

ENGLOBAL CORP
Form 10-Q
August 06, 2015

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 June 27, 2015

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
(Address of principal executive offices)

77060-5914
(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 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).

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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	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the close of business on August 6, 2015.

\$0.001 Par Value Common Stock	28,110,743 shares
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FOR THE PERIOD ENDED JUNE 27, 2015

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	For the Three Months Ended		For the Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Operating revenues	\$ 21,053	\$27,170	\$ 44,155	\$54,068
Operating costs	16,444	21,380	35,424	42,194
Gross profit	4,609	5,790	8,731	11,874
Selling, general and administrative expenses	3,555	4,246	7,559	8,365
Operating income	1,054	1,544	1,172	3,509
Other income (expense):				
Other income (expense), net	26	164	645	123
Interest expense, net	(44)	(11)	(66)	(43)
Income from operations before income taxes	1,036	1,697	1,751	3,589
Provision for federal and state income taxes	60	106	152	181
Net income	\$ 976	\$1,591	\$ 1,599	\$3,408
Basic and diluted income per common share:	\$ 0.03	\$0.06	\$ 0.06	\$0.12
Weighted average shares used in computing earnings per share:				
Basic	28,017	27,688	27,950	27,688
Diluted	28,017	27,716	27,950	27,708

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

	June 27, 2015	December 27, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$9,315	\$6,213
Trade receivables, net of allowances of \$1,150 and \$1,184	27,310	30,026
Prepaid expenses and other current assets	574	898
Notes receivable	—	2,165
Costs and estimated earnings in excess of billings on uncompleted contracts	4,593	3,546
Total Current Assets	41,792	42,848
Property and equipment, net	2,247	2,074
Goodwill	2,806	2,806
Long-term trade and notes receivable, net of current portion and allowances	—	2,964
Other assets	797	964
Total Assets	\$47,642	\$51,656
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$3,312	\$5,855
Accrued compensation and benefits	3,083	3,637
Billings in excess of costs and estimated earnings on uncompleted contracts	8,404	9,832
Other current liabilities	1,547	3,084
Total Current Liabilities	16,346	22,408
Long Term Leases	416	216
Total Liabilities	16,762	22,624
Commitments and Contingencies (Note 9)		
Stockholders' Equity:		
Common stock - \$0.001 par value; 75,000,000 shares authorized; 28,110,743 and 27,732,030 shares outstanding and 29,091,842 and 28,713,129 shares issued at June 27, 2015 and December 27, 2014, respectively	28	28
Additional paid-in capital	39,352	39,103
Accumulated deficit	(6,138)	(7,737)
Treasury stock at cost - 981,099 shares at June 27, 2015 and December 27, 2014	(2,362)	(2,362)
Total Stockholders' Equity	30,880	29,032
Total Liabilities and Stockholders' Equity	\$47,642	\$51,656

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

	For the Six Months Ended	
	June 27, 2015	June 28, 2014
Cash Flows from Operating Activities:		
Net income	\$ 1,599	\$ 3,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	784	1,186
Share-based compensation expense	249	174
Interest income on note receivable, net of reserve	—	(96)
Non cash change in note receivable	(635)	—
Changes in current assets and liabilities:		
Trade accounts receivable	2,715	(4,211)
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,047)	(2,365)
Prepaid expenses and other assets	351	553
Accounts payable	(2,544)	298
Accrued compensation and benefits	(554)	532
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,428)	2,068
Income taxes payable	(349)	—
Other liabilities	(1,102)	(783)
Net cash provided by (used in) operating activities	(1,961)	764
Cash Flows from Investing Activities:		
Property and equipment acquired	(649)	(714)
Net cash provided by (used in) investing activities	(649)	(714)
Cash Flows from Financing Activities:		
Debt issuance costs	(7)	—
Proceeds from Note Receivable	6,083	—
Issuance of common stock from private placement	—	72
Borrowings on capital leases	—	694
Payments on capitalized leases	(364)	(711)
Net cash provided by financing activities	5,712	55
Net change in cash	3,102	105
Cash, at beginning of period	6,213	3,955
Cash, at end of period	\$ 9,315	\$ 4,060
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 101	\$ 135
Cash paid during the period for income taxes (net of refunds)	\$ 502	\$ 412
Supplemental disclosure of noncash investing activities:		
Property and equipment purchased through capital lease assignment	\$ 168	\$ —

See accompanying notes to unaudited interim condensed consolidated financial statements.

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ENGLOBAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM 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") are prepared in accordance with accounting principles generally accepted in the United States of America. The Company consolidates all of its subsidiaries' financial results, and significant inter-company accounts and transactions have been eliminated in the consolidation.

The condensed consolidated financial statements of the Company included herein are unaudited for the three and six month periods ended June 27, 2015 and June 28, 2014, 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 27, 2014, have been derived from the audited financial statements of the Company. 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. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 27, 2014, included in the Company's 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company has assessed subsequent events through the date of filing of 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 herein not misleading.

A summary of the critical accounting policies is disclosed in Note 2 to the consolidated financial statements included in the Company's 2014 Annual Report on Form 10-K. The 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 the Company's 2014 Annual Report on Form 10-K.

Each of the quarters are comprised of 13 weeks, which includes two 4-week months and one 5-week month (4-4-5 calendar quarter).

NOTE 2 – NOTES RECEIVABLE

The components of short term and long term notes receivable as of June 27, 2015 and December 27, 2014 are as follows (dollars in thousands):