund of any taxes, or fees or interest in respect thereof which (a) are paid to Parent by any governmental authority and are attributable to losses, deductions, credits, or payments of, or by, any Loan Party or (b) are paid directly to any Borrower by any governmental authority.

"Term Loan C" has the meaning given in Section 2.2(a).

"Term Loan Note C" has the meaning given in Section 2.2(a).

"Termination Date" means: (a) with respect to the Line of Credit, the Letter of Credit Obligations and the other Obligations (other than Term Loan C), the earlier of (i) April 1, 2013 and (ii) the date upon which the entire outstanding balance under the Revolving Note shall become due pursuant to the provisions hereof (whether as a result of acceleration by Lender or otherwise); and (b) with respect to Term Loan C, the earliest of (i) April 1, 2014, (ii) the date upon which the entire outstanding balance under Term Loan Note C shall become due pursuant to the provisions hereof (whether as a result of acceleration by Lender or otherwise), and (iii) the date upon which Term Loan C shall be repaid in full; *provided, however*, that Borrowers specifically acknowledge and agree, without limiting the generality of the foregoing, that Borrowers' failure to permanently repay in full all of the Obligations (other than Term Loan C) by April 1, 2013 shall result in Term Loan C being immediately due and payable on such date notwithstanding the stated maturity date of April 1, 2014.

"Test Period" means each 12 Month Period ending at the end of each Fiscal Quarter or Fiscal Year commencing with the Fiscal Quarter ending on June 30, 2010.

"Third Amendment" means the Third Amendment to this Agreement dated as of February 29, 2008.

"Trademark Security Agreements" means, collectively, (i) the Trademark Security Agreement dated as of December 29, 2005 between Filters and Lender, (ii) the Trademark Security Agreement dated the Effective Date (as defined in the Second Amendment) between Effox and Lender, (iii) the Trademark Security Agreement dated the Effective Date (as defined in the Third Amendment) between Fisher-Klosterman and Lender, and (iv) the Trademark Security Agreement dated the Effective Date (as defined in the Third Amendment) between GMD and Lender.

"Tranche LIBOR Rate" has the meaning given in the Revolving Note.

"Tranche LIBOR Rate Loan" means that portion of the Loans which, as of any date, bears interest at an interest rate per annum equal to the Tranche LIBOR Rate plus the applicable margin as set forth in the applicable Note.

"12 Month Period" means, in respect of a date as of which the applicable Financial Covenant is being calculated, the four consecutive Fiscal Quarters immediately preceding the date as of which the Financial Covenant is being calculated (*i.e.*, a rolling four Fiscal Quarter (or 12 month) period).

1.2 Construction. "Hereunder," "herein," "hereto," "this Agreement" and words of similar import refer to this entire document; "including" is used by way of illustration and not by way of limitation, unless the context clearly indicates the contrary; the singular includes the plural and conversely; and any action required to be taken by a Person is to be taken promptly, unless the context clearly indicates the contrary. The term "good faith" means honesty in fact in the conduct or transaction concerned. The definition of any agreement, document or instrument includes all schedules, attachments and exhibits thereto and all renewals, extensions, supplements, modifications, restatements and amendments thereof but only to the extent such renewals, extensions, supplements, modifications, restatements or amendments thereof are not prohibited by the terms of any Loan Document. All references to statutes include (a) all regulations promulgated thereunder, (b) any amendments of such statutes or regulations promulgated thereunder, and (c) any successor statutes and regulations, including any comparable provision of the applicable statute, ordinance, code, regulation or other law as amended or superseded after the date of this Agreement.

Section 2. Loans.

2.1 Revolving Loans. (a) Subject to the terms and conditions hereof and in reliance upon the representations and warranties of Borrowers herein, Lender hereby extends to Borrowers a line of credit facility (the "Line of Credit") pursuant to which Lender will make loans to Borrowers on a revolving basis upon Borrowers' request from time to time during the term of this Agreement (the "Revolving Loans") in an amount not exceeding, in the aggregate, thelesser of: (i) the Revolving Commitment or (ii) the Borrowing Base. Borrowers may borrow, repay, in whole or in part, and reborrow under the Line of Credit; *provided* that if Revolving Loan Availability shall at any time be less than zero dollars (such condition being an "Overadvance"), Borrowers shall immediately, without demand or notice, reduce the then outstanding balance of the Revolving Loans so that such Overadvance shall no longer exist. Lender may create and maintain Borrowing Base Reserves against the Borrowing Base. If, at any time, Lender implements a Borrowing Base Reserve in excess of $100,000 ("Borrowing Base Reserve Implementation"), Lender will give Parent 5 Business Days advance written notice of such Borrowing Base Reserve Implementation unless an Event of Default then exists, in which case Lender will give Parent contemporaneous oral or written notice of such Borrowing Base Reserve Implementation.

(b) On and after the Effective Date, the Line of Credit may be used by Borrowers solely for general working capital and corporate purposes.

(c) On the Signature Date, Borrowers shall execute and deliver to Lender a Sixth Amended and Restated Revolving Credit Promissory Note in the form of Exhibit 2.1 to this Agreement (as amended, the "Revolving Note"), dated as of the Effective Date, in the principal amount of the Revolving Commitment, and bearing interest at such rates, and payable upon such terms, as specified in the Revolving Note.

(d) The entire unpaid balance of the Line of Credit, plus all accrued and unpaid interest, any other charges, advances and fees, if any, outstanding with respect to the Revolving Loans, the Letter of Credit Obligations, and all other Obligations related to the Revolving Loans and the Letter of Credit Obligations shall be due and payable in full on the Termination Date with respect to the Line of Credit. Subject to the terms of the Revolving Note, Borrowers may prepay the Revolving Note in whole or part at any time.

(e) The dilution percentage with respect to Eligible Accounts (*i.e.,* reductions in the amount of Accounts because of returns, discounts, price adjustments, credit memoranda, credits, contras, allowances and other offsets) may not increase above 5%. If the dilution percentage increases above 5%, then Lender will have the right, to be exercised in good faith, to decrease the advance rate against Eligible Accounts during that time period that the dilution percentage is above 5%. If, at any time, Lender decreases the then stated advance rate against Eligible Accounts as a result of an increase in the dilution percentage ("Dilution Advance Rate Decrease"), Lender will give Parent 5 Business Days advance written notice of such Dilution Advance Rate Decrease, unless an Event of Default then exists, in which case Lender will give Parent contemporaneous oral or written notice of such Dilution Advance Rate Decrease.

(f) Anything to the contrary in this Agreement notwithstanding, only Borrowers may request or receive from Lender advances of Revolving Loans or other extensions of credit from Lender; *provided, however*, that:

(i) Parent may request and receive Revolving Loan advances ("Parent Advances") to pay directly amounts owed by Borrowers for operating expenses incurred in the ordinary course of business ("Borrower Common Expenses") so long as (A) all Parent Advances are allocated to each Borrower by the last day of each calendar month with respect to Parent Advances made during that calendar month, and (B) Borrowers have supporting documentation in existence at the time of the Parent Advances to effect the allocation referred to in the immediately preceding clause (A). If either of the preceding conditions are not met, or if an Event of Default has occurred and is continuing, and without limiting any of the other rights or remedies of Lender as a result of such Event of Default, Parent may no longer request or receive any Parent Advances; and

(ii) Parent may request and receive Revolving Loan advances to pay the direct out-of-pocket costs incurred by Parent with respect to general and administrative expenses of Borrowers ("Overhead Expenses") so long as (A) all Overhead Expenses are allocated to each Borrower by the last day of each calendar month with respect to Overhead Expenses paid during that calendar month, (B) the aggregate amount of Revolving Loan advances made to pay Overhead Expenses in any month does not exceed a rate equal to two percent (2%) per annum of the aggregate revenue of Borrowers for that month, and (C) no Event of Default has occurred and is continuing or is created thereby.

2.2 Term Loans/Mandatory Prepayments.

(a) On December 29, 2005, Lender made a loan to the Existing Borrowers in an original aggregate amount equal to $3,100,000 ("Term Loan A"). On February 28, 2007, Lender made a loan to the Existing Borrowers in an original aggregate amount equal to $5,000,000 ("Term Loan B"). The Existing Borrowers repaid in full Term Loan A and Term Loan B. On the Effective Date (as defined in the Third Amendment), Lender made a loan to the Existing Borrowers in an original aggregate amount equal to $5,000,000 ("Term Loan C"). No part of Term Loan C may, on the repayment thereof, be redrawn or reborrowed by a Borrower. The entire unpaid principal balance of, and accrued interest on, Term Loan C, if not sooner repaid, will be due and payable on the Termination Date with respect to Term Loan C. On the Signature Date, Borrowers shall execute and deliver to Lender an Amended and Restated Term Promissory Note in the form of Exhibit 2.2 to this Agreement (as amended, "Term Loan Note C"), dated as of the Effective Date, in the original principal amount of $1,978,466.70, and bearing interest at such rates, and payable upon such terms, as specified in Term Loan Note C.

(b) Subject to the terms of Term Loan Note C and this Agreement, Borrowers may prepay Term Loan C in whole or part at any time. Any prepayment of Term Loan C will be applied to the last to mature of the payments required under Term Loan Note C. Except as provided in the preceding sentence, no partial prepayment will change the due dates or the amount of the monthly principal payments otherwise required by Term Loan Note C.

(c) In addition to the scheduled payments of principal on Term Loan C set forth in Term Loan Note C, the following payments shall be made to, or retained by, Lender and applied as provided in Section 2.2(d):

(i) Within three Business Days after the date of receipt thereof by any Loan Party, an amount equal to 100% of the Net Proceeds from any sale of any asset (exclusive of (A) sales of Inventory in the ordinary course of business or (B) sales or other dispositions of Equipment, the proceeds of which are used for the replacement of such Equipment as contemplated by Section 5.7);

(ii) Within three Business Days after the date of receipt thereof by any Loan Party, 100% of the Net Proceeds from any insurance or condemnation proceeds payable in respect of, or arising out of, any loss or damage to any of any Borrower's properties (other than (A) dispositions of Equipment, which is the subject of an Event of Loss, in connection with the replacement of such Equipment as contemplated by Section 5.7 or (B) repairs or replacements of any Mortgaged Property, which is the subject of an Event of Loss, to the extent set forth in the Mortgages); and

(iii) On the date of receipt thereof by any Loan Party, an amount equal to 100% of the Net Proceeds payable or owing to any Loan Party under, or arising out of, the Effox Acquisition Agreement, the Effox Acquisition, the FKI Acquisition Agreement or the FKI Acquisition, including any purchase price adjustment payment or indemnification or reimbursement payment made after the Effective Date (as defined in the Third Amendment) with respect to the Effox Acquisition or the FKI Acquisition. Notwithstanding anything to the contrary in this clause (iii), if a Loan Party incurs any out-of-pocket cost or expense for which it receives reimbursement from Effox under the Effox Acquisition Agreement ("Out-of-Pocket Effox Reimbursement") or from FKI under the FKI Acquisition Agreement ("Out-of-Pocket FKI Reimbursement"), then the Loan Parties will (A) apply such Out-of-Pocket Effox Reimbursement or Out-of-Pocket FKI Reimbursement, as applicable, against the then outstanding Revolving Loans and (B) not be obligated to apply such Out-of-Pocket Effox Reimbursement or Out-of-Pocket FKI Reimbursement, as applicable, as a mandatory prepayment of Term Loan C.

(iv) Beginning on May 1, 2011 and continuing on the same date thereafter occurring in each subsequent Fiscal Year until the payment in full of Term Loan C, Borrowers will make a payment to Lender in an aggregate amount equal to 50% of Excess Cash Flow for the immediately preceding Fiscal Year of Borrowers then ended (each, an "Excess Cash Flow Payment"); *provided* that Lender will not require an Excess Cash Flow Payment, in any Fiscal Year, in an aggregate amount greater than $500,000, but Borrowers may make a voluntary prepayment of Term Loan C in excess of such $500,000. Each Excess Cash Flow Payment shall, absent the occurrence and continuance of an Event of Default, be applied to the remaining installments of principal under Term Loan Note C, in the inverse order of maturity.

(d) With respect to mandatory prepayments described in Sections 2.2(c)(i) through 2.2(c)(iv), such prepayments shall, absent the occurrence and continuance of an Event of Default: (i) first, be applied to the remaining installments of principal under Term Loan C, in the inverse order of maturity, until Term Loan C has been paid in full, (ii) second, at any time after Term Loan C shall have been repaid in full, such payments shall be applied to the outstanding balance of the Revolving Loans, (iii) third, after the Revolving Loans have been paid in full, such payments shall be applied to cash collateralize outstanding Letter of Credit Obligations, and (iv) fourth, after all Letter of Credit Obligations are fully cash collateralized, in repayment of any of the other Obligations then due and payable, and the Revolving Commitment will, at Lender's sole option, be contemporaneously reduced by an amount deemed appropriate by Lender in the exercise of its discretion in good faith. Nothing in this Section 2.2 shall be construed to constitute Lender's consent to any transaction that is not permitted by other provisions of this Agreement or the other Loan Documents. No partial prepayment under Section 2.2(c) will change the due dates or the amount of the monthly principal payments otherwise required by Term Loan Note C.

(e) Within three Business Days after the date of receipt thereof by any Loan Party, the Loan Parties shall deliver to Lender: (i) 100% of the Net Proceeds payable under any Life Insurance, including any death benefit, (ii) an amount equal to 100% of: (A) any Net Proceeds from the issuance by Parent of any Ownership Interests after the Effective Date or (B) any dividend or distribution to a Loan Party from a Person other than a Loan Party, or (iii) 100% of the Net Proceeds from any Tax Refund. Such amounts shall, in each case, be applied by Lender to the Obligations as follows: (1) first, to the outstanding balance of the Revolving Loans, (2) second, after the Revolving Loans have been paid in full, such payments shall be applied to cash collateralize outstanding Letter of Credit Obligations, and (3) third, after all Letter of Credit Obligations are fully cash collateralized, in repayment of any of the other Obligations (other than Term Loan C absent the existence and continuation of an Event of Default) then due and payable, and the Revolving Commitment will, at Lender's sole option, be contemporaneously reduced by an amount deemed appropriate by Lender in the exercise of its discretion in good faith.

2.3 Letters of Credit.

(a) Until the Termination Date with respect to the Line of Credit and subject to the other terms and conditions of this Agreement, Borrowers may request Lender to issue one or more of its standard standby letters of credit ("Standby Letter of Credit") in favor of such beneficiary(ies) as are designated by Borrowers by delivering to Lender: (i) a Letter of Credit Application completed to the reasonable satisfaction of Lender, together with the proposed form of the Letter of Credit (which, in all respects, will comply with the applicable requirements of Section 2.3(b)), (ii) a Borrowing Base Certificate which calculates the Letter of Credit Availability by giving effect to the proposed Letter of Credit, and (iii) such other Letter of Credit Documents that Lender then customarily requires in the issuance of letters of credit. Lender, in addition to the other terms of this Agreement, will have no obligation to issue the proposed Letter of Credit if, after giving effect to the proposed Letter of Credit, there would exist a Letter of Credit Deficiency. The making of each Letter of Credit request by Borrowers will be deemed to be a representation by Borrowers that the Letter of Credit may be issued in accordance with, and will not violate the terms of, this Section 2.3.

(b) Each Letter of Credit issued under this Agreement will, among other things, (i) be in such form requested by Borrowers as is acceptable to Lender in its discretion exercised in good faith, (ii) be denominated in Dollars, and (iii) be issued to support Borrowers' obligations that finance its business needs incurred in the ordinary course of Borrowers' respective businesses as presently conducted by them. In no event will any Letter of Credit have a term of more than one year; furthermore, and, in addition to the foregoing term limitation, Lender will have no obligation to issue any Letter of Credit with an expiry date later than the date that is 30 days prior to the stated Termination Date applicable to the Line of Credit. Each Letter of Credit Application and each Letter of Credit will set forth which rules or customs apply to the Letter of Credit. Such rules and customs may include, but are not limited to, the International Standby Practices, as published by the International Chamber of Commerce ("ISP") or the Uniform Customs and Practice for Documentary Credits, as published by ISP. In any event, the Letter of Credit shall be governed by (A) the rules or customs set forth in the Letter of Credit and (B) the internal laws of the State of Ohio and the United States of America, except to the extent such laws are inconsistent with the rules or customs adopted in the Letter of Credit Documents and Letter of Credit as set forth above.

(c) Upon receipt of a request from Borrowers to open any Letter of Credit and of all attendant Letter of Credit Documents completed to Lender's reasonable satisfaction, Lender, within three (3) Business Days, may either (i) issue the requested Letter of Credit to the beneficiary thereof and transmit a copy to Borrowers, or (ii) elect, in its discretion exercised in good faith, not to issue the proposed Letter of Credit. If Lender elects not to issue such Letter of Credit, Lender will communicate in writing to Borrowers the reason(s) why Lender has declined such request.

(d) All Letter of Credit Obligations are payable on Lender's demand or payable as otherwise set forth in the applicable Letter of Credit Documents. Borrowers jointly and severally promise to pay Lender the amount of all other Letter of Credit Obligations immediately when due, irrespective of any claim, setoff, defense or other right which any Borrower may have at any time against Lender or any other Person. Subject to the terms of Section 6.6, Borrowers hereby irrevocably instruct Lender, on the same Business Day that Lender is obligated to fund a drawing or make any expenditure or any other payment under a Letter of Credit or incurs any cost or expense under any Letter of Credit, to reimburse Lender for any drawing, expenditure or other payment made, or cost or expense incurred, by Lender debiting any Borrower's loan account(s) with Lender as an advance of the Revolving Loans pursuant to Section 2.1. If the advance of a Revolving Loan to reimburse Lender for any drawing, expenditure or other payment made, or cost or expense incurred, by Lender in respect of any Letter of Credit results (or to the extent that it results) in any Letter of Credit Deficiency, then Borrowers will immediately eliminate any Letter of Credit Deficiency in accordance with the terms of Section 2.1(a).

(e) All Letter of Credit Obligations will constitute part of the Obligations and be secured by the Loan Collateral.

(f) In determining whether to pay under any Letter of Credit, Lender will be responsible only to confirm in good faith that any documents required to have been delivered under a Letter of Credit appear to comply substantially on their face with the requirements of the Letter of Credit, and any action taken or omitted by Lender in good faith under or in connection with any Letter of Credit will not subject Lender to any liability to any Borrower; *provided, however,* nothing in this Section 2.3(f) will relieve Lender of any liability it may have to Borrowers to the extent, but only to the extent, of any direct, as opposed to consequential, damages suffered by Borrowers from Lender's gross negligence or willful misconduct. Lender shall not be obligated to cause any Letter of Credit to be extended or amended unless the requirements of this Section 2.3 are met as though a new Letter of Credit were being requested and issued.

(g) In addition to amounts payable as elsewhere provided in this Section 2.3, Borrowers will protect, indemnify, pay and save Lender harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) which Lender (provided that it acts (or omits to act) in good faith and except for Lender's gross negligence or willful misconduct) may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit or the provision of any credit support or enhancement in connection therewith exclusive of claims, demands, liabilities, damages, losses, costs, charges and expenses to the extent caused by the gross negligence or willful misconduct of Lender. The agreement in this Section 2.3(g) shall survive repayment of all other Obligations.

(h) As between Borrowers and Lender, Borrowers assume all risks of the acts and omissions of, or misuse of any of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, Lender shall not be responsible for: (i) the existence of any claim, set-off, defense or other right which any Borrower may have at any time against any beneficiary, or any transferee, of any Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), Lender or any other Person, whether in connection with this Agreement or the other Loan Documents, the transactions contemplated in this Agreement, or any unrelated transaction; (ii) any statement or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; (iii) any default, negligence, misfeasance, suspension, insolvency, or bankruptcy of any shipper or any other Person involved in any transaction covered thereby or any correspondent or agent of Lender to whom any drafts, documents or instruments may be entrusted; (iv) any delay, interruption, omission or error in transmission or delivery of any document, certificate, draft, or message; (v) payment by Lender under any Letter of Credit against presentation of a draft or certificate which substantially complies with the terms of such Letter of Credit; (vi) the invalidity or unenforceability of the Letter of Credit; (vii) the examination of documents presented under a Letter of Credit exclusively by electronic or electro-optical means; or (viii) any other circumstances or happening whatsoever, whether or not similar to any of the foregoing, including any act or omission, whether rightful or wrongful, of any present or future *de jure* or *de facto* governmental authority. None of the foregoing shall affect, impair or prevent the vesting of any rights or powers of Lender under this Section 2.3.

(i) In furtherance and extension, and not in limitation, of the specific provisions set forth above, any action taken or omitted by Lender under or in connection with any of the Letters of Credit or any related certificates, if taken or omitted in good faith in the absence of gross negligence or willful misconduct, shall not put Lender under any resulting liability to Borrowers or relieve Borrowers of any of their obligations hereunder to Lender.

(j) (i) Borrowers will pay to Lender, with respect to each Letter of Credit, a fee ("LOC Fee") equal to the Applicable LOC Fee Percentage per annum on the amount available to be drawn under each Letter of Credit from, and including, the issuance date of the Letter of Credit to and including the expiry date thereof (or, if earlier, the date on which the Letter of Credit is returned to Lender and is canceled). In addition, Borrowers will pay to Lender, on its demand for payment, Lender's then current issuance, opening, closing, transfer, amendment, draw, renewal, negotiation and other letter of credit administration fees, charges and out of pocket expenses with respect to each Letter of Credit. The LOC Fee is fully earned by Lender when paid and will be due and payable on the issuance of each Letter of Credit. The LOC Fee will be calculated on the basis of the actual number of days elapsed in a 360-day year. If any Letter of Credit is cancelled for any reason before the stated expiry date thereof, any LOC Fee paid in advance will not be refunded and will be retained by Lender solely for its account.

(ii) For purposes of determining the Applicable LOC Fee Percentage, the Fixed Charge Coverage Ratio will, on and after the First Pricing Grid Determination Date, be determined as of June 30th and December 31st of each Fiscal Year ending on and after the First Pricing Grid Determination Date (each such date being a "Determination Date"). The "First Pricing Grid Determination Date" occurring after the Effective Date will be December 31, 2010. On Lender's receipt of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of this Agreement for the applicable Fiscal Quarter or Fiscal Year then ended, the LOC Fee will be subject to adjustment in accordance with the table set forth in the definition of "Applicable LOC Fee Percentage" based on the Fixed Charge Coverage Ratio as of the end of such Fiscal Quarter or Fiscal Year then ended so long as no Event of Default is existing as of the applicable effective date of adjustment. The foregoing adjustment, if applicable, (A) will become effective with respect to all Letters of Credit that are issued or renewed on and after the first day of the first calendar month following delivery to Lender of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of this Agreement for the applicable Fiscal Quarter or Fiscal Year then ended and (B) will remain in effect until the next succeeding effective date of adjustment pursuant to this clause (ii) of Section 2.3(j). Each of the financial statements and Compliance Certificate required to be delivered to Lender must be delivered to Lender in compliance with Section 4.3 of this Agreement. If, however, either the financial statements or the Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of this Agreement have not been delivered in accordance with Section 4.3 of this Agreement, then, at Lender's option, commencing on the date upon which such financial statements or Compliance Certificate should have been delivered in accordance with Section 4.3 of this Agreement and continuing until such financial statements or Compliance Certificate are actually delivered in accordance with Section 4.3 of this Agreement, it shall be assumed for purposes of determining the Applicable LOC Fee Percentage, that the Fixed Charge Coverage Ratio was £ 1.50 to 1.0 and the pricing associated therewith (*i.e.*, Pricing Grid Level 1) will be applicable on the then applicable Determination Date.

(l) If (i) any law, treaty, rule, regulation, guideline or determination of a central bank or a governmental authority or interpretation or application thereof by a central bank or governmental authority or (ii) compliance by Lender with any request or directive (whether having the force of law) from, or compliance by Lender with any official pronouncement or statement of, or as a result of any audit, investigation, or enforcement action (whether or not against Lender) by, a central bank or other government authority shall either (A) impose, modify, deem or make applicable any reserve, special deposits, assessment or similar requirement against letters of credit issued by Lender or (B) impose on Lender any other condition regarding this Agreement or any Letter of Credit, and, in Lender's judgment exercised in good faith, the result of any event referred to in clause (A) or (B) above is the increase of the cost to Lender of issuing or maintaining any Letter of Credit, then, within 10 Business Days after the demand therefor by Lender, Borrowers will immediately pay to Lender, from time to time as specified by Lender, additional amounts sufficient to compensate Lender for such increased cost (the "Increased LOC Costs"), together with interest on each such amount from the date demanded until payment in full thereof at a rate per annum equal to the then applicable interest rate on the Revolving Loans; *provided, however*, that Lender may charge Borrowers for such Increased LOC Costs only to the extent that such cost is generally charged by Lender to its other similarly situated borrowers assuming Lender is legally empowered to do so. A certificate as to such Increased LOC Costs incurred by Lender, submitted by Lender to Borrowers, shall be conclusive, absent manifest error, as to the amount thereof.

2.4 Funding of Revolving Loans; Lock Box; Collections

(a) Prior to the Termination Date with respect to the Line of Credit and subject to the other terms and conditions of this Agreement, all disbursements of Revolving Loans will initially be made into a non-interest bearing, disbursement funding account maintained at Lender or an Affiliate of Lender (the "Funding Account") structured and utilized for that purpose in accordance with Lender's (or as applicable, the applicable Lender Affiliate's) policies and procedures, current account number 99903372. Prior to the Termination Date with respect to the Line of Credit and subject to the other terms and conditions of this Agreement, funds in the Funding Account will then be made available to Borrowers via non-interest bearing controlled disbursement accounts maintained by Borrowers at Lender or an Affiliate of Lender (collectively, the "Controlled Disbursement Account") in accordance with Lender's (or as applicable, the applicable Lender's Affiliate's) policies and procedures (current account numbers: 73352576 and 73355646); *however*, Lender may, at any time hereafter, elect not to credit proceeds of Revolving Loans to the Controlled Disbursement Account, but Lender instead may establish non-controlled disbursement account or accounts (such as an operating account but exclusive of the Funding Account) for Borrowers at Lender or an Affiliate of Lender and disburse proceeds of the Revolving Loans by crediting such non-controlled disbursement account(s) of Borrower(s) at Lender or an Affiliate of Lender. Borrowers hereby authorize Lender without any further written or oral request of Borrowers to make advances of Revolving Loans to Borrowers in amounts necessary for the payment of checks and other items drawn on, and debits by Lender of, the Controlled Disbursement Account as such checks and other items ("Presentments") are presented to Lender or the applicable Lender Affiliate for payment, and debits are made by Lender, subject to the terms and conditions of this Agreement. In addition to advances of Revolving Loans made pursuant to Lender's (or as applicable, Lender's Affiliate's) controlled disbursement account system, Lender will, from time to time prior to the Termination Date with respect to the Line of Credit and subject to the other terms and conditions of this Agreement, make advances of Revolving Loans via wire transfers or ACH payments so long as a Borrower has given Lender written notice, via facsimile transmission, electronic mail or otherwise, no later than 1:00 p.m. Cincinnati, Ohio time on the date Borrowers shall request that such Revolving Loan be advanced in the case of wire transfers and any other deadline imposed by Lender from time to time for ACH payments. The making of each Revolving Loan, whether via the controlled disbursement account system or a written request by a Borrower, will be deemed to be a representation by Borrowers that (i) the Revolving Loan will not violate the terms of Section 2.1 and (ii) all Eligible Inventory and Eligible Accounts then comprising the Borrowing Base meet all of Lender's criteria for Eligible Inventory and for Eligible Accounts.

(b) Borrowers have established through Lender, and will continue at all times on and after the occurrence of a Cash Dominion Triggering Event (as defined below), the use of, the post office box at the U.S. Post Office bearing the address: PO Box 630202, Cincinnati, Ohio 45263-0202, or such other address or addresses as Lender may notify Borrowers from time to time (the "Lock Box"). At all times on and after the occurrence of a Cash Dominion Triggering Event, Borrowers will notify all of their respective customers and account debtors, which forward their Remittances in paper form to the applicable Borrower, to forward all checks, drafts, money orders, and other items, cash and other remittances of every kind due the applicable Borrower ("Remittances") to the Lock Box (such notices to be in such form and substance as Lender may reasonably require from time to time). Lender will have sole access to the Lock Box at all times, and Borrowers will take all action necessary to grant Lender such sole access. At no time will any Borrower remove any item from the Lock Box without Lender's prior written consent, and no Borrower will notify any customer or account debtor to pay any Remittance to any other place or address, other than the address of Borrowers' headquarters at times prior to the occurrence of a Cash Dominion Triggering Event, without Lender's prior written consent. If a Borrower should neglect or refuse to notify any customer or account debtor to pay any Remittance to the Lock Box, Lender will be entitled to make such notification. At all times on and after the occurrence of a Cash Dominion Triggering Event, Borrowers will notify all of their respective customers and account debtors, which pay their Accounts by electronic funds transfer, to forward all Remittances directly to the Collection Account (as defined below) by wire transfer or automated clearinghouse funds transfer (ACH) (such notices to be in such form and substance as Lender may require in good faith from time to time). Prior to the occurrence of a Cash Dominion Triggering Event, Borrowers will notify all of their respective customers and account debtors, which pay their Accounts by electronic funds transfer, to forward all Remittances directly to the Funding Account or, at Borrowers' option, the Collection Account by wire transfer or automated clearinghouse funds transfer (ACH). Upon retrieval of Remittances and other proceeds of Accounts and other Loan Collateral from the Lock Box, Lender will deposit the same into the Funding Account until such time as an Event of Default shall occur (such occurrence of an Event of Default being, the "Cash Dominion Triggering Event") at which time all funds will thereafter be deposited by Lender into a collection, non-interest bearing DDA depository account maintained at Lender, current account number 702-3362598 ("Collection Account"). Any Remittance or other proceeds of Accounts or other Loan Collateral received by a Borrower shall be deemed held by such Borrower in trust and as fiduciary for Lender, and such Borrower immediately shall deliver the same, in its original form, to Lender by overnight delivery for deposit into the Lock Box (or the Funding Account prior to the occurrence of a Cash Dominion Triggering Event). Pending such deposit, such Borrower will not commingle any such Remittance or other proceeds of Accounts or other Loan Collateral with any of any Borrower's other funds or property, but such Borrower will hold it separate and apart therefrom in trust for Lender until delivery is made to Lender as described above. All deposits to the Lock Box and the Collection Account will be Lender's property to be applied, following a Cash Dominion Triggering Event, against the Obligations in such order and method of application as may be elected by Lender in its discretion exercised in good faith and will be subject only to the signing authority designated from time to time by Lender, and Borrowers shall have no interest therein or control over such deposits or funds. Borrowers shall have no interest in the Lock Box or the Collection Account nor control over the deposits or funds therein, and Lender shall have sole access to the Collection Account and the Lock Box. Notwithstanding that Borrowers' obligations with respect to the Lock Box and automatic sweep to the Collection Account become mandatory at all times on and after a Cash Dominion Triggering Event occurs, Borrowers may not collect any Remittances through any provider of lock box or other cash management and treasury services other than Lender or its Affiliates or deposit any Remittances at any bank or other financial institution other than Lender or its Affiliates.

(c) Each Business Day following a Cash Dominion Triggering Event, Lender will, or will cause the applicable Lender Affiliate, automatically and without notice, request or demand by Borrowers, in accordance with Lender's (or as applicable, the applicable Lender Affiliate's) automatic sweep program, transfer all collected and available funds in the Collection Account: (i) for application against the unpaid principal balance of all Revolving Loans bearing interest based on the Daily LIBOR Rate or the Prime Rate, as applicable, and (ii) to be held in the Collection Account to the extent of any Revolving Loans bearing interest based on the Tranche LIBOR Rate. Pursuant to that automatic sweep program, Lender will either make Revolving Loans to the extent necessary to cover Presentments to the Controlled Disbursement Account or to maintain a minimum collected, positive (*i.e.,* "peg") balance in the Funding Account of $500,000 at all times; *however*, in no event will the principal amount of the Revolving Loans advanced pursuant to the herein described automatic sweep program exceed the maximum available amount provided for in Section 2.1(a). If such automatic sweep program is not then active, it shall be Borrowers' responsibility to maintain a minimum collected, positive (*i.e.,* "peg") balance in the Funding Account of $500,000 at all times. Until a Cash Dominion Triggering Event occurs, Borrowers shall have the right to issue orders and instructions, from time to time, to Lender with respect to the disposition of the available and collected funds in the Funding Account, including whether or not to apply such funds against the outstanding Revolving Loan balance. Without limitation of the provisions in the Security Agreement, and without limitation to the provisions below relating to the ownership of the Lock Box, the Collection Account and the deposits and funds therein, Lender shall have, and Borrowers hereby grant to Lender, a Lien on all funds held in the Funding Account, the Controlled Disbursement Account, the Collection Account and Lock Box as security for the Obligations. The Funding Account, Controlled Disbursement Account, and Collection Account will not be subject to any deduction, set-off, banker's lien or any other right in favor of any Person other than Lender or an Affiliate of Lender and its Affiliates. If any Remittance deposited in the Collection Account is dishonored or returned unpaid for any reason, Lender, in its discretion, may charge the amount of such dishonored or returned Remittance directly against Borrowers and any account maintained by any Borrower with Lender or the applicable Lender Affiliate and such amount shall be deemed part of the Obligations. Neither Lender nor the applicable Lender Affiliate shall be liable for any loss or damage resulting from any error, omission, failure or negligence on the part of Lender or the applicable Lender Affiliate with respect to the operation of the Funding Account, Controlled Disbursement Account, Collection Account, the Lock Box, or the services to be provided by Lender or the applicable Lender Affiliate under this Agreement except to the extent, but only to the extent, of any direct damages, as opposed to any consequential, special or lost profit damages suffered by a Borrower from gross negligence or willful misconduct of Lender or the applicable Lender Affiliate. Until a payment is received by Lender for Lender's account in finally collected funds, all risks associated with such payment will be borne solely by Borrowers.

(d) For the purposes of calculating interest, determining Revolving Loan Availability and the amount of Eligible Accounts, all Remittances and other proceeds of Accounts and other Loan Collateral deposited into the Collection Account shall be credited (conditional on final collection) against the outstanding Revolving Loan balance and the then Eligible Accounts as funds become collected and available in accordance with Lender's funds availability policies from time to time in effect.

(e) From time to time, Lender or the applicable Lender Affiliate may adopt such regulations and procedures and changes as it may deem reasonable and appropriate with respect to the operation of the Funding Account, the Controlled Disbursement Account, the Collection Account, the Lock Box, the automatic sweep program and the other services to be provided by Lender or the applicable Lender Affiliate under this Agreement, and such regulations, procedures and changes need not be reflected by an amendment to this Agreement in order to be effective.

(f) All service charges and costs related to the establishment and maintenance of the Funding Account, the Controlled Disbursement Account, Collection Account, the Lock Box, the automatic sweep program, and Lender's and its Affiliates' treasury and cash management services shall be the sole responsibility of Borrowers, whether the same are incurred by Lender, Lender's Affiliates or Borrowers, and Lender, at its discretion, may charge the same against Borrowers and any account maintained by Borrowers with Lender or the applicable Lender Affiliate and the same shall be deemed part of the Obligations.

2.5 Payment; Time of Payment; Late Payments.

(a) Borrowers jointly and severally promise to pay and to perform, observe and comply with when due all of the Obligations. All payments to be made by Borrowers on account of the Obligations will be made by Borrowers without setoff, deduction, offset, recoupment or counterclaim in immediately available funds. Borrowers shall make all payments of principal, interest and all other Obligations no later than 2:00 p.m., Cincinnati, Ohio time, on the Business Day such payments are due; any and all amounts paid after such time shall be credited on the next Business Day. As an accommodation to Borrowers, on the date any payment of interest or principal of the Loans, or any fee, charge or other Obligation is due, Lender is hereby authorized, in its discretion, to charge such amounts to the loan account with Lender as an advance of the Revolving Loans. All payments by Borrowers under this Agreement will be in lawful money of the United States of America, and, unless otherwise provided in this Agreement or instructed by Lender in writing from time to time, Borrowers will make all payments required under this Agreement and under any of the other Loan Documents in immediately available funds to an account designated by Lender from time to time.

(b) If any payment is not made when due under this Agreement or any of the other Loan Documents and, at the time payment was due, there was insufficient Revolving Loan Availability to charge such payment to the loan account with Lender as an advance of the Revolving Loans, Borrowers shall pay to Lender a late payment fee equal to two percent (2%) of any payment not paid when due (whether by maturity, acceleration or otherwise). In addition, all Obligations shall, after the occurrence and during the continuance of an Event of Default, bear interest at the Default Rate without notice to Borrowers; *provided* that this Section 2.5(b) shall not be deemed to constitute a waiver of any Event of Default or an agreement by Lender to permit any late payments whatsoever. "Default Rate" means the applicable rates of interest set forth in the Notesplus an additional 2.0% per annum. In no event shall the interest rate accruing under the Notes be increased to be in excess of the maximum interest rate permitted by applicable state or federal usury laws then in effect.

2.6 One General Obligation; Cross-Collateralized. All advances of credit to, or for the benefit of, Borrowers under this Agreement and under any other Loan Document constitute one loan, and all of the Obligations constitute one obligation. The Loans and all other advances or extensions of credit to, or for the benefit of, Borrowers under this Agreement or the other Loan Documents and all other Obligations are made on the security of all of the Loan Collateral. The limits on outstanding advances against the Borrowing Base are not intended and shall not be deemed to limit in any way Lender's security interest in, or other Liens on, the Accounts, Inventory, Equipment, General Intangibles, or any other Loan Collateral.

2.7 Unused Line Fee. (a) Commencing on July 1, 2010 and continuing on the first day of each and every calendar month thereafter until the Obligations are fully paid and satisfied (and, as applicable, on the date this Agreement is terminated), Borrowers will pay to Lender a fee ("Unused Line Fee") in an amount equal to the result obtained by multiplying (i) the difference between (A) the Revolving Commitment and (B) the average daily Revolving Loans advanced to Borrowers during the preceding calendar month (or portion thereof during which any portion of the Revolving Loans was outstanding or during which this Agreement was in full force and effect) for which the Unused Line Fee is being determined by (ii) the result obtained (expressed as a percentage) by multiplying the Applicable Unused Line Fee Percentage by a fraction, the numerator of which is the sum of days in such calendar month during which this Agreement was in full force and effect (or during which any portion of the Revolving Loans was outstanding) and the denominator of which is 360. The Unused Line Fee is payable in arrears by Borrowers.

(b) For purposes of determining the Applicable Unused Line Fee Percentage, the Fixed Charge Coverage Ratio will, on and after the First Pricing Grid Determination Date, be determined as of June 30th and December 31st of each Fiscal Year ending on and after the First Pricing Grid Determination Date (each such date being a "Determination Date"). The "First Pricing Grid Determination Date" occurring after the Effective Date will be December 31, 2010. On Lender's receipt of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of this Agreement for the applicable Fiscal Quarter or Fiscal Year then ended, the Unused Line Fee will be subject to adjustment in accordance with the table set forth in the definition of "Applicable Unused Line Fee Percentage" based on the Fixed Charge Coverage Ratio as of the end of such Fiscal Quarter or Fiscal Year then ended so long as no Event of Default is existing as of the applicable effective date of adjustment. The foregoing adjustment, if applicable, will become effective on and after the first day of the first calendar month following delivery to Lender of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of this Agreement for the applicable Fiscal Quarter or Fiscal Year then ended until the next succeeding effective date of adjustment pursuant to this Section 2.7. Each of the financial statements and Compliance Certificate required to be delivered to Lender must be delivered to Lender in compliance with Section 4.3 of this Agreement. If, however, either the financial statements or the Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of this Agreement have not been delivered in accordance withSection 4.3 of this Agreement, then, at Lender's option, commencing on the date upon which such financial statements or Compliance Certificate should have been delivered in accordance with Section 4.3 of this Agreement and continuing until such financial statements or Compliance Certificate are actually delivered in accordance with Section 4.3 of this Agreement, it shall be assumed for purposes of determining the Applicable Unused Line Fee Percentage, that the Fixed Charge Coverage Ratio was £ 1.50 to 1.0 and the pricing associated therewith (*i.e.*, Pricing Grid Level 1) will be applicable on the then applicable Determination Date.

2.8 [*Intentionally Omitted*].

2.9 [*Intentionally Omitted*].

2.10 Consolidated Borrowings. To induce Lender to enter into this Agreement and to make Loans in the manner set forth in this Agreement, each Borrower hereby represents, warrants, covenants and states to Lender that: (i) Borrowers are substantially dependent upon each other for their respective working capital, strategic management, financial needs and technology; (ii) Borrowers desire to utilize their borrowing potential on a consolidated basis, to the extent(s) possible as if they were merged into a single entity and, consistent with realizing such potential, to make available to Lender security commensurate with the amount and nature of their aggregate borrowings; (iii) each of Borrowers has determined that it will benefit specifically and materially from the advances of credit contemplated by this Agreement and that under a joint and several loan facility it is able to obtain financing on terms more favorable than otherwise available to it separately; and (iv) Borrowers have requested and bargained for the structure and terms of and security for the advances contemplated by this Agreement.

2.11 Joint Obligations. The obligations of Borrowers under the Loan Documents are joint, several and primary. No Borrower will be or be deemed to be an accommodation party with respect to any of the Loan Documents. Each Borrower hereby irrevocably designates Parent as its representative and agent on its behalf for the purposes of issuing requests for advances of Loans, giving instructions with respect to the disbursement of the proceeds of the Loans, selecting interest rate options, requesting Letters of Credit, giving and receiving all other notices and consents hereunder or under any of the other Loan Documents and taking all other actions (including in respect of compliance with covenants) on behalf of any Borrower or Borrowers under the Loan Documents which are permitted to be taken by a Borrower. Parent hereby accepts such appointment. Lender may regard any notice or other communication pursuant to any Loan Document from Parent as a notice or communication from all Borrowers, and may give any notice or communication required or permitted to be given to any Borrower or Borrowers hereunder to Parent on behalf of such Borrower or Borrowers. Each Borrower agrees that each notice, election, representation and warranty, covenant, agreement and undertaking made on its behalf by Parent shall be deemed for all purposes to have been made by such Borrower and shall be binding upon and enforceable against such Borrower to the same extent as if the same had been made directly by such Borrower.

Section 3. Representations and Warranties.

Each Loan Party hereby warrants and represents to Lender the following:

3.1 Organization and Qualification; Status. Each Loan Party is a duly organized and validly existing corporation under the laws of the State set forth in Schedule 3.1, has the power and authority to carry on its business as now conducted and to execute and perform this Agreement and the other Loan Documents to which it is a party or otherwise bound, and is qualified and licensed to do business in each jurisdiction in which the failure to be so qualified and in good standing could reasonably be expected to have a Material Adverse Effect. No Loan Party is (a) an “investment company”, (b) an “investment adviser”, or (c) a company “controlled” by an “investment company” as such terms are defined in the Investment Company Act of 1940, as amended.

3.2 Due Authorization. The execution, delivery and performance by each Loan Party of this Agreement and the other Loan Documents to which it is a party or otherwise bound have been duly authorized by all necessary corporate action, and shall not contravene any law or any governmental rule or order binding on any Loan Party, certificate of incorporation/articles of incorporation, bylaws/regulations or other governing documents of any Loan Party, nor violate any agreement or instrument by which any Loan Party is bound (the performance or non-performance of which could reasonably be expected to have a Material Adverse Effect) nor result in the creation of a Lien on any assets of any Loan Party except the Lien granted to Lender under the Loan Documents. Each Loan Party has duly executed and delivered to Lender this Agreement and the other Loan Documents to which it is a party or otherwise bound and they are valid and binding obligations of each Loan Party enforceable according to their respective terms, except as limited by equitable principles and by bankruptcy, insolvency or similar laws affecting the rights of creditors generally. No notice to, or consent by, any governmental body is needed in connection with this transaction.

3.3 Litigation. Except as set forth on Schedule 3.3, as of the Signature Date, (i) there are no suits or proceedings pending or, to the knowledge of any Loan Party, threatened against or affecting any Loan Party, and (ii) no proceedings before any governmental body are pending or, to the knowledge of any Loan Party, threatened against any Loan Party in any case, which, if adversely determined against a Loan Party, could reasonably be expected to have a Material Adverse Effect.

3.4 Margin Stock. No part of the Loans shall be used to purchase or carry, or to reduce or retire or refinance any credit incurred to purchase or carry, any margin stock (within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying any margin stock. If requested by Lender, Loan Parties shall furnish to Lender statements in conformity with the requirements of Federal Reserve Form U-1.

3.5 Business; Supplier and Distribution Agreements. No Loan Party is a (a) party to or subject to any contract or agreement containing a covenant made by a Loan Party not to compete in any line of business with any Person or (b) party to a distribution or supplier agreement with any supplier of Inventory to a Loan Party which limits the disposition of Inventory by such Loan Party or its successors, assigns or creditors.

3.6 Licenses, *etc.* Each Loan Party has obtained any and all licenses, permits, franchises, governmental authorizations, patents, trademarks, copyrights or other rights necessary for the ownership of its properties and the conduct of its business as currently conducted, which, if not so obtained by each Loan Party, could reasonably be expected to have a Material Adverse Effect. All of the foregoing are in full force and effect, and none of the foregoing are, to the knowledge of any Loan Party, in conflict with, or an infringement of, the rights of others such that it would have a Material Adverse Effect. All of each Loan Party's patents, copyrights, trademarks and trade names and all licenses of any patents, trademarks, and copyrights in any case material to Borrowers' respective businesses and existing as of the Signature Date are described on Schedule 3.6.

3.7 Laws and Taxes. Each Loan Party is in compliance with all laws, regulations, rulings, orders, injunctions, decrees, conditions or other requirements applicable to or imposed upon a Loan Party by any law or by any governmental authority, court or agency except for such violations which could not reasonably be expected to have a Material Adverse Effect. Each Loan Party has filed all required tax returns and reports (or filed appropriate extensions therefor) that are now required to be filed by it in connection with any federal, state and local tax, duty or charge levied, assessed or imposed upon such Loan Party or its assets, including unemployment, social security, and real estate taxes. Each Loan Party has paid all taxes which are now due and payable except to the extent contested in the manner permitted by Section 4.6. No taxing authority has asserted or assessed any additional tax liabilities against any Loan Party which are outstanding on the Signature Date, and no Loan Party has filed for any extension of time for the payment of any tax. There are not in effect any waivers of applicable statutes of limitations for federal, foreign, state or local taxes for any period. No Loan Party is a party to any tax-sharing agreement or arrangement. Each Loan Party's fiscal year is from January 1 to December 31.

3.8 Financial Condition. All financial statements relating to Loan Parties which have been, or may hereafter be delivered, by Loan Parties or on their behalf to Lender are, and will be, true and correct and fairly present, and will present, in all material respects the financial condition and results of operations of Loan Parties at the date and for the period indicated therein and has been prepared in accordance with GAAP. No Loan Party has any Indebtedness of any kind that is prohibited by the terms of this Agreement. As of the Signature Date, there has not occurred any change in the financial condition of any Loan Party which has had a Material Adverse Effect. No Loan Party has suffered any damage, destruction or loss which has had a Material Adverse Effect since the submission of the most recent audited financial statements of the Loan Parties to Lender.

3.9 Title. Each Borrower has good title to its property (exclusive of that property for which it has only a leasehold estate), free and clear of all Liens and encumbrances of any kind except for any Permitted Liens. Except as specifically set forth on Schedule 3.9, none of the equipment, included in the appraisal, which Lender has made eligible for purposes of the Loans is the subject of any Lien, capitalized lease, or operating lease of any Person.

3.10 Defaults. Each Loan Party is in compliance with all agreements to which it is a party or by which any of its property is bound, a default under which could reasonably be expected to have a Material Adverse Effect. There does not now exist any default or violation by any Loan Party of or under any of the terms, conditions or obligations of: (a) its certificate of incorporation/articles of incorporation, bylaws/regulations, other charter documents, or (b) any indenture, mortgage, deed of trust, franchise, permit, contract, agreement or other instrument to which any Loan Party is a party or by which it is bound, the performance of non-performance of which could reasonably be expected to have a Material Adverse Effect. The consummation of the transactions contemplated by this Agreement shall not result in such default or violation.

3.11 Environmental Laws.

(a) Each Borrower has obtained all permits, licenses and other authorizations or approvals which are required under Environmental Laws which, if not so obtained by such Borrower, could reasonably be expected to have a Material Adverse Effect. Each Borrower is in compliance with (i) all terms and conditions of such required permits, licenses, authorizations and approvals, and (ii) all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in the Environmental Laws except, in each case, for such violations which could not be reasonably expected to have a Material Adverse Effect.

(b) To the knowledge of any Loan Party, no Loan Party has received any notice of any past, present or future events, conditions, circumstances, activities, practices, incidents, actions or plans which could, with reasonable certainty, either (i) interfere with or prevent compliance or continued compliance, with any Environmental Laws in a manner which, individually or collectively, could reasonably be expected to have a Material Adverse Effect, or (ii) give rise to any common law or legal liability, or otherwise form the basis of any claim, action, demand, suit, proceeding, hearing, study or investigation, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling or the emission, discharge, release or threatened release into the environment, of any pollutant, contaminant, chemical, or industrial, toxic or hazardous substance or waste which, individually or collectively, could reasonably be expected to have a Material Adverse Effect.

(c) There is no civil, criminal or administrative action, suit, demand, claim, hearing, notice or demand letter, notice of violation, investigation or proceeding pending or, to the knowledge of any Borrower, threatened against any Borrower, relating in any way to Environmental Laws except that which is within any applicable insurance coverage with respect to which the insurer has admitted liability and which does not have a Material Adverse Effect.

3.12 Subsidiaries; Partnerships; Affiliates. No Loan Party has any Subsidiaries other than as set forth on Schedule 3.12, and, except as set forth on Schedule 3.12, no Loan Party is a party to any partnership agreement or joint venture agreement. Except as set forth on Schedule 3.12, no Affiliate of any Borrower: (a) sells or leases any goods or real property to any Borrower, (b) sells any services to any Borrower, (c) purchases or leases any goods or real property, or purchases any services from, any Borrower, or (d) is a party to any contract or commitment with any Borrower.

3.13 ERISA. The Loan Parties and all Persons that, along with the Loan Parties, would be treated as a single employer under ERISA or the Internal Revenue Code (an "ERISA Affiliate"), are in compliance with all of their obligations arising out of, or in connection with, any "employee benefit plan", as that term is defined in Section 3(3) of ERISA which a Loan Party or an ERISA Affiliate sponsors or maintains or for which a Loan Party has an obligation to contribute except: (a) as set forth on Schedule 3.13 and (b) for such violations which would not reasonably be expected to have a Material Adverse Effect. Neither any Loan Party nor any of its ERISA Affiliates (each, a "Subject Plan"): (i) maintains a Pension Plan subject to Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code as to which a Loan Party or any ERISA Affiliate may have any liability, except, in each case, as set forth on Schedule 3.13 or (ii) is obligated to contribute to any Multiemployer Plan except as set forth on Schedule 3.13. Each Pension Plan that a Loan Party or any of its ERISA Affiliates sponsors, maintains, or for which a Loan Party or any of its ERISA Affiliates is required to make contributions, as of the Signature Date, is set forth on Schedule 3.13. Neither any Loan Party nor any other ERISA Affiliate has withdrawn from any Subject Plan or initiated steps to do so, and no steps have been taken to reorganize or terminate any Subject Plan.

3.14 Capitalization. Schedule 3.14 sets forth the number of Ownership Interests of each Loan Party which are authorized and outstanding. All outstanding Ownership Interests of each Loan Party are duly authorized, validly issued, and fully paid and nonassessable. Set forth in Schedule 3.14 is a complete and accurate list of all Persons who are record and beneficial owners of (a) the Ownership Interests of each Loan Party (other than Parent) as of the Signature Date and (b) greater than 10% of the Ownership Interests of Parent as of April 1, 2010. All warrants, subscriptions, options, instruments, agreements and rights under which any Ownership Interests of each Loan Party are or may be redeemed, retired, converted, encumbered, bought, sold or issued are described in Schedule 3.14.

3.15 Restrictions; Labor Disputes; Labor Contracts. No Loan Party is a party or subject to, any charge, corporate restriction, judgment, decree or order, for which a Loan Party's compliance or non-compliance could reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 3.15, no Loan Party is, as of the Signature Date, (a) a party to any collective bargaining agreement or other labor contract or (b) the subject of any labor dispute which could reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 3.15, no union or other labor organization is, to any Loan Party's knowledge, seeking to organize, or to be recognized as, a collective bargaining unit of employees of any Loan Party or any of its Subsidiaries or for any similar purpose. To any Loan Party's knowledge, no key employee of such Loan Party is subject to any agreement in favor of anyone other than such Loan Party which restricts or limits that individual's right to engage in the type of business activity conducted by such Loan Party in any manner which could materially impair the ability of such individual to carry out his or her duties with such Loan Party or to use any property or confidential information or which grants to any Person, other than such Loan Party, any rights to inventions or other ideas susceptible to legal protection developed or conceived by any such key employee of such Loan Party.

3.16 Specifically Designated National and Blocked Persons. No Loan Party nor any of its Affiliates is a country, individual, or entity named on the Specifically Designated National and Blocked Persons (SDN) list issued by the Office of Foreign Asset Control of the Department of the Treasury of the United States.

3.17 Tax Shelter Regulations. Loan Parties do not intend to treat the Loans and/or Letters of Credit and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4). If any Loan Party determines to take any action inconsistent with such intention, it will promptly notify Lender thereof and deliver to Lender a duly completed IRS Form 8886 or any successor form. If any Loan Party so notifies Lender, Loan Parties acknowledge that (a) Lender may treat the Loans and/or Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and Lender will maintain the lists and other records required by such Treasury Regulation and (b) Lender may disclose without limitation of any kind, any information with respect to the "tax treatment" and "tax structure" (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to Lender relating to such tax treatment and tax structure.

3.18 Full Disclosure. No representation or warranty made by any Loan Party or any of its Affiliates, as the case may be, in this Agreement, any other Loan Document to which they are a party, or in any other document furnished from time to time in connection herewith or therewith contains or will contain at the time such representation is made or such document furnished, any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements herein or therein not misleading.

3.19 Updating Representations and Warranties. To the extent necessary to cause the representations and warranties set forth in Section 3 to remain true, complete and accurate as of the date hereof and as of each day on which a Loan is made hereunder, the Loan Parties shall update in writing any Schedules provided for in Section 3 promptly upon learning of any circumstance which may have the effect of making any such representation or warranty contained in Section 3 untrue or misleading. Such Schedules, upon being updated by a Loan Party in accordance with this Agreement, will become the Schedules referenced in this Agreement. The requirement of the Loan Parties to update any Schedule provided for herein is not, and may not be construed to be, a modification of any of the covenants of this Agreement or a cure of any Event of Default occurring prior to any such update, as result of, or existing at the time of any such update without the waiver of such Event of Default by Lender.

Section 4. Affirmative Covenants. Loan Parties covenant with, and represent and warrant to, Lender that, from and after the Effective Date until the Obligations are paid and satisfied in full:

4.1 Access to Business Information. Each Loan Party shall maintain proper books of account and records sufficient to permit the preparation of financial statements in accordance with GAAP in which complete and accurate entries and records of all of its transactions in accordance with GAAP shall be made and give representatives of Lender access thereto at all reasonable times, including permission to: (a) examine, copy and make abstracts from any such books and records and such other information which might be helpful to Lender in evaluating the status of the Loans as it may reasonably request from time to time, and (b) communicate directly with any Loan Party's employees, officers, managers, members, partners, accountants or other financial advisors and agents with respect to the business, financial conditions and other affairs of any Borrower.

4.2 Inspection of Collateral. Each Loan Party shall give Lender access during normal business hours and upon reasonable advance notice (in the absence of an Event of Default) from Lender to the Loan Collateral and the other property securing the Obligations for the purpose of performing examinations thereof and to verify its condition or existence.

4.3 Financial Information; Reporting. Parent shall furnish to Lender:

(a) Within 45 days after the end of each month and Fiscal Quarter, a copy of the Parent and its Subsidiaries' consolidated and consolidating financial statements for that month and, as applicable, Fiscal Quarter and for the year to date in a form reasonably acceptable to Lender, prepared and certified, subject to changes resulting from normal year-end adjustments and the omission of footnote disclosures, by the principal financial officer of the Parent;

(b) Within 90 days after the end of each Fiscal Year, a copy of the Parent and its Subsidiaries' (i) consolidated financial statements for that year audited by a firm of independent certified public accountants selected by Parent and acceptable to Lender (which acceptance shall not be unreasonably withheld) (the "Auditors") and accompanied by a standard audit opinion of such Auditors, (ii) unaudited, consolidating financial statements for that year, and (iii) any management letter prepared by such Auditors;

(c) All of the statements referred to in (a) and (b) above shall be in conformance with GAAP;

(d) With the month-end and Fiscal Quarter-end statements submitted under (a) above and the Fiscal Year end statements submitted under (b) above, a Compliance Certificate in the form attached hereto as Exhibit 4.3(d) signed by the principal financial officer of Parent and the other Loan Parties, (i) stating among other things, that he or she is familiar with all Loan Documents and that to the knowledge of such principal financial officer no Event of Default specified in this Agreement or in any of the other Loan Documents, nor any event which upon notice, lapse of time, the satisfaction of any other condition, or all of them, would constitute such an Event of Default, has occurred and is continuing, or, if any such condition or event existed or exists, specifying it and describing what action Loan Parties have taken or proposes to take with respect thereto and (ii) setting forth in summary form, with respect to the Fiscal Quarter-end and Fiscal Year-end statements, figures showing the financial status of the Parent and its Subsidiaries in respect of the Financial Covenants and restrictions contained in this Agreement, including showing the following amounts on a per Fiscal Quarter basis: Fixed Charges, Adjusted EBITDA, Funded Debt, the gross amount of capital expenditures, and the amount of capital expenditures which are financed;

(e) No later than 10 days after the beginning of each Fiscal Year, a projected balance sheet, cash flow, and income statement for the subsequent Fiscal Year;

(f) Upon request, copies of all federal, state and local income tax returns and such other information as Lender may reasonably request;

(g) Within 30 days after the end of each month, or sooner if available, and more frequently if Lender shall require or Borrowers shall so elect: a borrowing base certificate substantially in the form of Exhibit 4.3(g) ("Borrowing Base Certificate") and any related documents required by Lender, (A) containing a summary of Accounts created since the last Borrowing Base Certificate, (B) containing a summary and calculation of the Eligible Net Unbilled Revenue created since the last Borrowing Base Certificate, and (C) reporting the value of each Borrower's Inventory since the last Borrowing Base Certificate which is listed separately for each Borrower's Facility. Values shown on reports of Inventory shall be at the lower of fair market value or cost based on FIFO in accordance with GAAP;

(h) Within 30 days after the end of each month, or sooner if available, (A) monthly agings of Accounts, broken down by invoice date, in each case reconciled to the Borrowing Base Certificate for the end of such month and each Borrower's general ledger, and setting forth any changes in the reserves made for bad debts or any extensions of the maturity of, any refinancing of, or any other material changes in the terms of any Accounts, together with such further information with respect thereto as Lender may require; and (B) monthly agings of accounts payable listed by invoice date, in each case reconciled to each Borrower's general ledger for the end of such month;

(i) Promptly upon the filing thereof and in any event within 10 days after filing therewith, Parent shall deliver to Lender copies of all registration statements and other reports or filings which Parent files with the Securities and Exchange Commission; and

(j) Such other information (including non-financial information) as Lender may from time to time reasonably request.

4.4 Condition and Repair. Each Borrower shall maintain its Equipment and all of the other Loan Collateral used in the operation of its business in good repair and working order subject to reasonable wear and tear, and shall make all appropriate repairs, improvements and replacements thereof so that the business carried on in connection therewith may be properly conducted at all times.

4.5 Property & Casualty Insurance; Life Insurance.

(a) At its own cost, each Borrower shall obtain and maintain: (i) insurance against loss, destruction or damage to its properties and business of the kinds and in the amounts customarily insured against by firms with businesses engaged in the same or similar business as such Borrower and, in any event, sufficient to fully protect Lender's interest in the Loan Collateral and (ii) insurance against public liability and third party property damage of the kinds and in the amounts customarily insured against by firms with businesses engaged in the same or similar business as such Borrower. All such policies shall (A) be issued by financially sound and reputable insurers, (B) name Lender as an additional insured and, where applicable, as loss payee under a lender loss payable endorsement satisfactory to Lender, and (C) shall provide for thirty (30) days written notice to Lender before such policy is altered or canceled. All of the insurance policies required hereby (1) may be subject to reasonable deductible amounts and (2) shall be evidenced by one or more certificates of insurance delivered to Lender by such Borrower on or before the Effective Date and at such other times as Lender may reasonably request from time to time.

(b) Borrowers will promptly take all actions after the Effective Date necessary or appropriate in Lender's judgment, reasonably exercised, to cause the applicable life insurer to acknowledge and confirm Lender's assignment and, as appropriate, consent to the assignment of the Life Insurance to Lender pursuant to the terms of this Agreement and the other Loan Documents in accordance with the terms of the Life Insurance Assignments. The Life Insurance Assignments in favor of Lender will be prior to all other assignments or other Liens except to the extent of any Policy Loans (as defined below). All right, title, and interest in, to and under the Life Insurance will, on execution of the Life Insurance Assignments by K&B, become a part of the Loan Collateral as security for the Obligations. Until the Obligations are fully and finally paid, Borrowers will not: (i) make or grant any further assignments, transfers, or other dispositions of any portion of the Life Insurance or any right or interest therein or grant or permit to exist any Lien on any portion of the Life Insurance or any right or interest therein except in favor of Lender and to the extent of any Policy Loans, (ii) make any borrowings or withdrawals of, or accept any loans or advances of, the cash surrender value of any Life Insurance except as set forth on Schedule 5.1 ("Policy Loans"), or (iii) make or seek any changes to any of the terms or conditions of any of the Life Insurance.

4.6 Taxes; Contested Claims. Each Loan Party shall pay when due all taxes, assessments and other governmental charges imposed upon it or its respective assets, franchises, business, income or profits before any penalty or interest accrues thereon, and all claims (including claims for labor, services, materials and supplies) for sums which by law might be a Lien or charge upon any of its assets, *provided* that no such charge or claim need be paid if and for so long as each of the following conditions continue to be met ("Contested Claims"): (a) such Contested Claim is being diligently contested in good faith so long as Lender is notified in advance of such contest, (b) such Loan Party establishes an adequate reserve or other appropriate provision for the payment of such Contested Claim and all other Contested Claims required by GAAP, (c) any Lien arising from such Contested Claim does not, when added to all amounts secured by all other then Contested Claims, secure amounts in excess of $250,000 in the aggregate as of any date, (d) no material property would be lost, forfeited or materially damaged as a result of such Contested Claim; and (e) any Lien arising from such Contested Claim, or from any other then Contested Claim, do not prevent Lender from having a perfected first priority security interest in, or as applicable, mortgage Lien on, the Loan Collateral or with respect to future advances made hereunder.

4.7 Existence; Business. Each Loan Party shall (a) do all things necessary to maintain its existence as a corporation in the jurisdiction of its present organization, (b) continue to engage primarily in business of the same general character as that now conducted, and (c) refrain from entering into any lines of business substantially different from the business or activities in which such Loan Party is presently engaged if, as a result, the general nature of the business which would then be engaged in by Borrowers, considered as a whole, would be materially changed from the general nature of the business engaged in by Borrowers, considered as a whole, as of the date of this Agreement.

4.8 Compliance with Laws. Each Loan Party shall comply with all federal, state and local laws, regulations and orders applicable to it or its assets, including all Environmental Laws, in all respects applicable to such Loan Party's business or assets except, in each case, for such violations which could not be reasonably expected to have a Material Adverse Effect. Each Loan Party shall promptly notify Lender of any material violation of any rule, regulation, statute, ordinance, order or law relating to the public health or the environment and of any complaint or notifications received by any Loan Party with regard to any material environmental or safety and health rule, regulation, statute, ordinance or law. Each Loan Party shall obtain and maintain any and all licenses, permits, franchises, governmental authorizations, patents, trademarks, copyrights or other rights necessary for the ownership of its properties and necessary for the conduct of its business and as may be required from time to time by applicable law, the violation of which could be reasonably expected to have a Material Adverse Effect.

4.9 Notice of Default and Labor Matters. Each Loan Party shall, within three (3) Business Days after any officer of a Loan Party has knowledge thereof, give notice to Lender of: (a) the occurrence of any event or the existence of any condition which would be, after notice or the lapse of any applicable grace periods, an Event of Default, (b) the occurrence of any event or the existence of any condition which would prohibit or limit the ability of any Loan Party to reaffirm any of the representations or warranties, or to perform any of the covenants, set forth in this Agreement, (c) any labor dispute to which such Loan Party may become a party and which may have a Material Adverse Effect, (d) any strikes, walkouts, or lockouts relating to any of its plants or other facilities, and (e) the entering into of any labor contract relating to any of its plants or other facilities.

4.10 Costs. Loan Parties shall reimburse Lender for any and all Other Taxes upon Lender's request for payment. Loan Parties shall reimburse Lender for any and all fees, costs and expenses including reasonable attorneys' fees, other professionals' fees, appraisal fees, environmental assessment fees (including Phase I and Phase II assessments) if a Loan Party has received notice that it may have violated any applicable Environmental Law, expert fees, court costs, litigation and other expenses (collectively, the "Costs") all of which shall be reasonable in amount and reasonably incurred or paid by Lender or any of its officers, employees, Affiliates or agents in connection with: (a) the preparation, negotiation, procurement, review, administration or enforcement of this Agreement, any of the other Loan Documents or any instrument, agreement, document, policy, consent, waiver, subordination, release of lien, termination statement, satisfaction of mortgage, financing statement or other lien search, recording or filing related thereto (or any amendment, modification or extension to, or any replacement or substitution for, any of the foregoing), whether or not any particular portion of the transactions contemplated during such negotiations is ultimately consummated, and (b) the defense, preservation and protection of Lender's rights and remedies thereunder, including its security interest in the Loan Collateral or any other property pledged to secure the Loans, whether incurred in bankruptcy, insolvency, foreclosure or other litigation or proceedings or otherwise. The Costs shall be due and payable upon demand by Lender. If any Loan Party fails to pay the Costs upon such demand, Lender is entitled to disburse such sums as an advance under the Line of Credit. If there is insufficient Revolving Loan Availability to charge such Costs to the loan account with Lender as an advance of the Revolving Loans, the Costs shall bear interest from the date Borrowers receive demand for payment at the Default Rate. This provision shall survive the termination of this Agreement and/or the repayment of any amounts due or the performance of any Obligation. Notwithstanding anything to the contrary in this Section 4.10, in connection with each field examination or verification by Lender of any of the Loan Collateral or a Loan Party conducted after the Effective Date, Loan Parties will pay to Lender (i) a fee at the then current rate (currently $850.00) per day (based on an 8 hour day plus reasonable out-of-pocket expenses incurred, including travel, lodging and meals) per auditor or field examiner for the services of Lender's auditors and field examiners and (ii) the out-of-pocket fees, costs and expenses paid to third party auditors which conduct the field examination or verification.

4.11 Depository/Banking Services. So long as this Agreement is in effect, Lender shall be the principal depository in which substantially all of Loan Parties' funds are deposited, and the principal bank of account of Loan Parties, and Loan Parties shall grant Lender an opportunity to provide any corporate banking services required by Loan Parties, including payroll and employee benefit plan services.

4.12 Other Amounts Deemed Loans. If any Loan Party fails to pay any tax, assessment, governmental charge or levy or to maintain insurance within the time permitted or required by this Agreement, but subject to Section 4.6, or to discharge any Lien prohibited hereby, or to comply with any other Obligation, Lender may, but shall not be obligated to, pay, satisfy, discharge or bond the same for the account of Loan Parties, and to the extent permitted by law and at the option of Lender, all monies so paid by Lender on behalf of a Loan Party shall be deemed Loans and Obligations.

4.13 Further Assurances. Loan Parties shall execute, acknowledge and deliver, or cause to be executed, acknowledged or delivered, all such further assurances and other agreements or instruments, and take or cause to be taken all such other action, as shall be reasonably necessary from time to time to give full effect to the Loan Documents and the transactions contemplated thereby.

Section 5. Negative Covenants. Loan Parties covenant with, and represent and warrant to, Lender that, from and after the Effective Date until the Obligations are paid and satisfied in full:

5.1 Indebtedness. No Loan Party will incur, create, assume or permit to exist any:

(a) Indebtedness for borrowed money other than: (i) the Obligations; (ii) the Subordinated Debt and any Refinancing Debt thereof; (iii) such Indebtedness for borrowed money to the Persons described on Schedule 5.1 in existence as of the Signature Date and any Refinancing Debt thereof; (iv) Permitted Purchase Money Indebtedness and any Refinancing Debt thereof; (v) such Rate Management Obligations and credit card Obligations to Lender or its Affiliates pursuant to such terms and conditions as agreed to by Lender and the applicable Loan Party; (vi) Indebtedness of one Borrower to, and held by, another Borrower that is unsecured and subordinated in right of payment to the Obligations if that Indebtedness is permitted pursuant to the terms of Section 5.9; and (vii) other Indebtedness not otherwise authorized by this Section 5.1 that has been specifically approved in writing by Lender and any Refinancing Debt thereof;

(b) Indebtedness under a Rate Management Agreement except (i) for Rate Management Agreements entered into with Lender or an Affiliate of Lender or (ii) as approved in writing by Lender;

(c) Indebtedness representing reimbursement obligations and other liabilities of a Loan Party with respect to Surety Bonds (except those Surety Bonds obtained by a Borrower in the ordinary course of its business as presently conducted by it), letters of credit, banker's acceptances, drafts or similar documents or instruments issued for a Loan Party's account except for Letters of Credit issued by Lender;

(d) Indebtedness secured by a Lien on or payable out of the proceeds or production from any property of a Loan Party regardless of whether such liability has been assumed by a Loan Party;

(e) Indebtedness representing the balance deferred and unpaid of the purchase price of any property or services except (i) Permitted Purchase Money Indebtedness and (ii) any such balance that constitutes an account payable to a trade creditor created, incurred, assumed or guaranteed by a Loan Party in the ordinary course of business of a Borrower in connection with obtaining goods, materials or services that is not more than ninety (90) days in arrears as measured from the date of billing, unless the trade payable is being contested in good faith; or

(f) Indebtedness evidenced by notes, bonds, debentures, installment contracts, capitalized leases, synthetic leases, or similar obligations except to the extent permitted under Section 5.1(a).

5.2 Prepayments; Subordinated Debt.

(a) No Loan Party will voluntarily prepay any Indebtedness owing by a Loan Party prior to the stated maturity date thereof other than (i) the Obligations; (ii) Indebtedness to trade creditors where the prepayment shall result in a discount on the amount due or other benefit to such Loan Party deemed material by it; and (iii) the Permitted Subordinated Debt Payments to the extent, and in the manner, expressly permitted by the Subordination Agreement.

(b) No Loan Party will (i) make any payment (including any principal, premium, interest, fee or charge) with respect to any Subordinated Debt except, in each instance, the Permitted Subordinated Debt Payments to the extent, and in the manner, expressly permitted by the Subordination Agreement or (ii) repurchase, redeem, defease, acquire or reacquire for value any of the Subordinated Debt.

(c) No Loan Party will seek, agree to or permit, directly or indirectly, the amendment, waiver or other change to (i) any of the terms of payment (including, principal, interest or premium provisions) of or applicable to, or the provisions governing the priority of or security for the payment and performance of the obligations under or applicable to, or acceleration, termination, or default provisions of or applicable to, any of the Subordinated Debt Documents, (ii) increase the total amount of Indebtedness owing to the Subordinated Creditors from that which exists on the Effective Date, or (iii) any other material term of or applicable to any of the Subordinated Debt Documents except (A) as otherwise permitted pursuant to Section 5.1(a) in respect of a Refinancing thereof and (B) that the Loan Parties shall be permitted to amend the Subordinated Debt Documents to add accrued but unpaid interest due and owing the Subordinated Creditors to the principal amount due and owing such Subordinated Creditors under the Subordinated Debt Documents. For purposes of this Section 5.2(c), “material” means any modification, waiver, or amendment of any of the Subordinated Debt Documents, which, in the judgment of Lender exercised in good faith, could (1) adversely affect any of Lender’s rights or remedies under the Loan Documents, the value of the Loan Collateral, or Lender’s security interest in or other Lien on the Loan Collateral (including the priority of Lender’s interests) or (2) create or result in an Event of Default.

5.3 Capital Expenditures. No Loan Party will make or incur any expenditures for real estate, plant, machinery, equipment, or other similar expenditure (including all renewals, improvements and replacements thereto, and all obligations under any lease of any of the foregoing) that would be capitalized on the balance sheet of a Loan Party in accordance with GAAP in excess of $2,500,000 for any Fiscal Year ending on or after December 31, 2010.

5.4 Pledge or Encumbrance of Assets. Other than the Permitted Liens, no Loan Party will create, incur, assume or permit to exist, arise or attach any Lien in any present or future asset. No Loan Party will create or permit, directly or indirectly, any prohibition or restriction on the creation or existence of a Lien in favor of Lender upon the assets of any Loan Party, nor create any contractual obligation which may restrict or inhibit Lender’s rights or abilities to sell or otherwise dispose of all or any part of the Loan Collateral after the occurrence of an Event of Default.

5.5 Guarantees. No Loan Party will enter into any direct or indirect indemnities or guarantees other than (a) in favor of Lender or (b) by indorsement of checks for deposit in the ordinary course of business.

5.6 Dividends and Distributions. No Loan Party shall, without Lender's prior consent (which consent Lender, in good faith, shall have no obligation to provide): (a) declare or pay any dividend or distributions on its Ownership Interests (including any return of capital), (b) make any payments of any kind to its shareholders (including debt repayments (exclusive of the Subordinated Debt as provided in Section 5.2), payments for goods or services or otherwise, but excluding ordinary salary and consulting payments to shareholders employed by a Borrower) or (c) redeem, retire, purchase, repurchase or otherwise acquire, directly or indirectly, or exercise any call rights relating to, any of its Ownership Interests in any Fiscal Year except Borrowers may make cash payments to Group which, in turn, will pay such amounts to Parent solely in order, and in such amounts sufficient, to pay (i) the federal, state and local income tax liabilities of Borrowers which are then due and any state franchise taxes of Parent and Group which are then due and (ii) Borrower Common Expenses and Overhead Expenses (as each is defined in Section 2.1(f)).

5.7 Merger; Amendment of Material Documents; Disposition of Assets. No Loan Party will amend or change, or allow to be amended or changed, such Loan Party's certificate of incorporation/articles of incorporation, bylaws/regulations, organizational or other governing documents to the extent prohibited by any of the other Loan Documents. The Loan Parties will promptly provide notice and a copy of such changes to Lender. No Loan Party shall without Lender's prior consent (which consent Lender, in good faith, shall have no obligation to provide): (a) change its capital structure or Fiscal Year, (b) merge or consolidate with any Person or otherwise reorganize, liquidate or wind-up or dissolve itself; *provided, however*, that so long as (i) no Event of Default exists immediately before or immediately after giving effect to such merger or such consolidation and (ii) the Loan Parties execute all necessary amendments or modifications to the Loan Documents specified by Lender reasonably and in good faith contemporaneously with such merger or consolidation, any wholly-owned Domestic Subsidiary of Borrowers may merge or consolidate with or into a Borrower or any other wholly-owned Domestic Subsidiary of a Borrower, or (c) sell, lease, transfer or otherwise dispose of, or grant any Person an option to acquire, or sell and leaseback, any of its assets, whether now owned or hereafter acquired, except the following:

(i) Bona fide sales of Inventory in the ordinary course of business;*provided, however*, a sale in the ordinary course of business will not include a transfer in total or partial satisfaction of Indebtedness; and

(ii) Dispositions of Equipment (A) which has suffered an Event of Loss or (B) with a net book value of less than (x) $100,000 with respect to any single piece of Equipment or (y) $250,000 in the aggregate per year with respect to multiple pieces of Equipment (as to all Borrowers), which, in each instance, is obsolete and not used or useful in its business so long as, in each instance (*i.e.*, under clauses (A) and (B)), all proceeds thereof ("Disposition Proceeds") are paid to Lender (exclusive of any Equipment which is the subject of a Permitted Lien on which Lender does not have a first priority security interest) to be applied by Lender in accordance with Section 2.2(d); *provided* that Borrowers may use Disposition Proceeds to purchase replacement Equipment so long as: (i) such replacement Equipment is either (A) new and is of equal or greater value than the Equipment which was sold or otherwise disposed of by a Borrower or (B) used and is not materially less in value than the Equipment which was sold or otherwise disposed of by a Borrower, (ii) no Event of Default then exists, (iii) such replacement Equipment (A) is free and clear of all Liens except: (1) a first priority security interest in favor of Lender and (2) any other Permitted Lien exclusive of a Lien arising from any Permitted Purchase Money Indebtedness and (B) will not be a fixture under applicable law, (iv) Borrowers effect the replacement within 180 days after such disposition and provides notices thereof to Lender, and (v) all Disposition Proceeds with respect to any Equipment (exclusive of any Equipment which is the subject of a Permitted Lien on which Lender does not have a first priority security interest to the extent permitted by this Agreement) are paid to Lender for application to the Revolving Loans (subject to the establishment of a Borrowing Base Reserve therefor in the amount thereof) pending such replacement by Borrowers.

5.8 Transactions with Affiliates. No Loan Party shall: (a) directly or indirectly make any loans or advances to, or investments in, any of its employees, officers, directors, shareholders or other Affiliates except (i) as permitted by Section 5.9 and (ii) in respect of purchases by a Borrower or of another Borrower's Inventory in the ordinary course of business pursuant to the reasonable requirements of a Borrower's business and on fair and reasonable terms which are fully disclosed to Lender; (b) enter into any transaction with any of its Affiliates except for such transactions (other than transactions contemplated by clause (a) of this Section 5.8) entered into in the ordinary course of business upon fair and commercially reasonable terms no less favorable to such Loan Party than could be obtained in a comparable arms-length transaction with an unaffiliated Person; *provided* that, a Borrower shall not sell any goods to, or perform any services for or on behalf of, CECO India, Fisher Klosterman Shanghai, CECO Environmental Mexico, CECO Environmental Services, Canadian Acquisition Co., Flextor, Flextor Brazil or Flextor Chile during any time that the total Indebtedness of CECO India and (exclusive of loans, advances or equity investments permitted by Section 5.9(a)(E) or (F)) CECO Environmental Mexico, CECO Environmental Services, Fisher Klosterman Shanghai, Canadian Acquisition Co., Flextor, Flextor Brazil or Flextor Chile to Borrowers, in the aggregate exceeds $1,000,000; or (c) divert (or permit anyone to divert) any of its business opportunities to any Affiliate (other than a Borrower to another Borrower) or any other Person in which any Loan Party or its shareholders holds a direct or indirect interest.

5.9 Investments.

(a) No Loan Party shall, without Lender's prior consent (which consent Lender, in good faith, shall have no obligation to provide), purchase or otherwise acquire: (i) all or substantially all of the assets of any Person or the assets comprising any line of business or business unit or division, (ii) any partnership, joint venture or limited liability company interest in or with any Person, or (iii) the securities of, create, form or invest in any Person (including a Subsidiary), or hold beneficially evidences of Indebtedness of, or make any investment or acquire any interest in, or make any advance or loan to, or assume any liability on behalf of, any other Person other than:

(A) as expressly provided in this Agreement;

(B) advances to officers and employees with respect to expenses incurred by those officer and employees, which expenses are (1) in the usual and ordinary course of business of a Borrower, (2) reimbursable by a Borrower, and (3) do not exceed in the aggregate, $50,000, outstanding at any one time;

(C) Loans by one Borrower to, and held by, another Borrower that is unsecured and subordinated in right of payment to the Obligations. Anything to the contrary in this Agreement or the other Loan Documents notwithstanding, no Borrower may receive Revolving Loans from Lender or loans or advances from any other Borrower (each, a "Senior or Intercompany Advance" and collectively, "Senior or Intercompany Advances") if, when taking into account on a pro forma basis the proposed Senior or Intercompany Advance, the applicable Borrower would have Loans (either directly from Lender or indirectly from another Borrower) that exceed the sum of (1) one hundred ten percent (110%) of the book value of such Borrower's accounts receivable and inventory and (2) one hundred twenty five percent (125%) of the net book value of such Borrower's owned Equipment and real property;

(D) short term investments of excess working capital in one or more of the following so long as no Revolving Loans are then outstanding: (1) investments (of one year or less) in direct or guaranteed obligations of the United States, or any agencies thereof; and (2) investments (of one year or less) in certificates of deposit of banks or trust companies organized under the laws of the United States or any jurisdiction thereof, *provided* that such banks or trust companies are insured by the Federal Deposit Insurance Corporation and have capital in excess of $250,000,000;

(E) loans, advances or equity investments in Fisher Klosterman Shanghai, CECO Environmental Mexico, CECO Environmental Services, Canadian Acquisition Co., Flextor, Flextor Brazil or Flextor Chile (other than transactions contemplated by clause (b) of Section 5.8), so long as (1) the aggregate amount of such investments does not exceed $1,000,000 during the term of this Agreement, (2) no Event of Default shall exist at the time of making each such investment, (3) no Event of Default shall result, on a *pro forma* basis, from the making of each such investment, and (4) after the making of each such investment, Revolving Loan Availability is equal to or greater than $1,000,000. To determine whether there is *pro forma* compliance with the Financial Covenants, Parent, Group and Borrowers will, on a *pro forma* basis, (x) restate the financial statements received by Lender for the Fiscal Quarter or the Fiscal Year, as applicable, ended most closely before the date such investment is proposed to be made as if the proposed investment had been made at the beginning of the applicable Test Period and (y) calculate the Financial Covenants taking into account such proposed investment as if the proposed investment had been made at the beginning of the applicable Test Period. Parent, Group and Borrowers will deliver such *pro forma* analysis to Lender at least 10 Business Days prior to making each such investment; and

(F) (i) the equity investment of 2,800,000 Canadian Dollars made by Parent in Canadian Acquisition Co. and (ii) the loan of 4,200,000 Canadian Dollars made by Parent to Canadian Acquisition Co. (the "Flextor Loan"), in each case to fund the Flextor Acquisition.

(b) To the extent that Lender consents to the acquisition or formation of any Domestic Subsidiary after the Effective Date, Parent or, if applicable, Group, if requested by Lender, will cause such Subsidiary to become a Borrower hereunder and a party to the other Loan Documents to which any Borrower is then a party, pursuant to a written joinder agreement on terms and in substance satisfactory to Lender.

5.10 Fixed Charge Coverage Ratio. Borrowers will not permit the ratio ("Fixed Charge Coverage Ratio") resulting from dividing: (a) the sum of (i) Adjusted EBITDA for the applicable Test Period plus (ii) the then FCCR Adjustment Amount by (b) Fixed Charges for that same Test Period to be less than: (A) 2.50 to 1 for the Test Period ending as of the end of the Fiscal Quarter ending on June 30, 2010, or (B) 1.25 to 1 for any Test Period ending as of the end of any Fiscal Quarter or Fiscal Year ending on or after September 30, 2010.

5.11 Maximum Total Funded Debt to Adjusted EBITDA Ratio. Borrowers will not permit the ratio ("Maximum Total Funded Debt to Adjusted EBITDA Ratio") resulting from dividing (a) Parent and its Subsidiaries' total Funded Debt as of the end of the applicable Test Period by (b) Parent and its Subsidiaries' Adjusted EBITDA for the applicable Test Period to exceed 3.0 to 1 for any Test Period ending as of the end of any Fiscal Quarter or Fiscal Year ending on or after June 30, 2010.

5.12 Effox Acquisition; Effox Acquisition Documents. The Loan Parties will not seek, agree to or permit, directly or indirectly, the amendment, waiver or other change to any material term of or applicable to any of the Effox Acquisition Documents. For purposes of this Section 5.12, "material" means any modification, waiver, or amendment of any of the Effox Acquisition Documents, which, in the judgment of Lender exercised in good faith, could: (i) materially increase the purchase price for the assets to be acquired under the Effox Acquisition Documents or the Indebtedness to be incurred by any Loan Party under the Effox Acquisition Documents, (ii) materially and adversely affect any of Lender's rights or remedies under the Loan Documents, the value of the Loan Collateral, or Lender's security interest in or other Lien on the Loan Collateral (including the priority of Lender's interests), (iii) have a Material Adverse Effect, or (iv) create or result in an Event of Default.

5.13 FKI Acquisition; FKI Acquisition Documents. The Loan Parties will not seek, agree to or permit, directly or indirectly, the amendment, waiver or other change to any material term of or applicable to any of the FKI Acquisition Documents. For purposes of this Section 5.13, "material" means any modification, waiver, or amendment of any of the FKI Acquisition Documents, which, in the judgment of Lender exercised in good faith, could: (i) materially increase the purchase price for the assets to be acquired under the FKI Acquisition Documents or the Indebtedness to be incurred by any Loan Party under the FKI Acquisition Documents, (ii) materially and adversely affect any of Lender's rights or remedies under the Loan Documents, the value of the Loan Collateral, or Lender's security interest in or other Lien on the Loan Collateral (including the priority of Lender's interests), (iii) have a Material Adverse Effect, or (iv) create or result in an Event of Default.

5.14 FKI, LLC. Notwithstanding anything to the contrary set forth in this Agreement, FKI, LLC (A) is, and will remain, a holding company, whose only business will be the holding of the ownership interest of Fisher Klosterman Shanghai, (B) does not, and will not, have any Indebtedness except the Obligations, and (C) will not own or have any interest in property other than the Ownership Interests of Fisher Klosterman Shanghai, and the distributions received from Fisher Klosterman Shanghai on such Ownership Interests.

5.15 CECO Mexico, LLC. Notwithstanding anything to the contrary set forth in this Agreement, CECO Mexico LLC (A) is, and will remain, a holding company, whose only business will be the holding of the ownership interest of CECO Environmental Services and CECO Environmental Mexico, (B) does not, and will not, have any Indebtedness except the Obligations, and (C) will not own or have any interest in property other than the Ownership Interests of CECO Environmental Services and CECO Environmental Mexico, and the distributions received from CECO Environmental Services and CECO Environmental Mexico on such Ownership Interests.

5.16 A.V.C. Acquisition; A.V.C. Acquisition Documents. The Loan Parties will not seek, agree to or permit, directly or indirectly, the amendment, waiver or other change to any material term of or applicable to any of the A.V.C. Acquisition Documents. For purposes of this Section 5.16, "material" means any modification, waiver, or amendment of any of the A.V.C. Acquisition Documents, which, in the judgment of Lender exercised in good faith, could: (i) materially increase the purchase price for the assets to be acquired under the A.V.C. Acquisition Documents or the Indebtedness to be incurred by any Loan Party under the A.V.C. Acquisition Documents, (ii) materially and adversely affect any of Lender's rights or remedies under the Loan Documents, the value of the Loan Collateral, or Lender's security interest in or other Lien on the Loan Collateral (including the priority of Lender's interests), (iii) have a Material Adverse Effect, or (iv) create or result in an Event of Default.

5.17 Flextor Acquisition; Flextor Acquisition Documents. The Loan Parties will not seek, agree to or permit, directly or indirectly, the amendment, waiver or other change to any material term of or applicable to any of the Flextor Acquisition Documents. For purposes of this Section 5.16, "material" means any modification, waiver, or amendment of any of the Flextor Acquisition Documents, which, in the judgment of Lender exercised in good faith, could: (i) materially increase the purchase price for the assets to be acquired under the Flextor Acquisition Documents or the Indebtedness to be incurred by any Loan Party under the Flextor Acquisition Documents, (ii) materially and adversely affect any of Lender's rights or remedies under the Loan Documents, the value of the Loan Collateral, or Lender's security interest in or other Lien on the Loan Collateral (including the priority of Lender's interests), (iii) have a Material Adverse Effect, or (iv) create or result in an Event of Default.

5.18 Canadian Acquisition Co. Notwithstanding anything to the contrary set forth in this Agreement, Canadian Acquisition Co. (A) is, and will remain until the Flextor Amalgamation, a holding company, whose only business will be the holding of the ownership interest of Flextor, and (B) will not, until the Flextor Amalgamation, own or have any interest in property other than the Ownership Interests of Flextor, and the distributions received from Flextor on such Ownership Interests.

5.19 AVC, Inc. Notwithstanding anything to the contrary set forth in this Agreement, AVC, Inc. is, and will remain, a wholly-owned Subsidiary of Fisher-Klosterman.

Section 6. Events of Default and Remedies.

6.1 Events of Default. The occurrence and continuation of any of the following events, whether or not caused by or within the control of Borrowers, shall be an event of default under this Agreement (each, an "Event of Default"):

(a) Any representation or warranty made by or on behalf of any Borrower, or any of their respective Affiliates, in any of the Loan Documents or in any other statement, certificate or document delivered to Lender pursuant to any such Loan Document, is misleading in any material respect when made or reaffirmed; or

(b) (i) any Loan Party defaults in the payment of any of the Obligations when due and payable, by acceleration or otherwise (except as provided in clause (ii) below of this subparagraph(b)); *provided* that with respect to any sum payable under this Agreement or the Notes, other than any payment of principal, interest or any other fee expressly set forth herein, it will not be an Event of Default for failure to pay such sum unless such sum is not paid to Lender within three Business Days after the date Lender notifies the Loan Parties of the failure to make such payment or (ii) any Loan Party fails to cure any Overadvance (as defined in Section 2.1(a)) in accordance with Section 2.1(a); or

(c) Any Loan Party fails to observe, comply with or perform any other covenant, condition or agreement herein or in any of the other Loan Documents (*i.e.,* exclusive of those defaults covered by the other clauses (a), (b), and (d) through (w) of this Section 6.1) and fails to cure such default by the date that is 30 days after the earlier of the date: (i) Lender notifies any Loan Party of such default or (ii) on which any officer of any Loan Party has knowledge of such default; *provided* that such 30-day grace period shall not apply to: (A) a breach of any covenant that, in Lender's good faith judgment, cannot be cured; (B) any failure to maintain insurance in accordance with Section 4.5 or any Security Document or to permit inspection by Lender, or its agent, of the Loan Collateral or of the books and records of any Loan Party in accordance with Sections 4.1 or 4.2, (C) any breach of Sections 4.3(g), 4.9(a) or 4.9(b), (D) any breach in any negative covenant set forth in Section 5; (E) a breach or default of any other Loan Document if a period of cure is expressly provided for in such other Loan Document with respect to a breach or default under such other Loan Document; or (F) any breach if, within the 12 calendar months immediately preceding the occurrence of such current breach, any Loan Party has previously breached the same provision of this Agreement or any other applicable Loan Document; or

(d) A court enters a decree or order for relief with respect to a Loan Party or the Individual Guarantor in an involuntary case under any applicable bankruptcy, insolvency or other similar law then in effect, including the Bankruptcy Code ("Insolvency Law"), or appoints a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of Loan Party or the Individual Guarantor for any substantial part of their respective property, or orders the wind-up or liquidation of its, his or their affairs; or a petition initiating an involuntary case under any such Insolvency Law is filed and is pending for sixty (60) days without dismissal; or

(e) Any Loan Party or the Individual Guarantor commences a voluntary case under any applicable Insolvency Law in effect, or makes any general assignment for the benefit of creditors, or fails generally to pay their respective debts as such debts become due, or takes any authorizing action in furtherance of any of the foregoing; or

(f) (i) There occurs a Subordinated Debt Default, and the Subordinated Creditors have taken any action to declare such Subordinated Debt Default or have taken any action to enforce any of their rights or remedies with respect to such Subordinated Debt Default or (ii) (A) any Loan Party defaults under the terms of any other Indebtedness or lease that, individually or in the aggregate (when added to all other Indebtedness, if any, of any one or more Loan Party then in default), involves Indebtedness in excess of $100,000, (B) such default is not cured within any applicable cure period or waived by the applicable creditor, and (C) such default gives any creditor or lessor the right to accelerate the maturity of any such Indebtedness or lease payments, which right is not contested by such Loan Party or is determined by any court of competent jurisdiction to be valid; or

(g) Any final judgment, award, order or decree for the payment of money in excess of $500,000 is rendered against a Loan Party (or any number of final judgments, awards, orders, or decrees outstanding, as of any date, in excess of $500,000 in the aggregate with respect to any one or more Loan Party) by a court or courts or arbitrator having jurisdiction in the premises, which judgment, award, order, or decree shall not have been either (i) appealed in good faith (and execution of such judgment(s) are completely stayed, vacated or discharged during such appeal) or (ii) satisfied by a Loan Party. The above limits of $500,000 will be determined after giving effect to (*i.e.*, deducting) that portion of such judgment, award, order, or decree which is covered by insurance, as determined by Lender in its discretion exercised in good faith, that is in effect and available to satisfy such judgment, award, order, or decree for which the insurer has not denied in writing its liability for the full insurable amount thereof; or

(h) Any event occurs which could, in Lender's opinion exercised in good faith, with reasonable certainty have a Material Adverse Effect; or

(i) There occurs a Change of Control; or

(j) The dissolution of any Loan Party without Lender's prior consent (which consent Lender shall have no obligation to provide); or

(k) The commencement of any foreclosure proceedings, proceedings in aid of execution, attachment actions, or levies by any Person against, or the filing by any taxing authority of a Lien against any of the Loan Collateral or any property securing the repayment of any of the Obligations which have not been vacated, discharged or stayed within 10 days after the commencement thereof; or

(l) There occurs an uninsured casualty loss with respect to any of the Loan Collateral having an aggregate fair market value greater than $250,000; or

(m) Lender ceases to be any Loan Party's (i) principal depository bank in which substantially all of such Loan Party's funds are deposited or (ii) principal bank of account; or

(n) (i) The validity or effectiveness of any of the Loan Documents or its transfer, grant, pledge, mortgage, or assignment by the party executing such Loan Document is materially impaired; (ii) any party executing any of the Loan Documents asserts that any of such Loan Documents is not a legal, valid and binding obligation of the party thereto enforceable in accordance with its terms; (iii) the security interest or other Lien purporting to be created by any of the Loan Documents shall for any reason cease to be a valid, perfected Lien subject to no other Liens other than any Permitted Liens unless solely because of the action or inaction of Lender; or (iv) any Loan Document is amended, hypothecated, subordinated, terminated or discharged, or any Person is released from any of its covenants or obligations under any of the Loan Documents except as permitted by Lender in writing; or

(o) (i) A contribution failure occurs with respect to any Pension Plan maintained by any Loan Party or any Loan Party's ERISA Affiliate (or with respect to any Pension Plan to which a Loan Party or any Loan Party's ERISA Affiliate has an obligation to contribute) sufficient to give rise to a Lien under Section 303(k) of ERISA, (ii) (A) the PBGC takes any action to terminate a Pension Plan (including a Multiemployer Plan) maintained by a Loan Party or any Loan Party's ERISA Affiliate (or to which any Loan Party or any Loan Party's ERISA Affiliate has an obligation to contribute) or (B) any Loan Party or any Loan Party's ERISA Affiliate terminates or withdraws from any Pension Plan (including a Multiemployer Plan) which is subject to Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code as to which a Loan Party or any ERISA Affiliate may have any liability, or (iii) liability is imposed on any Loan Party or any Loan Party's ERISA Affiliate pursuant to Section 4069 of ERISA; or

(p) The filing of any Lien against the Loan Collateral or any part thereof (exclusive of Permitted Liens) which is not removed to the satisfaction of Lender within a period of 10 Business Days thereafter; or

(q) Subject to Section 5.7 with respect to a permitted disposition of Equipment thereunder, the abandonment by any Borrower of any Loan Collateral having an aggregate net book value of greater than $50,000; or

(r) (i) a Guarantor defaults under its or his Guaranty or demand for payment is made on a Guarantor under its or his Guaranty, (ii) a Guarantor denies its or his obligation to guarantee the Obligations or attempts to limit or terminate its or his obligation to guarantee the Obligations subject to the terms of its Guaranty, or (iii) the Individual Guarantor dies or becomes legally incompetent; or

(s) There occurs a nonpayment by a Borrower of any Rate Management Obligation when due or the breach by a Borrower of any term, provision or condition contained in any Rate Management Agreement, and such nonpayment or breach is not cured within the applicable cure period described in the applicable Rate Management Agreement; or

(t) (i) the Subordination Agreement is terminated or ceases, for any reason, to be in full force and effect, (ii) the Subordinated Creditors deny their obligations under the Subordination Agreement or attempt to limit or terminate or revoke their obligations under the Subordination Agreement, (iii) there is a default or an event of default under any of the Effox Acquisition Documents by any Person which has a Material Adverse Effect, (iv) there is a default or an event of default under any of the FKI Acquisition Documents by any Person which has a Material Adverse Effect, (v) there is a default or an event of default under any of the A.V.C Acquisition Documents by any Person which has a Material Adverse Effect; or (vi) there is a default or an event of default under any of the Flextor Acquisition Documents by any Person which has a Material Adverse Effect; or

(u) Canadian Acquisition Co. or Flextor defaults under the terms of any other Indebtedness or lease that, individually or in the aggregate (when added to all other Indebtedness, if any, of either of Canadian Acquisition Co. or Flextor then in default), involves Indebtedness in excess of $100,000, (B) such default is not cured within any applicable cure period or waived by the applicable creditor, and (C) such default gives any creditor or lessor the right to accelerate the maturity of any such Indebtedness or lease payments, which right is not contested by Canadian Acquisition Co. or Flextor or is determined by any court of competent jurisdiction to be valid; or

(v) Any final judgment, award, order or decree for the payment of money in excess of $500,000 is rendered against Canadian Acquisition Co. or Flextor (or any number of final judgments, awards, orders, or decrees outstanding, as of any date, in excess of $500,000 in the aggregate with respect to either Canadian Acquisition Co. or Flextor) by a court or courts or arbitrator having jurisdiction in the premises, which judgment, award, order, or decree shall not have been either (i) appealed in good faith (and execution of such judgment(s) are completely stayed, vacated or discharged during such appeal) or (ii) satisfied by Canadian Acquisition Co. or Flextor. The above limits of $500,000 will be determined after giving effect to (*i.e.*, deducting) that portion of such judgment, award, order, or decree which is covered by insurance, as determined by Lender in its discretion exercised in good faith, that is in effect and available to satisfy such judgment, award, order, or decree for which the insurer has not denied in writing its liability for the full insurable amount thereof; or

(w) (i) A court enters a decree or order for relief with respect to Canadian Acquisition Co. or Flextor in an involuntary case under any Insolvency Law, or appoints a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of Canadian Acquisition Co. or Flextor for any substantial part of their respective property, or orders the wind-up or liquidation of its, his or their affairs; or a petition initiating an involuntary case under any such Insolvency Law is filed and is pending for sixty (60) days without dismissal; or (ii) either Canadian Acquisition Co. or Flextor commences a voluntary case under any applicable Insolvency Law in effect, or makes any general assignment for the benefit of creditors, or fails generally to pay their respective debts as such debts become due, or takes any authorizing action in furtherance of any of the foregoing.

6.2 Remedies. If any Event of Default occurs and after the lapse of any applicable cure, Lender may cease advancing money hereunder, and Lender may elect to exercise any one or more of the following remedies, all without presentment, demand, protest or notice of any kind, as the same are hereby expressly waived by each Borrower, unless otherwise required by applicable law:

(a) cease advancing any Revolving Loans, declare all Obligations to be immediately due and payable, whereupon such Obligations shall immediately become due and payable, and terminate this Agreement and all obligations of Lender under this Agreement;

(b) proceed to enforce payment of the Obligations and to realize upon the Loan Collateral or any property securing the Obligations, including causing all or any part of the Loan Collateral to be transferred or registered in its name or in the name of any other Person, with or without designation of the capacity of such nominee, and Borrowers shall be liable for any deficiency remaining after disposition of any Loan Collateral;

(c) offset and apply to all or any part of the Obligations all moneys, credits and other property of any nature whatsoever of any Borrower now or at any time hereafter in the possession of, in transit to or from, under the control or custody of, or on deposit with (whether held by a Borrower individually or jointly with another Person), Lender or its Affiliates, including certificates of deposit; and/or

(d) exercise any and all rights and remedies provided by applicable law and the Loan Documents.

6.3 No Remedy Exclusive. No remedy set forth herein is exclusive of any other available remedy or remedies, but each is cumulative and in addition to every other remedy available under this Agreement, the Loan Documents or as may be now or hereafter existing at law, in equity or by statute, and each may be exercised together, separately and in any order. Borrowers waive any requirement of marshaling of assets that may be secured by any of the Loan Documents.

6.4 Effect of Termination; Voluntary Termination.

(a) Any termination of this Agreement shall not affect any rights of any party or any obligation of any party to the other, arising prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights created or Obligations incurred prior to such termination have been fully disposed of, concluded or liquidated. The security interest, other Liens and rights granted to Lender hereunder and under the Loan Documents shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that no Loans are outstanding to Borrowers, until all of the Obligations have been paid in full and satisfied.

(b) Borrowers may terminate this Agreement (i) by giving Lender written notice ("Termination Notice") of the date on which this Agreement is to terminate ("Voluntary Termination Date") at least 30 days before the Voluntary Termination Date, and (ii) by paying on any such Voluntary Termination Date all of the Obligations. Upon the Voluntary Termination Date, (1) all Loans and all other Obligations will automatically and immediately become due and payable, (2) Borrowers will cause all Letters of Credit to be replaced or cash collateralized on terms satisfactory to Lender; and (3) Lender's obligations under this Agreement and the other Loan Documents arising on and after that effective date of termination will automatically terminate immediately, without notice or demand, which the Loan Parties hereby expressly waive.

6.5 No Adequate Remedy at Law. Borrowers recognize that no remedy at law shall provide adequate relief to Lender in the event that a Loan Party shall fail to pay, perform, observe or discharge any of the Obligations under this Agreement or the other Loan Documents to which it is a party or otherwise bound, and, accordingly, Lender and the Loan Parties agree that Lender shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that it has incurred actual damages.

6.6 Actions in Respect of Letters of Credit. If any Event of Default shall have occurred and be continuing, Lender may, whether in addition to taking any of the actions described in this Section 6 or otherwise, if any Letters of Credit shall have been issued, make demand upon any Borrower to, and forthwith upon such demand Borrowers will, pay to Lender in same day funds at Lender's office designated in such demand, for deposit in a special non-interest bearing cash collateral account (the "Letter of Credit Collateral Account") to be maintained at such office of Lender, an amount equal to the Letter of Credit Exposure from time to time in existence. The Letter of Credit Collateral Account shall be in the name of Lender (as a cash collateral account), and under the sole dominion and control of Lender exercised in good faith (with sole right of withdrawal) and subject to the terms of this Agreement and the other Loan Documents. On each drawing under a Letter of Credit, Lender shall seek reimbursement from any amounts then on deposit in the Letter of Credit Collateral Account; *however*, if (a) no amounts are then on deposit in the Letter of Credit Collateral Account, (b) the amount then on deposit in the Letter of Credit Collateral Account is insufficient to pay the amount of such drawing, or (c) Lender is legally prevented or restrained from immediately applying amounts on deposit in the Letter of Credit Collateral Account, then the amount of each unreimbursed drawing under such Letter of Credit and payment required to be made under this Section 6.6 shall automatically be converted into a Revolving Loan made on the date of such drawing for all purposes of this Agreement. To the extent that Lender applies amounts on deposit in the Letter of Credit Collateral Account as provided in this Section 6.6, and, thereafter, such application (or any portion thereof) is rescinded or any amount so applied must otherwise be returned by Lender upon the insolvency, bankruptcy or reorganization of a Borrower or otherwise, then the amount so rescinded or returned shall automatically be converted into a Revolving Loan made on the date of such drawing for all purposes of this Agreement.

Section 7. Conditions Precedent.

7.1 Conditions to Initial Loans. Lender shall have no obligation to make or advance the Revolving Loans to be made on the Signature Date until each of the following conditions precedent shall have been satisfied:

(a) Each Loan Party shall execute and deliver, or cause to be executed and delivered by the applicable Person, as applicable, to Lender, in form and substance satisfactory to Lender, each of the following:

(i) The Notes and the other Loan Documents to be executed by the Loan Parties on the Signature Date (together with this Agreement, collectively, the "Amendment Documents");

(ii) A Borrowing Base Certificate completed as of the Effective Date;

(iii) A certification by an officer of the Loan Parties, in a form acceptable to Lender, that the applicable resolutions, which authorize the execution, delivery and performance of this Agreement and the Loan Documents, of the Loan Parties previously delivered to Lender remain in full force and effect;

(iv) Certificates of insurance as described in Section 4.5;

(v) A Reaffirmation of Subordination, duly executed by the Subordinated Creditors; and

(vi) Such additional information, materials and Loan Documents as Lender may reasonably request.

(b) Borrowers shall reimburse Lender for any and all fees, costs and expenses including reasonable attorneys' fees and other professionals' fees, appraisal fees, and other expenses incurred or paid by Lender or any of its officers, employees or agents in connection with the preparation, negotiation, procurement, review or execution of this Agreement, the other Loan Documents and all other instruments, agreements, documents, policies, consents, waivers, subordinations, releases of liens, termination statements, satisfaction of mortgages, financing statements, lien searches, recordings, or filings related thereto, whether or not any particular portion of the transactions contemplated during such negotiations is ultimately consummated.

7.2 Conditions to Each Revolving Loan and Letter of Credit. Lender shall have no obligation to advance additional Revolving Loans or issue any Letters of Credit unless, as to each such Loan, the following statements shall be true and correct:

(a) Each of the representations and warranties contained herein and in the other Loan Documents shall be correct in all material respects, and each shall be deemed to be reaffirmed as of the date of each such Revolving Loan or Letter of Credit with the same effect as though such representations and warranties had been made again on and as of each day of the term of this Agreement subject to such changes as are not prohibited hereby or do not constitute Events of Default;

(b) No event shall have occurred and be continuing, or would result from such Revolving Loan or Letter of Credit, which constitutes an Event of Default, or would constitute an Event of Default but for the requirement that notice be given or lapse of time or both;

(c) (i) The aggregate unpaid principal amount of the Revolving Loans after giving effect to such Revolving Loan shall not violate the lending limits set forth in Section 2.1 of this Agreement and (ii) the Letter of Credit Availability, after giving effect to such Letter of Credit, is greater than zero Dollars; and

(d) No law or regulation prohibits, and no order, judgment or decree of any arbitrator or governmental authority enjoins or restrains Lender, from making the requested advance.

The acceptance by a Loan Party of the proceeds of each Revolving Loan and the execution and delivery of a Letter of Credit Application by a Loan Party shall be deemed to constitute a representation and warranty by the Loan Parties that the conditions in this Section 7.2, other than (i) those that have been waived in writing by Lender, or (ii) the type described in clause (d) of this Section 7.2, have been satisfied.

Section 8. Participations.

8.1 Participation. Lender, in the ordinary course of its commercial banking business and in accordance with applicable law, may at any time after the Effective Date, sell to one or more lenders or other entities ("Participants") participating interests in the Loans, the Loan Collateral or other security provided to Lender, or any other interests of Lender under this Agreement or the other Loan Documents.

8.2 Participant Consents. Each Loan Party acknowledges that Participants have and will have certain rights under their respective participation agreements with Lender that may, subject to the terms of the participation agreements, require Lender to obtain the consent (collectively, "Participant Consents") of some or all of the Participants before Lender takes or refrains from taking certain actions (other than as expressly required by the Loan Documents) or grants certain waivers, consents or approvals in respect of the Loans, the Loan Documents or the Loan Collateral. None of the Participants, however, will have Participant Consent rights which are greater than those rights and remedies Lender has under the Loan Documents. In addition, from time to time, Lender may request instructions from the Participants in respect of the actions, waivers, consents or approvals which by the terms of any of the Loan Documents Lender is permitted or required to take or to grant or to not take or grant ("Participant Instructions"). If the Participant Consents are, pursuant to the terms of the respective participation agreements, required or Participant Instructions are requested, Lender will (i) be absolutely empowered to take or refrain from taking any action (other than as expressly required by the Loan Documents) or withhold any waiver, consent or approval and (ii) not be under any liability whatsoever to any Person, including any Borrower and any Participant, from taking or refraining from taking any action or withholding any waiver, consent or approval under any of the Loan Documents until it has received the requisite Participant Consents or, as applicable, the Participant Instructions. Further, in the event a Participant fails to fund its portion of any of the Loans, Lender shall be under no obligation to fund any portion of any of the Loans that was not funded by such Participant. Borrowers do hereby indemnify, defend, save and hold Lender, its Affiliates, and their respective officers, directors, attorneys, and employees harmless of, from and against all claims, demands, liabilities, judgments, losses, damages, costs and expenses, joint or several (including all accounting fees and reasonable attorneys' fees), that Lender or any such indemnified party may incur as a result of a Participant failing to fund its portion of any Loan or failing to give a Participant Consent.

8.3 Information. Subject to the confidentiality provisions of Section 9.13, each Loan Party authorizes Lender to disclose to any Participant or prospective Participant or any assignee or prospective assignee of Lender's rights under the Loan Documents any and all financial information in Lender's possession concerning each Loan Party which has been delivered to Lender by a Loan Party pursuant to the Loan Documents or in connection with Lender's credit evaluation of the Loan Parties or which has been obtained independently by Lender in its credit evaluation or audit of the Loan Parties.

8.4 Law Requirements. Nothing in the Loan Documents will prohibit Lender from pledging or assigning its interests in the Loans to any Federal Reserve Lender in accordance with applicable law.

Section 9. Miscellaneous Provisions.

9.1 General. This Agreement, the exhibits and the other Loan Documents are the complete agreement of the parties hereto and supersede all previous understandings and agreements relating to the subject matter hereof. This Agreement may be amended only in writing signed by the party against whom enforcement of the amendment is sought. This Agreement may be executed in counterparts. If any part of this Agreement is held invalid, illegal or unenforceable, the remainder of this Agreement shall not in any way be affected. This Agreement is and is intended to be a continuing agreement and shall remain in full force and effect until (i) the Obligations are finally and irrevocably paid in full and the Line of Credit is terminated and (ii) Lender has no further obligations to make a Loan or issue any Letter of Credit under this Agreement. Any documents delivered by, or on behalf of, any Person by fax transmission or other electronic delivery of an image file reflecting the execution hereof: (i) may be relied on by all Persons as if the document were a manually signed original and (ii) will be binding on all Persons for all purposes of the Loan Documents. If there is any conflict, ambiguity, or inconsistency, in Lender's judgment, between the terms of this Agreement or any of the other Loan Documents, then the applicable terms and provisions, in Lender's judgment, providing Lender with greater rights, remedies, powers, privileges, or benefits will control. With respect to each Loan Party, Lender is authorized to rely in good faith on any telephonic or other oral communication which shall be received by it from anyone reasonably believed by Lender to be an officer of a Loan Party or any other authorized signer of a Loan Party as designated in any certificate or letter given by a Loan Party to Lender from time to time.

9.2 Waiver by Borrowers. Each Loan Party waives notice of non-payment (except as expressly required by this Agreement or the other Loan Documents), demand, presentment, protest or notice of protest of any Accounts or other Loan Collateral, the benefit of all valuation and appraisement laws following the occurrence and during the continuance of an Event of Default, and all other notices (except those notices specifically provided for in this Agreement). Each Loan Party hereby waives all suretyship defenses, including all defenses set forth in Section 3-605 of the Uniform Commercial Code (the "UCC"). Such waiver is entered to the full extent permitted by Section 3-605(i) of the UCC. To the fullest extent not prohibited by law, each Loan Party waives and agrees not to assert any claim against Lender under any theory for consequential, special, indirect or punitive damages.

9.3 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the respective legal representatives, successors and assigns of the parties hereto; *however*, no Loan Party may assign or transfer any of its rights or delegate any of its Obligations under this Agreement or any of the Loan Documents to which it is a party or otherwise bound, by operation of law or otherwise. Without any Loan Party's consent, Lender (and any subsequent assignee) may (i) transfer and assign any or all of its rights or delegate any of its duties under this Agreement or (ii) transfer or assign partial interests in the Loans or grant participations in the Loans to other Persons. Subject to the confidentiality provisions of Section 9.13, Lender may disclose to all prospective and actual assignees and Participants all financial, business and other information about each Loan Party which Lender may possess at any time.

9.4 Subsidiaries. If a Borrower has any Subsidiaries at any time during the term of this Agreement with the consent of Lender, the term "Borrower" in each representation, warranty and covenant herein shall mean such Borrower and each Subsidiary, individually and in the aggregate, and such Borrower shall cause each Subsidiary to be in compliance therewith. The existence of references to a Borrower's Subsidiaries any place in this Agreement is for a matter of convenience only. Any references to Subsidiaries of a Borrower set forth herein shall not in any way be construed as consent by Lender to the establishment, maintenance or acquisition of any Subsidiary.

9.5 Security. The Obligations are secured as provided in this Agreement, the Security Documents, in the other Loan Documents and in each other document or agreement that by its terms secures the repayment or performance of the Obligations.

9.6 Survival. All representations, warranties, covenants and agreements made by Borrowers herein and in the other Loan Documents shall survive the execution and delivery of this Agreement, the other Loan Documents and the issuance of the Notes.

9.7 Delay or Omission. No delay or omission on the part of Lender in exercising any right, remedy or power arising from any Event of Default shall impair any such right, remedy or power or any other right remedy or power or be considered a waiver or any right, remedy or power or any Event of Default nor shall the action or omission to act by Lender upon the occurrence of any Event of Default impair any right, remedy or power arising as a result thereof or affect any subsequent Event of Default of the same or different nature.

9.8 Notices. Any notice required, permitted or contemplated hereunder shall, except as expressly provided in this Agreement, be in writing and addressed to the party to be notified at the address set forth below or at such other address as each party may designate for itself from time to time by notice hereunder and shall be deemed duly sent: (a) when delivered in hand, (b) on completion of a facsimile transmission to the number listed below, so long as (i) receipt of confirmation of the telecopy is made by the sending party and (ii) an original notice is also sent to the receiving party contemporaneously with facsimile by overnight courier or certified U.S. mail as provided in this Section 9.8, (c) the next Business Day after such notice was delivered to a regularly scheduled overnight delivery carrier with delivery fees either prepaid or an arrangement, satisfactory with such carrier, made for the payment of such fees, or (d) when mailed by registered or certified mail, return receipt requested, addressed as follows:

To Loan Parties:
c/o CECO Environmental Corp.
3120 Forrer Street
Cincinnati, Ohio 45209
Attention: Dennis W. Blazer,
Vice President of Finance/Administration
and Chief Financial Officer
Fax: (513) 458-2644

with a copy to counsel of Loan Parties
("Loan Parties' Counsel"):

Barnes & Thornburg, LLP
Suite 4400
One North Wacker Drive
Chicago, Illinois 60606
Attention: Leslie J. Weiss, Esq.
Fax: (312) 759-5646

To Lender:
Fifth Third Bank
38 Fountain Square Plaza
MD #10AT63
Cincinnati, Ohio 45263
Attention: Structured Finance Group
Fax: (513) 534-8400

Any party may change such address by sending written notice of the change to the other party; *provided,* that (A) notice given to Loan Parties' Counsel is not deemed notice to such Loan Party, and (B) Lender's failure to deliver any notice to Loan Parties' Counsel will not affect the validity or effectiveness of any notice or notification given to such Loan Party.

9.9 No Partnership. Nothing contained herein or in any of the Loan Documents is intended to create or shall be construed to create any partnership, joint venture or other relationship between Lender and the Loan Parties other than as expressly set forth herein or therein and shall not create any joint venture, partnership or other relationship.

9.10 Electronic Communication. Lender may, in its discretion, elect, from time to time, to receive certain information, including reports, otherwise required by the terms of this Agreement or the other Loan Documents ("Reports") from Borrowers via electronic mail transmission ("e-mail"). Lender will designate from time to time its e-mail address to Borrowers (the "Lender E-mail Address"). All e-mail transmissions of Reports from Borrowers shall contain the information as specified in this Agreement, shall be formatted or displayed in a manner and order substantially similar to that shown in this Agreement or otherwise required by Lender and shall conform to the specifications described in this Agreement. Borrowers will be solely responsible for the confidentiality of the contents of e-mail transmissions during transmission to the Lender E-mail Address. Borrowers will be responsible for the accuracy of all information provided to Lender via e-mail transmission to the Lender E-mail Address, and any information so received by Lender will be deemed to have been submitted by and received from Borrowers. In the event of a failure of the transmission of the Reports, it is the responsibility of Borrowers to transmit the contents of any pending transmission to Lender using an alternative method which is timely and in accordance with this Agreement. Borrowers agree that, by sending Lender the Reports via e-mail transmission, Borrowers are certifying the truthfulness and accuracy in all material respects of the Reports submitted each and every time Borrowers send Lender the Reports. Borrowers further agree that, on each occasion when Borrowers send Lender e-mail transmissions containing Reports, Borrowers are warranting and representing to Lender the truthfulness and accuracy in all material respects of the representations and warranties relevant to that Report set forth in the relevant Loan Document. Borrowers consent to and represent that it is Borrowers' intent that by Borrowers' insertion of a Borrower's name in the subject line of the transmitting e-mail, or on the Reports (including the header and/or the certification line), Borrowers intend such to constitute a legally binding and enforceable signature of Borrowers, and in all aspects the legal equivalent of Borrowers' handwritten signatures.

9.11 Indemnification. If after receipt of any payment of all or part of the Obligations, Lender is for any reason compelled to surrender such payment to any Person because such payment is determined to be void or voidable as a preference, impermissible setoff, or diversion of trust funds, or for any other reason, this Agreement shall continue in full force and effect and Borrowers shall be liable to, and shall indemnify, save and hold Lender, its officers, directors, attorneys, and employees harmless of and from the amount of such payment surrendered. The provisions of this Section shall be and remain effective notwithstanding any contrary action which may have been taken by Lender in reliance on such payment, and any such contrary action so taken shall be without prejudice to Lender's rights under this Agreement and shall be deemed to have been conditioned upon such payment becoming final, indefeasible and irrevocable. In addition, Borrowers shall indemnify, defend, save and hold Lender, its Affiliates, and their respective officers, directors, attorneys, and employees harmless of, from and against all claims, demands, liabilities, judgments, losses, damages, costs and expenses, joint or several (including all accounting fees and reasonable attorneys' fees), that Lender or any such indemnified party may incur arising out of (a) this Agreement or any of the other Loan Documents, (b) any act taken by Lender hereunder, (c) any transaction financed by a Loan, or (d) any Other Taxes, except to the extent, as determined by a court of competent jurisdiction in a final non-appealable judgment or order: (i) of the willful misconduct or gross negligence of such indemnified party, (ii) such claim for indemnification is based on a material breach by Lender of its express duties or obligations to a Loan Party under the Loan Documents, or (iii) such claim for indemnification is based on a willful violation by Lender of its express duties or obligations under applicable law. The provisions of this Section shall survive the termination of this Agreement.

9.12 Power of Attorney. Each Loan Party hereby appoints Lender, as its attorney-in-fact to indorse its name on all instruments and other documents payable to such Loan Party in order for Lender to perform its services under this Agreement, including under Section 2.4. Upon the occurrence and during the continuation of an Event of Default, Lender shall be entitled, but not required, to perform any action or execute any document required to be taken or executed by any Loan Party under this Agreement and the other Loan Documents; *provided* that Borrowers shall not be relieved of such obligation under this Agreement and the other Loan Documents. The powers of attorney described in this Section are coupled with an interest and are irrevocable.

9.13 Confidentiality. Lender agrees that it will use reasonable efforts not to disclose without the prior consent of Parent (other than to Lender's employees, auditors, advisors, consultants, Affiliates and counsel) any information with respect to the Loan Parties to the extent and in the manner such information is kept confidential in accordance with Lender's privacy policies and procedures with respect to its customers generally and as mandated by applicable law, *provided* that Lender may disclose any such information: (a) as has become generally available to the public unless such availability is as a result of the breach by Lender of this Agreement, (b) as may be required or appropriate in any report, statement or testimony submitted to or examination conducted by any governmental authority having or claiming to have jurisdiction over Lender, (c) as may be required or appropriate in response to any summons, subpoena, or civil investigative demand or in connection with any litigation or governmental investigation, (d) in order to comply with any requirement of applicable law, (e) to any prospective or actual transferee or Participant in connection with any contemplated transfer or participation of any of the Obligations or any interest therein, *provided* that each such prospective or actual transferee or Participant agrees to be bound by the confidentiality provisions contained in this Section 9.13, (f) to other financial institutions or investment funds with respect to which Lender has a contractual relationship in accordance with Lender's regular banking procedures in order to carry out the services to be performed by Lender for a Loan Party, *provided* that each such other financial institution or investment fund agrees to be bound by the confidentiality provisions contained in this Section 9.13, (g) to any nationally recognized rating agency that requires access to information regarding Lender's investment portfolio in connection with such rating agency's issuance of ratings with respect to Lender, *provided* that Lender advises such rating agency of the confidential nature of such information, (h) as may be required or appropriate in connection with protecting, preserving, exercising or enforcing (or planning to exercise or enforce) any of Lender's rights in, under or related to the Loan Documents after the occurrence of an Event of Default; (i) as permitted by Sections 3.17 and 9.10; (j) to respond to routine informational requests in accordance with the Code of Ethics for the Exchange of Credit Information promulgated by The Robert Morris Associates (or any successor thereto) or other applicable industry standards relating to the exchange of credit information, (k) if such information was available to or known by Lender prior to its disclosure to Lender by a Loan Party or its representatives, and (l) which became available to Lender from a source other than a Loan Party or its representatives, *provided* that Lender does not have reason to know that such source is bound by a confidentiality agreement regarding such information.

9.14 Governing Law; Jurisdiction; Waiver of Jury Trial This Agreement and the other Loan Documents shall be governed by the domestic laws of the State of Ohio. Each Loan Party agrees that the state and federal courts in Hamilton County, Ohio have exclusive jurisdiction over all matters arising out of the Loan Documents, WITHOUT LIMITATION ON THE ABILITY OF LENDER, ITS SUCCESSORS AND ASSIGNS, TO INITIATE AND PROSECUTE IN ANY APPLICABLE JURISDICTION ACTIONS RELATED TO THE REPAYMENT AND COLLECTION OF THE OBLIGATIONS AND THE EXERCISE OF ALL OF LENDER'S RIGHTS AGAINST THE LOAN PARTIES WITH RESPECT THERETO AND ANY SECURITY OR PROPERTY OF THE LOAN PARTIES, INCLUDING DISPOSITIONS OF THE LOAN COLLATERAL, and that service of process in any such proceeding shall be effective if mailed to the Loan Parties at the address described in the Notices section of this Agreement. LENDER AND THE LOAN PARTIES HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ANY MATTERS ARISING OUT OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY OF THE OTHER LOAN DOCUMENTS.

9.15 Reaffirmation of Guaranties.

(a) Each Loan Party hereby: (i) ratifies and reaffirms its Guaranty dated as of December 29, 2005 (or dated as of June 8, 2006 as it respects H.M. White; dated as of February 28, 2007 as it respects Effox; dated as of February 29, 2008 as it respects GMD, Fisher-Klosterman, FKI, LLC and CECO Mexico LLC; or dated as of March 31, 2009 as it respects AVC, Inc.) made by such Loan Party to Lender and (ii) acknowledges and agrees that no Loan Party is released from its obligations under its respective Guaranty by reason of this Agreement or the other Loan Documents being executed in connection herewith and that the obligations of each Loan Party under its respective Guaranty extend, among other Obligations of Borrowers to Lender, to the Obligations of Borrowers under this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, each Loan Party acknowledges and agrees that all references in any Guaranty to the Existing Credit Agreement or the other Loan Documents shall be deemed, as applicable, to be references to this Agreement or such other Loan Document, as amended by, or amended and restated in connection with, this Agreement.

(b) Without limiting anything contained in Section 9.15(a), each Loan Party (other than AVC, Inc.) hereby acknowledges and agrees that the obligations of such Loan Party under its Guaranty and such other Loan Documents extend, among other Obligations of Borrowers to Lender, to the Obligations of AVC, Inc. under this Agreement and the other Loan Documents. Accordingly, all references in any Guaranty or any other Loan Document (other than AVC, Inc.'s Guaranty) to (i) "Borrowers" shall be deemed to include AVC, Inc. and (ii) "Guaranteed Obligations" shall be deemed to include the Obligations of AVC, Inc.

9.16 Joinder of AVC, Inc. as New Borrower. AVC, Inc. hereby assumes and agrees to perform all of the terms, restrictions, obligations and conditions of a Borrower under this Agreement, and, by execution of this Agreement is hereby designated a "Borrower" for purposes of, and agrees to be bound by, each and all terms of this Agreement. Lender confirms that AVC, Inc. is a Borrower under this Agreement and all of the rights, obligations of a Borrower under this Agreement shall inure to and bind, as a joint and several obligor, AVC, Inc. AVC, Inc. expects to derive benefits from the transactions resulting in the creation of the Obligations. Lender may rely conclusively on the continuing warranty, hereby made, that AVC continues to be benefitted by Lender's extension of credit accommodations to Borrowers and Lender shall have no duty to inquire into or confirm the receipt of any such benefits, and this Agreement and all other Loan Documents to which AVC, Inc. is a party shall be effective and enforceable by Lender without regard to the receipt, nature or value of any such benefits.

[*Remainder of this Page left intentionally blank*]

IN WITNESS WHEREOF, the Loan Parties and Lender have executed this Agreement by their duly authorized officers as of the date first above written.

**CECO ENVIRONMENTAL CORP.**

By: /s/ Dennis W. Blazer
Dennis W. Blazer, Chief Financial Officer
and Vice President

**CECO GROUP, INC.**

By: /s/ Dennis W. Blazer
Dennis W. Blazer, Chief Financial Officer,
Secretary and Treasurer

**CECO FILTERS, INC.**
**NEW BUSCH CO., INC.**
**THE KIRK & BLUM MANUFACTURING COMPANY**
**KBD/TECHNIC, INC.**
**CECOAIRE, INC.**
**CECO ABATEMENT SYSTEMS, INC.**
**EFFOX INC.**
**FISHER-KLOSTERMAN, INC.**
**H.M. WHITE, INC.**
**GMD ENVIRONMENTAL TECHNOLOGIES, INC., formerly known as GMD ACQUISITION CORP.**
**CECO MEXICO HOLDINGS LLC**
**AVC, INC.**

By: /s/ Dennis W. Blazer
Dennis W. Blazer, Secretary and Treasurer

**FKI, LLC**

By: /s/ Dennis W. Blazer
Dennis W. Blazer, Manager

**FIFTH THIRD BANK**

By: /s/ Donald K. Mitchell
Donald K. Mitchell, Vice President

**EXHIBIT 2.1**

(Revolving Loan Note)

*See attached.*

EXECUTION VERSION

**A FIFTH THIRD BANCORP BANK**

SIXTH AMENDED AND RESTATED
REVOLVING CREDIT PROMISSORY NOTE

OFFICER NO. 4048 NOTE No. _____

$20,000,000.00 December 29, 2005
First Amendment and Restatement June 8, 2006
Second Amendment and Restatement February 28, 2007
Third Amendment and Restatement February 29, 2008
Fourth Amendment and Restatement March 31, 2009
Fifth Amendment and Restatement December 31, 2009
Sixth Amendment and Restatement June 30, 2010
(Effective Date)

Promise to Pay. On or before April 1, 2013 (the "Maturity Date"), the undersigned, CECO FILTERS, INC., a Delaware corporation, NEW BUSCH CO., INC., a Delaware corporation, THE KIRK & BLUM MANUFACTURING COMPANY, an Ohio corporation, KBD/TECHNIC, INC., an Indiana corporation, CECOAIRE, INC., a Delaware corporation, CECO ABATEMENT SYSTEMS, INC., a Delaware corporation, H.M. WHITE, INC., a Delaware corporation, EFFOX INC., formerly known as CECO Acquisition Corp., a Delaware corporation, GMD ENVIRONMENTAL TECHNOLOGIES, INC., formerly known as GMD Acquisition Corp., a Delaware corporation, FISHER-KLOSTERMAN INC., formerly known as FKI Acquisition Corp., a Delaware corporation, and AVC, INC., a Delaware corporation (each, a "Borrower", and, collectively, the "Borrowers"), for value received, hereby jointly and severally promise to pay to the order of FIFTH THIRD BANK, an Ohio banking corporation (together with its successors and assigns, "Lender"), at 38 Fountain Square Plaza, MD #10AT63, Cincinnati, Ohio 45263, or such other address as Lender may provide from time to time, the sum of TWENTY MILLION AND 00/100 Dollars ($20,000,000.00), plus interest as provided herein, or so much thereof as is loaned by Lender to Borrowers as Revolving Loans or for which credit is extended by Lender as a Letter of Credit pursuant to the Amended and Restated Credit Agreement among Lender, Borrowers, and certain of Borrowers' affiliates dated as of even date herewith (as amended and as the same may be further amended, renewed, consolidated, restated or replaced from time to time, the "Credit Agreement"). The outstanding balance of this Sixth Amended and Restated Revolving Credit Promissory Note (this "Note") shall appear on supplemental bank records and is not necessarily the face amount of this Note, which records shall evidence the balance due pursuant to this Note at any time. As used herein, "Local Time" means the time at the office of Lender specified in this Note.

This Note, and any request by Borrowers from time to time for an advance of a specified principal amount hereunder, shall be subject to the terms and conditions of the Credit Agreement. Capitalized terms used herein which are not otherwise defined in this Note shall have the meanings set forth in the Credit Agreement. This Note is entitled to the benefits and security of the Credit Agreement, including, without limitation, acceleration upon the terms provided therein, and of the other Loan Documents.

The entire unpaid principal balance of this Note, together with all accrued and unpaid interest and any other charges, advances and fees, if any, outstanding hereunder, shall be due and payable in full on the earlier of the Maturity Date or upon acceleration of the Indebtedness evidenced by this Note, notwithstanding any other inconsistent or contradictory provisions contained in this Note.

Upon the occurrence and during the continuance of any Event of Default, the entire unpaid principal balance of this Note, together with all accrued but unpaid interest, and all other Obligations, shall, at Lender's option, become immediately due and payable, except that if there occurs an Event of Default of the type described in Sections 6.1(d), 6.1(e), or 6.1(j) of the Credit Agreement, the entire unpaid principal balance of this Note, together with all accrued but unpaid interest, and all other Obligations shall become automatically and immediately due and payable without notice, which Borrowers hereby waive.

Interest. Principal amounts outstanding under this Note shall bear interest commencing on the Effective Date at the rate or rates per annum set forth below, which rate or rates shall be designated by Borrowers as more fully set forth herein (the "Interest Rate").

On and after the Effective Date, at any time and from time to time during the term of this Note, so long as no Event of Default has occurred and is continuing and so long as such outstanding principal amounts hereunder are not then subject to a LIBOR Tranche Election, Borrowers may exercise their right to adjust the Interest Rate on amounts of principal outstanding under this Note to one of the rates set forth below upon notice to Lender as set forth below; *provided, however*, that once the Interest Rate accruing against any amounts outstanding hereunder is adjusted to a Tranche LIBOR Rate for a particular LIBOR Tranche Interest Period, Borrowers may not elect to adjust such Interest Rate to a different Interest Rate until the expiration of such LIBOR Tranche Interest Period.

(a) Tranche LIBOR Rate. Upon telephonic notice to Lender by 10:00 a.m. Local Time given at least two Business Days prior to the beginning of a LIBOR Tranche Interest Period, Borrowers may, subject to the terms of this Note, elect to have advances under this Note bear interest at a rate per annum equal to the Tranche LIBOR Rate (as defined herein) plus the Applicable Tranche LIBOR Rate Margin (as defined herein) (a "LIBOR Tranche Election"). The "Tranche LIBOR Rate" is the rate of interest (rounded upwards, if necessary, to the next 1/8 of 1% and adjusted for reserves if Lender is required to maintain reserves with respect to relevant advances) fixed by the British Bankers' Association at 11:00 a.m., London, England time, relating to quotations for the one month, two month, or three month London InterBank Offered Rates, as selected by Borrowers in their LIBOR Tranche Election, on U.S. Dollar deposits as published on Bloomberg LP, or, if no longer provided by Bloomberg LP, such rate as shall be determined in good faith by Lender from such sources as Lender shall determine to be comparable to Bloomberg LP (or any successor) as determined by Lender at approximately 10:00 a.m. Local Time on the date of request by Borrowers. Notwithstanding anything to the contrary contained in this Note, at any time during which a Rate Management Agreement with Lender is then in effect with respect to any Tranche LIBOR Rate Loan under this Note, the provision contained in the immediately preceding sentence that rounds up the Tranche LIBOR Rate to the next 1/8 of 1% (as set forth in the definition of "Tranche LIBOR Rate" set forth above) shall be disregarded and no longer of any force and effect with respect to such Tranche LIBOR Rate Loan that is subject to such Rate Management Agreement. Each

determination by Lender of the Tranche LIBOR Rate shall be conclusive in the absence of manifest error. Interest accruing based on the Tranche LIBOR Rate shall be: (i) calculated based on a 360-day year and charged for the actual number of days elapsed and (ii) payable in arrears on the last day of the applicable LIBOR Tranche Interest Period. The Interest Rate applicable to a particular LIBOR Tranche Election shall remain at the rate elected for the remainder of the subject LIBOR Tranche Interest Period.

The "LIBOR Tranche Interest Period" for each advance bearing interest with respect to the Tranche LIBOR Rate (each such advance, a "Tranche LIBOR Rate Loan") is a period of one month, two months, or three months, at Borrowers' election, which period shall commence on a Business Day selected by Borrowers subject to the terms of this Note. If a LIBOR Tranche Interest Period would otherwise end on a day that is not a Business Day, such LIBOR Tranche Interest Period shall end on the next succeeding Business Day; *provided* that, if the next succeeding Business Day falls in a new month, such LIBOR Tranche Interest Period shall end on the immediately preceding Business Day.

On or before the date that is two Business Days before the making of any Tranche LIBOR Rate Loan, and on or before the date which is two Business Days prior to the expiration of any applicable LIBOR Tranche Interest Period, Borrowers shall notify Lender of each of the following: (a) the LIBOR Tranche Interest Period Borrowers have elected regarding any such Tranche LIBOR Rate Loan or any continuation of a LIBOR Tranche Election with respect to a Tranche LIBOR Rate Loan, (b) the amount of each such Tranche LIBOR Rate Loan or continuation, and (c) the commencement date of each LIBOR Tranche Interest Period. Borrowers may have Tranche LIBOR Rate Loans in minimum amounts of $1,000,000 (and integral multiples of $100,000) and such Tranche LIBOR Rate Loans may bear interest at the applicable Interest Rate for different LIBOR Tranche Interest Periods so long as (i) the last day of any LIBOR Tranche Interest Period does not exceed the Maturity Date hereof; (ii) no LIBOR Tranche Election with respect to any Tranche LIBOR Rate Loan commences prior to the expiration of the applicable LIBOR Tranche Interest Period in effect with respect to such Tranche LIBOR Rate Loan; and (iii) at no time may Borrowers have more than three outstanding Tranche LIBOR Rate Loans, in the aggregate, under all of their Notes. If, at any time during the term hereof, Borrowers fail to designate a LIBOR Tranche Interest Period or if Borrowers have not elected another LIBOR Tranche Interest Period in accordance with this Note at least two Business Days prior to the expiration of the LIBOR Tranche Interest Period then in effect, Lender may assume that Borrowers have elected to have the principal amount applicable to such expiring LIBOR Tranche Interest Period accrue interest based on the Daily LIBOR Rate.

(b) Daily LIBOR Rate. All amounts outstanding under this Note, as of any date, which are not then subject to a LIBOR Tranche Election, will automatically bear interest at a floating rate equal to the Daily LIBOR Rate plus the Applicable Daily LIBOR Rate Margin (as defined below). As used herein, "Daily LIBOR Rate" means the rate of interest (rounded upwards, if necessary, to the next 1/8 of 1% and adjusted for reserves if Lender is required to maintain reserves with respect to relevant advances) fixed by the British Bankers' Association at 11:00 a.m., London, England time, relating to quotations for the one month London InterBank Offered Rate on U.S. Dollar deposits as published on Bloomberg LP, or, if no longer provided by Bloomberg LP, such rate as shall be determined in good faith by Lender from such sources as Lender shall determine to be comparable to Bloomberg LP (or any successor) as determined by Lender at approximately 10:00 a.m. Local Time on the relevant date of determination. Notwithstanding

anything to the contrary contained in this Note, at any time during which a Rate Management Agreement with Lender is then in effect with respect to any Daily LIBOR Rate Loan under this Note, the provision contained in the immediately preceding sentence that rounds up the Daily LIBOR Rate to the next 1/8 of 1% (as set forth in the definition of "Daily LIBOR Rate" set forth above) shall be disregarded and no longer of any force and effect with respect to such Daily LIBOR Rate Loan subject to such Rate Management Agreement. Each determination by Lender of the Daily LIBOR Rate shall be conclusive in the absence of manifest error. The Daily LIBOR Rate shall be reset each Business Day by Lender based on the Daily LIBOR Rate then in effect. Any adjustment in the Interest Rate resulting from a change in the Daily LIBOR Rate shall become effective as of the opening of business on the date of each change (or if not a Business Day, the beginning of the day). Lender shall not be required to notify Borrowers of any adjustment in the Daily LIBOR Rate; *however,* Borrowers may request a quote of the prevailing Daily LIBOR Rate on any Business Day. Interest accruing based on the Daily LIBOR Rate shall be: (i) calculated based on a 360-day year and charged for the actual number of days elapsed and (ii) payable in arrears on the first day of each calendar month.

(c) Pricing Grid. As used herein, the terms "Applicable Daily LIBOR Rate Margin" and "Applicable Tranche LIBOR Rate Margin" (hereafter sometimes collectively referred to as the "Applicable Margins") mean, as of any date, the applicable per annum rate shown in the applicable column in the table below based on the then applicable Fixed Charge Coverage Ratio. "Fixed Charge Coverage Ratio" has the meaning given in the Credit Agreement.

| Pricing Grid Level | Fixed Charge Coverage Ratio | Applicable Daily LIBOR Rate Margin | Applicable Tranche LIBOR Rate Margin |
|---|---|---|---|
| Level 1 | £ 1.50 to 1.0 | 4.00% | 3.50% |
| Level 2 | > 1.50 to 1.0 and £ 2.0 to 1.0 | 3.75% | 3.25% |
| Level 3 | > 2.0 to 1.0 | 3.50% | 3.00% |

For purposes of determining the Applicable Margins: the Fixed Charge Coverage Ratio will, on and after the First Pricing Grid Determination Date, be determined (i) as of June 30th and December 31st of each Fiscal Year ending on and after the First Pricing Grid Determination Date (each such date being a "Determination Date") and (ii) in the same manner used to determine the Fixed Charge Coverage Ratio set forth in Section 5.10 of the Credit Agreement. The "First Pricing Grid Determination Date" that occurs under this Note will be December 31, 2010. On Lender's receipt of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of the Credit Agreement for the applicable Fiscal Quarter or Fiscal Year then ended, the Interest Rate will be subject to adjustment in accordance with the table set forth above in this subparagraph (c) based on the then Fixed Charge Coverage Ratio as of the end of such Fiscal Quarter or Fiscal Year then ended so long as no Event of Default is existing as of the applicable effective date of adjustment. The foregoing adjustment, if applicable, will become effective for LIBOR Tranche Elections made with respect to the Revolving Loans, the unpaid principal balance of the Revolving Loans accruing interest based on the Daily LIBOR Rate and other outstanding Obligations related to the Revolving Loans and the Letter of Credit Obligations due with respect to Letters of Credit issued or renewed, on and after the first day of the first calendar month following delivery to Lender of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of the Credit Agreement for the applicable Fiscal Quarter or Fiscal Year then ended until the next succeeding effective date of adjustment pursuant to this subparagraph (c). Each of the financial

statements and Compliance Certificate required to be delivered to Lender must be delivered to Lender in compliance with Section 4.3 of the Credit Agreement. If, however, either the financial statements or the Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of the Credit Agreement have not been delivered in accordance with Section 4.3 of the Credit Agreement, then, at Lender's option, commencing on the date upon which such financial statements or Compliance Certificate should have been delivered in accordance with Section 4.3 of the Credit Agreement and continuing until such financial statements or Compliance Certificate are actually delivered in accordance with Section 4.3 of the Credit Agreement, it shall be assumed for purposes of determining the Applicable Margins, that the Fixed Charge Coverage Ratio was £ 1.50 to 1.0 and the pricing associated therewith (*i.e.*, Pricing Grid Level 1) will be applicable on the then applicable Determination Date. As of the Effective Date of this Note, the Applicable Daily LIBOR Rate Margin is 4.0% per annum and the Applicable Tranche LIBOR Rate Margin is 3.50% (*i.e.*, Pricing Grid Level 1).

(d) LIBOR Rate Costs. Borrowers hereby agree to reimburse and indemnify Lender from all costs or fees incurred by Lender subsequent to the date hereof relating to the offering of rates of interest based upon the Tranche LIBOR Rate and Daily LIBOR Rate. Without limiting the generality of the foregoing, if any change in any law, regulation or official directive, or in the interpretation thereof, by any governmental body charged with the administration thereof, shall:

(i) increase the cost to Lender, by an amount which Lender deems to be material, of making, converting into, continuing or maintaining Tranche LIBOR Rate Loans or Daily LIBOR Rate Loans, as applicable, or to reduce any amount receivable hereunder in respect thereof, or

(ii) have the effect of reducing the rate of return on Lender's capital as a consequence of its obligations hereunder to a level below that which Lender could have achieved but for such change by an amount deemed by Lender to be material,

then, in any such case, after submission by Lender to Borrowers of a written request therefor, Borrowers shall pay Lender any additional amounts necessary to compensate Lender for such increased cost or reduction. Lender agrees that, upon the occurrence of any event giving rise to the operation of this paragraph, it will use reasonable efforts to designate another lending office (if possible) for any Tranche LIBOR Rate Loans or Daily LIBOR Rate Loans affected by such event with the object of avoiding the consequences of such event; *provided* that no such designation shall be required unless such designation can be made on terms that, in the reasonable judgment of Lender, cause Lender and its lending office(s) to suffer no material economic, legal or regulatory disadvantage.

In addition, if any amount as to which a LIBOR Tranche Election is in effect is repaid on a day other than the last day of the applicable LIBOR Tranche Interest Period, or becomes payable on a day other than the last day of the applicable LIBOR Tranche Interest Period due to acceleration or otherwise, Borrowers, whether or not a debtor in a proceeding under Title 11, United States Code, shall pay, on demand by Lender, such amount (as determined by Lender) as is required to compensate Lender for any losses, costs or expenses ("LIBOR Breakage Fee"), which Lender may incur as a result of such payment or acceleration, including, without limitation, any loss, cost or expense (including loss of profit) incurred by reason of liquidation or reemployment of deposits or other funds acquired by Lender to fund or maintain such amount bearing interest with respect to the Tranche LIBOR Rate.

A certificate of Lender setting forth the amount or amounts necessary to compensate Lender as specified in this paragraph (d) and delivered to Borrowers shall be conclusive absent manifest error. Borrowers shall pay Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(e) Availability of Tranche LIBOR Rate and Daily LIBOR Rate. Notwithstanding anything herein contained to the contrary, if:

(i) any change in any law, regulation or official directive, or in the interpretation thereof, by any governmental body charged with the administration thereof, shall make it unlawful for Lender to fund or maintain its funding in Eurodollars of any portion of the advances subject to the Tranche LIBOR Rate or the Daily LIBOR Rate, as applicable, or otherwise to give effect to Lender's obligations as contemplated hereby, or

(ii) Lender, by telephonic notice, shall notify Borrowers that: (A) with respect to Tranche LIBOR Rate Loans, Eurodollar deposits with a maturity corresponding to the maturity of the LIBOR Tranche Interest Period, in an amount equal to the advances to be subject to the LIBOR Tranche Election are not readily available in the London Inter-Bank Offered Rate Market, (B) with respect to Daily LIBOR Rate Loans, one-month Eurodollar deposits in an amount equal to the unpaid principal balance of this Note not subject to a LIBOR Tranche Election are not readily available in the London Inter-Bank Offered Rate Market, (C) by reason of circumstances affecting the London Inter-Bank Offered Rate Market or other economic conditions, adequate and reasonable methods do not exist for ascertaining (1) the rate of interest applicable to such deposits for the proposed LIBOR Tranche Interest Period or, as applicable, (2) the Daily LIBOR Rate, or (D) the Tranche LIBOR Rate or, as applicable, the Daily LIBOR Rate as determined by Lender will not adequately and fairly reflect the cost to Lender of making or maintaining the unpaid principal balance of this Note at an interest rate based on the Tranche LIBOR Rate or, as applicable, the Daily LIBOR Rate, or

(iii) an Event of Default exists:

(1) Lender may, by written notice to Borrowers, declare Lender's obligations in respect of the Tranche LIBOR Rate and the Daily LIBOR Rate, as applicable, to be immediately terminated (an "Immediate LIBOR Rate Termination"), and (2) upon such Immediate LIBOR Rate Termination, (x) the Tranche LIBOR Rate and the Daily LIBOR Rate, as applicable, with respect to Lender shall cease to be in effect and (y) the unpaid principal balance of this Note shall bear interest from and after such notice at a floating rate equal to the rate of interest per annum established from time to time by Lender at its principal office as its "Prime Rate" (the "Prime Rate") plus 1.0% (it being understood by Borrowers that such Prime Rate is established for reference purposes only and not as Lender's best loan rate) or such other rate of interest as may be agreed to between Lender and Borrowers.

Any adjustment in the Interest Rate resulting from a change in Lender's Prime Rate shall become effective as of the opening of business on the date of change (or if not a Business Day, the beginning of the day). Interest based on the Prime Rate shall be calculated based on a 360-day year and charged for the actual number of days elapsed, and shall be payable in arrears on the first day of each calendar month.

Maximum Rate. In no event shall the Interest Rate provided for hereunder, together with all fees and charges as provided for herein or in any other Loan Document which are treated as interest under applicable law (collectively with interest, the "Charges"), exceed the maximum rate legally chargeable by Lender under applicable law for loans of the type provided for hereunder (the "Maximum Rate"). If, in any month, the Charges, absent such limitation, would have exceeded the Maximum Rate, then the Charges for that month shall be at the Maximum Rate, and, if in future months, such Charges would otherwise be less than the Maximum Rate, then such Charges shall remain at the Maximum Rate until such time as the amount of Charges paid hereunder and under the other Loan Documents equals the amount of Charges which would have been paid if the same had not been limited by the Maximum Rate. In the event that, upon payment in full of the Obligations, the total amount of Charges paid or accrued in respect of the Indebtedness evidenced by this Note and the other Obligations is less than the total amount of Charges which would, but for this paragraph, have been paid or accrued if the Charges otherwise set forth in this Note and in the other Loan Documents had at all times been in effect, then Borrowers shall, to the extent permitted by applicable law, pay to Lender an amount equal to the difference between: (a) the lesser of: (i) the amount of Charges which would have been charged if the Maximum Rate had, at all times, been in effect or (ii) the amount of Charges which would have accrued had such Charges otherwise provided for in this Note and in the other Loan Documents at all times been in effect and (b) the amount of Charges actually paid or accrued in respect of the Indebtedness evidenced by this Note or any of the other Loan Documents. In the event that a court of competent jurisdiction determines that Lender has received any Charges in respect of the Indebtedness evidenced by this Note and the other Loan Documents in excess of the Maximum Rate, such excess shall be deemed received on account of, and shall automatically be applied to reduce, the Obligations owed to Lender other than any Charges, in the inverse order of maturity, and if there are no Obligations to Lender outstanding, Lender shall refund to Borrowers (or to such Person to which Lender is directed by a court of competent jurisdiction) such excess.

Use of Proceeds. Borrowers certify that the proceeds of the Revolving Loans have been, and will be, used for the purposes set forth in the Credit Agreement.

Default Rate; Fees. To the extent any payment is not made within 15 days after the date when due under this Note and, at or before the end of such 15-day period, there was insufficient Revolving Loan Availability to charge the full amount of such payment to the loan account with Lender as an advance of the Revolving Loans, Borrowers shall pay to Lender a late payment fee equal to two percent (2%) of that portion of any payment not paid when due (whether by maturity, acceleration or otherwise). After the occurrence and during the continuation of an Event of Default, Borrowers agree that Lender may, without notice, increase the Interest Rate by an additional 2.0% per annum (the "Default Rate"); *provided* that this paragraph shall not be deemed to constitute a waiver of any Event of Default or an agreement by Lender to permit any late payments whatsoever.

Prepayment. Borrowers will make each mandatory prepayment of the principal of this Note required by the Credit Agreement. Subject to Section 6.4(b) of the Credit Agreement, Borrowers may prepay all of this Note at any time;*provided* that if any prepayment results in any LIBOR Breakage Fee, Borrowers will pay such LIBOR Breakage Fee due in accordance with this Note.

Entire Agreement. Borrowers agree that there are no conditions or understandings which are not expressed in this Note or the other Loan Documents.

Severability. If any provision of this Note is held to be invalid by a court of competent jurisdiction in a final order, the invalid provision will, subject to the provisions of this Note with respect to the Maximum Rate, be deemed severed from this Note and shall not affect any part of the remainder of the provisions of this Note.

Joint Obligations. All of the obligations of Borrowers hereunder are joint, several and primary. No Borrower shall be or be deemed to be an accommodation party with respect to this Note.

Assignment. Borrowers agree not to assign any of any Borrower's rights, remedies or obligations described in this Note without the prior written consent of Lender, which consent may be withheld in Lender's sole discretion. Borrowers agree that Lender may assign some or all of its rights and remedies described in this Note without prior consent from Borrowers, *provided* that Lender will promptly notify Borrowers of a total assignment of this Note.

Prior Note. This Note is issued, not as a refinancing or refunding of or payment toward, but as a continuation of, the Obligations of Borrowers to Lender pursuant to that certain Fifth Amended and Restated Revolving Credit Promissory Note dated as of December 31, 2009 in the principal amount of $20,000,000 (as amended, and together with all prior amendments thereto or restatements thereof, the "Prior Note"), together with any and all additional Revolving Loans incurred under this Note; *provided* that the unpaid principal balance of such Indebtedness under the Prior Note, together with any and all such additional Revolving Loans incurred under this Note, shall not exceed the maximum principal amount of this Note (the "Principal Amount Cap"). Accordingly, this Note shall not be construed as a novation or extinguishment of the Obligations arising under the Prior Note, and its issuance shall not affect the priority of any Lien granted in connection with the Prior Note. Interest accrued under the Prior Note prior to the date of this Note remains accrued and unpaid under this Note and does not constitute any part of the principal amount of the Indebtedness evidenced hereby. The entire unpaid principal balance created or existing under, pursuant to, as a result of, or arising out of, the Prior Note shall, together with any and all additional Revolving Loans incurred under this Note, continue in existence under this Note up to the Principal Amount Cap, which Obligations Borrowers acknowledge, affirm, and confirm to Lender. The Indebtedness evidenced by this Note will continue to be secured by all of the collateral and other security granted to Lender under the Prior Note and the other Loan Documents.

Modification; Waiver of Lender. The modification or waiver of any of Borrowers' obligations or Lender's rights under this Note must be contained in a writing signed by Lender and Borrowers. Lender may perform a Borrower's obligations, or delay or fail to exercise any of Lender's rights or remedies, without causing a waiver of those obligations or rights. A waiver on one occasion shall not constitute a waiver on another occasion. Borrowers' obligations under this Note shall not be affected if Lender amends, compromises, exchanges, fails to exercise, impairs or releases: (i) any of the obligations belonging to any co-borrower, indorser or guarantor, (ii) any of its rights against any co-borrower, guarantor or indorser, or (iii) any of the Loan Collateral.

Waivers of Borrowers. To the extent not prohibited by law or required by the Credit Agreement, demand, presentment, protest and notice of dishonor, notice of protest and notice of default are hereby waived by each Borrower, and any indorser or guarantor hereof. Borrowers and all co-makers and accommodation makers of this Note hereby waive all suretyship defenses, including, but not limited to, all defenses based upon impairment of collateral and all suretyship defenses described in Section 3-605 of the Uniform Commercial Code (the "UCC"). Such waiver is entered to the fullest extent permitted by Section 3-605 of the UCC.

Governing Law; Consent to Jurisdiction. This Note is delivered in, is intended to be performed in, will be construed and enforceable in accordance with and governed by the internal laws of, the State of Ohio, without regard to principles of conflicts of law. Each Borrower agrees that the state and federal courts in Hamilton County, Ohio shall, at Lender's sole option, have exclusive jurisdiction over all matters arising out of this Note, WITHOUT LIMITATION ON THE ABILITY OF LENDER, ITS SUCCESSORS AND ASSIGNS, TO INITIATE AND PROSECUTE IN ANY APPLICABLE JURISDICTION ACTIONS RELATED TO THE REPAYMENT AND COLLECTION OF THE OBLIGATIONS AND THE EXERCISE OF ALL OF LENDER'S RIGHTS AGAINST EACH BORROWER WITH RESPECT THERETO AND ANY SECURITY OR PROPERTY OF EACH BORROWER, INCLUDING, WITHOUT LIMITATION, DISPOSITIONS OF THE LOAN COLLATERAL, and that service of process in any such proceeding shall be effective if mailed to Borrowers in accordance with the Credit Agreement.

**JURY WAIVER. EACH BORROWER, ANY INDORSER OR GUARANTOR HEREOF, AND LENDER WAIVE THE RIGHT TO A TRIAL BY JURY OF ANY MATTERS ARISING OUT OF THIS NOTE OR THE TRANSACTIONS CONTEMPLATED HEREBY.**

[*Signature Page Follows*]

IN WITNESS WHEREOF, each Borrower has executed this Note by its duly authorized officer as of the date first above written.

**CECO FILTERS, INC.**
**NEW BUSCH CO., INC.**
**THE KIRK & BLUM MANUFACTURING COMPANY**
**KBD/TECHNIC, INC.**
**CECOAIRE, INC.**
**CECO ABATEMENT SYSTEMS, INC.**
**EFFOX INC., formerly known as CECO Acquisition Corp.**
**FISHER-KLOSTERMAN, INC., formerly known as FKI Acquisition Corp.**
**H.M. WHITE, INC.**
**GMD ENVIRONMENTAL TECHNOLOGIES, INC., formerly known as GMD Acquisition Corp.**
**AVC, INC.**

By: _____
Dennis W. Blazer, Secretary and Treasurer

SIGNATURE PAGE TO
SIXTH AMENDED AND RESTATED REVOLVING CREDIT PROMISSORY NOTE
(Amended and Restated Credit Agreement)

**EXHIBIT 2.2**

(Tem Loan Note C)

*See attached.*

EXECUTION VERSION

**A FIFTH THIRD BANCORP BANK**

AMENDED AND RESTATED TERM PROMISSORY NOTE
(TERM LOAN C)

OFFICER NO. 4048 NOTE No. _____

$1,978,466.70 February 29, 2008
First Amendment and Restatement March 31, 2009
Second Amendment and Restatement December 31, 2009
Third Amendment and Restatement June 30, 2010
(Effective Date)

Promise to Pay. On or before April 1, 2014 (the "Maturity Date"), the undersigned, CECO FILTERS, INC., a Delaware corporation, NEW BUSCH CO., INC., a Delaware corporation, THE KIRK & BLUM MANUFACTURING COMPANY, an Ohio corporation, KBD/TECHNIC, INC., an Indiana corporation, CECOAIRE, INC., a Delaware corporation, CECO ABATEMENT SYSTEMS, INC., a Delaware corporation, H.M. WHITE, INC., a Delaware corporation, EFFOX INC., formerly known as CECO Acquisition Corp., a Delaware corporation, GMD ENVIRONMENTAL TECHNOLOGIES, INC., formerly known as GMD Acquisition Corp., a Delaware corporation, FISHER-KLOSTERMAN INC., formerly known as FKI Acquisition Corp., a Delaware corporation, and AVC, INC., a Delaware corporation (each, a "Borrower", and, collectively, the "Borrowers"), for value received, hereby jointly and severally promise to pay to the order of FIFTH THIRD BANK, an Ohio banking corporation (together with its successors and assigns, "Lender"), at 38 Fountain Square Plaza, MD #10AT63, Cincinnati, Ohio 45263, or such other address as Lender may provide from time to time, the sum of ONE MILLION NINE HUNDRED SEVENTY-EIGHT THOUSAND FOUR HUNDRED SIXTY-SIX AND 70/100 Dollars ($1,978,466.70), plus interest as provided herein. The outstanding balance of this Amended and Restated Term Promissory Note (this "Note") shall appear on supplemental bank records and is not necessarily the face amount of this Note, which records shall evidence the balance due pursuant to this Note at any time. As used herein, "Local Time" means the time at the office of Lender specified in this Note.

Notwithstanding the Effective Date of this Note of June 30, 2010, the unpaid principal balance of this Note reflects: (i) a principal payment made by Borrowers on or about July 1, 2010 in an amount equal to $26,885.72 in accordance with the Prior Note and (ii) a principal payment made by Borrowers on or about August 1, 2010 in an amount equal to $26,885.72 in accordance with the Prior Note.

This Note shall be subject to the terms and conditions of the Amended and Restated Credit Agreement dated as of even date herewith (as amended and as the same may be further amended, renewed, consolidated, restated or replaced from time to time, the "Credit Agreement"). Capitalized terms used herein which are not otherwise defined in this Note shall have the meanings set forth in the Credit Agreement. This Note is entitled to the benefits and security of the Credit Agreement, including, without limitation, acceleration upon the terms provided therein, and of the other Loan Documents.

Borrowers shall make principal payments (each a "Scheduled Payment") in the amount of $26,885.72 each, commencing on September 1, 2010 and continuing on the first day of each and every calendar month thereafter until this Note has been paid in full.

The entire unpaid principal balance of this Note, together with all accrued and unpaid interest and any other charges, advances and fees, if any, outstanding hereunder, shall be due and payable in full on the earlier of the Maturity Date or upon acceleration of the Indebtedness evidenced by this Note, notwithstanding any other inconsistent or contradictory provisions contained in this Note. No part of the Indebtedness evidenced by this Note may, on the repayment thereof, be redrawn or reborrowed by Borrowers.

Upon the occurrence and during the continuance of any Event of Default, the entire unpaid principal balance of this Note, together with all accrued but unpaid interest, and all other Obligations, shall, at Lender's option, become immediately due and payable, except that if there occurs an Event of Default of the type described in Sections 6.1(d), 6.1(e), or 6.1(j) of the Credit Agreement, the entire unpaid principal balance of this Note, together with all accrued but unpaid interest, and all other Obligations shall become automatically and immediately due and payable without notice, which Borrowers hereby waive.

Interest. Principal amounts outstanding under this Note shall bear interest commencing on the Effective Date at the rate or rates per annum set forth below, which rate or rates shall be designated by Borrowers as more fully set forth herein (the "Interest Rate").

On and after the Effective Date, at any time and from time to time during the term of this Note, so long as no Event of Default has occurred and is continuing and so long as such outstanding principal amounts hereunder are not then subject to a LIBOR Tranche Election, Borrowers may exercise their right to adjust the Interest Rate on amounts of principal outstanding under this Note to one of the rates set forth below upon notice to Lender as set forth below; *provided, however*, that once the Interest Rate accruing against any amounts outstanding hereunder is adjusted to a Tranche LIBOR Rate for a particular LIBOR Tranche Interest Period, Borrowers may not elect to adjust such Interest Rate to a different Interest Rate until the expiration of such LIBOR Tranche Interest Period.

(a) Tranche LIBOR Rate. Upon telephonic notice to Lender by 10:00 a.m. Local Time given at least two Business Days prior to the beginning of a LIBOR Tranche Interest Period, Borrowers may, subject to the terms of this Note, elect to have a portion or portions of the unpaid principal balance of this Note bear interest at a rate per annum equal to the Tranche LIBOR Rate (as defined herein) plus the Applicable Tranche LIBOR Rate Margin (as defined herein) (a "LIBOR Tranche Election"). The "Tranche LIBOR Rate" is the rate of interest (rounded upwards, if necessary, to the next 1/8 of 1% and adjusted for reserves if Lender is required to maintain reserves with respect to portions of this Note subject to a LIBOR Tranche Election) fixed by the British Bankers' Association at 11:00 a.m., London, England time, relating to quotations for the one month, two month, or three month London InterBank Offered Rates, as selected by Borrowers in their LIBOR Tranche Election, on U.S. Dollar deposits as published on Bloomberg LP, or, if no longer provided by Bloomberg LP, such rate as shall be determined in good faith by Lender from such sources as Lender shall determine to be comparable to Bloomberg LP (or any successor) as determined by Lender at approximately 10:00 a.m. Local Time on the date of

request by Borrowers. Notwithstanding anything to the contrary contained in this Note, at any time during which a Rate Management Agreement with Lender is then in effect with respect to any Tranche LIBOR Rate Loan under this Note, the provision contained in the immediately preceding sentence that rounds up the Tranche LIBOR Rate to the next 1/8 of 1% (as set forth in the definition of "Tranche LIBOR Rate" set forth above) shall be disregarded and no longer of any force and effect with respect to such Tranche LIBOR Rate Loan that is subject to such Rate Management Agreement. Each determination by Lender of the Tranche LIBOR Rate shall be conclusive in the absence of manifest error. Interest accruing based on the Tranche LIBOR Rate shall be: (i) calculated based on a 360-day year and charged for the actual number of days elapsed and (ii) payable in arrears on the last day of the applicable LIBOR Tranche Interest Period. The Interest Rate applicable to a particular LIBOR Tranche Election shall remain at the rate elected for the remainder of the subject LIBOR Tranche Interest Period.

The "LIBOR Tranche Interest Period" for each portion or portions of the unpaid principal balance of this Note bearing interest with respect to the Tranche LIBOR Rate (each such portion or portions, a "Tranche LIBOR Rate Loan") is a period of one month, two months, or three months, at Borrowers' election, which period shall commence on a Business Day selected by Borrowers subject to the terms of this Note. If a LIBOR Tranche Interest Period would otherwise end on a day that is not a Business Day, such LIBOR Tranche Interest Period shall end on the next succeeding Business Day; *provided* that, if the next succeeding Business Day falls in a new month, such LIBOR Tranche Interest Period shall end on the immediately preceding Business Day.

On or before the date that is two Business Days before the making of any Tranche LIBOR Rate Loan, and on or before the date which is two Business Days prior to the expiration of any applicable LIBOR Tranche Interest Period, Borrowers shall notify Lender of each of the following: (a) the LIBOR Tranche Interest Period Borrowers have elected regarding any such Tranche LIBOR Rate Loan or any continuation of a LIBOR Tranche Election with respect to a Tranche LIBOR Rate Loan, (b) the amount of each such Tranche LIBOR Rate Loan or continuation, and (c) the commencement date of each LIBOR Tranche Interest Period. Borrowers may have Tranche LIBOR Rate Loans in minimum amounts of $1,000,000 (and integral multiples of $100,000) and such Tranche LIBOR Rate Loans may bear interest at the applicable Interest Rate for different LIBOR Tranche Interest Periods so long as (i) the last day of any LIBOR Tranche Interest Period does not exceed the Maturity Date hereof; (ii) no LIBOR Tranche Election with respect to any Tranche LIBOR Rate Loan commences prior to the expiration of the applicable LIBOR Tranche Interest Period in effect with respect to such Tranche LIBOR Rate Loan; and (iii) at no time may Borrowers have more than three outstanding Tranche LIBOR Rate Loans, in the aggregate, under all of their Notes. If, at any time during the term hereof, Borrowers fail to designate a LIBOR Tranche Interest Period or if Borrowers have not elected another LIBOR Tranche Interest Period in accordance with this Note at least two Business Days prior to the expiration of the LIBOR Tranche Interest Period then in effect, Lender may assume that Borrowers have elected to have the principal amount applicable to such expiring LIBOR Tranche Interest Period accrue interest based on the Daily LIBOR Rate.

(b) Daily LIBOR Rate. All amounts outstanding under this Note, as of any date, which are not then subject to a LIBOR Tranche Election, will automatically bear interest at a floating rate equal to the Daily LIBOR Rate plus the Applicable Daily LIBOR Rate Margin (as defined below). As used herein, "Daily LIBOR Rate" means the rate of interest (rounded upwards, if necessary, to the

next 1/8 of 1% and adjusted for reserves if Lender is required to maintain reserves with respect to portions of this Note bearing interest based upon the Daily LIBOR Rate) fixed by the British Bankers' Association at 11:00 a.m., London, England time, relating to quotations for the one month London InterBank Offered Rate on U.S. Dollar deposits as published on Bloomberg LP, or, if no longer provided by Bloomberg LP, such rate as shall be determined in good faith by Lender from such sources as Lender shall determine to be comparable to Bloomberg LP (or any successor) as determined by Lender at approximately 10:00 a.m. Local Time on the relevant date of determination. Notwithstanding anything to the contrary contained in this Note, at any time during which a Rate Management Agreement with Lender is then in effect with respect to any Daily LIBOR Rate Loan under this Note, the provision contained in the immediately preceding sentence that rounds up the Daily LIBOR Rate to the next 1/8 of 1% (as set forth in the definition of "Daily LIBOR Rate" set forth above) shall be disregarded and no longer of any force and effect with respect to such Daily LIBOR Rate Loan subject to such Rate Management Agreement. Each determination by Lender of the Daily LIBOR Rate shall be conclusive in the absence of manifest error. The Daily LIBOR Rate shall be reset each Business Day by Lender based on the Daily LIBOR Rate then in effect. Any adjustment in the Interest Rate resulting from a change in the Daily LIBOR Rate shall become effective as of the opening of business on the date of each change (or if not a Business Day, the beginning of the day). Lender shall not be required to notify Borrowers of any adjustment in the Daily LIBOR Rate; *however,* Borrowers may request a quote of the prevailing Daily LIBOR Rate on any Business Day. Interest accruing based on the Daily LIBOR Rate shall be: (i) calculated based on a 360-day year and charged for the actual number of days elapsed and (ii) payable in arrears on the first day of each calendar month.

(c) Pricing Grid. As used herein, the terms "Applicable Daily LIBOR Rate Margin" and "Applicable Tranche LIBOR Rate Margin" (hereafter sometimes collectively referred to as the "Applicable Margins") mean, as of any date, the applicable per annum rate shown in the applicable column in the table below based on the then applicable Fixed Charge Coverage Ratio. "Fixed Charge Coverage Ratio" has the meaning given in the Credit Agreement.

| Pricing Grid Level | Fixed Charge Coverage Ratio | Applicable Daily LIBOR Rate Margin | Applicable Tranche LIBOR Rate Margin |
|---|---|---|---|
| Level 1 | £ 1.50 to 1.0 | 4.25% | 3.75% |
| Level 2 | > 1.50 to 1.0 and £ 2.0 to 1.0 | 4.00% | 3.50% |
| Level 3 | > 2.0 to 1.0 | 3.75% | 3.25% |

For purposes of determining the Applicable Margins: the Fixed Charge Coverage Ratio will, on and after the First Pricing Grid Determination Date, be determined (i) as of June 30th and December 31st of each Fiscal Year ending on and after the First Pricing Grid Determination Date (each such date being a "Determination Date") and (ii) in the same manner used to determine the Fixed Charge Coverage Ratio set forth in Section 5.10 of the Credit Agreement. The "First Pricing Grid Determination Date" that occurs under this Note will be December 31, 2010. On Lender's receipt of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of the Credit Agreement for the applicable Fiscal Quarter or Fiscal Year then ended, the Interest Rate will be subject to adjustment in accordance with the table set forth above in this subparagraph (c) based on the then Fixed Charge Coverage Ratio as of the end of such Fiscal Quarter or Fiscal Year then ended so

long as no Event of Default is existing as of the applicable effective date of adjustment. The foregoing adjustment, if applicable, will become effective for LIBOR Tranche Elections made with respect to the portion or portions of the unpaid principal balance of this Note and the unpaid principal balance of this Note accruing interest based on the Daily LIBOR Rate, on and after the first day of the first calendar month following delivery to Lender of the financial statements and Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of the Credit Agreement for the applicable Fiscal Quarter or Fiscal Year then ended until the next succeeding effective date of adjustment pursuant to this subparagraph (c). Each of the financial statements and Compliance Certificate required to be delivered to Lender must be delivered to Lender in compliance with Section 4.3 of the Credit Agreement. If, however, either the financial statements or the Compliance Certificate required to be delivered to Lender pursuant to Sections 4.3(a), 4.3(b) and 4.3(d) (as applicable) of the Credit Agreement have not been delivered in accordance with Section 4.3 of the Credit Agreement, then, at Lender's option, commencing on the date upon which such financial statements or Compliance Certificate should have been delivered in accordance with Section 4.3 of the Credit Agreement and continuing until such financial statements or Compliance Certificate are actually delivered in accordance with Section 4.3 of the Credit Agreement, it shall be assumed for purposes of determining the Applicable Margins, that the Fixed Charge Coverage Ratio was £ 1.50 to 1.0 and the pricing associated therewith (*i.e.,* Pricing Grid Level 1) will be applicable on the then applicable Determination Date. As of the Effective Date of this Note, the Applicable Daily LIBOR Rate Margin is 4.25% per annum and the Applicable Tranche LIBOR Rate Margin is 3.75% (i.e., Pricing Grid Level 1).

(d) LIBOR Rate Costs. Borrowers hereby agree to reimburse and indemnify Lender from all costs or fees incurred by Lender subsequent to the date hereof relating to the offering of rates of interest based upon the Tranche LIBOR Rate and Daily LIBOR Rate. Without limiting the generality of the foregoing, if any change in any law, regulation or official directive, or in the interpretation thereof, by any governmental body charged with the administration thereof, shall:

(i) increase the cost to Lender, by an amount which Lender deems to be material, of making, converting into, continuing or maintaining Tranche LIBOR Rate Loans or Daily LIBOR Rate Loans, as applicable, or to reduce any amount receivable hereunder in respect thereof, or

(ii) have the effect of reducing the rate of return on Lender's capital as a consequence of its obligations hereunder to a level below that which Lender could have achieved but for such change by an amount deemed by Lender to be material,

then, in any such case, after submission by Lender to Borrowers of a written request therefor, Borrowers shall pay Lender any additional amounts necessary to compensate Lender for such increased cost or reduction. Lender agrees that, upon the occurrence of any event giving rise to the operation of this paragraph, it will use reasonable efforts to designate another lending office (if possible) for any Tranche LIBOR Rate Loans or Daily LIBOR Rate Loans affected by such event with the object of avoiding the consequences of such event; provided that no such designation shall be required unless such designation can be made on terms that, in the reasonable judgment of Lender, cause Lender and its lending office(s) to suffer no material economic, legal or regulatory disadvantage.

In addition, if any amount as to which a LIBOR Tranche Election is in effect is repaid on a day other than the last day of the applicable LIBOR Tranche Interest Period, or becomes payable on a day other than the last day of the applicable LIBOR Tranche Interest Period due to acceleration or otherwise, Borrowers, whether or not a debtor in a proceeding under Title 11, United States Code, shall pay, on demand by Lender, such amount (as determined by Lender) as is required to compensate Lender for any losses, costs or expenses ("LIBOR Breakage Fee"), which Lender may incur as a result of such payment or acceleration, including, without limitation, any loss, cost or expense (including loss of profit) incurred by reason of liquidation or reemployment of deposits or other funds acquired by Lender to fund or maintain such amount bearing interest with respect to the Tranche LIBOR Rate.

A certificate of Lender setting forth the amount or amounts necessary to compensate Lender as specified in this paragraph (d) and delivered to Borrowers shall be conclusive absent manifest error. Borrowers shall pay Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(e) Availability of Tranche LIBOR Rate and Daily LIBOR Rate. Notwithstanding anything herein contained to the contrary, if:

(i) any change in any law, regulation or official directive, or in the interpretation thereof, by any governmental body charged with the administration thereof, shall make it unlawful for Lender to fund or maintain its funding in Eurodollars of any portion of unpaid principal balance of this Note subject to the Tranche LIBOR Rate or the Daily LIBOR Rate, as applicable, or otherwise to give effect to Lender's obligations as contemplated hereby, or

(ii) Lender, by telephonic notice, shall notify Borrowers that: (A) with respect to Tranche LIBOR Rate Loans, Eurodollar deposits with a maturity corresponding to the maturity of the LIBOR Tranche Interest Period, in an amount equal to the portion or portions of the unpaid principal balance of this Note to be subject to the LIBOR Tranche Election are not readily available in the London Inter-Bank Offered Rate Market, (B) with respect to Daily LIBOR Rate Loans, one-month Eurodollar deposits in an amount equal to the unpaid principal balance of this Note not subject to a LIBOR Tranche Election are not readily available in the London Inter-Bank Offered Rate Market, (C) by reason of circumstances affecting the London Inter-Bank Offered Rate Market or other economic conditions, adequate and reasonable methods do not exist for ascertaining (1) the rate of interest applicable to such deposits for the proposed LIBOR Tranche Interest Period or, as applicable, (2) the Daily LIBOR Rate, or (D) the Tranche LIBOR Rate or, as applicable, the Daily LIBOR Rate as determined by Lender will not adequately and fairly reflect the cost to Lender of making or maintaining the unpaid principal balance of this Note at an interest rate based on the Tranche LIBOR Rate or, as applicable, the Daily LIBOR Rate, or

(iii) an Event of Default exists:

(1) Lender may, by written notice to Borrowers, declare Lender's obligations in respect of the Tranche LIBOR Rate and the Daily LIBOR Rate, as applicable, to be immediately terminated (an "Immediate LIBOR Rate Termination"), and (2) upon such Immediate LIBOR Rate Termination, (x) the Tranche LIBOR Rate and the Daily LIBOR Rate, as applicable, with respect to Lender shall cease to be in effect and (y) the unpaid principal balance of this Note shall bear interest from and after such notice at a floating rate equal

to the rate of interest per annum established from time to time by Lender at its principal office as its "Prime Rate" (the "Prime Rate") plus 1.0% (it being understood by Borrowers that such Prime Rate is established for reference purposes only and not as Lender's best loan rate) or such other rate of interest as may be agreed to between Lender and Borrowers.

Any adjustment in the Interest Rate resulting from a change in Lender's Prime Rate shall become effective as of the opening of business on the date of change (or if not a Business Day, the beginning of the day). Interest based on the Prime Rate shall be calculated based on a 360-day year and charged for the actual number of days elapsed, and shall be payable in arrears on the first day of each calendar month.

Maximum Rate. In no event shall the Interest Rate provided for hereunder, together with all fees and charges as provided for herein or in any other Loan Document which are treated as interest under applicable law (collectively with interest, the "Charges"), exceed the maximum rate legally chargeable by Lender under applicable law for loans of the type provided for hereunder (the "Maximum Rate"). If, in any month, the Charges, absent such limitation, would have exceeded the Maximum Rate, then the Charges for that month shall be at the Maximum Rate, and, if in future months, such Charges would otherwise be less than the Maximum Rate, then such Charges shall remain at the Maximum Rate until such time as the amount of Charges paid hereunder and under the other Loan Documents equals the amount of Charges which would have been paid if the same had not been limited by the Maximum Rate. In the event that, upon payment in full of the Obligations, the total amount of Charges paid or accrued in respect of the Indebtedness evidenced by this Note and the other Obligations is less than the total amount of Charges which would, but for this paragraph, have been paid or accrued if the Charges otherwise set forth in this Note and in the other Loan Documents had at all times been in effect, then Borrowers shall, to the extent permitted by applicable law, pay to Lender an amount equal to the difference between: (a) the lesser of: (i) the amount of Charges which would have been charged if the Maximum Rate had, at all times, been in effect or (ii) the amount of Charges which would have accrued had such Charges otherwise provided for in this Note and in the other Loan Documents at all times been in effect and (b) the amount of Charges actually paid or accrued in respect of the Indebtedness evidenced by this Note or any of the other Loan Documents. In the event that a court of competent jurisdiction determines that Lender has received any Charges in respect of the Indebtedness evidenced by this Note and the other Loan Documents in excess of the Maximum Rate, such excess shall be deemed received on account of, and shall automatically be applied to reduce, the Obligations owed to Lender other than any Charges, in the inverse order of maturity, and if there are no Obligations to Lender outstanding, Lender shall refund to Borrowers (or to such Person to which Lender is directed by a court of competent jurisdiction) such excess.

Use of Proceeds. Borrowers certify that the proceeds of Term Loan C have been used for the purposes set forth in the Credit Agreement.

Default Rate; Fees. To the extent any payment is not made within 15 days after the date when due under this Note and, at or before the end of such 15-day period, there was insufficient Revolving Loan Availability to charge the full amount of such payment to the loan account with Lender as an advance of the Revolving Loans, Borrowers shall pay to Lender a late payment fee equal to two

percent (2%) of that portion of any payment not paid when due (whether by maturity, acceleration or otherwise). After the occurrence and during the continuation of an Event of Default, Borrowers agree that Lender may, without notice, increase the Interest Rate by an additional 2.0% per annum (the "Default Rate"); *provided* that this paragraph shall not be deemed to constitute a waiver of any Event of Default or an agreement by Lender to permit any late payments whatsoever.

Prepayment. In addition to the Scheduled Payments set forth in this Note, Borrowers will make each mandatory prepayment of the principal of this Note required by the Credit Agreement, including, without limitation, the mandatory prepayments of the principal of this Note in the form of Excess Cash Flow Payments in the manner and to the extent set forth in the Credit Agreement. Subject to Section 6.4(b) of the Credit Agreement, Borrowers may prepay all of this Note at any time;*provided* that if any prepayment results in any LIBOR Breakage Fee, Borrowers will pay such LIBOR Breakage Fee due in accordance with this Note.

Entire Agreement. Borrowers agree that there are no conditions or understandings which are not expressed in this Note or the other Loan Documents.

Severability. If any provision of this Note is held to be invalid by a court of competent jurisdiction in a final order, the invalid provision will, subject to the provisions of this Note with respect to the Maximum Rate, be deemed severed from this Note and shall not affect any part of the remainder of the provisions of this Note.

Joint Obligations. All of the obligations of Borrowers hereunder are joint, several and primary. No Borrower shall be or be deemed to be an accommodation party with respect to this Note.

Assignment. Borrowers agree not to assign any of any Borrower's rights, remedies or obligations described in this Note without the prior written consent of Lender, which consent may be withheld in Lender's sole discretion. Borrowers agree that Lender may assign some or all of its rights and remedies described in this Note without prior consent from Borrowers, *provided* that Lender will promptly notify Borrowers of a total assignment of this Note.

Prior Note. This Note is issued, not as a refinancing or refunding of or payment toward, but as a continuation of, the Obligations of Borrowers to Lender pursuant to that certain Amended and Restated Term Promissory Note dated as of December 31, 2009 in the original principal amount of $2,139,781.02 (as amended, and together with all prior amendments thereto or restatements thereof, the "Prior Note"). Accordingly, this Note shall not be construed as a novation or extinguishment of the Obligations arising under the Prior Note, and its issuance shall not affect the priority of any Lien granted in connection with the Prior Note. Interest accrued under the Prior Note prior to the date of this Note remains accrued and unpaid under this Note and does not constitute any part of the principal amount of the Indebtedness evidenced hereby. The entire unpaid principal balance created or existing under, pursuant to, as a result of, or arising out of, the Prior Note shall continue in existence under this Note, which Obligations Borrowers acknowledge, affirm, and confirm to Lender. The Indebtedness evidenced by this Note will continue to be secured by all of the collateral and other security granted to Lender under the Prior Note and the other Loan Documents.

Modification; Waiver of Lender. The modification or waiver of any of Borrowers' obligations or Lender's rights under this Note must be contained in a writing signed by Lender and Borrowers. Lender may perform a Borrower's obligations, or delay or fail to exercise any of Lender's rights or remedies, without causing a waiver of those obligations or rights. A waiver on one occasion shall not constitute a waiver on another occasion. Borrowers' obligations under this Note shall not be affected if Lender amends, compromises, exchanges, fails to exercise, impairs or releases: (i) any of the obligations belonging to any co-borrower, indorser or guarantor, (ii) any of its rights against any co-borrower, guarantor or indorser, or (iii) any of the Loan Collateral.

Waivers of Borrowers. To the extent not prohibited by law or required by the Credit Agreement, demand, presentment, protest and notice of dishonor, notice of protest and notice of default are hereby waived by each Borrower, and any indorser or guarantor hereof. Borrowers and all co-makers and accommodation makers of this Note hereby waive all suretyship defenses, including, but not limited to, all defenses based upon impairment of collateral and all suretyship defenses described in Section 3-605 of the Uniform Commercial Code (the "UCC"). Such waiver is entered to the fullest extent permitted by Section 3-605 of the UCC.

Governing Law; Consent to Jurisdiction. This Note is delivered in, is intended to be performed in, will be construed and enforceable in accordance with and governed by the internal laws of, the State of Ohio, without regard to principles of conflicts of law. Each Borrower agrees that the state and federal courts in Hamilton County, Ohio shall, at Lender's sole option, have exclusive jurisdiction over all matters arising out of this Note, WITHOUT LIMITATION ON THE ABILITY OF LENDER, ITS SUCCESSORS AND ASSIGNS, TO INITIATE AND PROSECUTE IN ANY APPLICABLE JURISDICTION ACTIONS RELATED TO THE REPAYMENT AND COLLECTION OF THE OBLIGATIONS AND THE EXERCISE OF ALL OF LENDER'S RIGHTS AGAINST EACH BORROWER WITH RESPECT THERETO AND ANY SECURITY OR PROPERTY OF EACH BORROWER, INCLUDING, WITHOUT LIMITATION, DISPOSITIONS OF THE LOAN COLLATERAL, and that service of process in any such proceeding shall be effective if mailed to Borrowers in accordance with the Credit Agreement.

**JURY WAIVER. EACH BORROWER, ANY INDORSER OR GUARANTOR HEREOF, AND LENDER WAIVE THE RIGHT TO A TRIAL BY JURY OF ANY MATTERS ARISING OUT OF THIS NOTE OR THE TRANSACTIONS CONTEMPLATED HEREBY.**

[*Signature Page Follows*]

IN WITNESS WHEREOF, each Borrower has executed this Note by its duly authorized officer as of the date first above written.

**CECO FILTERS, INC.**
**NEW BUSCH CO., INC.**
**THE KIRK & BLUM MANUFACTURING COMPANY**
**KBD/TECHNIC, INC.**
**CECOAIRE, INC.**
**CECO ABATEMENT SYSTEMS, INC.**
**EFFOX INC., formerly known as CECO Acquisition Corp.**
**FISHER-KLOSTERMAN, INC., formerly known as FKI Acquisition Corp.**
**H.M. WHITE, INC.**
**GMD ENVIRONMENTAL TECHNOLOGIES, INC., formerly known as GMD Acquisition Corp.**
**AVC, INC.**

By: _____
Dennis W. Blazer, Secretary and Treasurer

SIGNATURE PAGE TO
AMENDED AND RESTATED TERM PROMISSORY NOTE
(Amended and Restated Credit Agreement)
(Term Loan C)

**EXHIBIT 4.3(d)**

**(Officer's Compliance Certificate)**

**For the [Quarterly] [Annual] Period**
**from _____, 20__**
**to _____, 20__**

To: Fifth Third Bank pursuant to that certain Amended and Restated Credit Agreement dated to be effective as of June 30, 2010, as amended from time to time (as amended, the "Credit Agreement") by and among Fifth Third Bank and CECO Environmental Corp. ("Parent"), Ceco Group, Inc. ("Group"), CECO Filters, Inc. ("Filters"), New Busch Co., Inc. ("New Busch"), The Kirk & Blum Manufacturing Company ("K&B"), KDB/Technic, Inc. ("Technic"), CECOaire, Inc. ("Aire"), CECO Abatement Systems, Inc. ("Abatement"), H.M. White, Inc. ("H.M. White"), Effox Inc., formerly known as CECO Acquisition Corp. ("Effox"), GMD Environmental Technologies, Inc., formerly known as GMD Acquisition Corp. ("GMD"), FKI, LLC ("FKI, LLC"), Fisher-Klosterman, Inc., formerly known as FKI Acquisition Corp. ("FKI"), CECO Mexico Holdings LLC ("CECO Mexico LLC"), and AVC, Inc. ("AVC, Inc.") (Parent, Group, Filters, New Busch, K&B, Technic, Aire, Abatement, H.M. White, Effox, GMD, FKI, LLC, FKI, CECO Mexico LLC, and AVC, Inc. are sometimes, collectively, the "Company").

Ladies and Gentlemen:

This Officer's Compliance Certificate (this "Certificate") is delivered to you pursuant to Section 4.3(d) of the Credit Agreement. Unless otherwise stated in this Certificate, capitalized terms used in this Certificate are defined in the Credit Agreement.

The undersigned hereby certifies to you as follows:

1. The undersigned is, and at all times mentioned herein has been, the duly elected, qualified and acting chief executive officer or chief financial officer of Parent.

2. The undersigned has reviewed the provisions of the Credit Agreement and the other Loan Documents (collectively, the "Documents"), and has reviewed the activities of the Company during the period from _____, 20__ , to _____, 20__ (the "Subject Period"), which are under the supervision of the undersigned, with a view towards determining whether, during the Subject Period, the Company has kept, observed, performed and fulfilled all its obligations under the Documents.

3. The financial statements of the Company delivered to you concurrently herewith have been prepared in accordance with generally accepted accounting principles ("GAAP") and fairly present in all material respects [(subject to normal year-end adjustment and the omission of footnotes)] the financial condition and results of operations of the Company at the date and for the period indicated therein. **[Delete parenthetical for Annual Certificate.]**

4. To the actual knowledge of the undersigned, no Event of Default has occurred and is continuing, nor any event which upon notice, the lapse of time, the satisfaction of any other condition, or all of them, would constitute an Event of Default, except for such defaults, if any, described on Schedule A attached. [If any are described, state the nature and status thereof and actions proposed to be taken with respect thereto.]

5. The calculations shown on Schedule B attached hereto demonstrate compliance with Sections 5.3 (Capital Expenditures), 5.10 (Fixed Charge Coverage Ratio), and 5.11 (Maximum Total Funded Debt to Adjusted EBITDA Ratio) of the Credit Agreement.

6. [**Annual:**] Attached hereto as Schedule C are projections of the Company for the period from _____, 20__ to _____, 20__ ("Projections"). Schedule C states: (i) the assumptions on which the Projections were prepared and (ii) that the assumptions, except as otherwise noted on Schedule C, were prepared on a consistent basis with the operation of the Company's business during the immediately preceding Fiscal Year and with factors known to exist as of the date of this Certificate or reasonably anticipated to exist during the periods covered by the Projections. The undersigned certifies that he or she has no reason to believe that the Projections, subject to the assumptions stated on Schedule C, are false or misleading in any material respect.

7. Attached hereto as Schedule D is a list of all Indebtedness for borrowed money of the Company outstanding on the date hereof, including the outstanding principal amount of each such debt issue or loan and the amount of unpaid and accrued interest with respect to each such issue or loan.

The undersigned certifies to you that the foregoing Certificate is true and correct and in accordance with the terms of the Credit Agreement.

By: _____

Name: _____

chief executive/chief financial officer

Schedules:

A – Defaults

B – Calculations

C – Projections

D – Indebtedness for Borrowed Money

**Schedule A**
**to**
**Officer's Compliance Certificate**

**Defaults**

[See Attached]

**Schedule B**
**to**
**Officer's Compliance Certificate**

**Covenant Calculations**

[See Attached]

**Schedule B**
**to**
**Officer's Compliance Certificate**

For the [Fiscal Quarter/Fiscal Year] Ended _____, 20__

All calculations are in accordance with Credit Agreement definitions and provisions:

**A. Capital Expenditures § 5.3.**

| | | During Fiscal Year ending on 12-31-10 | During Fiscal Year ending on 12-31-11 | During Fiscal Year ending on 12-31-12 | During Fiscal Year ending on 12-31-13 |
|---|---|---|---|---|---|
| 1. | Real Estate/Plant | | | | |
| 2. | Maintenance (capitalized) | | | | |
| 3. | Machinery | | | | |
| 4. | Equipment | | | | |
| 5. | Capital Lease obligations | | | | |
| 6. | Capital Expenditures: 1+2+3+4+5= | | | | |
| Maximum Allowed Capital Expenditures: | | $2,500,000 | $2,500,000 | $2,500,000 | $2,500,000 |

**B. Fixed Charge Coverage Ratio § 5.10**

| Test Period: 12 Month Period ending on: | 06-30-10 | 09-30-10 and thereafter |
|---|---|---|
| 1. EBITDA: | | |
| a. Net Income | | |
| b. Depreciation and Amortization | | |
| c. Interest Expense | | |
| d. Income and Franchise Taxes | | |
| 2. EBITDA (1a + 1b + 1c + 1d) = | | |
| 3. Adjusted EBITDA | | |
| a. Non-financed Capital Expenditures | | |
| b. Cash Income and Franchise Taxes | | |
| c. Sales of Capital Assets | | |
| d. Write-ups of Assets | | |
| e. Extraordinary Items | | |
| f. Extraordinary Accounting Adjustments | | |
| g. Non-operating, Non-recurring Items | | |
| h. Items Re: Parent's Stock Price vis-à-vis strike price of warrants and options, Stock Option Expenses, and Impairment of Goodwill | | |
| i. Permitted cash dividends to Parent's stockholders | | |
| j. Cash FKI Earn-Out Payments, A.V.C. Earn-out Payments and Flextor Earn-out Payments (not deducted in Net Income) | | |
| 4. Adjustments to EBITDA: (3a + 3b ± 3c ± 3d ± 3e ± 3f ± 3g ± 3h + 3i + 3j) = | | |
| 5. Adjusted EBITDA (2 – 4) = | | |
| 6. FCCR Adjustment Amount: | $6,300,000 | 0 |
| 7. Adjusted EBITDA with FCCR Adjustment Amount (5 + 6): | | |
| 8. Fixed Charges: | | |
| a. Principal payments (including those under the Subordinated Debt Notes and Term Loan C, but excluding any Excess Cash Flow Payments, the Subordinated Debt Payment of $3,000,000, and the Existing Subordinated Debt Repayment of $4,508,452.66) | | |
| b. Capital lease payments | | |
| c. Cash Interest Expense | | |
| 9. Fixed Charges (8a + 8b + 8c) = | | |
| 10. Fixed Charge Coverage Ratio ([7] divided by [9]) = | | |
| 11. Required Ratio (not less than): | **2.50 to 1** | **1.25 to 1** |

**C. Maximum Total Funded Debt to Adjusted EBITDA Ratio § 5.11**

| Test Period: 12 Month Period ending on: | 06-30-10 and thereafter |
|---|---|
| 1. Funded Debt | |
| a. Borrowed money (incl. letters of credit or acceptance facilities) (other than the Subordinated Debt) | |
| b. Written obligations to pay money (other than a Surety Bond and the Subordinated Debt) | |
| c. Capitalized leases, synthetic leases or off-balance sheet financing | |
| d. Deferred and unpaid purchase price (other than trade accounts payable in ordinary course) | |
| 2. Funded Debt: (1a + 1b + 1c + 1d) = | |
| 3. EBITDA: | |
| a. Net Income | |
| b. Depreciation and Amortization | |
| c. Interest Expense | |
| d. Income and Franchise Taxes | |
| 4. EBITDA (3a + 3b + 3c + 3d) = | |
| 5. Adjusted EBITDA | |
| a. Non-financed Capital Expenditures | |
| b. Cash Income and Franchise Taxes | |
| c. Sales of Capital Assets | |
| d. Write-ups of Assets | |
| e. Extraordinary Items | |
| f. Extraordinary Accounting Adjustments | |
| g. Non-operating, Non-recurring Items | |
| h. Items Re: Parent's Stock Price vis-à-vis strike price of warrants and options, Stock Option Expenses, and Impairment of Goodwill | |
| i. Permitted cash dividends to Parent's stockholders | |
| j. Cash FKI Earn-Out Payments, A.V.C. Earn-out Payments and Flextor Earn-out Payments (not deducted in Net Income) | |
| 6. Adjustments to EBITDA: (5a + 5b ± 5c ± 5d ± 5e ± 5f ± 5g ± 5h + 5i + 5j) = | |
| 7. Adjusted EBITDA (4 – 6) = | |
| 8. Ratio (2 divided by 7) = | |
| 9. Required Covenant (not greater than): | **3.0 to 1** |

**Schedule C**
**to**
**Officer's Compliance Certificate**

**Projections**

[See Attached]

**Schedule D**
**to**
**Officer's Compliance Certificate**

**Indebtedness for Borrowed Money**

[See Attached]

**Officer's Compliance Certificate**

**For the Monthly Period**
**from _____, 20__**
**to _____, 20__**

To: Fifth Third Bank pursuant to that certain Amended and Restated Credit Agreement dated to be effective as of June 30, 2010, as amended from time to time (as amended, the "Credit Agreement") by and among Fifth Third Bank and CECO Environmental Corp. ("Parent"), Ceco Group, Inc. ("Group"), CECO Filters, Inc. ("Filters"), New Busch Co., Inc. ("New Busch"), The Kirk & Blum Manufacturing Company ("K&B"), KDB/Technic, Inc. ("Technic"), CECOaire, Inc. ("Aire"), CECO Abatement Systems, Inc. ("Abatement"), H.M. White, Inc. ("H.M. White"), Effox Inc., formerly known as CECO Acquisition Corp. ("Effox"), GMD Environmental Technologies, Inc., formerly known as GMD Acquisition Corp. ("GMD"), FKI, LLC ("FKI, LLC"), Fisher-Klosterman, Inc., formerly known as FKI Acquisition Corp. ("FKI"), CECO Mexico Holdings LLC ("CECO Mexico LLC"), and AVC, Inc. ("AVC, Inc.") (Parent, Group, Filters, New Busch, K&B, Technic, Aire, Abatement, H.M. White, Effox, GMD, FKI, LLC, FKI, CECO Mexico LLC, and AVC, Inc. are sometimes, collectively, the "Company").

Ladies and Gentlemen:

This Certificate (this "Certificate") is delivered to you pursuant to Section 4.3(a) of the Credit Agreement. Unless otherwise stated in this Certificate, capitalized terms used in this Certificate are defined in the Credit Agreement.

The undersigned hereby certifies to you as follows:

1. The undersigned is, and at all times mentioned herein has been, the duly elected, qualified and acting chief executive officer or chief financial officer of Parent.

2. The undersigned has reviewed the provisions of the Credit Agreement and the other Loan Documents (collectively, the "Documents"), and has reviewed the activities of Company during the period from _____, 20__, to _____, 20__ (the "Subject Period") under the supervision of the undersigned with a view towards determining whether, during the Subject Period, the Company has kept, observed, performed and fulfilled all its obligations under the Documents.

3. The financial statements of the Company delivered to you concurrently herewith have been prepared in accordance with generally accepted accounting principles ("GAAP") and fairly present in all material respects, subject to year-end adjustment and the omission of footnotes, the financial condition and results of operations of the Company at the date and for the period indicated therein.

4. No Event of Default has occurred and is continuing, except for such defaults, if any, described on Schedule A attached. [If any are described, state nature and status thereof and actions proposed to be taken with respect thereto.]

5. Attached hereto as Schedule B are summaries of accounts payable agings, accounts receivable agings, and inventory in each case reconciled to the Company's general ledger for the end of such month.

By: _____
Name: _____
Title: _____

Schedules:

A – Defaults
B – Summaries of Accounts Receivable, Accounts Payables, Inventory Values

**Schedule A**
**to**
**Officer's Compliance Certificate**

**Defaults**

[See Attached]

**Schedule B**
**to**
**Officer's Compliance Certificate**

**Summaries of Accounts Receivable, Accounts Payables and Inventory Value**

[See Attached]

**EXHIBIT 4.3(g)**

(Borrowing Base Certificate)

*See attached.*

**BORROWING BASE CERTIFICATE**

Borrowers: CECO Filters.; New Busch Co. Inc.; The Kirk & Blum Manufacturing Company; KBD/Technic, Inc.; CECOaire, Inc.; CECO Abatement, Inc.; H.M. White, Inc., Effox, Inc., Fisher-Klosterman, Inc., and GMD Environmental Technologies, Inc. (collectively, the "Company").

Certificate #: _____

Period Ended: _____

To induce Fifth Third Bank ("Lender") to make a Loan advance (or issue a Letter of Credit) pursuant to the Credit Agreement dated as of _____, as well as amendments thereto, between the undersigned, certificate affiliates of the undersigned and Lender, we hereby certify as of the above date, the following:

| | | | | |
|---|---|---|---|---|
| Collateral Balances: | | | | |
| [1] | Previous Certificate AR Balance (Item [2]) | $ | | |
| | a) Gross Sales since last Certificate | $ | | |
| | b) Collections since last Certificate | $ | | |
| | c) Credits since last Certificate | $ | — | |
| [2] | Total AR now being certified to Lender[1] + [a] minus [b] minus [c] | $ | | |
| [3] | Total Inelibible AR (See attached breakdown) | $ | | |
| [4] | Net Amount of Eligible AR: [2] minus [3] | $ | | |
| [5] | Total Loan value of AR @ 70% of [4] | | | $ |
| [6] | Previous Certificate Total Eligible Net Unbilled Revenue (Item [7]) | $ | | |
| | d) Unbilled Revenue since last Certificate | $ | | |
| | e) Billings in excess of Unbilled Revenue since last Certificate | $ | | |
| [7] | Total Eligible Net Unbilled Revenue: [6] + [d] minus [e] | $ | | |
| [8] | Total value of Eligible Net Unbilled Revenue @ 50% of [7] | $ | | |
| [9] | Total Loan value of Eligible Net Unbilled Revenue: | | | |
| | [8] or $1,000,000, whichever is less, but not less than $0.00 | | | $ |
| [10] | Total Inventory at Borrower's Facilities: | $ | | |
| [11] | Total Eligible Inventory (See attached breakdown per category of Inventory | $ | | |
| [12] | Net Amount of Eligible Inventory: [10] minus [11]: | $ | | |
| [13] | Total value of Eligible Inventory @ 50% of [12] | $ | | |
| [14] | Total Loan value of Eligible Inventory: [13] or $7,500,000, whichever is less | | | $ |
| [15] | Total Amount of Borrowing Base Reserves required by Lender (as determined in accordance with the Credit Agreement) | | | $ |
| [16] | Borrowing Base: ([5] + [9] + [14] + [15], but no more than $20,000.000) (BB total) | $ | | $ |
| [17] | Revolving Loan Availability: (Borrowing base less | | | |
| | Revolving Loans principal amount | $ | — | |
| | Unpaid interest on Revolving Loans | $ | | |
| | Letter of Credits and Letter of Credit Exposure: * | | | |
| | issue date expiration date | | | |
| | (see detailed worksheet for listing of letters of credits) | $ | | $ |
| | * Not to exceed $10,000,000 | | | $ |

As used herein, "AR" means "Eligible Accounts" and "Inventory" means "Eligible Inventory", each as defined in the Credit Agreement. Ineligible AR and ineligible inventory should be calculated by reference to the respective definitions of Eligible Accounts and Eligible Inventory. "Borrower's Facilities", "Eligible Net Unbilled Revenue," "Unbilled Revenue", "Borrowing Base Reserves", and "Letter of Credit Exposure" have herein the meanings given the Credit Agreement.

The undersigned hereby certifies that the above representations are true and correct and subject to all conditions of the Credit Agreement. The undersigned also represents that to the best of our knowledge, there does not exist an Event of Default, and there does not exist a condition which may precipitate an Event of Default under the terms of the Credit Agreement

Prepared By

Authorized Signature

Date:

For Bank Use Only

Date of Advance:

Amount $

**BORROWERS' DISCLOSURE SCHEDULES**

Unless otherwise defined, or the context otherwise clearly requires, terms defined in the Amended and Restated Credit Agreement (the "Agreement") shall have such meanings when used herein.

Certain of the representations and warranties in the Agreement are made subject to the disclosures in these Disclosure Schedules as if the Disclosure Schedules had been set forth in the Agreement. Although the section numbers set forth below correspond to the section numbers in the Agreement, any information disclosed herein shall be deemed to be disclosed with respect to all sections of the Agreement to the extent that it is readily apparent from the face of the Disclosure Schedules that such information would be relevant or appropriate. Except as otherwise expressly indicated herein, all disclosures set forth herein are made as of the date of the Agreement. Moreover, the statements or disclosures made herein are solely for the purposes contemplated by the Agreement.

**Schedule 1.1**

*Borrowers' Facilities*

1. 3120 Forrer Street
   Cincinnati, Ohio 45209
2. 3501 West Kelly Street
   Indianapolis, Indiana 46241
3. 550 Horton Court
   Lexington, Kentucky 40511
4. 1450 South 15th Street
   Louisville, Kentucky 40210
5. 8735 West Market Street
   Greensboro, North Carolina 27409
6. 1761 North Pointe Road
   Columbia, Tennessee 38401
7. 3131 Disney Street
   Cincinnati, Ohio 45209
8. 1712 Spruce Street
   Defiance, Ohio 43512
9. 1027-1029 Conshohocken Road
   Conshohocken, Pennsylvania 19428
10. 5201 Walnut Avenue, Suite 1
    Downers Grove, Illinois 60515
11. 10431 Perry Highway, Suite 201
    Wexford, Pennsylvania 15090
12. 9756 Inter Ocean Drive
    Cincinnati, Ohio 45246
13. 822 South 15th Street
    Louisville, KY 40251-0190
14. c/o Fisher-Klosterman-Buell Shanghai Co., Ltd.
    No. 80, 1030 Lane
    Heng' An Road

Pudong New District
Shanghai, 2000137,P.R.C.

15. 305 West Arlington Avenue
Fort Worth, Texas 76110

16. 5146 North Commerce Avenue, Suite F/G
Moorpark, California 93021

17. 5146 First Street
Simi Valley, California 93065

**Schedule 2**

*Life Insurance Policies*

**Pledged Insurance Policies of K&B (valued as of December 31, 2009)**

| Policy Number | Individual | Face Amount of Death Benefit | Insurance Company |
|---|---|---|---|
| 6256502B | David D. Blum | $459,971 | Northwestern Mutual Life Insurance Company |
| 6558722 | David D. Blum | $276,899 | Northwestern Mutual Life Insurance Company |
| 7541724 | David D. Blum | $207,693 | Northwestern Mutual Life Insurance Company |
| 10296275 | David D. Blum | $1,000,000 | Northwestern Mutual Life Insurance Company |
| 4543134B | Lawrence J. Blum | $198,995 | Northwestern Mutual Life Insurance Company |
| 5563377A | Lawrence J. Blum | $328,916 | Northwestern Mutual Life Insurance Company |
| 5725280A | Lawrence J. Blum | $339,602 | Northwestern Mutual Life Insurance Company |
| 5725281A | Lawrence J. Blum | $170,308 | Northwestern Mutual Life Insurance Company |
| 5821352A | Lawrence J. Blum | $192,679 | Northwestern Mutual Life Insurance Company |
| 6557383 | Lawrence J. Blum | $285,307 | Northwestern Mutual Life Insurance Company |
| 7543596 | Lawrence J. Blum | $440,769 | Northwestern Mutual Life Insurance Company |
| 6256502D | Richard J. Blum | $409,247 | Northwestern Mutual Life Insurance Company |

| Policy Number | Individual | Face Amount of Death Benefit | Insurance Company |
|---|---|---|---|
| 6557382 | Richard J. Blum | $291,877 | Northwestern Mutual Life Insurance Company |
| 7538042 | Richard J. Blum | $444,310 | Northwestern Mutual Life Insurance Company |
| 10031936 | Richard J. Blum | $350,000 | Northwestern Mutual Life Insurance Company |
| 02225998 | Richard J. Blum | $192,870 | The Union Central Life Insurance Company |
| 02225999 | Richard J. Blum | $122,623 | The Union Central Life Insurance Company |

**Schedule 3.1**

*Organization and Qualification*

| Loan Party | State of Organization | State(s) of Qualification |
|---|---|---|
| CECO Environmental Corp. | Delaware | Ohio |
| Ceco Group, Inc. | Delaware | Ohio |
| CECO Filters, Inc. | Delaware | Pennsylvania |
| New Busch Co., Inc. | Delaware | Pennsylvania |
| The Kirk & Blum Manufacturing Company | Ohio | Illinois<br>Indiana<br>Kentucky<br>North Carolina<br>Tennessee |
| KBD/Technic, Inc. | Indiana | Ohio<br>South Carolina |
| CECOaire, Inc. | Delaware | Kentucky |
| CECO Abatement Systems, Inc. | Delaware | Illinois<br>Nebraska |
| H.M. White, Inc. | Delaware | Michigan |
| Effox, Inc. | Delaware | Ohio |
| GMD Environmental Technologies, Inc. | Delaware | Texas |
| Fisher-Klosterman, Inc. | Delaware | Kentucky<br>Pennsylvania |
| FKI, LLC | Delaware | Kentucky |
| CECO Mexico Holdings LLC | Delaware | |
| AVC, Inc. | Delaware | California |

**Schedule 3.3**

*Litigation*

A lawsuit was filed on September 10, 2009 in Marion County Superior Court, State of Indiana. A wrongful death claim has been made by the estate of Terry David Walk for an accident that occurred in March 2008 at the worksite of a customer of the Loan Parties relating to a baghouse system. The defendants include Parent and its subsidiaries, The Kirk & Blum Manufacturing Company, kbd/Technic, Inc., and CECO Abatement Systems, Inc. The complaint contains causes of action for negligence and a cause of action for breach of implied warranties, and the complainant is asking for unspecified compensatory damages and costs. The Loan Parties' insurance carriers have agreed to defend the claims, pursuant to reservation of rights letters, and have retained counsel to defend the Loan Parties. We record provisions in the consolidated financial statements for pending litigation when we determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. However, at this time the Loan Parties cannot estimate any potential final range of loss resulting from this litigation as it is still in discovery and accordingly, we have not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. At this time, we believe that the claims are without merit and we intend to vigorously defend this suit.

There are no other material pending legal proceedings to which Parent or any of its subsidiaries is a party or to which any of our properties is subject.

**Schedule 3.6**

*Patents, Trademarks, Copyrights, Trade Names, and Licenses*

| Loan Party | Type of Intellectual Property | Reference Number | Description of Intellectual Property |
|---|---|---|---|
| CECO Filters, Inc. | Patent | 5,948,146 | Hydrogenated fluoropolymer fiber bed for a mist eliminator |
| CECO Filters, Inc. | Patent | 5,861,123 | Ultraviolet light irradiated ebullating mass transfer system |
| CECO Filters, Inc. | Patent | 5,795,369 | Fluted filter media for a fiber bed mist eliminator |
| CECO Filters, Inc. | Patent | 5,730,786 | Multiple in-duct filter system |
| CECO Filters, Inc. | Patent | 4,948,398 | Multi-candle fiber mist eliminator |
| CECO Filters, Inc. | Patent | 4,838,903 | Multi-phase thick-bed filter |
| CECO Filters, Inc. | Patent | 4,432,914 | Mass transfer contact apparatus |
| New Busch Co., Inc. | Patent | 5,611,151 | Strip cooling, heating, wiping or drying apparatus and associated method |
| New Busch Co., Inc. | Patent | 5,201,132 | Strip cooling, heating or drying apparatus and associated method |
| Kirk & Blum Manufacturing Company | Patent | 4,113,117 | Article handling apparatus |
| CECO Filters, Inc. | Registered Trademark | R2422881; S/N: 75-742751 | CECO-SOLV |
| CECO Filters, Inc. | Registered Trademark | R2078575; S/N: 75-026507 | CECO |
| CECO Filters, Inc. | Registered Trademark | R1578841; S/N: 73-689319 | N-SERT |
| CECO Filters, Inc. | Registered Trademark | R1520755; S/N: 73-689304 | SITE-PAK |
| CECO Filters, Inc. | Registered Trademark | R1517129; S/N: 73-727175 | X-SERT |
| CECO Filters, Inc. | Registered Trademark | R1792497; S/N: 74-280839 | TWIN-PAK |
| New Busch Co., Inc. | Fictitious Name Filing | | Fictitious name filing of “Busch Co.” with the Pennsylvania Secretary of State |

**Schedule 3.9**

*Permitted Liens*

1. Outstanding judgment in the Hamilton County Court of Common Pleas in Ohio, number A0300342, against Kirk & Blum Manufacturing Company. The judgment is for $2,500 of attorney's fees in a matter with Demerenne T. Hadley.

2. UCC-1 financing statements naming a Loan Party as the debtor (see chart below).[1]

| Loan Party | Creditor | Jurisdiction | Reference Number and Type of Lien | Property Covered by Lien |
|---|---|---|---|---|
| CECO Filters | Kenco Group, Inc. | Pennsylvania | Equipment Lease (No UCC Filed) | Toyota 6FGCO25 |
| CECO Filters | Toyota Motor Credit Corporation | Delaware | 53711935 | One (1) 1999 Toyota Forklift Model #6FGCU25 Serial #76827 |
| Fisher-Klosterman, Inc. | Shintech Louisiana LLC | Delaware | 2008 2487609 | Goods related to purchase order contract no. PQCVM-142901 covering PM-1233 Oxy Reactor Cyclone Systems |
| Fisher-Klosterman, Inc. | Shintech Louisiana LLC | Delaware | 2008 2487617 | Goods related to purchase order contract no. SPVCM-14902 covering CM-233 Oxy Reactor Cyclone Systems |
| The Kirk & Blum Manufacturing Company | Irwin Commercial Finance Corporation, Equipment Finance | Ohio | OH00113432485 | One (1) 2000 Skytrak 8042 Forklift, S/N 12461, contract #40206355 |
| The Kirk & Blum Manufacturing Company | Dell Financial Services L.L.C. | Ohio | OH00125767973 | Certain computer equipment and peripherals |

[1] The appearance of any filing on this Schedule of Permitted Liens is not an acknowledgement of the validity, perfection and/or priority of any interest held by the listed secured party.

| Loan Party | Creditor | Jurisdiction | Reference Number and Type of Lien | Property Covered by Lien |
|---|---|---|---|---|
| The Kirk & Blum Manufacturing Company | NMHG Financial Services, Inc. | Ohio | OH00130227057 | All equipment leased by lessor to lessee. |
| The Kirk & Blum Manufacturing Company | Orbian Financial Services II, LLC | Ohio | OH00140111317 | Accounts, general intangibles, and other receivables owing to Debtor by Siemens Energy & Automation, Inc. and sold to Secured Party |

**Schedule 3.12**

*Subsidiaries, Affiliates, etc.*

**Subsidiaries**

CECO Filters, Inc. has a wholly owned subsidiary, CECO Filters India Private Limited, an Indian company.

H.M. White, Inc. owns 99% of CECO Environmental Mexico, S. de R.L. de C.V., a Mexican company. CECO Mexico Holdings LLC owns the remaining 1%.

H.M. White, Inc. owns 99% of CECO Environmental Services, S. de R.L. de C.V., a Mexican company. CECO Mexico Holdings LLC owns the remaining 1%.

FKI, LLC owns 100% of Fisher-Klosterman – Buell Shanghai Co., Ltd.

CECO Environmental Corp. owns 100% of 9199-3626 Quebec Inc., a company organized under the laws of the Province of Quebec, Canada

9199-3626 Quebec Inc. owns 100% of Flextor Chile S.A., a company organized under the laws of Chile.

9199-3626 Quebec Inc. owns 100% of Flextor do Brasil Importacao E Exportacao LTDA, a company organized under the laws of Brazil.

All other subsidiaries are also Loan Parties, and are identified in Schedule 3.14.

**Affiliate Transactions**

1. CECO Environmental Corp. pays monthly fees of $30,000 to Can-Med Technology, Inc., formerly known as Green Diamond Oil Corporation and now known as Icarus Investment Corp., for management consulting services, provided by Phillip DeZwirek.
2. CECO Environmental Corp. reimburses Can-Med Technology, Inc., formerly known as Green Diamond Oil Corporation and now known as Icarus Investment Corp., $10,000.00 per month for use of the space and other expenses of the Toronto office.
3. Icarus Investment Corp. has loaned $2,200,000 to CECO Environmental Corp. in the form of convertible subordinated notes.
4. Jason DeZwirek has loaned $800,000 to CECO Environmental Corp. in the form of convertible subordinated notes.

**Schedule 3.13**

*ERISA*

**Employee Benefit Plans**

1. K&B contributes to Kirk & Blum Manufacturing Company Post-Retirement Medical Benefit Plan. It is a post-retirement health care plan for office employees retiring before January 1, 1990. The plan allows retirees who have attained the age of 65 to elect the type of coverage desired. Retirement and health care plan expense is based on valuations performed by plan actuaries as of the beginning of each fiscal year.

**Pension Plans contributed to by Loan Parties**

1. K&B sponsors the Kirk & Blum Manufacturing Company Sheet Metal Workers Local Union 183 Pension Plan (the “Plan”). It is a non-contributory defined benefit pension plan for certain union employees. The plan is funded in accordance with the funding requirements of ERISA.

   As of June 30, 2010, $111,000 had been contributed to the Plan in 2010, and it was expected that $157,000 more would be contributed between June 1, 2010 and December 31, 2010.

2. Multi-Employer Plans. Except as otherwise set forth in this Schedule 3.13, none of the Borrowers sponsor a Multi-Employer Plan that is specific to that Borrower; however, when a Borrower retains services from a labor union pursuant to one of the agreements set forth in Schedule 3.15 of this Agreement, the Borrower makes contributions to the Multi-Employer Plan of such labor union.

**Schedule 3.14**

*Capitalization*

**CECO Environmental Corp.** (as of April 1, 2010)

*Shares Authorized:* 100,010,000 Total Shares
100,000,000 Common Shares, $.01 par value
10,000 Preferred Shares, $.01 par value

*Shares Issued:* 14,282,331 Common Shares

*Owners:*

1. Phillip DeZwirek beneficially owns 3,591,549 shares of Common Stock, amounting to 23.8% of CECO Environmental Corp., assuming exercise of the warrants beneficially held by him and conversion of the convertible debenture held by Icarus Investment Corp. (an Ontario corporation) The convertible debenture held by Icarus Investment Corp. enables it to convert the amount owed thereunder to 550,000 shares of Common Stock (using a $4.00 per share conversion rate).
2. Jason Louis DeZwirek beneficially owns 3,517,693 shares of Common Stock, amounting to 23.0% of CECO Environmental Corp., assuming exercise of the warrants beneficially held by him and conversion of the convertible debenture held by him.
3. Icarus Investment Corp. (a Delaware corporation) beneficially owns 2,307,693 shares of Common Stock, amounting to 15.3% of CECO Environmental Corp., assuming exercise of the warrants beneficially held by it and the conversion of the convertible debenture described in 1 above.
4. Harvey Sandler Revocable Trust beneficially owns 1,991,903 shares of Common Stock, amounting to 13.7% of CECO Environmental Corp., based on such Trust's filings with the SEC.

**Ceco Group, Inc.**

*Shares Authorized:* 1,000 Common Shares, $.01 par value

*Shares Issued:* 100 Common Shares

*Owners:* CECO Environmental Corp. owns 100% of Ceco Group, Inc.

**CECO Filters, Inc.**

*Shares Authorized:* 100,000,000 Total Shares
99,000,000 Common Shares, $.01 par value
1,000,00 Preferred Shares, $.001 par value

*Shares Issued to Ceco Group, Inc:* *37,978,312 Common Shares*

*Owners:* Ceco Group, Inc. owns approximately 99% of CECO Filters, Inc. The other approximate 1% is owned by a small number of shareholders who did not trade in their shares when CECO Filters was purchased by CECO Environmental Corp.

**New Busch Co., Inc.**

*Shares Authorized:* 1,000 Common Shares, no par value

*Shares Issued:* 10 Common Shares

*Owners:* CECO Filters, Inc. owns 100% of New Busch Company, Inc.

**CECOaire, Inc.**

*Shares Authorized:* 100,000 Common Shares, $.001 par value

*Shares Issued:* 100 Common Shares

*Owners:* Ceco Group, Inc. owns 100% of CECOAIRE, Inc.

**The Kirk & Blum Manufacturing Company**

*Shares Authorized:* 330,000 Total Shares;
105,000 Class A Voting Common Stock, no par value;
225,000 Class B Voting Common Stock, no par value;

*Shares Issued:* 62,670 Class A Common Shares
188,010 Class B Non-Voting Common Shares

*Owners:* Ceco Group, Inc. owns 100% of The Kirk & Blum Manufacturing Company.

**KBD/Technic, Inc.**

*Shares Authorized:* 1,000 Common Shares, no par value

*Shares Issued:* 930 Common Shares

*Owners:* The legal owner of 100% of kbd/Technic, Inc.'s stock is Richard J. Blum, as Voting Trustee of the kbd/Technic, Inc. Voting Trust Agreement dated as of December 7, 1999. The beneficial owner of 100% of kbd/Technic, Inc.'s stock is Ceco Group, Inc.

**CECO Abatement Systems, Inc.**

| | |
|---|---|
| *Shares Authorized:* | 100,000 Common Shares, $.01 par value |
| *Shares Issued:* | 100 Common Shares |
| *Owners:* | Ceco Group, Inc. owns 100% of CECO Abatement Systems, Inc. |

**H.M. White, Inc.**

| | |
|---|---|
| *Shares Authorized:* | 100,000 Common Shares, $.001 par value |
| *Shares Issued:* | 100 Common Shares |
| *Owners:* | Ceco Group, Inc. owns 100% of H.M. White, Inc. |

**Effox, Inc., formerly known as CECO Acquisition Corp.**

| | |
|---|---|
| *Shares Authorized:* | 10,000 Common Shares, $.01 par value |
| *Shares Issued:* | 100 Common Shares |
| *Owners:* | Ceco Group, Inc. owns 100% of Effox, Inc. |

**GMD Environmental Technologies, Inc., formerly known as GMD Acquisition Corp.**

| | |
|---|---|
| *Shares Authorized:* | 1,000 Common Shares, $.01 par value |
| *Shares Issued:* | 1,000 Common Shares |
| *Owners:* | Ceco Group, Inc. owns 100% of GMD Environmental Technologies, Inc. |

**Fisher-Klosterman, Inc.**

| | |
|---|---|
| *Shares Authorized:* | 1,000 Common Shares, $.01 par value |
| *Shares Issued:* | 1,000 Common Shares |
| *Owners:* | Ceco Group, Inc. owns 100% of Fisher-Klosterman |

**FKI, LLC**

Fisher-Klosterman, Inc. owns 100% of the limited liability company membership interests of FKI, LLC.

**CECO Mexico Holdings LLC**

Ceco Group, Inc. owns 100% of the limited liability company membership interests of CECO Mexico Holdings LLC.

**AVC, Inc.**

| | |
|---|---|
| *Shares Authorized:* | 1,000 Common Shares, $.01 par value |
| *Shares Issued:* | 1,000 Common Shares |
| *Owners:* | Fisher-Klosterman, Inc. owns 100% of AVC, Inc. |

*Outstanding Warrants*

As of June 30, 2010, CECO Environmental Corp. had the following warrants outstanding:

| Name | Number of Warrants | Grant Date |
|---|---|---|
| Icarus Investment Corp. d/b/a Green Diamond Oil Corporation | 250,000 | 12/29/2006 |

*Stock Options*

As of June 30, 2010, CECO Environmental Corp. had the following stock options outstanding:

| Name | Number of Options | Grant Date |
|---|---|---|
| Richard Blum | 25,000 | 10/5/2001 |
| Don Wright | 15,000 | 6/21/2006 |
| Don Wright | 15,000 | 1/5/2005 |
| T.J. Flaherty | 30,105 | 5/10/2004 |
| T.J. Flaherty | 5,000 | 1/5/2005 |
| T.J. Flaherty | 15,000 | 6/21/2006 |
| D. Blazer | 12,500 | 12/13/2004 |
| D. Blazer | 10,000 | 6/21/2006 |
| Ron Krieg | 25,000 | 4/20/2005 |
| Ron Krieg | 15,000 | 6/21/2006 |
| Arthur Cape | 5,000 | 5/25/2005 |
| Arthur Cape | 15,000 | 6/21/2006 |
| Robert Cloud | 20,000 | 6/21/2006 |

| Name | Number of Options | Grant Date |
|---|---|---|
| Steve McDaniel | 5,000 | 6/21/2006 |
| William White | 10,000 | 6/21/2006 |
| 2000 Employee Grants | 10,000 | 4/28/2000 |
| Benton Cook | 10,000 | 1/16/2007 |
| James Glesige | 10,000 | 1/16/2007 |
| Hal Menz | 7,500 | 1/16/2007 |
| Rhonda Dutlinger | 5,000 | 1/16/2007 |
| Wilma Girdner | 7,500 | 1/16/2007 |
| Jack Neiser | 25,000 | 2/28/2007 |
| Jeff Korth | 15,000 | 2/28/2007 |
| Gerald Reier | 50,000 | 10/31/2007 |
| Michael dos Santos | 25,000 | 8/1/2008 |
| Thierry Allegrucci | 10,000 | 8/1/2008 |
| Francois Rouviere | 10,000 | 8/1/2008 |
| Jack Neiser | 25,000 | 12/01/08 |
| Jeff Korth | 15,000 | 12/01/08 |
| Jamie Samm | 1,000 | 12/01/08 |
| Wilma Girdner | 5,000 | 12/01/08 |
| Hal Menz | 5,000 | 12/01/08 |
| Jim Glesige | 5,000 | 12/01/08 |
| Benton Cook | 5,000 | 12/01/08 |
| Kathy Duclaux | 3,000 | 12/01/08 |
| Hillary Jeffries | 3,000 | 12/01/08 |
| J. Bertolli | 5,000 | 12/01/08 |
| Roland Bollman | 5,000 | 12/01/08 |
| John Witkowski | 5,000 | 12/01/08 |
| Tad Heath | 3,000 | 12/01/08 |
| Tom Kroeger | 5,000 | 12/01/08 |
| Bill Wells | 5,000 | 12/01/08 |
| Danny Smith | 5,000 | 12/01/08 |
| Steve McDaniel | 5,000 | 12/01/08 |
| Bill Frank | 5,000 | 12/01/08 |
| Mary Keenan | 5,000 | 12/01/08 |
| Russ Lewis | 5,000 | 12/01/08 |
| Gerry Lanham | 5,000 | 12/01/08 |

| | | |
|---|---|---|
| Jeff lang | 600,000 | 2/15/2010 |
| Jack Neiser | 15,000 | 4/29/2010 |
| Tom Kroeger | 10,000 | 4/29/2010 |
| Jeff Korth | 6,000 | 4/29/2010 |
| Hilliary Jeffries | 6,000 | 4/29/2010 |
| Steve McDaniel | 6,000 | 4/29/2010 |
| Bill Frank | 6,000 | 4/29/2010 |
| Mary Keenan | 6,000 | 4/29/2010 |
| Bob Cloud | 6,000 | 4/29/2010 |
| Tom Lugar | 6,000 | 4/29/2010 |
| Jim Glesige | 6,000 | 4/29/2010 |
| Benton Cook | 6,000 | 4/29/2010 |
| Jay Shaw | 4,000 | 4/29/2010 |
| Bruce Brashear | 4,000 | 4/29/2010 |
| Jamie Samm | 4,000 | 4/29/2010 |
| Rhonda Dutlinger | 4,000 | 4/29/2010 |
| Roland Bollman | 4,000 | 4/29/2010 |
| Danny Smith | 4,000 | 4/29/2010 |
| Dennis Woodard | 4,000 | 4/29/2010 |
| Ed Hacker | 4,000 | 4/29/2010 |
| Ryan Bruner | 4,000 | 4/29/2010 |
| Josh Jacobs | 4,000 | 4/29/2010 |
| Tad Heath | 4,000 | 4/29/2010 |
| Rob Fletcher | 4,000 | 4/29/2010 |

**Schedule 3.15**

*Labor Unions*

1. Working Agreement between Sheet Metal Workers Local Union #177, Nashville, Tennessee and The Nashville District Sheet Metal Contractors Association (effective May 1, 2010)
2. Standard Form of Union Agreement between Local Union No. 5 of Sheet Metal Workers' International Association (North Carolina) and The Kirk & Blum Manufacturing Company (entered May 15, 2010).
3. Standard Form of Union Agreement between Local Union No. 5 of Sheet Metal Workers' International Association (Bledsoe, Bradley, Cannon, Clay, Coffee, Cumberland, Dekalb, Fentress, Franklin, Grundy, Hamilton, Jackson, Marion, Overton, Pickett, Polk, Putnam, Sequatachie, VanBuren, Warren and White Counties in State of Tennessee and Catoosa, Dade and Walker Counties in State of Georgia) and The Kirk & Blum Manufacturing Company (entered May 15, 2010).
4. Agreement between Local Union No. 433, affiliated with the International Sheet Metal Workers' Union of Bowling Green, Kentucky, and The Kirk & Blum Manufacturing Company (entered August 19, 2009).
5. Standard Form of Union Agreement between Local Union No. 20, affiliated with the International Sheet Metal Workers' Union of Indiana (June 1, 2010).
6. Agreement between Sheet Metal Workers' International Association Local Union No. 183 and The Kirk & Blum Manufacturing Company (April 1, 2008 – August 31, 2011).
7. Agreement between The Sheet Metal Contractors Association of Greater Cincinnati, Inc. and Sheet Metal Workers International Association Local Union No. 24 Cincinnati (June 1, 2010 through May 31, 2011)
8. Standard Form of Union Agreement (Form A-7-01) by and between Kentucky Sheet Metal Contractors' Association and Local Union No. 110 Sheet Metal Workers' International Association of Louisville, Kentucky (effective June 1, 2010)
9. Standard Form of Union Agreement between Local Union 214, affiliated with the International Sheet Metal Workers' Union of Mississippi (August 1, 2010)
10. Agreement between Piping Division of the United Association of Journeymen and Apprentices of Local Union No. 619 (January 1, 2007).

**Schedule 5.1**

*Persons to whom Indebtedness is Owed*

CECO Environmental Corp. is the debtor on the following promissory notes:

**Policy Loans:**

1. Loan in the amount of $169,706.94 (not including interest from February 28, 2010) from The Union Central Life Insurance Company ("Union Central") against Union Central Life Insurance Policy No. 2225998
2. Loan in the amount of $67,297.26 (not including interest from February 28, 2010) from Union Central against Union Central Life Insurance Policy No. 2225999
3. Loan in the amount of $52,629.20 (not including interest from December 8, 2009) from Northwestern Mutual Life Insurance Company ("Northwestern") against Northwestern Life Policy No. 10-031-936
4. Loan in the amount of $211,776.77 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 7-538-042
5. Loan in the amount of $146,752.86 (not including interest from December 8, 2009) from Northwestern against Northweste14 Life Policy No. 6-557-382
6. Loan in the amount of $202,303.34 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 6-256-502D
7. Loan in the amount of $189,466.79 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 7-543-596
8. Loan in the amount of $131,874.07 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 6-557-383
9. Loan in the amount of $88,625.95 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 5-821-352A
10. Loan in the amount of $83,276.42 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 5-725-281A
11. Loan in the amount of $166,125.05 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 5-725-280A
12. Loan in the amount of $166,572.44 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 5-563-377A

13. Loan in the amount of $95,962.47 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 4-543-134B
14. Loan in the amount of $252,247.95 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 10-296-275
15. Loan in the amount of $75,621.69 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 7-541-724
16. Loan in the amount of $113,534.05 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 6-558-722
17. Loan in the amount of $195,344.65 (not including interest from December 8, 2009) from Northwestern against Northwestern Life Policy No. 6-256-502B

# SUBSIDIARIES OF THE COMPANY

***Direct subsidiaries of CECO Environmental Corp.***

CECO Group, Inc., a Delaware corporation

Flextor Inc., a Quebec company

***Direct subsidiaries of CECO Group, Inc.***

CECO Filters, Inc., a Delaware corporation

CECO Abatement Systems, Inc., a Delaware corporation

H.M. White, Inc. (f/k/a CECO Energy, Inc.), a Delaware corporation
(d/b/a Kirk & Blum H.M. White Sub in Michigan)

CECOaire, Inc., a Delaware corporation

The Kirk & Blum Manufacturing Company, an Ohio corporation

kbd/Technic, Inc., an Indiana corporation

Effox, Inc., a Delaware corporation

GMD Environmental Technologies, Inc., a Delaware corporation
(f/k/a GMD Acquisition Corp.)

Fisher-Klosterman, Inc., a Delaware corporation
(f/k/a FKI Acquisition Corp.)

CECO Mexico Holdings LLC, a Delaware limited liability company

***Direct subsidiaries of CECO Filters, Inc.***

CECO India Pvt. Ltd., an Indian company (f/k/a CECO Filters India Pvt. Ltd.)

New Busch Co., Inc., a Delaware corporation

***Direct subsidiaries of Fisher-Klosterman, Inc.***

FKI, LLC, a Delaware limited liability company

Fisher-Klosterman-Buell Shanghai Co., Ltd., a China company
(f/k/a Kentucky Fabrication (Shanghai Co., Ltd.))

AVC, Inc., a Delaware corporation

***Direct subsidiaries of H.M. White, Inc.***

CECO Environmental Mexico S. de R.L. de C.V., a Monterrey, Mexico company

CECO Environmental Services S. de R.L. de C.V. , a Monterrey, Mexico company

***Direct subsidiaries of Flextor Inc.***

Flextor Chile S.A., a Chile company

Flextor do Brasil Importacao e Exportacao Ltda., a Brazil company

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Board of Directors and Shareholders**
**CECO Environmental Corp.**
**Cincinnati, Ohio**

We hereby consent to the incorporation by reference in Registration Statement No. 333-130294 on Form S-3 and Registration Statements Nos. 333-33270, 333-143527, and 333-159948 on Forms S-8 of our report dated March 15, 2011, relating to the consolidated financial statements of CECO Environmental Corp., which appears in this Form 10-K.

/s/ BDO USA, LLP

Chicago, Illinois
March 15, 2011

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**
**BY CHIEF EXECUTIVE OFFICER**

I, Jeffrey Lang, certify that:

1. I have reviewed this report on Form 10-K for the year ended December 31, 2010, of CECO Environmental Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/S/ JEFFREY LANG
Jeffrey Lang
Chief Executive Officer
March 15, 2011

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**
**BY CHIEF FINANCIAL OFFICER**

I, Dennis W. Blazer, certify that:

1. I have reviewed this report on Form 10-K for the year ended December 31, 2010, of CECO Environmental Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/S/ DENNIS W. BLAZER

Dennis W. Blazer
Vice President – Finance and Administration and
Chief Financial Officer
March 15, 2011

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

In connection with the Annual Report of CECO Environmental Corp. (the "Company") on Form 10-K for the period ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Lang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JEFFREY LANG

Jeffrey Lang
Chief Executive Officer
March 15, 2011

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

In connection with the Annual Report of CECO Environmental Corp. (the "Company") on Form 10-K for the period ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis W. Blazer, Vice President-Finance and Administration and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ DENNIS W. BLAZER

Dennis W. Blazer
Vice President Finance and Administration and
Chief Financial Officer
March 15, 2011