CECO ENVIRONMENTAL CORP
Form 10-Q
August 07, 2014
**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark one)**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended June 30, 2014**

**or**

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

**Commission File No. 0-7099**

**CECO ENVIRONMENTAL CORP.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **13-25660** |
| **(State or other jurisdiction of** | **(IRS Employer** |
| **Incorporation or organization)** | **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)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. 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 | x |
| Non-Accelerated Filer | ¨ | Smaller reporting company | ¨ |

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

The number of shares outstanding of each of the issuer s classes of common equity, as of the latest practical date: 25,806,676 shares of common stock, par value $0.01 per share, as of August 1, 2014.

Table of Contents

**CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES**

QUARTERLY REPORT ON FORM 10-Q

For the quarter ended June 30, 2014

**Table of Contents**

**Table of Contents**

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| (dollars in thousands, except per share data) | (unaudited) JUNE 30, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 17,788 | $ 22,661 |
| Accounts receivable, net | 41,298 | 44,364 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 15,215 | 11,110 |
| Inventories, net | 24,063 | 25,376 |
| Prepaid expenses and other current assets | 6,153 | 6,651 |
| Prepaid income taxes | 5,622 | 3,527 |
| Assets held for sale | 4,243 | 11,083 |
| Total current assets | 114,382 | 124,772 |
| Property, plant and equipment, net | 19,432 | 21,665 |
| Goodwill | 134,001 | 132,220 |
| Intangible assets-finite life, net | 42,933 | 46,813 |
| Intangible assets-indefinite life | 18,394 | 18,419 |
| Deferred charges and other assets | 4,484 | 4,647 |
| | $ 333,626 | $ 348,536 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current portion of debt | $ 7,013 | $ 9,922 |
| Accounts payable and accrued expenses | 26,557 | 34,356 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 11,319 | 13,486 |
| Income taxes payable | 775 | 1,569 |
| Total current liabilities | 45,664 | 59,333 |
| Other liabilities | 10,207 | 10,302 |
| Debt, less current portion | 72,170 | 79,160 |
| Deferred income tax liability, net | 29,982 | 29,335 |
| Total liabilities | 158,023 | 178,130 |
| Commitments and contingencies | | |
| Shareholders equity: | | |
| Preferred stock, $.01 par value; 10,000 shares authorized, none issued | | |
| Common stock, $.01 par value; 100,000,000 shares authorized, 25,797,722 and 25,724,519 shares issued in 2014 and 2013, respectively | 258 | 257 |
| Capital in excess of par value | 160,186 | 159,566 |
| Accumulated earnings | 16,599 | 11,911 |
| Accumulated other comprehensive loss | (1,084) | (972) |

| | | |
|---|---|---|
| | 175,959 | 170,762 |
| Less treasury stock, at cost, 137,920 shares in 2014 and 2013 | (356) | (356) |
| Total shareholders equity | 175,603 | 170,406 |
| | $ 333,626 | $ 348,536 |

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

**Table of Contents**

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

**(unaudited)**

| (dollars in thousands, except per share data) | THREE MONTHS ENDED JUNE 30, 2014 | THREE MONTHS ENDED JUNE 30, 2013 | SIX MONTHS ENDED JUNE 30, 2014 | SIX MONTHS ENDED JUNE 30, 2013 |
|---|---|---|---|---|
| Net sales | $ 66,641 | $ 44,433 | $ 123,811 | $ 78,794 |
| Cost of sales | 45,192 | 30,136 | 82,633 | 53,313 |
| Gross profit | 21,449 | 14,297 | 41,178 | 25,481 |
| Selling and administrative | 11,685 | 8,100 | 23,364 | 14,692 |
| Acquisition and integration expenses | 170 | 2,299 | 240 | 3,394 |
| Amortization and earn out expenses | 2,406 | 591 | 4,894 | 750 |
| Income from operations | 7,188 | 3,307 | 12,680 | 6,645 |
| Other (expenses) income, net | (121) | (59) | (227) | 72 |
| Interest expense | (746) | (154) | (1,488) | (251) |
| Income before income taxes | 6,321 | 3,094 | 10,965 | 6,466 |
| Income tax expense | 1,828 | 51 | 3,451 | 1,215 |
| Net income | $ 4,493 | $ 3,043 | $ 7,514 | $ 5,251 |
| Earnings per share: | | | | |
| Basic | $ 0.18 | $ 0.17 | $ 0.29 | $ 0.30 |
| Diluted | $ 0.17 | $ 0.17 | $ 0.29 | $ 0.29 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 25,643,508 | 17,750,512 | 25,625,033 | 17,416,118 |
| Diluted | 26,107,648 | 18,355,496 | 26,111,683 | 18,066,539 |

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

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(unaudited)**

| (dollars in thousands) | THREE MONTHS ENDED JUNE 30, 2014 | THREE MONTHS ENDED JUNE 30, 2013 | SIX MONTHS ENDED JUNE 30, 2014 | SIX MONTHS ENDED JUNE 30, 2013 |
|---|---|---|---|---|
| Net income | $ 4,493 | $ 3,043 | $ 7,514 | $ 5,251 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation | 126 | 153 | (112) | (628) |
| Other comprehensive income (loss) | 126 | 153 | (112) | (628) |
| Comprehensive income | $ 4,619 | $ 3,196 | $ 7,402 | $ 4,623 |

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

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(unaudited)**

| (dollars in thousands) | SIX MONTHS ENDED JUNE 30, 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 7,514 | $ 5,251 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,389 | 1,313 |
| Gain on sale of property and equipment | (13) | |
| Non-cash interest expense included in net income | 275 | 34 |
| Share based compensation expense | 750 | 373 |
| Bad debt expense (recoveries) | 82 | (26) |
| Inventory reserve expense | 308 | 67 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | 2,984 | 5,495 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (4,105) | (3,544) |
| Inventories | 794 | 221 |
| Prepaid expense and other current assets | (1,560) | (1,444) |
| Deferred charges and other assets | 80 | 310 |
| Accrued litigation settlement | (2,536) | |
| Accounts payable and accrued expenses | (5,263) | 20 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (2,167) | (234) |
| Income taxes payable | (794) | (1,703) |
| Other liabilities | 33 | 1,982 |
| Net cash provided by operating activities | 1,771 | 8,115 |
| Cash flows from investing activities: | | |
| Acquisitions of property and equipment | (711) | (236) |
| Proceeds from sale of property and equipment | 7,124 | |
| Net cash paid for acquisition | | (24,379) |
| Net cash provided by (used in) by investing activities | 6,413 | (24,615) |
| Cash flows from financing activities: | | |
| Net (repayments) on revolving credit lines | (4,675) | (102) |
| Repayments of debt | (5,427) | |
| Proceeds from employee stock purchase plan and exercise of stock options | 844 | 441 |
| Repurchases of common stock | (973) | |
| Dividends paid to common shareholders | (2,826) | (1,767) |
| Net cash used in financing activities | (13,057) | (1,428) |
| Net decrease in cash and cash equivalents | (4,873) | (17,928) |
| Cash and cash equivalents at beginning of period | 22,661 | 22,994 |
| Cash and cash equivalents at end of period | $ 17,788 | $ 5,066 |
| Supplemental Schedule of Non-Cash Activities: | | |
| Common stock issued in business acquisition | $ | $ 7,423 |

| | | |
|---|---|---|
| Cash paid during the period for: | | |
| Interest | $ 1,505 | $ 310 |
| Income taxes | $ 5,903 | $ 3,411 |

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

Table of Contents

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**1. Basis of Reporting for Consolidated Financial Statements**

The accompanying unaudited condensed consolidated financial statements of CECO Environmental Corp. and its subsidiaries (the Company , we , us , or our ) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, the accompanying unaudited, condensed consolidated financial statements of the Company contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2014 and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2014 and 2013. The results of operations for the three-month and six-month periods ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2013 has been derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC.

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

These financial statements and accompanying notes should be read in conjunction with the audited financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC.

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

On February 28, 2013 and August 27, 2013, the Company completed the acquisitions of Aarding Thermal Acoustics B.V. ( Aarding ) and Met-Pro Corporation ( Met-Pro ), respectively. The results of their operations have been consolidated with our results following the acquisition dates. For a more complete discussion of the transactions, refer to Note 16.

**2. New Financial Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, Revenue From Contracts With Customers. ASU 2014-09 supersedes nearly all existing revenue recognition under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to be entitled to for those goods or services using a defined five step process. More judgment and estimates may be required to achieve this principle than under existing U.S. GAAP. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption which includes additional footnote disclosures. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements and has not yet determined the method of adoption.

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

Table of Contents

### 3. Accounts Receivable

| *(Table only in thousands)* | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Trade receivables | $ 19,905 | $ 18,815 |
| Contract receivables | 22,158 | 26,249 |
| Allowance for doubtful accounts | (765) | (700) |
| | $ 41,298 | $ 44,364 |

The provision (recovery) for doubtful accounts was $25,000 and $10,000 for the three-month periods ended June 30, 2014 and 2013, respectively, and $0.1 million and $(26,000) for the six-month periods ended June 30, 2014 and 2013, respectively.

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

Revenues from contracts 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. Revenues are also recognized on a completed contract basis, when risk and title passes to the customer, which is generally upon shipment of product.

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 65,636 | $ 61,416 |
| Estimated earnings | 21,036 | 21,505 |
| | 86,672 | 82,921 |
| Less billings to date | (82,776) | (85,297) |
| | $ 3,896 | $ (2,376) |
| Included in the accompanying consolidated balance sheets under the following captions: | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 15,215 | $ 11,110 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (11,319) | (13,486) |
| | $ 3,896 | $ (2,376) |

### 5. Inventories

| *(Table only in thousands)* | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Raw materials | $ 19,563 | $ 19,753 |
| Work in process | 2,795 | 3,172 |
| Finished goods | 2,549 | 2,987 |

| | | |
|---|---|---|
| Obsolescence allowance | (844) | (536) |
| | $ 24,063 | $ 25,376 |

Amounts credited to the allowance for obsolete inventory and charged to cost of sales amounted to $0.2 million and $0.1 million for the three-month periods and $0.3 million and $0.1 million for the six-month periods ended June 30, 2014 and 2013, respectively.

Table of Contents

**6. Goodwill and Intangible Assets**

| *(Table only in thousands)* | Six months ended June 30, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| **Goodwill / Tradename** | **Goodwill** | **Tradename** | **Goodwill** | **Tradename** |
| Beginning balance | $ 132,220 | $ 18,419 | $ 19,548 | $ 3,526 |
| Acquisitions and related adjustments | 1,841 | | 112,306 | 14,775 |
| Foreign currency adjustments | (60) | (25) | 366 | 118 |
| | $ 134,001 | $ 18,394 | $ 132,220 | $ 18,419 |

| *(Table only in thousands)* | As of June 30, 2014 | | As of December 31, 2013 | |
|---|---|---|---|---|
| **Intangible assets finite life** | **Cost** | **Accum. Amort.** | **Cost** | **Accum. Amort.** |
| Patents | $ 1,429 | $ 1,408 | $ 1,423 | $ 1,383 |
| Employment agreements | 757 | 345 | 762 | 221 |
| Technology | 8,897 | 1,769 | 8,942 | 789 |
| Customer lists | 41,357 | 5,985 | 41,582 | 3,503 |
| | $ 52,440 | $ 9,507 | $ 52,709 | $ 5,896 |

Activity for the six months ended June 30, 2014 and 2013 is as follows:

| *(Table only in thousands)* | 2014 | 2013 |
|---|---|---|
| Intangible assets finite life, net at beginning of period | $ 46,813 | $ 1,283 |
| Amortization expense | (3,593) | (750) |
| Acquisitions/purchase accounting adjustments | (175) | 13,477 |
| Foreign currency adjustments | (112) | (26) |
| Intangible assets finite life, net at end of period | $ 42,933 | $ 13,984 |

Amortization expense of finite life intangible assets was $1.8 million and $0.6 million for the three-months periods ended June 30, 2014 and 2013, respectively, and $3.6 million and $0.8 million for the six-month periods ended June 30, 2014 and 2013, respectively. Amortization over the next five years for finite life intangibles is expected to be $3.4 million for the remainder of 2014, $7.1 million in 2015, $6.1 million in 2016, $5.2 million in 2017, and $4.0 million in 2018.

**7. Accounts Payable and Accrued Expenses**

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Trade accounts payable, including due to subcontractors | $ 19,490 | $ 23,108 |
| Compensation and related benefits | 1,505 | 2,412 |
| Accrued interest | 170 | 399 |
| Current portion of earn-out liability | 1,050 | 1,812 |
| Accrued warranty | 1,232 | 1,107 |
| Other accrued expenses | 3,110 | 5,518 |

| | | |
|---|---|---|
| | $ 26,557 | $ 34,356 |

Table of Contents

**8. Debt**

Debt consisted of the following at June 30, 2014 and December 31, 2013:

| *(Table only in thousands)* | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Outstanding borrowings under Credit Facility (defined below). Term loan payable in quarterly principal installments of $1.2 million through September 2016, $1.5 million through September 2017, and $1.9 million thereafter with balance due upon maturity in August 2018. | | |
| - Term loan | $ 58,424 | $ 63,781 |
| - U.S. Dollar revolving loans | 20,000 | 22,000 |
| - Multi-currency revolving loans | | |
| - Unamortized debt discount | (1,713) | (1,918) |
| Total outstanding borrowings under Credit Facility | 76,711 | 83,863 |
| Outstanding borrowings under Canadian dollar-denominated Flextor Facility (defined below) | | |
| Outstanding borrowings (U.S. dollar equivalent) under Aarding Facility (defined below) | 2,233 | 4,909 |
| Outstanding borrowings (U.S. dollar equivalent) under Euro-denominated note payable to a bank, payable in quarterly installments of 25 ($34 as of June 30, 2014), plus interest, at a fixed rate of 3.82%, maturing January 2016. Collateralized by the Heerenveen, Netherlands building. | 239 | 310 |
| Total outstanding borrowings | $ 79,183 | $ 89,082 |
| Less: current portion | 7,013 | 9,922 |
| Total debt, less current portion | $ 72,170 | $ 79,160 |

U.S. Debt

On August 27, 2013, the Company entered into a credit agreement (the Credit Agreement ) with various lenders (the Lenders ) and letter of credit issuers (each, an L/C Issuer ), and Bank of America, N.A., as Administrative Agent (the Agent ), swing line lender and an L/C Issuer, providing for various senior secured credit facilities (collectively, the Credit Facility ) comprised of a $65.0 million senior secured term loan, a $70.5 million senior secured U.S. dollar revolving credit facility for U.S. dollar revolving loans with sub-facilities for letters of credit and swing-line loans, and a $19.5 million senior secured multi-currency revolving credit facility for U.S. dollar and specific foreign currency loans. The Company has the option to obtain additional commitments for either the U.S. dollar revolving credit facility or the term loan facility in an aggregate principal amount not to exceed $30.0 million. As of June 30, 2014 and December 31, 2013, $0.8 million and $1.3 million of letters of credit were outstanding, respectively. Total unused credit availability under the Credit Facility was $69.2 million and $66.7 million at June 30, 2014 and December 31, 2013, respectively. Revolving loans may be borrowed, repaid and reborrowed until August 27, 2018, at which time all amounts borrowed pursuant to the Credit Facility must be repaid.

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

Accrued interest on Base Rate Loans is payable quarterly in arrears on the last day of each calendar quarter and at maturity. Interest on Eurocurrency Loans is payable on the last date of each applicable Interest Period (as defined in the agreement), but in no event less than once every three months and at maturity. The weighted average interest rate on outstanding borrowings was 2.22% and 2.23% at June 30, 2014 and December 31, 2013, respectively.

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

The Credit Agreement contains customary affirmative and negative covenants, including the requirement to maintain compliance with a consolidated leverage ratio of less than 2.75 and a consolidated fixed charge coverage ratio of more than 1.25. The Credit Agreement also includes customary events of default and the occurrence of an event of default could result in an increased interest rate equal to 2.0% above the applicable interest rate for loans, the acceleration of the Company s obligations pursuant to the Credit Agreement and an obligation of the subsidiary guarantors to repay the full amount of the Company s borrowings pursuant to the Credit Agreement.

As of June 30, 2014 and December 31, 2013, the Company was in compliance with all related financial and other restrictive covenants under the Credit Agreement.

The Company paid $2.7 million of other customary closing fees, arrangement fees, administration fees, letter of credit fees and commitment fees for the Credit Agreement. As of both June 30, 2014 and December 31, 2013, capitalized deferred financing costs of $0.6 million are included in deferred charges and other assets and $1.7 million and $1.9 million, respectively, are included as a discount to debt in the accompanying condensed consolidated balance sheets. Amortization expense was $0.2 million and $0.3 million for the respective three-month and six-month periods ended June 30, 2014 and is classified as interest expense.

Foreign Debt

We have a $5.5 million facilities agreement (Canadian $ denominated), originally dated November 28, 2007 (as amended from time to time), made between our Canadian subsidiary, Flextor, Inc., as borrower and Caisse/branch Caisse Desjardins du Mont-Saint-Bruno as the lender ( Flextor Facility ). The facilities agreement includes (in Canadian $) a $2.5 million bank guarantee facility (under the PSG Program from Export Development Canada), a $0.5 million line of credit specific to forward exchange contracts, and a $2.5 million variable (subject to asset value limitations) line of credit for operations. The facility interest rate is the Caisse central Desjardins prime rate plus 0.5%. All of the borrower s assets are pledged for the facility, and the borrower must have a working capital ratio of at least 1.25:1, working capital of at least $1.0 million, debt to adjusted tangible net worth ratio of less than 2.50:1, and minimum adjusted tangible net worth of $1.3 million. As of June 30, 2014 and December 31, 2013, the borrower was in compliance with all related financial and other restrictive covenants. As of June 30, 2014 and December 31, 2013, there were no amounts outstanding under the facilities agreement.

We have a 7.0 million facilities agreement, originally dated August 17, 2012 (as amended from time to time), made between our Netherland s subsidiaries ATA Beheer B.V. and Aarding Thermal Acoustics B.V., as borrowers and ING Bank N.V. as the lender ( Aarding Facility ). The facilities agreement includes a 3.5 million bank guarantee facility and a 3.5 million overdraft facility. The bank guarantee and overdraft interest rate is three months Euribor plus 195 basis points (2.26% as of June 30, 2014). All of the borrowers assets are pledged for this facility, and the borrowers solvency ratio must be at least 30% and net debt/last twelve months EBITDA less than 3.0. As of June 30, 2014 and December 31, 2013, the borrowers were in compliance with all related financial and other restrictive covenants. As of June 30, 2014, 2.9 million ($4.0 million) of the bank guarantee and 1.6 million ($2.2 million) of the overdraft facility are being used by the borrowers. As of December 31, 2013, 2.5 million ($3.4 million) of the bank guarantee and 3.5 million ($4.9 million) of the overdraft facility were being used by the borrowers.

Table of Contents

**9. Earnings and Dividends per Share**

The computational components of basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2014 and 2013 are below.

| | For the three-month period ended June 30, 2014 | | |
|---|---|---|---|
| | Numerator (Income) | Denominator (Shares) | Per Share Amount |
| Basic net income and earnings per share | $ 4,493 | 25,644 | $ 0.18 |
| Effect of dilutive securities and notes: | | | |
| Common stock equivalents arising from stock options and employee stock purchase plan | | 464 | (0.01) |
| Diluted earnings and earnings per share | $ 4,493 | 26,108 | $ 0.17 |

| | For the three-month period ended June 30, 2013 | | |
|---|---|---|---|
| | Numerator (Income) | Denominator (Shares) | Per Share Amount |
| Basic net income and earnings per share | $ | | |