

Edgar Filing: ENGLOBAL CORP - Form 10-Q

ENGLOBAL CORP
Form 10-Q
May 07, 2008

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

Form 10-Q

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

For the quarterly period ended March 31, 2008

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 77073-6033

(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 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 Smaller Reporting Company
(Do not check if a smaller reporting company)

Edgar Filing: ENGLOBAL CORP - Form 10-Q

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 of April 30, 2008.

\$0.001 Par Value Common Stock 27,063,541 shares

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2008

TABLE OF CONTENTS

Part I.	Financial Information
Item 1.	Financial Statements
	Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2008 and March 31, 2007
	Condensed Consolidated Balance Sheets at March 31, 2008 and December 31, 2007
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and March 31, 2007
	Notes to Condensed Consolidated Financial Statements
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations Engineering Segment Results Construction Segment Results Automation Segment Results Land Segment Results
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures
Part II.	Other Information
Item 1.	Legal Proceedings
Item 1A.	Risk Factors
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders
Item 5.	Other Information

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Item 6. Exhibits

Signatures

2

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENGlobal Corporation
Condensed Consolidated Statements Of Income
(Unaudited)
(Dollars in Thousands)

	For the Three Months Ended March 31,	
	2008	2007
Revenues	\$ 98,166	\$ 81,659
Direct costs	83,820	68,382
Gross Profit	14,346	13,277
Selling, general and administrative	7,226	7,744
Operating income	7,120	5,533
Other Income (Expense):		
Other income (expense)	26	--
Interest income (expense), net	(483)	(560)
Income before Income Taxes	6,663	4,973
Provision for Federal and State Income Taxes	2,660	1,818
Net Income	\$ 4,003	\$ 3,155
Net Income Per Common Share:		
Basic	\$ 0.15	\$ 0.12
Diluted	\$ 0.15	\$ 0.12
Weighted Average Shares Used in Computing Net Income Per Share:		
Basic	27,060	26,809
Diluted	27,527	27,260

See accompanying notes to interim condensed consolidated financial statements.

3

ENGlobal Corporation
Condensed Consolidated Balance Sheets

Edgar Filing: ENGLOBAL CORP - Form 10-Q

(Dollars in Thousands)

	ASSETS	

		March 31, 2008 (unaudited) -----
Current Assets:		
Cash		\$ 2,019
Trade receivables, net		67,186
Prepaid expenses and other current assets		1,794
Current portion of notes receivable		155
Costs and estimated earnings in excess of billings on uncompleted contracts		6,751
Deferred tax asset		3,081
Total Current Assets		----- 80,986
Property and Equipment, net		6,220
Goodwill		20,048
Other Intangible Assets, net		3,718
Long term notes receivable, net of current portion		10,546
Deferred tax asset, non-current		90
Other Assets		1,107
Total Assets		----- \$ 122,715 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current Liabilities:		
Accounts payable		\$ 7,630
Accrued compensation and benefits		15,270
Notes payable		569
Current portion of long-term debt		1,442
Deferred rent		527
Billings and estimated earnings in excess of costs on uncompleted contracts		922
Other liabilities and taxes payable		5,309
Total Current Liabilities		----- 31,669
Long-Term Debt, net of current portion		30,884
Total Liabilities		----- 62,553 -----
Commitments and Contingencies (Note 9)		
Stockholders' Equity:		
Common stock - \$0.001 par value; 75,000,000 shares authorized; 27,063,541 and 27,051,766 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively		28
Additional paid-in capital		34,003
Retained earnings		26,184
Accumulated other comprehensive income (loss)		(53)
Total Stockholders' Equity		----- 60,162 -----

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Total Liabilities and Stockholders' Equity \$ 122,715

=====

See accompanying notes to interim condensed consolidated financial statements.

4

ENGlobal Corporation
Condensed Consolidated Statements Of Cash Flows
(Unaudited)
(Dollars in Thousands)

	For the Three Months Ended March 31,	
	2008	2007
	-----	-----
Cash Flows from Operating Activities:		
Net income	\$ 4,003	\$ 3,155
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,111	1,069
Share based compensation expense	387	233
Gain on disposal of property, plant and equipment	(1)	(14)
Deferred income taxes	(90)	(39)
Changes in current assets and liabilities, net of acquisitions:		
Trade receivables	(3,044)	(3,866)
Billings and estimated earnings in excess of costs	230	(2,679)
Prepaid expenses and other assets	298	(462)
Accounts payable	(2,851)	(4,036)
Accrued compensation and benefits	(913)	593
Billings in excess of costs and estimated earnings	(41)	1,157
Other liabilities	(903)	(1,775)
Income taxes receivable/payable	2,210	1,732
	-----	-----
Net cash provided (used) by operating activities	396	(4,932)
	-----	-----
Cash Flows from Investing Activities:		
Property and equipment acquired	(445)	(574)
Proceeds from sale of equipment	--	48
Proceeds from note receivable	46	8
Proceeds from sale of other assets	1	90
	-----	-----
Net cash used in investing activities	(398)	(428)
	-----	-----
Cash Flows from Financing Activities:		
Borrowings on line of credit	64,078	39,412
Payments on line of credit	(62,235)	(33,759)
Proceeds from issuance of common stock	23	42
Long-term debt repayments	(705)	(817)
	-----	-----
Net cash provided by financing activities	1,161	4,878
	-----	-----
Effect of Exchange Rate Changes on Cash	(48)	29
	-----	-----
Net change in cash	1,111	(453)
Cash, at beginning of period	908	1,403

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Cash, at end of period	\$ 2,019	\$ 950
	=====	=====
Supplemental Disclosures:		
Interest paid	\$ 393	\$ 354
	-----	-----
Income taxes paid	\$ 575	\$ (135)
	-----	-----

See accompanying notes to interim condensed consolidated financial statements.

5

Notes to Condensed Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION

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 periods ended March 31, 2008 and 2007. 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, 2007, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2008. The Company believes that the disclosures made herein are adequate to make the information presented not misleading.

NOTE 2 - CRITICAL ACCOUNTING POLICIES

A summary of critical accounting policies is disclosed in Note 2 to the Consolidated Financial Statements included in our 2007 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 Operation in our 2007 Annual Report on Form 10-K.

NOTE 3 - STOCK BASED COMPENSATION

The Company currently sponsors a stock-based compensation plan as described below. Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), "Share-Based Payment" ("SFAS No. 123(R)"). Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation is measured at the grant date based on the value of the awards and is recognized as expense over the requisite service period (usually a vesting period). The Company selected the modified prospective method of adoption described in SFAS No. 123(R). The fair values of the stock awards recognized under SFAS No. 123(R) are determined based on the vested portion of the awards; however, the total compensation expense is recognized on a straight-line basis over the vesting period.

Edgar Filing: ENGLOBAL CORP - Form 10-Q

In accordance with the provisions of SFAS No. 123(R), total stock-based compensation expense in the amount of \$387,000 and \$233,000 was recorded in the three months ended March 31, 2008, and March 31, 2007, respectively. The total stock-based compensation expense was recorded in selling, general and administrative expense. The total income tax benefit recognized in the condensed consolidated statements of income for the stock-based arrangements was \$90,000 and \$39,000 for the three months ended March 31, 2008, and March 31, 2007, respectively.

The total fair value of vested options outstanding as of March 31, 2008 and 2007 was \$4.6 million and \$6.5 million, respectively. The average closing price per share of our common stock for the three months ended March 31, 2008 and 2007 was \$9.26 per share and \$6.00 per share, respectively. Our common stock was quoted on the NASDAQ Global Select market during the three months ended March 31, 2008 and on the American Stock Exchange during the three months ended March 31, 2007.

Stock Option and Incentive Plans

The Company maintains a stock option plan (the "Option Plan") under which the Company may issue incentive stock options to employees and non-employee directors. Under the Option Plan, a maximum of 3,250,000 shares of our common stock was approved to be issued or transferred to certain non-employee directors, officers and employees pursuant to stock based awards granted. As of March 31, 2008, 482,494 shares remain available for grant under the Option Plan.

The Company's policy regarding share issuance upon option exercise takes into consideration the optionee's eligibility and vesting status. Upon receipt of an optionee's exercise notice and payment, and the Company's subsequent determination of eligibility, the Company's Chief Governance Officer or the Chairman of the Compensation Committee instructs our transfer agent to issue shares of our Common Stock to the optionee.

6

Notes to Condensed Consolidated Financial Statements

Stock options have been granted with exercise prices at or above the market price on the date of grant. The granted options have vested generally over one year for non-employee directors and ratably over four years for officers and employees. The granted options generally have ten year contractual terms.

Compensation expense of \$1.6 million related to previously granted stock option awards which are non-vested had not yet been recognized at March 31, 2008. This compensation expense is expected to be recognized over a weighted-average period of approximately 30 months.

The following summarizes stock option activity for the first quarter of 2008:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic * Value (000's)
Balance at December 31, 2007	1,306,500	\$ 6.26	7.4	\$ 3,920

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Granted	140,000	9.44	10.0	--
Exercised	(11,775)	1.98	--	(86)
Canceled or expired	--	--	--	--
	-----	-----	-----	-----
Balance at March 31, 2008	1,434,725	\$ 6.61	7.2	\$ 3,802
	=====	=====	=====	=====
Exercisable at March 31, 2008	1,115,525	\$ 5.79	7.0	\$ 3,871
	=====	=====	=====	=====

*Based on average stock price for the first quarter 2008 of \$9.26 per share. The average stock price for the same period in 2007 was \$6.00 per share.

The total intrinsic value of options exercised was \$86,000 and \$77,000 for the three months ended March 31, 2008 and 2007, respectively.

NOTE 4 - FIXED FEE CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts consisted of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008	Decem 2

	(Dollars in Tho	

Costs incurred on uncompleted contracts	\$ 74,374	\$
Estimated earnings (losses) on uncompleted contracts	(1,390)	---
	-----	---
Earned revenues	72,984	---
Less: Billings to date	67,155	---
	-----	---
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$ 5,829	\$
	=====	==
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 6,751	\$
Billings and estimated earnings in excess of cost on uncompleted contracts	(922)	---
	-----	---
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$ 5,829	\$
	=====	==

Estimated losses on uncompleted contracts are related to a large EPC contract, discussed in our 2007 Annual Report on Form 10-K and 2006 Annual Report on Form 10-K/A and are pending final resolution.

Notes to Condensed Consolidated Financial Statements

NOTE 5 - LINE OF CREDIT AND DEBT

Schedule of Long-Term Debt:

Comerica Credit Facility - Line of credit, variable interest at 5.0% at March 31, 2008, maturing in July 2010

Sterling Planet and EDGI - Notes payable, interest at 5%, principal payments in installments of \$15,000 plus interest due quarterly, maturing in December 2008

Cleveland Inspection Services, Inc., CIS Technical Services and F.D. Curtis - Notes payable, discounted at 5% interest, principal in installments of \$100,000 due quarterly, maturing in October 2009

A.T.I. Inc. - Note payable, interest at 6%, principal payments in installments of \$30,422 including interest due monthly, maturing in January 2009

Michael Lee - Note payable, interest at 5%, principal payments in installments of \$150,000 plus interest due quarterly, maturing in July 2010

Watco Management, Inc. - Note payable, interest at 4%, principal payments in installments of \$137,745 including interest annually, maturing in October 2010

Total long-term debt
 Less: Current maturities

Long-term debt, net of current portion

NOTE 6 - SEGMENT INFORMATION

During the first three quarters of 2007, the Company managed and reported through two business segments: Engineering and Systems. In the fourth quarter of 2007, due to the past and anticipated growth in certain areas of our business and change in leadership during 2007, we reevaluated our reportable segments under Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." As a result, we have elected to realign both management and reporting into four business segments: Engineering, Construction, Automation and Land.

The Engineering segment provides consulting services relating to the development, management and execution of projects requiring professional engineering and related project services. Services provided by the Engineering segment include feasibility studies, engineering, design, procurement, and construction management. The Construction segment provides construction management personnel and services in the areas of inspection, mechanical integrity, vendor and turnaround surveillance, field support, construction, quality assurance and plant asset management. The Automation segment provides services related to the design, fabrication, and implementation of process distributed control and analyzer systems, advanced automation, and information technology projects. The Land segment provides land management, right-of-way, environmental compliance, and governmental regulatory compliance services primarily to the pipeline, utility and telecom companies and other owner/operators of infrastructure facilities throughout the United States and Canada.

Our Corporate segment includes costs related to business development, investor relations/governance, executive functions, finance, accounting, safety, human resources and information technology that are not specifically attributable to one of the four operating segments but do support corporate activities and initiatives. Revenue and operating income for each segment are set forth in the following table.

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Notes to Condensed Consolidated Financial Statements

Note 6 - Segment Information (continued)	Three Months Ended March 31,	
	2008	2007
	-----	-----
	(Dollars in Thousands)	
Revenue:		
Engineering	\$ 52,029	\$ 51,449
Construction	26,900	13,785
Automation	10,402	9,538
Land	8,835	6,887
	-----	-----
Total revenue	\$ 98,166	\$ 81,659
	=====	=====
Operating income (loss):		
Engineering	\$ 8,587	\$ 7,297
Construction	1,325	1,455
Automation	412	(64)
Land	715	667
Corporate	(3,919)	(3,822)
	-----	-----
Total operating income	\$ 7,120	\$ 5,533
	=====	=====

Financial information about geographic areas

Revenue from the Company's non-U.S. operations is currently not material. Long-lived assets (principally leasehold improvements and computer equipment) outside the United States were \$79,000 as of March 31, 2008, net of accumulated depreciation, stated in U.S. dollars.

NOTE 7 - FEDERAL INCOME TAXES

The components of income tax expense (benefit) for the three months ended March 31, 2008 and 2007 were as follows:

	Three Months Ended March 31,	
	2008	2007
	-----	-----
	(Dollars in Thousands)	
Current	\$ 2,750	\$ 1,857
Deferred	(90)	(39)
	-----	-----
Total tax provision	\$ 2,660	\$ 1,818
	=====	=====

NOTE 8 - EARNINGS PER SHARE

The following table reconciles the denominator used to compute basic earnings per share to the denominator used to compute diluted earnings per share ("EPS").

Edgar Filing: ENGLOBAL CORP - Form 10-Q

	Three Months Ended March 31,	
	----- 2008	2007 -----
	(in thousands)	
Weighted average shares outstanding (denominator used to compute basic EPS)	27,060	26,809
Effect of employee and outside director stock options	467	451
	-----	-----
Denominator used to compute diluted EPS	27,527	27,260
	=====	=====

9

Notes to Condensed Consolidated Financial Statements

NOTE 9 -CONTINGENCIES

Employment Agreements

The Company has employment agreements with certain of its executive officers and certain other officers. Such agreements provide for minimum salary levels. If the Company terminates the employment of the employee for any reason other than (1) for cause, as defined in the employment agreement, (2) voluntary resignation, or (3) the employee's death, the Company is obligated to provide a severance benefit equal to six months of the employee's salary, and, at its option, an additional six months at 50% to 100% of the employee's salary in exchange for an extension of the non-compete. These agreements are renewable for one year at the Company's option.

Litigation

From time to time, the Company is involved in various legal proceedings arising in the ordinary course of business alleging, among other things, breach of contract or tort in connection with the performance of professional services, the outcome of which cannot be predicted with certainty. As of the date of this filing, we are party to several legal proceedings that we believe have been reserved for or are covered by insurance, or that, if determined adversely to us individually or in the aggregate, would not have a material adverse effect on our results of operations or financial position.

Insurance

The Company carries a broad range of insurance coverage, including general and business automobile liability, commercial property, professional errors and omissions, workers' compensation insurance and a general umbrella policy. The Company is not aware of any claims in excess of insurance recoveries. ENGlobal is partially self-funded for health insurance claims. Provisions for expected future payments are accrued based on the Company's experience.

Long-term Note Receivable

In the first quarter of 2007, ENGlobal Engineering, Inc. ("EEI") and South

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Louisiana Ethanol, LLC ("SLE") executed an agreement for EPC services relating to the retro-fit of an ethanol plant in southern Louisiana. The history of the SLE project (the "Project") is described in Note 12 to the Company's financial statements included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the "Third Quarter 10-Q") and is discussed further in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Although work has not recommenced on the Project and SLE has not obtained permanent financing, the Company continues to believe that, due to the value of the Collateral, the Note Receivable is fully collectible. Specifically, an updated appraisal from the bridge lending bank's appraiser indicates a fair market value of \$35.8 million, an orderly liquidation value of \$25.3 million, and a forced liquidation value of \$20.0 million. Moreover, SLE may seek equity financing for the Project in lieu of or in addition to debt financing.

While the Company believes that in the event the Collateral is liquidated, SLE's obligations to the Company would be paid in full pursuant to the Collateral Mortgage in favor of the Company, collectability is not assured at this time.

10

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain information contained in this Form 10-Q, the Company's Annual Report on Form 10-K, as well as other written and oral statements made or incorporated by reference from time to time by the Company and its representatives in other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, may be deemed to be forward-looking statements with the meaning of Section 21E of the Securities Exchange Act of 1934. This information includes, without limitation, statements concerning the Company's future financial position and results of operations; planned capital expenditures; business strategy and other plans for future operations; the future mix of revenues and business; customer retention; project reversals; commitments and contingent liabilities; and future demand and industry conditions. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Generally, the words "anticipate," "believe," "estimate," "expect," "may," and similar expressions, identify forward-looking statements, which generally are not historical in nature. Actual results could differ materially from the results described in the forward-looking statements due to the risks and uncertainties set forth in this Form 10-Q, the specific risk factors identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and those described from time to time in our future reports filed with the Securities and Exchange Commission.

The following discussion is qualified in its entirety by, and should be read in conjunction with, the Company's Consolidated Financial Statements, including the notes thereto, included in this Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Edgar Filing: ENGLOBAL CORP - Form 10-Q

MD&A Overview

The following list sets forth a general overview of certain significant changes in the Company's financial condition and results of operations for the three months ended March 31, 2008, compared to the corresponding period in 2007.

	During the three-month period ended March 31, 2008
Revenue	Increased 20.2%
Gross profit	Increased 7.5%
Operating income	Increased 29.1%
SG&A expense	Decreased 6.5%
Net income	Increased 25.0%

Long-term debt, net of current portion, increased 5.5%, or \$1.6 million, from \$29.3 million at December 31, 2007 to \$30.9 million at March 31, 2008, however, as a percentage of stockholders' equity, long-term debt decreased to 51.3% from 52.5% at these same dates. The increase in long-term debt is primarily related to the \$1.9 million increase in our line of credit supporting our growth and the timing difference between meeting short-term bi-weekly payroll obligations and collections of associated trade receivables. On average, our day's sales outstanding increased to 62 days for the three-month period ended March 31, 2008, from 61 days at December 31, 2007, but decreased from 71 days for the comparable three-month period in 2007. The Company continues to work toward improving billing and collection processes.

Total stockholders' equity increased 7.9%, or \$4.4 million, from \$55.8 million as of December 31, 2007 to \$60.2 million as of March 31, 2008.

11

Management's Discussion and Analysis (continued)

Consolidated Results of Operations for the Three Months
Ended March 31, 2008 and 2007
(Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31,			
	2008		2007	
Revenue:				
Engineering	\$ 52,029	53.0 %	\$ 51,449	63.0 %
Construction	26,900	27.4 %	13,785	16.9 %

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Automation	10,402	10.6 %	9,538	11.7 %
Land	8,835	9.0 %	6,887	8.4 %
	-----		-----	
Total revenue	\$ 98,166	100.0 %	\$ 81,659	100.0 %
	=====		=====	
Gross profit:				
Engineering	\$ 9,882	10.1 %	\$ 9,164	11.2 %
Construction	2,028	2.1 %	2,082	2.6 %
Automation	1,044	1.1 %	781	1.0 %
Land	1,392	1.4 %	1,250	1.5 %
	-----		-----	
Total gross profit	14,346	14.7 %	13,277	16.3 %
	-----		-----	
SG&A expense:				
Engineering	1,295	1.3 %	1,867	2.3 %
Construction	703	0.7 %	627	0.8 %
Automation	632	0.6 %	845	1.0 %
Land	677	0.7 %	583	0.7 %
Corporate	3,919	4.0 %	3,822	4.7 %
	-----		-----	
Total SG&A expense	7,226	7.3 %	7,744	9.5 %
	-----		-----	
Operating income:				
Engineering	8,587	8.8 %	7,297	8.9 %
Construction	1,325	1.4 %	1,455	1.8 %
Automation	412	0.5 %	(64)	0.0 %
Land	715	0.7 %	667	0.8 %
Corporate	(3,919)	(4.0) %	(3,822)	(4.7) %
	-----		-----	
Total operating income	7,120	7.4 %	5,533	6.8 %
	-----		-----	
Other income (expense), net	(457)	(0.6) %	(560)	(0.7) %
Tax provision	(2,660)	(2.7) %	(1,818)	(2.2) %
	-----		-----	
Net income	\$ 4,003	4.1 %	\$ 3,155	3.9 %
	=====		=====	

The percentages shown in the table above represent each segment's portion of the gross profit, SG&A and operating income as a percentage of the Company's total revenue for each respective period.

12

Management's Discussion and Analysis (continued)

Quarter-to-Quarter Balance Sheet Comparisons:	March 31,	March 31,
	2008	2007
	-----	-----
	(Dollars in Thousands)	
	-----	-----
Working capital	\$ 49,317	\$ 44,215

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Total assets	\$122,715	\$111,201
Long-term debt, net of current portion	\$ 30,884	\$ 32,474
Stockholders' equity	\$ 60,162	\$ 44,321

We recorded net income of \$4.0 million, or \$0.15 per diluted share for the three months ended March 31, 2008, compared to net income of \$3.2 million, or \$0.12 per diluted share for the corresponding period last year.

The Company recognizes service revenue as soon as the services are performed. The majority of the Company's service revenues have historically been provided through cost-plus contracts whereas a majority of our fabrication and turnkey EPC projects revenue is earned on fixed-price contracts. Approximately \$8.1 million in fixed-price revenue was recognized in the three-month period ended March 31, 2008, compared to \$8.9 million of similar revenue in the same period in 2007. Of the fixed-price revenue, \$46,000 and \$1.8 million for the three-month period ending March 31, 2008 and March 31, 2007, respectively, were related to the two projects with recorded losses during 2006.

Revenue on fixed-price contracts is recorded primarily using the percentage-of-completion (cost-to-cost) method. Under this method, revenue on long-term contracts is recognized in the ratio that contract costs incurred bear to total estimated contract costs. Revenue and gross margin on fixed-price contracts are subject to revision throughout the lives of the contracts and any required adjustments are made in the period in which the revisions become known. Losses on contracts are recorded in full as they are identified.

In the course of providing our services, we routinely provide engineering, materials, and equipment and may provide construction services on a direct hire or subcontractor basis. Generally, these materials, equipment and subcontractor costs are passed through to our clients and reimbursed, along with fees, which in total are at margins lower than those of our normal core business. In accordance with industry practice and generally accepted accounting principles, all costs and fees are included in revenue. The use of subcontractor services can change significantly from project to project; therefore, changes in revenue and gross profit, SG&A expense and operating income as a percent of revenue may not be indicative of business trends.

Operating SG&A expense includes management and staff compensation, office costs such as rents and utilities, depreciation, amortization, travel and other expenses generally unrelated to specific client contracts, but directly related to the support of a segment's operations.

Corporate SG&A expense is comprised primarily of business development costs, as well as costs related to the executive, investor relations/governance, finance, accounting, safety, human resources, project controls, legal and information technology departments and other costs generally unrelated to specific client projects, but which are incurred to support corporate activities and initiatives.

Industry Overview:

Many ENGlobal offices have benefited from the strong downstream refinery market. We expect significant capital projects to be generated by refinery operators over the next several years and we will continue to research other markets that value our services. Overall, projects related to increasing refining capacity and the utilization of heavy or sour crude oil have trended upward, while projects to satisfy environmental mandates have

Edgar Filing: ENGLOBAL CORP - Form 10-Q

trended downward. Given that global demand for oil products has tightened the supply of both crude oil as well as refined products, we believe each of ENGlobal's business segments is well positioned within the industry as capacity increase and modernization projects are undertaken in the United States.

13

Management's Discussion and Analysis (continued)

The downstream petrochemical industry has historically been a good source of projects for ENGlobal. While not currently as robust as the refining market, we have seen a recent increase in both maintenance and capital spending after several years of relative inactivity. We believe that major grassroots petrochemical projects will continue to be undertaken overseas, either closer to product demand in emerging economies, or located closer to less expensive feed stocks. We expect for the foreseeable future, that petrochemical work undertaken in the U.S. will consist of smaller capital projects or be maintenance related.

Despite past downturns in the industry, pipeline projects have remained constant for the most part, and we have recently seen a significant increase in project activity. From an engineering perspective, pipeline projects tend to require less engineering man hours than similar sized downstream projects. However, ENGlobal provides several services such as right-of-way acquisition, inspection and construction management that are in addition to its pipeline related engineering services. However the drivers we see behind growth in domestic pipeline activity include: 1) Natural gas transportation away from the Rocky Mountain area as well as from new gas fields in other parts of the country, 2) Natural gas transportation related to LNG import facilities, 3) Movement of heavy Canadian crude oil into the U.S., and 4) Movement of refined products from Gulf Coast refineries to the Midwest and Northeast.

The country's focus on alternative energy has presented the Company with many new project opportunities. The North American Industrial Project Spending Index has recently indicated that capital spending for all alternative energy projects exceeds that for refining and pipeline combined. To date, ENGlobal has mainly focused its efforts on biomass process, such as those related to the production of ethanol and biodiesel, coal to liquids, along with the utilization of refinery petroleum coke as an energy source. In addition, the Company sees a good opportunity in solar energy in the coming years, both by performing project services on solar collector facilities, as well as facilities for the production of polysilicon, used in photo voltaic cells. Most of our work on alternative energy project is not for our traditional large client base, but instead for financially backed developers

Revenue:

Revenue increased \$16.5 million, or 20.2%, to \$98.2 million for the three months ended March 31, 2008 from \$81.7 million for the comparable prior year period with approximately \$0.6 million of the increase attributable to our Engineering segment, \$13.1 million of the increase attributable to our Construction segment, \$0.9 million of the increase attributable to our Automation segment and \$1.9 million of the increase attributable to our Land segment. This is discussed further in our segment information.

Gross Profit:

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Gross profit increased \$1.0 million, or 7.5%, to \$14.3 million for the three months ended March 31, 2008 from \$13.3 million for the comparable prior year period. Approximately \$2.7 million of the increase in gross profit was due to the \$16.5 million increase in revenue offset by approximately \$1.7 million in higher costs and lower margins.

As a percentage of revenue, gross profit decreased 1.6% from 16.3% for the three months ended March 31, 2007 to 14.7% for the quarter ended March 31, 2008. The decrease in gross profit margin as a percentage of revenue was primarily related to a shift in revenue mix quarter-over-quarter resulting from a 119% increase in lower margin Inspection revenue within our Construction segment.

Selling, General, and Administrative:

As a percentage of revenue, SG&A expense decreased 2.2% to 7.3% for the three months ended March 31, 2008 from 9.5% for the comparable period in 2007. Total expense for SG&A decreased \$0.5 million, or 6.5%, to \$7.2 million for the three months ended March 31, 2008 from \$7.7 million for the comparable prior year period.

As a percentage of revenue, Operating SG&A expense decreased 1.5% to 3.3% for the three months ended March 31, 2008 from 4.8% for comparable prior year period. Operating SG&A expense decreased approximately \$0.6 million quarter-over-quarter primarily due to \$0.3 million in employee and associated costs re-classified to direct expense, \$0.2 million in non-recurring costs associated with closing the Dallas office during the quarter ended March 31, 2007, and \$0.1 million in lower bad debt expense.

14

Management's Discussion and Analysis (continued)

As a percentage of revenue, Corporate SG&A expense decreased 0.7% to 4.0% for the three months ended March 31, 2008 from 4.7% for the comparable prior year period. Corporate SG&A expense increased approximately \$0.1 million, or 2.6%, to \$3.9 million for the three months ended March 31, 2008 from \$3.8 million for the comparable prior year period. The increase over the prior year's Corporate SG&A was related to increases of approximately \$151,000 related to stock compensation expense and \$125,000 in depreciation and amortization expense, offset by reduced costs of approximately \$91,000 in salaries and other employee expenses, \$44,000 in facilities expense and \$84,000 in professional services.

Operating Income:

Operating income increased approximately \$1.6 million, or 29.1%, to \$7.1 million for the three months ended March 31, 2008 from \$5.5 million compared to the same period in 2007. As a percentage of revenue, operating income increased 0.6% to 7.4% for the three months ended March 31, 2008 from 6.8% for the comparable prior year period.

Other Expense, net:

Other expense decreased \$0.1 million, to \$0.5 million for the three months ended March 31, 2008 from \$0.6 million for the comparable prior year period, primarily due to lower net interest expense related to lower interest rates on our Credit Facility.

Tax Provision:

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Income tax expense increased \$0.9 million, or 50.0%, to \$2.7 million for the three months ended March 31, 2008 from \$1.8 million for the comparable prior year period. The estimated effective tax rate was 39.9% for the three-month period ended March 31, 2008 compared to 36.6% for the comparable prior year quarterly period and 39.7% for the twelve-month period ended December 31, 2007.

The estimated effective tax rates are based on estimates using historical rates adjusted by recurring and non-recurring book to tax differences. Estimates at March 31, 2008 are based on results of the 2007 year-end and adjusted for estimates of non-recurring differences from the prior year, as well as anticipated book to tax differences for 2008.

Net Income:

Net income for the three months ended March 31, 2008 increased \$0.8 million, or 25.0%, to \$4.0 million from \$3.2 million for the comparable prior year period. As a percentage of revenue, net income increased 0.2% to 4.1% for the three-month period ended March 31, 2008 from 3.9% for the period ended March 31, 2007.

Liquidity and Capital Resources

Overview

The Company defines liquidity as its ability to pay liabilities as they become due, fund the business operations and meet monetary contractual obligations. Our primary source of liquidity during the period ended March 31, 2008 was borrowings under our senior revolving Credit Facility, also discussed under Note 8 - Line of Credit and Debt, to the Consolidated Financial Statements included in the 2007 Annual Report on Form 10-K. Cash on hand at March 31, 2008 totaled \$2.0 million and availability under the Credit Facility totaled \$20.1 million resulting in total liquidity of \$22.1 million. As of March 31, 2008, management believes the Company's cash position is sufficient to meet its working capital requirements for the next 12 months. However, cash and the availability of cash could be materially restricted if:

- (1) circumstances prevent the timely internal processing of invoices,
- (2) amounts billed are not collected or are not collected in a timely manner,
- (3) project mix shifts from cost-reimbursable to fixed-price contracts during periods of growth,
- (4) the Company loses one or more of its major customers,
- (5) the Company experiences material cost overruns on fixed-price contracts,
- (6) our client mix shifts from our historical owner-operator client base to more developer based clients,
- (7) acquisitions are not integrated timely, or
- (8) we not able to meet the covenants of the Credit Facility.

If any such event occurs, we would be forced to consider alternative financing options.

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Cash Flows from Operating Activities:

Operations generated approximately \$0.4 million in net cash for the three-month period ended March 31, 2008, compared with net cash used for operations of \$4.9 million during the same period in 2007. Unfavorable changes in working capital accounts during the period negatively impacted cash flows from operating activities. The primary changes in working capital were due to the following:

- o Increased Trade Receivables - The increase was primarily the result of increased operating activity. Our collections on past due Accounts Receivable balances continue to improve and management does not expect any material collection issues in the future.
- o Decreased Accounts Payable - The decrease was primarily due to \$1.9 million in scheduled vendor and sub-contractor payments related to the SLE project, which was terminated during the third quarter of 2007. An additional \$2.0 million in similar payments are scheduled to be made during the second quarter of 2008, which we anticipate will complete our current material cash commitments related to the SLE project.

During the quarter, the line of credit increased by \$1.9 million from \$27.8 million as of December 31, 2007 to \$29.7 million as of March 31, 2008.

Our average day's sales outstanding ("DSO") was 62 days for the three-month period ended March 31, 2008 compared to 71 days for the comparable three-month period in 2007 and 61 days for the twelve months ended December 31, 2007.

Cash Flows from Investing Activities:

Investing activities used \$398,000 in cash for the three-month period ended March 31, 2008, compared to \$429,000 cash used during the same period in 2007. The Company's primary use of invested capital during both periods was for capital expenditures, mainly computers and technical software applications. Future investing activities are anticipated to remain consistent with prior years and include expenditures for capital leasehold improvements, technical applications software, and equipment, such as upgrades to computers. Our Credit Facility limits annual capital expenditures to \$3.25 million.

Cash Flows from Financing Activities:

Financing activities provided \$1.2 million in cash for the three-month period ended March 31, 2008, compared to \$4.9 million in cash provided during the same period in 2007. In the first quarter of 2008, the Company increased its outstanding line of credit by \$1.9 million for working capital needs compared to an increase of \$5.6 million in its outstanding line of credit for the same period in 2007.

Senior Revolving Credit Facility:

Our Credit Facility is used primarily to satisfy changes in working capital needs and requirements for the issuance of letters of credit. At March 31, 2008, the capacity of the Credit Facility was \$50.0 million with an outstanding balance of \$29.7 million and one letter of credit outstanding in the amount of \$247,000 to cover self-insured deductibles under both our general liability and workers' compensation insurance policies. The letter of credit was issued in November 2007 and covers the policy period from September 30, 2007 through September 30, 2008. The remaining borrowings available under the Credit Facility as of March 31, 2008 were \$20.1 million

Edgar Filing: ENGLOBAL CORP - Form 10-Q

after consideration of loan covenant restrictions.

Availability under our Credit Facility is as follows:

	March 31, 2008	December 31, 2007	March 31, 2007
	-----	-----	-----
	(Dollars in Thousands)		
	-----	-----	-----
Credit Facility	\$50,000	\$50,000	\$35,000
Amounts borrowed	29,678	27,835	29,616
Letters of credit	247	247	--
	-----	-----	-----
Availability under Credit Facility	\$20,075	\$21,918	\$ 5,384
	=====	=====	=====

16

Management's Discussion and Analysis (continued)

 The Credit Facility requires the Company to maintain certain financial covenants as of the end of each calendar month, including the following:

- o Leverage Ratio not to exceed 3.00 to 1.00;
- o Asset Coverage Ratio to be less than 1.00 to 1.00; and
- o Net Worth must be greater than the sum of \$40.1 million plus 75% of positive Net Income earned in each fiscal quarter after January 1, 2007 plus 100% of the net proceeds of any offering, sale or other transfer of any capital stock or any equity securities.

The Credit Facility also contains covenants that place certain limitations on the Company including limits on new debt, mergers, asset sales, investments, fixed-price contracts, and restrictions on certain distributions. The Company was in compliance with all covenants under the Credit Facility as of March 31, 2008.

17

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Management's Discussion and Analysis (continued)

Engineering Segment Results

	Three Months Ended March 31,			
	2008		2007	
(Dollars in Thousands)				
Gross revenue	\$	52,035		\$ 51,442
Less intercompany revenue		(6)		7
Total revenue	\$	52,029		\$ 51,449
Detailed revenue:				
Detail-design		37,935	72.9%	32,796 63.8%
Field services		12,988	25.0%	13,758 26.7%
Procurement services		34	0.1%	1,332 2.6%
Fixed-price		1,072	2.0%	3,563 6.9%
Total revenue:	\$	52,029	100.0%	\$ 51,449 100.0%
Gross profit:	\$	9,882	19.0%	\$ 9,164 17.8%
Operating SG&A expense:	\$	1,295	2.5%	\$ 1,867 3.6%
Operating income:	\$	8,587	16.5%	\$ 7,297 14.2%

Overview of Engineering Segment:

Our Engineering segment continues to benefit from a large project load generated primarily by its downstream clients and to a lesser extent by its midstream clients. The industry's refining segment continues to be very active, supplying a large percentage of the Company's backlog. ENGlobal is benefiting from the renewed interest of its chemical/petrochemical clients in maintenance and small capital projects as product margins in this marketplace improve.

Revenue:

Engineering segment revenue increased \$0.6 million, or 1.2%, to \$52.0 million for the three months ended March 31, 2008 from \$51.4 million for the comparable prior period.

The increase in Engineering segment revenue was primarily brought about by increased activity in the engineering and construction markets. Refining related activity has been particularly strong, including projects to expand existing facilities and utilize heavier sour crude. Capital spending in the pipeline area is also trending higher, with numerous projects in North America currently underway to deliver crude oil, natural gas, petrochemicals and refined products. Renewable energy appears to be an

Edgar Filing: ENGLOBAL CORP - Form 10-Q

emerging area of activity and potential growth, with the Company currently performing a variety of services for ethanol, biodiesel, coal-to-liquids, petroleum coke to ammonia, and other biomass processes.

Our detail-design services proved strong with revenue increasing 15.6%, or \$5.1 million, to \$37.9 million for the period ending March 31, 2008 from \$32.8 million for the comparable period in 2007. As a percentage of total Engineering segment revenue, detail-design revenue increased 9.1% to 72.9% in 2008 from 63.8% in 2007.

Our field services revenues remained relatively stable with a decrease of 5.8%, or \$0.8 million, from \$13.8 million for the period ended March 31, 2007 to \$13.0 million for the comparable period in 2008. As a percentage of total Engineering segment revenue, field services revenue decreased 1.7% to 25.0% in 2008 from 26.7% in 2007.

18

Management's Discussion and Analysis (continued)

Engineering Segment Results (continued)

Revenue from procurement services decreased 97.5%, or \$1,298,000, from \$1,332,000 for the period ended March, 31 2007 to \$34,000 for the comparable period in 2008. As a percentage of total Engineering segment revenue, procurement services revenue decreased 2.5% to 0.1% in 2008 from 2.6% in 2007. The level of procurement services is project dependent and varies over time depending on the volume of procurement activity our customers choose to do themselves as opposed to using our services.

Fixed-price revenue decreased 71.4%, or \$2.5 million, from \$3.6 million in 2007 to \$1.1 million in 2008. As a percentage of total Engineering segment revenue, fixed-price revenue decreased 4.9% to 2.0% in 2008 from 6.9% in 2007 as the Company neared completion of certain EPC contracts.

Gross Profit:

Our Engineering segment's gross profit increased \$0.7 million, or 7.6%, to \$9.9 million for the three months ended March 31, 2008 from \$9.2 million for the comparable period in 2007. As a percentage of total Engineering segment revenue, gross profit increased by 1.2% to 19.0% from 17.8% for the three-month periods ended March 31, 2008 and 2007, respectively. Of the overall \$0.7 million increase in gross profit, approximately \$103,000 was attributable to the \$0.7 million increase in total revenue, plus approximately \$615,000 in improved margins. The increase in margins can be attributed to the reduced activity in low margin/high dollar procurement projects, as these projects are being replaced with higher margin, core revenue derived from labor activity.

Selling, General, and Administrative:

Our Engineering segment's SG&A expense decreased \$0.6 million, or 31.6%, to \$1.3 million for the three months ended March 31, 2008 from \$1.9 million for the comparable period in 2007. The quarter-over-quarter decrease in the Engineering segment's SG&A expense came from approximately \$0.3 million in employee and associated costs re-classified to direct expense, \$0.2 million in non-recurring costs associated with closing the Dallas office during the quarter ended March 31, 2007, and \$0.1 million in lower bad debt expense.

Edgar Filing: ENGLOBAL CORP - Form 10-Q

As a percentage of total Engineering segment revenue, the segment's SG&A costs decreased by 1.1% to 2.5% from 3.6% for the three-month periods ended March 31, 2008 and 2007, respectively.

Operating Income:

Operating income for the Engineering segment increased \$1.3 million, or 17.8%, to \$8.6 million for the three months ended March 31, 2008 from \$7.3 million for the comparable prior year period. As a percentage of total Engineering segment revenue, operating income increased by 2.3% to 16.5% for the three months ended March 31, 2008 from 14.2% for the comparable prior year period.

19

Management's Discussion and Analysis (continued)

Construction Segment Results

	Three Months Ended March 31,			
	2008		2007	
(Dollars in Thousands)				
Gross revenue	\$ 27,017		\$ 14,635	
Less intercompany revenue	(117)		(850)	
Total revenue	\$ 26,900		\$ 13,785	
Detailed revenue:				
Inspection	23,394	87.0%	10,703	77.7%
Construction services	3,506	13.0%	3,082	22.3%
Total revenue:	\$ 26,900	100.0%	\$ 13,785	100.0%
Gross profit:	\$ 2,028	7.5%	\$ 2,082	15.1%
Operating SG&A expense:	\$ 703	2.6%	\$ 627	4.5%
Operating income:	\$ 1,325	4.9%	\$ 1,455	10.6%

Overview of Construction Segment:

Revenue:

Our Construction segment's revenue increased \$13.1 million, or 94.9%, to \$26.9 million for the three-month period ended March 31, 2008 from \$13.8 million for the comparable prior year period. We have experienced significant growth in our inspection related revenue due to increased

Edgar Filing: ENGLOBAL CORP - Form 10-Q

capital spending mainly by our pipeline clients. Also contributing to the increase in construction services revenue has been our ability to increase our market share.

Gross profit:

Our Construction segment's gross profit decreased approximately \$0.1 million, or 4.8%, to \$2.0 million for the three months ended March 31, 2008 from \$2.1 million for the comparable prior year period and, as a percentage of total Construction segment revenue, gross profit decreased by 7.6% to 7.5% from 15.1% for the respective periods. The decrease in gross profit percentage is primarily attributable to the major increase in revenue related to our growth in inspection services where increased employee related costs and competitive pressure on bill rates resulted in lower margins. While inspection related revenues increased \$12.7 million, or approximately 119%, to \$23.4 million for the three months ended March 31, 2008 from \$10.7 million for the comparable prior year period, the contribution to gross profit was effectively unchanged. Increased variable costs associated with labor to perform proposals, project controls and project management also contributed to the decrease in gross profit.

Selling, General, and Administrative:

Our Construction segment's SG&A expense increased approximately \$0.1 million, or 16.7%, to \$0.7 million for the three months ended March 31, 2008 from \$0.6 million for the same period in 2007 and, as a percentage of total Construction segment revenue, SG&A expense decreased by 1.9% to 2.6% from 4.5% for the respective periods.

Operating Income:

Our Construction segment's operating income decreased \$0.2 million, or 13.3%, to \$1.3 million for the three months ended March 31, 2008 from \$1.5 million for the comparable prior year period. As a percentage of total Construction segment revenue, operating income decreased by 5.7% to 4.9% for the three months ended March 31, 2008 from 10.6% for the comparable prior year period.

20

Management's Discussion and Analysis (continued)

Automation Segment Results

	Three Months Ended March 31,	
	2008	2007
	(Dollars in Thousands)	
Gross revenue	\$ 10,557	\$ 9,823
Less intercompany revenue	(155)	(285)
Total revenue	\$ 10,402	\$ 9,538

Detailed revenue:

Edgar Filing: ENGLOBAL CORP - Form 10-Q

	Fabrication	6,683	64.3%	5,510	57.8%
	Non-fabrication	3,719	35.7%	4,028	42.2%
		-----		-----	
Total revenue:		\$ 10,402	100.0%	\$ 9,538	100.0%
Gross profit:		\$ 1,044	10.0%	\$ 781	8.2%
Operating SG&A expense:		\$ 632	6.1%	\$ 845	8.9%
Operating income:		\$ 412	4.0%	\$ (64)	(0.7%)

Overview of Automation Segment:

Revenue:

Our Automation segment's revenue increased approximately \$0.9 million, or 9.5%, to \$10.4 million for the three-month period ended March 31, 2008 from \$9.5 million for the comparable prior year period.

Gross profit:

The Automation segment's gross profit increased approximately \$0.2 million, or 25.0%, to \$1.0 million for the three months ended March 31, 2008, from \$0.8 million for the comparable prior year period and, as a percentage of total Automation segment revenue, gross profit increased by 1.8% to 10.0% from 8.2% for the respective periods. During the first quarter of 2007, we experienced reduced margins on a few larger lump sum projects that were not repeated in the first quarter of 2008. We also are performing more detailed project reviews and analysis, which have contributed to higher gross profits.

Selling, General, and Administrative:

Our Automation segment's SG&A expense decreased approximately \$0.2 million, or 25.0%, to \$0.6 million for the three months ended March 31, 2008 from \$0.8 million for the same period in 2007 and, as a percentage of total Automation segment revenue, SG&A expense decreased by 2.8% to 6.1% from 8.9% for the respective periods. Approximately \$145,000 of the reduction of SG&A expenses was due to a reduction in overhead staff.

Operating Income:

The Automation segment recorded an operating income of \$0.4 million for the three months ended March 31, 2008 compared to an operating loss of (\$0.1) million for the three-month period ended March 31, 2007. As a percentage of total Automation segment revenue, operating income increased by 4.7% to 4.0% for the three months ended March 31, 2008 from (0.7)% for the comparable prior period. Overall, improved control of direct costs and overhead contributed to the increased operating income of the Automation segment during the three months ended March 31, 2008.

Management's Discussion and Analysis (continued)

Land Segment Results

Three Months Ended

Edgar Filing: ENGLOBAL CORP - Form 10-Q

	March 31,			
	2008		2007	
	(Dollars in Thousands)			
Gross revenue	\$ 8,835		\$ 6,887	
Less intercompany revenue	-		-	
Total Revenue:	\$ 8,835	100.0%	\$ 6,887	100.0%
Gross profit:	\$ 1,392	15.8%	\$ 1,250	18.2%
Operating SG&A expense:	\$ 677	7.7%	\$ 583	8.5%
Operating income:	\$ 715	8.1%	\$ 667	9.7%

Overview of Land Segment: Revenue:

The Land segment's revenue increased approximately \$1.9 million, or 27.5%, to \$8.8 million for the three-month period ended March 31, 2008 from \$6.9 million for the comparable prior year period. The Land segment was formed out of our acquisition of WRC Corporation in May 2006, which was renamed ENGlobal Land, Inc. in January, 2008.

Gross profit:

The Land segment's gross profit increased approximately \$0.1 million, or 7.7%, to \$1.4 million for the three months ended March 31, 2008 from \$1.3 million for the comparable prior year period and, as a percentage of total Land segment revenue, gross profit decreased by 2.4% to 15.8% from 18.2% for the respective periods. As we focused on growing business in the Land segment, we increased the number of personnel by approximately 37% as of March 31, 2008 compared to our staffing level at March 31, 2007. Our gross profit margins have decreased due to the resulting increased costs of labor and expenses that we were not able to immediately pass through to clients under existing contracts. We are currently renegotiating billing rates on existing contracts to accommodate these increased costs.

Selling, General, and Administrative:

The Land segment's SG&A expense increased approximately \$0.1 million, or 16.7%, to \$0.7 million for the three months ended March 31, 2008 from \$0.6 million for the same period in 2007 but, as a percentage of total Land segment revenue, SG&A expense decreased by 0.8% to 7.7% from 8.5% for the respective periods. Increases in SG&A costs for the three months ended March 31, 2008, were related to marketing the ENGlobal brand name as WRC Corporation was renamed ENGlobal Land, Inc. in January 2008; travel and marketing expenses were \$40,000 higher; bad debt expense grew by \$25,000 and another \$19,000 was attributable to increased office expenses.

Operating Income:

The Land segment recorded an operating income of \$0.7 million for the three months ended March 31, 2008, compared to an operating income of \$0.7 million for the three-month period ended March 31, 2007. As a percentage of total Land segment revenue, operating income decreased 1.6% from 9.7% for the three months ended March 31, 2007 to 8.1% for the same period in 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, notes and capital leases payable, and debt obligations. The book value of cash and cash equivalents, accounts receivable, accounts payable and short-term notes payable are considered to be representative of fair value because of the short maturity of these instruments.

We do not utilize financial instruments for trading purposes and we do not hold any derivative financial instruments that could expose us to significant market risk. In the normal course of business, our results of operations are exposed to risks associated with fluctuations in interest rates and currency exchange rates.

Our exposure to market risk for changes in interest rates relates primarily to our obligations under the Comerica Credit Facility. As of March 31, 2008, \$29.7 million had been borrowed under the Credit Facility, accruing interest at 5% per year, excluding amortization of prepaid financing costs. A 10% increase in the short-term borrowing rates on the Credit Facility outstanding as of March 31, 2008 would be 50 basis points. Such an increase in interest rates would increase our annual interest expense by approximately \$148,500, assuming the amount of debt outstanding remains constant.

In general, our exposure to fluctuating exchange rates relates to the effects of translating the financial statements of our Canadian subsidiary from the Canadian dollar to the U.S. dollar. We follow the provisions of SFAS No. 52 - "Foreign Currency Translation" in preparing our consolidated financial statements. Currently, we do not engage in foreign currency hedging activities.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures of a registrant designed to ensure that information required to be disclosed by the registrant in the reports that it files or submits under the Exchange Act is properly recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms. Disclosure controls and procedures include processes to accumulate and evaluate relevant information and communicate such information to a registrant's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosures.

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2008, as required by Rule 13a-15 of the Exchange Act. As described below, material weaknesses were identified in our internal control over financial reporting as of March 31, 2008. Based on the evaluation described above, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2008, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

Edgar Filing: ENGLOBAL CORP - Form 10-Q

In our Form 10-K for the year ended December 31, 2007, we disclosed certain material weaknesses in internal control over financial reporting, which are identified below. Neither material weakness has been remediated as of March 31, 2008.

23

Deficiencies in the Company's Control Environment and Accounting System Controls.

We did not effectively and accurately close the general ledger in a timely manner and we did not provide complete and accurate disclosure in our notes to financial statements, as required by generally accepted accounting principles. Specifically, the Company lacks sufficient knowledge and expertise in financial reporting to adequately handle complex or non-routine accounting issues, resulting in the following:

- failure in a timely manner to properly evaluate goodwill for potential impairment in accordance with SFAS 142, "Goodwill and Other Intangible Assets";
- difficulty in obtaining timely resolution of SEC comments related to the above item, causing a delay in the Company's period-end closing process for its 2007 Form 10-K; and
- failure to effectively utilize third-party specialists in a timely manner to assist with complex or non-routine accounting issues.

As noted above, no change in our internal control over financial reporting occurred during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Remediation Initiatives

Management, with oversight from the Audit Committee of the Board of Directors, has been addressing the material weaknesses discussed above. While progress has been made, these remedial steps have not been completed; however, the Company has performed additional analysis and procedures in order to ensure that the consolidated financial statements contained in this Quarterly Report on Form 10-Q were prepared in accordance with generally accepted accounting principles in the United States. Although the Company's remediation efforts are underway, control weaknesses will not be considered remediated until new internal controls over financial reporting are implemented and operational for a sufficient period of time to allow for effective testing and are tested, and management and its independent registered certified public accounting firm conclude that these controls are operating effectively. Management, along with its outside consultants, and the Audit Committee of the Company's Board of Directors are working to determine the most effective way to implement the remedial measures listed below, and, if necessary, to develop additional remedial measures to address the internal control deficiencies identified above. The Company is monitoring the effectiveness of planned actions and will make any other changes and take such other actions as management or the Audit Committee determines to be appropriate. The Company's remediation efforts include:

- o engagement of various third-party consultants to assist us with specific technical accounting issues;
- o engagement of third-party consultants to provide valuation services in

Edgar Filing: ENGLOBAL CORP - Form 10-Q

accordance with SFAS 142;

- o implementation of quarterly and annual disclosure checklists, which are utilized in connection with the completion of our quarterly financial statements;
- o provision of additional training to accounting staff on SFAS 142, SEC reporting principles, and GAAP; and
- o implementation of periodic accounting management meetings where our accounting processes and procedures are communicated and reinforced.

24

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company and its subsidiaries become parties to various legal proceedings arising in the ordinary course of normal business activities. While we cannot predict the outcome of these proceedings, in our opinion and based on reports of counsel, any liability arising from such matters, individually or in the aggregate, is not expected to have a material effect upon the consolidated financial position or operations of the Company.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial conditions or operating results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

In September 2005, Hurricane Rita destroyed our administrative offices in Beaumont, Texas. Since that time, we have leased additional office space near our existing Beaumont operations. In March 2008, agreement was met on our building specifications in a build-to-suit lease agreement. Groundbreaking commenced April 28, 2008, with plans for completion in the fall of 2008.

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Bylaws of ENGlobal Corporation, dated November 6, 2007.

Edgar Filing: ENGLOBAL CORP - Form 10-Q

- 3.2 Amendment to Amended and Restated Bylaws of ENGlobal Corporation, effective as of April 29, 2008.
- 10.1 Build-to-Suit Lease Agreement between Clay Real Estate Development, L.P. and ENGlobal Corporate Services, Inc., executed March 6, 2008.
- 10.2 Amended and Restated Option Pool Agreement between ENGlobal Corporation and Alliance 2000 Ltd., effective December 20, 2006.
- 31.1 Certifications Pursuant to Rule 13a - 14(a) of the Exchange Act of 2002 for the First Quarter 2008
- 31.2 Certifications Pursuant to Rule 13a - 14(a) of the Exchange Act of 2002 for the First Quarter 2008
- 32 Certification Pursuant to Rule 13a - 14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the First Quarter 2008

25

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENGlobal Corporation

Dated: May 6, 2008

By: /s/ Robert W. Raiford

Robert W. Raiford
Chief Financial Officer and Treasurer

26