

ENGLOBAL CORP
 Form 10-Q
 November 05, 2010
 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 September 30, 2010

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 X

Non-Accelerated Filer (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 November 2, 2010.

\$0.001 Par Value Common Stock 26,676,279 shares

QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2010

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	\$85,752	\$ 87,271	\$227,441	\$260,639
Operating costs	79,288	80,103	212,074	235,940
Gross profit	6,464	7,168	15,367	24,699
Selling, general and administrative	14,531	6,980	32,187	20,838
Operating income (loss)	(8,067)	188	(16,820)	3,861
Other income (expense):				
Other income (expense)	(34)	31	114	182
Interest income (expense), net	(101)	(148)	(255)	(479)
Income (loss) before income taxes	(8,202)	71	(16,961)	3,564
Provision for federal and state income taxes	(3,001)	140	(5,705)	1,570
Net income (loss)	\$(5,201)	\$(69)	\$(11,256)	\$1,994
Earnings (loss) per common share:				
Basic	\$(0.19)	\$ 0.00	\$(0.41)	\$0.07
Diluted	\$(0.19)	\$ 0.00	\$(0.41)	\$0.07
Weighted average shares used in computing earnings (loss) per share (in thousands):				
Basic	27,073	27,305	27,309	27,299
Diluted	27,073	27,305	27,309	27,573

See accompanying notes to interim condensed consolidated financial statements.

ENGlobal Corporation
Condensed Consolidated Balance Sheets
(Unaudited)
(dollars in thousands)

ASSETS

	September 30, 2010	December 31, 2009
Current Assets:		
Cash and cash equivalents	\$357	\$143
Trade receivables, net of allowances of \$1,430 and \$1,868	51,337	47,715
Prepaid expenses and other current assets	715	2,182
Current portion of notes receivable	—	15
Costs and estimated earnings in excess of billings on uncompleted contracts	4,559	6,557
Federal and state income taxes receivable	6,462	2,221
Deferred tax asset	3,250	3,250
Total Current Assets	\$66,680	\$62,083
Property and equipment, net	4,910	5,983
Goodwill	23,003	22,291
Other intangible assets, net	5,481	4,238
Long-term trade and notes receivable, net of current portion and allowances	4,374	14,621
Deferred tax asset, non-current	603	607
Other assets	733	812
Total Assets	\$105,784	\$110,635

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$8,782	\$8,252
Accrued compensation and benefits	14,033	11,511
Current portion of long-term debt and leases	11,490	1,064
Deferred rent	632	613
Billings in excess of costs and estimated earnings on uncompleted contracts	1,958	3,601
Other current liabilities	2,097	734
Total Current Liabilities	\$38,992	\$25,775
Long-Term Debt and Leases, net of current portion	1,317	6,149
Total Liabilities	\$40,309	\$31,924
Commitments and Contingencies (Note 10)		
Stockholders' Equity:		
Common stock - \$0.001 par value; 75,000,000 shares authorized; 26,676,279 and 27,407,159 shares outstanding and 27,657,378 and 27,407,159 shares issued at September 30, 2010 and December 31, 2009, respectively	\$28	\$27
Additional paid-in capital	37,486	37,108
Retained earnings	30,417	41,672
Treasury stock at cost - 981,099 and 0 shares at September 30, 2010 and December 31, 2009, respectively	(2,363))
Accumulated other comprehensive income (loss)	(93)) (96)
Total Stockholders' Equity	\$65,475	\$78,711
Total Liabilities and Stockholders' Equity	\$105,784	\$110,635

See accompanying notes to interim condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,		
	2010	2009	
Cash Flows from Operating Activities:			
Net income (loss)	\$(11,256) \$1,994	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,432	3,713	
Share-based compensation expense	316	514	
(Gain)/Loss on disposal of property, plant and equipment	75	45	
Changes in current assets and liabilities, net of acquisitions:			
Trade accounts and other receivables	6,921	30,341	
Costs and estimated earnings in excess of billings on uncompleted contracts	2,002	911	
Prepaid expenses and other assets	1,451	(467)
Accounts payable	2,356	(7,679)
Accrued compensation and benefits	2,079	(8,321)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,648) 3,315	
Other liabilities	712	(1,978)
Income taxes receivable/payable	(4,241) (3,863)
Net cash provided by operating activities	\$2,199	\$18,525	
Cash Flows from Investing Activities:			
Property and equipment acquired	(880) (3,165)
Proceeds from note receivable	15	44	
Business acquisitions, net of cash acquired	(1,896) (1,050)
Proceeds from sale of other assets	13	3	
Net cash used in investing activities	\$(2,748) \$(4,168)
Cash Flows from Financing Activities:			
Net borrowings (payments) on line of credit	3,736	(12,530)
Purchase of treasury stock	(2,363) —	
Proceeds from issuance of common stock	63	—	
Borrowing (repayments) under capital lease	(142) (130)
Other long-term debt repayments	(534) (2,258)
Net cash provided by (used in) financing activities	\$760	\$(14,918)
Effect of Exchange Rate Changes on Cash	3	10	
Net change in cash	214	(551)
Cash, at beginning of period	143	1,000	
Cash, at end of period	\$357	\$449	

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 all 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 month and nine month periods ended September 30, 2010 and 2009, 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, 2009, 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, 2009, 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 NEW ACCOUNTING PRONOUNCEMENTS

A summary of critical accounting policies is disclosed in Note 2 to the consolidated financial statements included in our 2009 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 2009 Annual Report on Form 10-K.

NOTE 3 – SHARE-BASED COMPENSATION

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 November 2, 2010, 983,336 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 November 2, 2010, 242,480 shares of restricted stock have been granted under the Equity Plan, of which 171,410 remain subject to outstanding awards.

Total share-based compensation expense in the amount of \$116,000 and \$169,000 was recognized during the three months ended September 30, 2010 and 2009, respectively. Total share-based compensation expense in the amount of \$316,000 and \$514,000 was recognized during the nine months ended September 30, 2010 and 2009, respectively. Share-based compensation expense is reported in selling, general and administrative expense.

Notes to Condensed Consolidated Financial Statements

Stock Options

Compensation expense related to outstanding non-vested stock option awards under the Option Plan of \$164,000 had not been recognized at September 30, 2010. This compensation expense is expected to be recognized over a weighted-average period of approximately 15 months.

The following table summarizes stock option activity through the third quarter of 2010:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)*
Balance at December 31, 2009	1,091,104	\$7.12	3.6	\$737
Granted	—	—	—	—
Exercised	(54,614) 1.07	—	—
Canceled or expired	(53,154) 11.32	—	—