

ENGLOBAL CORP
Form 10-Q
May 10, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2011

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

Commission File No. 001-14217

ENGlobal Corporation

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

88-0322261

(I.R.S Employer Identification No.)

654 N. Sam Houston Parkway E., Suite 400, Houston, TX 77060-5914

(Address of principal executive offices) (Zip code)

(281) 878-1000

(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 shortened 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 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 X

(Do not check if a smaller reporting
company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the close of business on May 6, 2011.

\$0.001 Par Value Common Stock 26,657,529 shares

QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED MARCH 31, 2011

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENGlobal Corporation
 Condensed Consolidated Statements of Operations
 (Unaudited)
 (dollars in thousands, except loss per share)

	For the Three Months Ended	
	March 31,	
	2011	2010
Operating revenues	\$77,250	\$67,984
Operating costs	71,529	63,112
Gross profit	5,721	4,872
Selling, general and administrative expenses	8,320	7,383
Operating loss	(2,599	) (2,511
Other expense:		
Other expense, net	(43	) (11
Interest expense, net	(217	) (76
Loss before income taxes	(2,859	) (2,598
Benefit for federal and state income taxes	(886	) (1,060
Net loss	\$(1,973	) \$(1,538
Loss per common share:		
Basic	\$(0.07	) \$(0.06
Diluted	\$(0.07	) \$(0.06
Weighted average shares used in computing loss per share:		
Basic	26,673	27,434
Diluted	26,673	27,434

See accompanying notes to interim condensed consolidated financial statements.

ENGlobal Corporation
Condensed Consolidated Balance Sheets
(Unaudited)
(dollars in thousands, except share amounts)
ASSETS

	March 31, 2011	December 31, 2010
Current Assets:		
Cash and cash equivalents	\$39	\$49
Trade receivables, net of allowances of \$1,271 and \$2,130	53,838	56,064
Prepaid expenses and other current assets	1,342	1,801
Notes receivable	808	2,579
Costs and estimated earnings in excess of billings on uncompleted contracts	5,858	5,129
Federal and state income taxes receivable	6,454	6,841
Deferred tax asset	3,515	2,619
Total Current Assets	\$71,854	\$75,082
Property and equipment, net	4,140	4,503
Goodwill	22,614	22,614
Other intangible assets, net	4,452	4,975
Long-term trade and notes receivable, net of current portion and allowances	1,361	1,361
Deferred tax asset, non-current	1,575	1,424
Other assets	354	365
Total Assets	\$106,350	\$110,324

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$8,897	\$9,430
Accrued compensation and benefits	15,243	11,221
Notes payable	1,642	2,070
Current portion of long-term debt and leases	12,631	19,093
Deferred rent	641	629
Billings in excess of costs and estimated earnings on uncompleted contracts	1,632	1,233
Other current liabilities	2,182	1,294
Total Current Liabilities	\$42,868	\$44,970
Long-Term Debt and Leases, net of current portion	253	252
Total Liabilities	\$43,121	\$45,222
Commitments and Contingencies (Note 10)		
Stockholders' Equity:		
Common stock - \$0.001 par value; 75,000,000 shares authorized; 26,657,529 and 26,676,279 shares outstanding and 27,638,628 and 27,657,378 shares issued at March 31, 2011 and December 31, 2010, respectively	\$28	\$28
Additional paid-in capital	37,708	37,608
Retained earnings	27,925	29,920
Treasury stock at cost - 981,099 shares at March 31, 2011 and December 31, 2010	(2,362)	) (2,362)
Accumulated other comprehensive loss	(70)	) (92)
Total Stockholders' Equity	\$63,229	\$65,102
Total Liabilities and Stockholders' Equity	\$106,350	\$110,324

See accompanying notes to interim condensed consolidated financial statements.

ENGlobal Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(dollars in thousands)

	For the Three Months Ended March 31,	
	2011	2010
Cash Flows from Operating Activities:		
Net loss	\$(1,973	) \$(1,538
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	949	1,050
Share-based compensation expense	100	100
Deferred income tax benefit	(1,047) —
Gain on disposal of property, plant and equipment	(11	) (7
Changes in current assets and liabilities, net of acquisitions:		
Trade accounts and other receivables	3,997	5,447
Costs and estimated earnings in excess of billings on uncompleted contracts	(729	) 2,101
Prepaid expenses and other assets	516	354
Accounts payable	(696	) 219
Accrued compensation and benefits	3,990	(298
Billings in excess of costs and estimated earnings on uncompleted contracts	399	(743
Other liabilities	900	800
Income taxes receivable	387	(1,022
Net cash provided by operating activities	\$6,782	\$6,463
Cash Flows from Investing Activities:		
Property and equipment acquired	(109	) (259
Proceeds from note receivable	—	15
Proceeds from sale of other assets	42	8
Net cash used in investing activities	\$(67	) \$(236
Cash Flows from Financing Activities:		
Borrowings on line of credit	35,541	15,520
Payments on line of credit	(41,951	) (21,520
Borrowings (repayments) under capital lease	(51	) (47
Other long-term debt borrowings (repayments)	(264	) 7
Net cash used in financing activities	\$(6,725	) \$(6,040
Effect of Exchange Rate Changes on Cash	—	7
Net change in cash	(10	) 194
Cash and cash equivalents, at beginning of period	49	143
Cash and cash equivalents, at end of period	\$39	\$337

See accompanying notes to interim condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Company consolidates all of its subsidiaries and significant inter-company accounts and transactions have been eliminated in the consolidation.

The condensed consolidated financial statements of ENGlobal Corporation (which may be referred to as “ENGlobal,” the “Company,” “we,” “us,” or “our”) included herein are unaudited for the three months ended March 31, 2011 and 2010, have been prepared from the books and records of the Company pursuant to the rules and regulations of the Securities and Exchange Commission, and in the case of the condensed balance sheet as of December 31, 2010, have been derived from the audited financial statements. These financial statements reflect all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary to fairly present the results for the periods presented. Certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. It is suggested that these condensed financial statements be read in conjunction with the Company's audited financial statements for the year ended December 31, 2010, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company has assessed subsequent events through the date of filing these condensed consolidated financial statements with the Securities and Exchange Commission and believes that the disclosures made herein are adequate to make the information presented not misleading.

NOTE 2 – CRITICAL ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

A summary of critical accounting policies is disclosed in Note 2 to the consolidated financial statements included in our 2010 Annual Report on Form 10-K. Our critical accounting policies are further described under the caption “Critical Accounting Policies” in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Annual Report on Form 10-K.

In December 2010, the FASB issued guidelines that amended the goodwill impairment test for reporting units with zero or negative carrying amounts. The objective of this new guidance is to address questions about entities with reporting units with zero or negative carrying amounts because some entities concluded that the first step of the goodwill impairment test was passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. The new guidance is effective for fiscal years and interim periods, within those years, beginning after December 15, 2010. We do not expect the adoption of this guidance to have an impact on our consolidated financial statements.

NOTE 3 – STOCK COMPENSATION PLANS

The Company's 1998 Incentive Plan (“Option Plan”) that provided for the issuance of options to acquire up to 3,250,000 shares of common stock expired in June 2008. The Option Plan provided for grants of non-statutory options, incentive stock options, restricted stock awards and stock appreciation rights. All stock option grants were for a ten-year term. Stock options issued to executives and management generally vested over a four-year period, one-fifth at grant date and one-fifth at December 31 of each year until they are fully vested. Stock options issued to directors under the Option Plan vested quarterly over a one-year period. As of May 6, 2011, 911,000 shares of common stock remained subject to outstanding awards previously granted under the Option Plan.

In June 2009, the Company's stockholders approved a new 2009 Equity Incentive Plan (“Equity Plan”) that provides for the issuance of up to 480,000 shares of common stock. The Equity Plan provides for grants of non-statutory options,

incentive stock options, restricted stock awards, performance shares, performance units, restricted stock units and other stock-based awards. Grants to employees will generally vest over a four-year period, one-fourth at December 31 of each year until they are fully vested. Grants to non-employee directors will vest quarterly over a one-year period coinciding with their service term. As of May 6, 2011, 223,730 shares of restricted stock have been granted under the Equity Plan, of which 79,562 remain subject to outstanding awards.

Notes to Condensed Consolidated Financial Statements

Total share-based compensation expense in the amount of \$100,000 was recognized during both the three months ended March 31, 2011 and 2010. Share-based compensation expense is reported in selling, general and administrative expense.

Stock Options

Compensation expense related to outstanding non-vested stock option awards under the Option Plan of \$81,000 had not been recognized at March 31, 2011. This compensation expense is expected to be recognized over a weighted-average period of approximately 9 months.

The following table summarizes stock option activity through the first quarter of 2011:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)*
Balance at December 31, 2010	915,000	\$7.14	5.2	\$145
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled or expired	(4,000	) 9.44	—	—
Balance at March 31, 2011	911,000	\$7.13	4.9	\$664
Exercisable at March 31, 2011	891,000	\$7.08	4.8	\$664

*Based on average stock price through the first quarter of 2011 of \$4.59 per share. The average stock price for the same period in 2010 was \$3.04 per share. The total fair value of vested options outstanding as of March 31, 2011 and 2010 was \$0.7 million and \$0.3 million, respectively.

No options were exercised during the three months ended March 31, 2011 or the three months ended March 31, 2010.

Restricted Stock Awards

Restricted stock awards granted to directors are intended to compensate and retain the director over the one-year service period commencing July 1 of the year of service. These awards vest in quarterly installments beginning September 30 of the year of service, so long as the grantee continues to serve as a director of the Company. Restricted stock awards granted to employees vest in four equal annual installments beginning December 31 in the year granted, so long as the grantee remains employed full-time with the Company as of each vesting date. During 2010, the Company granted restricted stock awards per the following table.

Date Issued	Issued to	Number of Individuals	Number of Shares	Market Price	Fair Value	Grants Forfeited
January 27, 2010	Employee	2	37,500	\$3.09	\$115,875	18,750
June 17, 2010	Employee					