

Edgar Filing: ENGLOBAL CORP - Form 10-Q

ENGLOBAL CORP  
Form 10-Q  
August 14, 2006

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 June 30, 2006

----- 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 North 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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

--- ---

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer X



Edgar Filing: ENGLOBAL CORP - Form 10-Q

Item 5. Other Information

Item 6. Exhibits

Signature

2

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENGlobal Corporation  
Condensed Consolidated Statements of Income  
(Unaudited)

	For the Three Months Ended June 30,		For
	2006	2005	En
Operating Revenue	\$ 75,065,714	\$ 59,419,270	\$ 141,692,
Operating Expenses:			
Direct cost	64,337,124	52,140,253	122,742,
Selling, general and administrative (Note 2)	6,812,569	4,387,419	12,510,
Depreciation and amortization	353,720	276,255	756,
Total operating expenses	71,503,413	56,803,927	136,008,
Operating income	3,562,301	2,615,343	5,683,
Other Income (Expense):			
Other income	387,355	44,301	409,
Interest income (expense), net	(252,996)	(246,728)	(415,
Total other income (expense)	134,359	(202,427)	(6,
Income before Provision for Income Taxes	3,696,660	2,412,916	5,677,
Provision for Income Taxes	1,365,225	892,779	2,111,
Net Income	\$ 2,331,435	\$ 1,520,137	\$ 3,565,
Net Income Per Common Share:			
Basic	\$ 0.09	0.06	\$ 0
Diluted	\$ 0.09	0.06	\$ 0
Weighted Average Shares Used in Computing Net Income Per Share:			
Basic	26,444,185	23,492,842	26,388,
Diluted	27,191,617	24,156,525	27,218,

Edgar Filing: ENGLOBAL CORP - Form 10-Q

See accompanying notes to interim condensed financial statements

3

ENGlobal Corporation  
Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Net Income	\$ 2,331,435	\$ 1,520,137	\$ 3,565,578	\$ 2,440,000
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	10,238	--	9,535	--
Income tax effect	(3,942)	--	(3,671)	--
Net other comprehensive income	6,296	--	5,864	--
Net Comprehensive Income	\$ 2,337,731	\$ --	\$ 3,571,442	\$ 2,440,000

See accompanying notes to interim condensed financial statements

4

ENGlobal Corporation  
Condensed Consolidated Balance Sheets

ASSETS	
Current Assets:	
Cash	\$
Trade receivables, less allowance for doubtful accounts of approximately \$562,000 and \$503,000, respectively	
Costs and estimated earnings in excess of billings on uncompleted contracts	
Prepaid expenses and other current assets	
Current portion of note receivable	
Inventories	
Deferred tax asset	
Federal income taxes receivable	
Total Current Assets	
Property and Equipment, net	

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Goodwill  
 Note receivable, net of current portion  
 Non-current Deferred Tax Asset  
 Other Assets

Total Assets

\$  
 ==

LIABILITIES AND STOCKHOLDERS' EQUITY  
 -----

Current Liabilities:

Accounts payable  
 Accrued compensation and benefits  
 Deferred rent  
 Current portion of long-term debt  
 Billings and estimated earnings in excess of costs on uncompleted contracts  
 Federal income taxes payable  
 Other liabilities

\$

Total Current Liabilities

Long-Term Debt, net of current portion

Total Liabilities

Contingencies (Note 11)

Stockholders' Equity:

Preferred stock - \$0.001 par value; 2,000,000 shares authorized June 30, 2006; none outstanding  
 Series A redeemable convertible preferred stock - \$0.001 par value; 2,265,167 shares authorized December 31, 2005; none outstanding  
 Common stock, \$0.001 par value; 75,000,000 shares authorized; 26,629,324 and 26,289,567 outstanding and 27,281,701 and 26,941,944 issued at June 30, 2006 and December 31, 2005, respectively  
 Additional paid-in capital  
 Retained earnings  
 Treasury stock - 652,377 shares at cost  
 Accumulated other comprehensive income (loss)

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

\$  
 ==

See accompanying notes to interim condensed financial statements

5

ENGlobal Corporation  
 Condensed Consolidated Statements of Cash Flows  
 (Unaudited)

For the Six Months  
 June 30,

-----  
 2006                      2  
 -----

Cash Flows from Operating Activities:  
 Net income

\$ 3,565,578              \$ 2,4

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

Adjustments to reconcile net income to net cash provided by (used in)		
operating activities -		
Depreciation and amortization	1,253,070	8
Share based compensation expense	491,199	
Loss on disposal of property, plant and equipment	36,030	
(Gain) on assets held for sale	--	(1)
Deferred income tax benefit	(73,889)	(5)
Changes in current assets and liabilities, net of acquisitions -		
Trade receivables	(2,869,847)	(1,5)
Inventories	--	(
Costs and estimated earnings in excess of billings	(1,467,014)	(2,1
Prepaid expenses and other assets	(77,889)	1,0
Accounts payable	(7,055,855)	(
Accrued compensation and benefits	1,367,860	3,4
Billings in excess of costs and estimated earnings	1,741,821	(5
Other liabilities	306,288	(1
Income taxes receivable (payable)	802,170	1,3
	-----	-----
Net cash provided by (used in) operating activities	(1,980,478)	3,8
	-----	-----
Cash Flows from Investing Activities:		
Property and equipment acquired	(1,624,592)	(1,1
Proceeds from sale of equipment	12,200	
Proceeds from sale of other assets	50,000	8
Proceeds from note receivable	8,126	
Business acquired in purchase transaction, net of cash acquired	(5,935,162)	
Partnership distribution	350,000	
Insurance proceeds	68,317	
	-----	-----
Net cash provided by (used in) investing activities	(7,071,111)	(3
	-----	-----
Cash Flows from Financing Activities:		
Net borrowings (payments) on line of credit	9,703,310	(2,5
Proceeds from issuance of common stock	442,857	1
Short-term note repayments	--	(7
Capital lease repayments	--	
Long-term debt repayments	(383,387)	(2
	-----	-----
Net cash provided by (used in) financing activities	9,762,780	(3,4
	-----	-----
Effect of Exchange Rate Changes on Cash	13,556	
	-----	-----
Net change in cash	724,747	
Cash, at beginning of period	159,414	
	-----	-----
Cash, at end of period	\$ 884,161	\$
	=====	=====
Supplemental Disclosures:		
Interest paid	\$ 212,237	\$ 3
	=====	=====
Income taxes paid	\$ 1,306,947	\$ 9
	=====	=====

See accompanying notes to interim condensed financial statements

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(Continued)

Non-Cash:

Issuance of note for purchase of WRC Corporation	\$ 2,400,000	\$ --
	=====	=====
Issuance of common stock for purchase of WRC Corporation	\$ 1,400,000	\$ --
	=====	=====
Issuance of note for ATI assets	\$ 1,000,000	\$ --
	=====	=====
Acceptance of note for Constant Power assets	\$ (216,000)	\$ --
	=====	=====

See accompanying notes to interim condensed financial statements

7

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 and six-month periods ended June 30, 2006 and 2005. 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, 2005 included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2006. The Company believes that the disclosures made herein are adequate to make the information presented not misleading.

Certain amounts in the 2005 financial statements have been reclassified to more closely conform to the 2006 presentation.

NOTE 2 - SHARE 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

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

the vesting period.

In accordance with the provisions of SFAS No. 123(R), total stock-based compensation expense in the amount of \$406,000 and \$491,000 was recorded in the three and six months ended June 30, 2006. 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 share-based arrangements for the three and six months ended June 30, 2006 was \$57,989 and \$73,889, respectively.

Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB Opinion No. 25, no compensation expense was recognized for stock options issued to employees because the grant price equaled, or was above, the market price on the date of grant for options issued by the Company.

The total fair value of shares vesting during the six months ended June 30, 2006 and 2005 was \$10.0 million and \$4.2 million, respectively.

### 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 2,650,000 shares of our common stock has been approved to be issued or transferred to certain non-employee directors, officers and employees pursuant to stock based awards granted. As of June 30, 2006, 159,833 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.

8

Stock options have been granted with exercise prices at or above the market price on the date of grant. The granted options vest 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 \$2.3 million related to previously granted stock option awards which are non-vested had not yet been recognized at June 30, 2006. This compensation expense is expected to be recognized over a weighted-average period of approximately 21 months.

The following summarizes stock option activity for the six months ended June 30, 2006.

	Weighted Average Exercise	Weighted Average Remaining Contractual	Aggregate Intrinsic
--	---------------------------------	---	------------------------



Edgar Filing: ENGLOBAL CORP - Form 10-Q

	Options	Price	Term (Years)	Value (000's)
	-----	-----	-----	-----
Balance at December 31, 2005	1,438,234	3.07		
Granted	355,000	10.77		
Exercised	(151,137)	1.63		
Canceled or expired	(4,531)	2.30		
	=====	=====	=====	=====
Balance at June 30, 2006	1,637,566	\$ 4.87	8.25	\$ 7,689
	=====	=====	=====	=====
Exercisable at June 30, 2006	1,012,899	\$ 3.24	5.73	\$ 4,602
	=====	=====	=====	=====

The total intrinsic value, the difference between the exercise price and market price on the date of exercise, of options exercised during the three months and six months ended June 30, 2006 was \$608,000 and \$930,000, respectively.

Pro Forma Effects

If compensation expense for the stock options that we granted had been recognized based upon the estimated fair value on the grant date under the fair value methodology prescribed by SFAS No. 123, as amended by SFAS No. 148 and SFAS No. 123(R), our net income and net income per share for the three months and six months ended June 30, 2005 would have been as follows:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	-----	-----
	(in thousands)	
	-----	-----
Net income available for common stock - as reported	\$ 1,520	\$ 2,440
Less compensation expense determined under fair value method, net of tax	(55)	(110)
	-----	-----
Net income available for common stock - pro forma	\$ 1,465	\$ 2,330
	=====	=====
Net income per share - as reported		
Basic	\$ 0.06	\$ 0.10
Diluted	\$ 0.06	\$ 0.10
Net income available per share - pro forma		
Basic	\$ 0.06	\$ 0.10
Diluted	\$ 0.06	\$ 0.10

The fair value of each stock option granted under the Option Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The following key assumptions were used to value the option grants issued during the six month periods ended June 30, 2005 and 2006.

Weighted Average Risk Free Rate	Average Expected Life	Expected Volatility	Expected Dividend Yield
-----	-----	-----	-----

Edgar Filing: ENGLOBAL CORP - Form 10-Q

2005	5 %	3 Years	51 %	0.00 %
2006	4.93 - 5.05 %	4 Years	73.8% - 79.1 %	0.00 %

The Company recognized the pro forma fair value compensation cost on a straight-line basis over the requisite service period for each separately vesting portion of each award.

NOTE 3 - FIXED FEE CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts consisted of the following at June 30, 2006 and December 31, 2005:

	June 30, 2006
	-----
	(in thousands)
	-----
Costs incurred on uncompleted contracts	\$ 39,381
Estimated earnings on uncompleted contracts	5,620
	-----
Earned revenues	45,001
Less billings to date	(44,958)
	-----
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$ 43
	=====
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 5,561
Less billings and estimated earnings in excess of cost on uncompleted contracts	(5,518)
	-----
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$ 43
	=====

NOTE 4 - COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represents net earnings and any revenue, expenses, gains and losses that, under accounting principles generally accepted in the United States of America, are excluded from net earnings and recognized directly as a component of stockholders' equity. For the six month period ended June 30, 2006, comprehensive income included a loss of \$10,238 from foreign currency translation adjustments.

NOTE 5 - ACQUISITIONS

The Company's acquisition strategy is focused on developing breadth and depth of expertise within the organization by continuing to search for candidates that fit into one of two profiles. First, the Company considers acquisition candidates with revenues in the \$10 million range that would provide new service capabilities for its clients. Second, the Company considers acquisition candidates of various sized operations that have capabilities similar to those that the Company currently provides in order to assist the Company in gaining a larger position in a given market segment or geographic location.

The Company purchased Denver-based WRC Corporation ("WRC") on May 25, 2006. WRC provides integrated land management, engineering, and related services to the pipeline, power, and transportation industries, among others. WRC has become a wholly-owned subsidiary of ENGlobal and will now serve as the Company's provider of land management, environmental compliance and governmental regulatory services. WRC currently has approximately 200

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

employees, with revenues in the 12 months prior to the acquisition exceeding \$20 million. The Company expects to utilize WRC's Denver facility as a beachhead for expansion of its services into the Rocky Mountain and Western U.S. regions.

10

ENGlobal purchased all of the outstanding capital stock of WRC in exchange for consideration of cash, a promissory note to be paid over four years, 175,000 shares of ENGlobal common stock and the repayment of certain obligations of WRC as part of the transaction. At June 30, 2006, goodwill (deductible for tax purposes) from this transaction was estimated to be \$5.9 million.

The acquisition has been accounted for as a purchase in accordance with Statement of Financial Standards No. 141, "Business Combinations," ("SFAS141"). The purchase price allocation has been prepared on a preliminary basis and reasonable changes are expected as additional information becomes available. Following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the effective date of the acquisition.

Acquired Company:	WRC Corporation
-----	-----
	(in thousands)
Cash and receivables	\$ 6,128
Goodwill	5,952
	-----
	12,080
Less other liabilities	6,003
	-----
Total consideration paid	\$ 6,077
	=====

Beginning June, 2006, ENGlobal included the WRC operating results in its financial statements.

The unaudited proforma combined historical results, as if the acquisition had taken place at the beginning of 2006 and 2005, respectively, are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	-----			
	(in thousands)			
	-----			
Revenue as reported	\$ 75,066	\$ 59,419	\$ 141,693	\$ 104,049
Proforma revenues of WRC	2,663	3,429	7,146	5,776
	-----	-----	-----	-----
Proforma revenues	\$ 77,729	\$ 62,848	\$ 148,839	\$ 109,825
	=====	=====	=====	=====
Net income as reported	\$ 2,331	\$ 1,520	\$ 3,566	\$ 2,441
Proforma income (loss) of WRC	(1,141)	239	(804)	119
	-----	-----	-----	-----
Proforma net income	\$ 1,190	\$ 1,759	\$ 2,762	\$ 2,560

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

	=====	=====	=====	=====
Basic per share data as reported	\$ 0.09	\$ 0.06	\$ 0.14	\$ 0.10
Proforma basic per share data	\$ 0.05	\$ 0.07	\$ 0.10	\$ 0.11
Diluted per share data as reported	\$ 0.09	\$ 0.06	\$ 0.13	\$ 0.10
Proforma diluted per share data	\$ 0.04	\$ 0.07	\$ 0.10	\$ 0.10

On May 25, 2006, the Company, through its wholly-owned subsidiary, ENGlobal Corporate Services, Inc., purchased a one-third partnership interest in PEI Investments, A Texas Joint Venture ("PEI") from Michael L. Burrow, the Company's CEO, and another one-third interest from a stockholder who owns less than 1% of the Company's common stock. The partnership interests were purchased for a total of \$69,000. The remaining one-third interest was already held by the Company through its wholly-owned subsidiary ENGlobal Engineering, Inc. PEI owns the land whereupon our Beaumont office building destroyed by Hurricane Rita in September 2005 once stood. PEI is included in the condensed consolidated financial statements as a wholly-owned subsidiary. The Company expects to rebuild a facility at the site in the future.

11

### NOTE 6 - GOODWILL

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized over its estimated useful life, but rather will be subject to at least an annual assessment for impairment. Goodwill has been allocated to the Company's two reportable segments. The test for impairment is made on each of these reporting segments. No impairment of goodwill has been incurred to date. A change in assumptions in the estimation of the fair market value of the segments would unlikely give rise to an impairment of goodwill without deteriorating operating results in the segments.

### NOTE 7 -LINE OF CREDIT AND DEBT

At the end of the reporting period, the Company had a Credit Facility (the "Comerica Credit Facility") with Comerica Bank ("Comerica") that consisted of a line of credit maturing on July 27, 2007. The loan agreement positions Comerica as senior to all other debt. The line of credit is limited to \$22 million, subject to loan covenant restrictions. The Comerica Credit Facility is collateralized by substantially all the assets of the Company. The outstanding balance on the line of credit as of June 30, 2006 was \$13.5 million. The remaining borrowings available under the line of credit as of June 30, 2006 were \$8.2 million after consideration of loan covenant restrictions.

The Comerica Credit Facility contains covenants requiring the Company, as of the end of each calendar month, to maintain certain ratios, including the total funded debt to EBITDA; to total liabilities, plus net worth; and total funded debt to accounts/unbilled receivables. The Company is also required, as of the end of each quarter, to maintain minimum levels of net worth, plus the Company must comply with an annual limitation on capital expenditures. The Company was in compliance with all covenants under the Comerica Credit Facility as of June 30, 2006.

As of June 30, 2006, the Company had \$340,000 outstanding in standby letters of credit issued to a refining client to cover contractual obligations for progress payments made to equipment manufacturers for major

Edgar Filing: ENGLOBAL CORP - Form 10-Q

project items. We expect our current obligations under these standby letters of credit to be fully released in August, 2006.

12

Schedule of Long-Term Debt:

Comerica Credit Facility - Line of credit, prime (8.25% at June 30, 2006), maturing in July 2007

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

Significant PEI Shareholders - Note payable, discounted at 4.5% interest, principal payments in installments of \$208,761 due annually, maturing in December 2006

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

InfoTech Engineering, Inc. - Note payable, interest at 5%, principal payments in installments of \$65,000 plus interest due annually, maturing in December 2007

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 H. Lee - Note payable, interest at 5%, principal payments in installments of \$150,000 plus interest due quarterly, maturing June 10, 2010

Miscellaneous

Total long-term debt

Less: Current maturities

Long-term debt, net of current portion

Long-term debt increased approximately \$11.7 million for the six month period ended June 30, 2006. This is attributable to the approximately \$10.4 million used to acquire the assets of ATI and the stock of WRC, and additional investments in capital equipment totaling approximately \$1.6 million.

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

### NOTE 8 - SEGMENT INFORMATION

The Company operates in two business segments: (1) engineering, providing services primarily to major companies in the hydrocarbon and chemical processing industries, pipelines, oil and gas development, and cogeneration units that, for the most part, are located in the United States; and (2) systems, providing design and implementation of control systems for specific applications primarily in the energy and process industries, that, for the most part, are located in the United States.

Beginning January 1, 2006, the Company re-assigned all advanced automation and integrated controls projects previously reported under the systems segment to the newly created ENGlobal Automation Group within the engineering segment. Results presented have been reclassified to reflect the re-assignment.

Results attributable to the activity of the latest acquisition, WRC, are included in the engineering segment.

Revenue and operating income for each segment are set forth in the following table. The amount in Corporate includes those activities that are not allocated to the operating segments and includes costs related to business development, executive function, finance, accounting, safety, investor relations/governance, human resources, project controls and information technology that are not specifically identifiable with the two segments. Intercompany elimination includes the amount of administrative costs allocated to the segments. Corporate functions support both business segments and therefore cannot be specifically assigned to either. Significant portions of Corporate costs are allocated to each segment based on each segment's labor revenues and eliminated in consolidation.

13

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Revenue:				
Engineering	\$ 69,752	\$ 54,962	\$ 132,339	\$ 96,189
Systems	5,314	4,457	9,354	7,860
Total revenue	\$ 75,066	\$ 59,419	\$ 141,693	\$ 104,049
Operating income (loss):				
Engineering	\$ 6,596	\$ 5,058	\$ 11,486	\$ 8,831
Systems	55	(159)	(127)	(353)
Corporate	271	1,252	400	1,924
Intercompany eliminations	(3,360)	(3,536)	(6,076)	(6,157)
Total operating income	\$ 3,562	\$ 2,615	\$ 5,683	\$ 4,245

Financial information about geographic areas

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

Revenues from the Company's non-U.S. operations for the three months and six months ended June 30, 2006 were \$818,000 and \$1.1 million, respectively. Long-lived assets (principally leasehold improvements and computer equipment) outside the United States were \$120,000 as of June 30, 2006.

### NOTE 9 - FEDERAL INCOME TAXES

The components of income tax expense (benefit) for the periods ended June 30, 2006 and 2005 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Current	\$ 1,423	\$ 893	\$ 2,186	\$ 1,434
Deferred	(58)	--	(74)	--
Total tax provision	\$ 1,365	\$ 893	\$ 2,112	\$ 1,434

### NOTE 10 - 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").

14

	Three Months Ended June 30,		Six Months Jun
	2006	2005	2006
	(in thousands)		
Weighted average shares outstanding (denominator used to compute basic EPS)	26,444,185	23,492,842	26,388,702
Effect of employee and outside director stock options	747,432	663,683	830,280
Denominator used to compute diluted EPS	27,191,617	24,156,525	27,218,982

### NOTE 11 - CONTINGENCIES

#### Litigation

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, are not expected to have a material effect upon the consolidated financial position or operations of

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

the Company.

### NOTE 12 - RELATED PARTY TRANSACTIONS

ENGlobal Engineering, Inc. has a one-third interest in PEI. Until May 25, 2006, the other two parties in the joint venture, each owning a one-third interest, were Michael L. Burrow (the Company's CEO) and a stockholder who owns less than 1% of the Company's common stock. The building owned by PEI was damaged by Hurricane Rita in September 2005 and subsequently torn down. At May 25, 2006, remaining assets of the partnership were the land where the building stood and insurance proceeds. In April 2006, the partnership received and distributed \$350,000 of insurance proceeds to each partner. On May 25, 2006, Mr. Burrow and the stockholder sold their partnership interests to ENGlobal Corporate Services, Inc. for \$69,000 in total. Subsequent to the partnership change of ownership, PEI is included in the condensed consolidated financial statements as a wholly-owned subsidiary.

### NOTE 13 -SUBSEQUENT EVENTS

In July 2006, the Company's board of directors authorized the retirement of 652,377 treasury shares. The treasury shares were cancelled and retired on July 21, 2006.

15

## 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; 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, 2005 and those described from time to time in our future reports filed with the Securities and Exchange Commission.



## Edgar Filing: ENGLOBAL CORP - Form 10-Q

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, 2005.

### MD&A Overview

-----

The following list sets forth a general overview of the more significant changes in the Company's financial condition and results of operations for the three month period ended June 30, 2006, compared to the corresponding period in 2005.

	During the three month period ended June 30, 2006	During the six month period ended June 30, 2006
Revenue	Increased 26.3%	Increased 36.1%
Gross profit	Increased 46.6%	Increased 46.2%
Operating income	Increased 38.5%	Increased 35.7%
SG&A expense	Increased 53.2%	Increased 51.7%
Net income	Increased 53.3%	Increased 45.8%

Long-term debt, net of current portion, increased 224%, or \$11.7 million, from \$5.2 million at December 31, 2005 to \$16.9 million at June 30, 2006, and as a percentage of stockholders' equity, long-term debt increased from 13.1% to 37.0% at these same dates. This revenue is attributable to the Company's investment of approximately \$10.4 million to acquire the assets of ATI and the stock of WRC, plus additional investments in capital equipment totaling approximately \$1.6 million.

Total stockholders' equity increased 14.8%, or \$5.9 million, from \$39.9 million as of December 31, 2005 to \$45.8 million as of June 30, 2006.

16

### Critical Accounting Policies

-----

A summary of critical accounting policies is disclosed in Note 2 to the Consolidated Financial Statements included in our 2005 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 2005 Annual Report on Form 10-K. Other than the adoption of SFAS No. 123(R), which is described in Note 2 to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q, there have been no changes in the nature of our critical accounting policies or the application of those policies since December 31, 2005.

### Results of Operations

-----

The following table illustrates the composition of the Company's revenue and operating expense mix quarter over quarter for the three and six month periods ended June 30, 2006 and 2005, and provides a comparison of the changes in revenue and operating expense and trends period over period:

Edgar Filing: ENGLOBAL CORP - Form 10-Q

Consolidated Results of Operations for the Three and Six Months  
 Ended June 30, 2006 and 2005  
 (unaudited)

	Three Months Ended June 30,				Six	
	2006		2005		2006	
(dollars in thousands)						
Revenue:						
Engineering	\$ 67,087	89.4 %	\$ 51,145	86.1 %	\$ 129,674	91.1 %
Systems	5,314	7.1 %	4,457	7.5 %	9,354	6.9 %
Acquisition	2,665	3.5 %	3,817	6.4 %	2,665	1.9 %
Total revenue	<u>\$ 75,066</u>	<u>100.0 %</u>	<u>\$ 59,419</u>	<u>100.0 %</u>	<u>\$ 141,693</u>	<u>100.0 %</u>
Gross profit:						
Engineering	\$ 9,782	14.6 %	\$ 6,573	12.9 %	\$ 17,579	13.0 %
Systems	539	10.1 %	354	7.9 %	964	10.0 %
Acquisition	407	15.3 %	352	9.2 %	407	15.0 %
Total gross profit	<u>10,728</u>	<u>14.3 %</u>	<u>7,279</u>	<u>12.3 %</u>	<u>18,950</u>	<u>13.0 %</u>
SG&A expense:						
Engineering	3,327	5.0 %	1,590	3.1 %	6,234	4.9 %
Systems	484	9.1 %	513	11.5 %	1,091	11.0 %
Corporate	3,089	4.1 %	2,284	3.8 %	5,676	4.9 %
Acquisition	266	10.0 %	277	7.3 %	266	10.0 %
Total SG&A expense	<u>7,166</u>	<u>9.5 %</u>	<u>4,664</u>	<u>7.8 %</u>	<u>13,267</u>	<u>9.5 %</u>
Operating income:						
Engineering	6,455	9.6 %	4,983	9.7 %	11,345	8.9 %
Systems	55	1.0 %	(159)	(3.6) %	(127)	(1.0) %
Corporate	(3,089)	(4.1) %	(2,284)	(3.8) %	(5,676)	(4.9) %
Acquisition	141	5.3 %	75	2.0 %	141	5.3 %
Total operating income	<u>3,562</u>	<u>4.7 %</u>	<u>2,615</u>	<u>4.4 %</u>	<u>5,683</u>	<u>4.9 %</u>
Other income (expense), net						
Tax provision	134	0.2 %	(202)	(0.3) %	(6)	(0.0) %
	(1,365)	(1.8) %	(893)	(1.5) %	(2,112)	(1.9) %
Net income	<u>\$ 2,331</u>	<u>3.1 %</u>	<u>\$ 1,520</u>	<u>2.6 %</u>	<u>\$ 3,565</u>	<u>2.9 %</u>

17

Other financial comparisons:

As of June 30,

Edgar Filing: ENGLOBAL CORP - Form 10-Q

	----- 2006 -----	2005 -----
	(in thousands)	
	-----	-----
Working capital	\$31,051	\$13,539
Total assets	\$93,053	\$59,693
Long-term debt, net of current portion	\$16,943	\$12,854
Stockholders' equity	\$45,777	\$22,603

In the results presented for the three and six months ended June 30, 2006, "Acquisition" totals include the combined results of operations related to the acquisition of WRC. All previous acquisitions have been fully integrated and reported in segment details. In the results presented for the three and six months ended June 30, 2005, "Acquisition" totals include the combined results of operations related to assets acquired from Cleveland Inspection Services, Inc. ("Cleveland") and AmTech Inspection, LLC ("AmTech"). For analytical purposes only, results from acquired companies or acquired assets are shown separately for the first 12 months after closing.

Results presented for the three and six months ended June 30, 2005 have been reclassified to more closely conform to the 2006 presentation.

We recorded net income of \$2.3 million, or \$0.09 per diluted share for the three months ended June 30, 2006, compared to net income of \$1.5 million, or \$0.06 per diluted share for the corresponding period last year. We recorded net income of \$3.6 million, or \$0.13 per diluted share for the six months ended June 30, 2006, compared to net income of \$2.4 million, or \$0.10 per diluted share for the corresponding period last year. We adopted SFAS 123(R) on January 1, 2006, and our results of operations for the three and six months ended June 30, 2006, respectively, include \$406,000 and \$491,000 of expense related to stock options. These amounts have been included in selling, general and administrative ("SG&A") expenses in the accompanying Condensed Consolidated Statements of Income.

The following table compares the effects of SFAS 123(R) on net income and earnings per share for the three and six months ended June 30, 2006. If share based compensation had not been recorded, the effect on net income for the three and six months ended June 30, 2006 would have included additional incentive plan expense as well as the tax effects of each transaction.

	Three Months Ended ----- June 30, 2006 -----	Six Months Ended ----- June 30, 2006 -----
	(in thousands)	
	-----	-----
Net income		
As reported	\$2,331	\$3,565
Effect of SFAS 123(R) (net of tax)	348	417
Incentive plan effect (net of tax)	(163)	(172)
Net income before the effects of SFAS 123(R)	\$2,516	\$3,810

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

	=====	=====
Diluted earnings per share		
As reported	\$ 0.09	\$ 0.13
Effect of SFAS 123(R)	--	0.01
	-----	-----
Net earnings per share before the effects of SFAS 123(R)	\$ 0.09	\$ 0.14
	=====	=====

The following table presents, for the periods indicated, the approximate percentage of total revenues and operating income or loss attributable to our reportable segments:

18

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
Revenue:				
Engineering	92.9 %	92.5 %	93.4 %	92.4 %
Systems	7.1 %	7.5 %	6.6 %	7.6 %
Operating income (loss):				
Engineering	9.5 %	9.2 %	8.7 %	9.2 %
Systems	1.0 %	(3.6)%	(1.4)%	(4.5)%

The Company's revenue is composed of engineering, construction and procurement service revenue and product sales. The Company recognizes service revenue as soon as the services are performed. The majority of the Company's engineering services have historically been provided through cost-plus contracts whereas a majority of the Company's product sales are earned on fixed-price contracts. However, our engineering segment recognized approximately \$10.1 million and \$14.8 million in fixed-price revenue in the three and six month periods ended June 30, 2006, compared to approximately \$1.9 million and \$3.0 million of similar revenues in each of the similar periods in 2005.

Revenue 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 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 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 much lower than those of our normal core business. In accordance with industry practice and generally accepted accounting principles, all such costs and fees are included in revenue. The use of subcontractor services and purchase of materials can change significantly from project to project; therefore, changes in revenue may not be indicative of business trends.

For analytical purposes only, we segregate from our total revenue the revenues derived from material assets or companies acquired during the

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

first 12 months following their respective dates of acquisition and refer to such revenue as "Acquisition" revenue. We also segregate gross profits and SG&A expenses derived from material assets or company acquisitions on the same basis as we segregate revenues. We analyze, for internal purposes only, the percentage of our revenue that comes from staffing services versus the percentage that comes from engineering services, as engineering services have a higher margin than field or staffing services.

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 operation.

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

19

### Industry Overview:

Many ENGlobal offices have benefited from the strong refinery market. We expect significant capital projects to be generated by refinery operations over the next several years and we will continue to research other markets that value our services. Overall, projects related to refining capacity and environmental mandates have trended upward. As stated in our 2003 annual letter to stockholders, the global demand for oil products has tightened the supply of both crude oil as well as refinery products. With this current demand, we believe each of ENGlobal's business segments are well positioned within the industry should refinery capacity be added in the United States of America and the overseas markets continue to rise.

The petrochemical industry has recently been a good source of projects for ENGlobal. We have seen an increase in both maintenance and capital spending after several years of relative inactivity. The petrochemical industry along the Gulf Coast continues to struggle with the aftermath of the hurricanes. Although it will take several years to rebuild, we expect that we will assist our clients with repairs to regional petrochemical facilities in order to resolve current supply limitations.

Despite past downturns in the industry, pipeline projects have remained constant for the most part, and we have recently seen an increase in project activity. New pipelines are being planned to transport natural gas from several new LNG plants; for new crude deliveries from Canada to facilitate new refinery and petrochemical plants, and for fuel supplies to new Cogeneration and power plants. Pipeline projects tend to require less engineering man hours as the scope of engineering work is typically smaller than for similar sized downstream projects. In addition, the project awards in the pipeline segment are smaller in nature than those in other industries.

### Revenue:

Revenue increased \$15.6 million, or 26.3%, to \$75.0 million for the three months ended June 30, 2006 from \$59.4 million for the comparable prior year period with approximately \$14.8 million of the increase coming from our engineering segment and \$800,000 attributable to our systems segment.

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

Revenue increased \$37.6 million, or 36.1%, to \$141.7 million for the six months ended June 30, 2006 from \$104.1 million for the comparable prior year period with approximately \$36.1 million of the increase coming from our engineering segment and \$1.5 million attributable to our systems segment.

### Gross Profit:

Gross profit increased \$3.4 million, or 46.6%, to \$10.7 million for the three months ended June 30, 2006 from \$7.3 million for the comparable prior year period. As a percentage of revenue, gross profit increased 2.0% from 12.3% for the three months ended June 30, 2005 to 14.3% for the three months ended June 30, 2006. Of the overall \$3.4 million increase in gross profit, approximately \$1.9 million was due to the increase in revenue and approximately \$1.5 million was due to reduced costs.

Gross profit increased \$6.0 million, or 46.2%, to \$19.0 million for the six months ended June 30, 2006 from \$13.0 million for the comparable prior year period. As a percentage of revenue, gross profit increased 1.0% from 12.4% for the six months ended June 30, 2005 to 13.4% for the quarter ended June 30, 2006. Of the overall \$6.0 million increase in gross profit, approximately \$4.7 million was due to the increase in revenue and approximately \$1.3 million was due to lower costs.

### Selling, General, and Administrative:

As a percentage of revenue, total SG&A expense increased 1.7% to 9.5% for the three months ended June 30, 2006 from 7.8% for the comparable period in 2005. Total expense for SG&A increased \$2.5 million, or 53.2%, to \$7.2 million for the three months ended June 30, 2006 from \$4.7 million for the comparable prior year period.

As a percentage of revenue, Operating SG&A expense increased 1.4%, from 4.0% to 5.4%, and 1.1%, from 4.3% to 5.4%, for the three and six month periods ended June 30, 2006 for the comparable prior year periods from 2005. Operating SG&A increased approximately \$1.7 million, from \$2.4 million to \$4.1 million, and \$3.1 million, from \$4.5 million to \$7.6 million for the three and six month periods ended June 30, 2006 against results for the comparable prior year periods of 2005. The variances in Operating SG&A expense are discussed in further detail under segment results.

20

As a percentage of revenue, Corporate SG&A expense increased 0.3% to 4.1% for the three months ended June 30, 2006 from 3.8% for the comparable prior year period. Corporate SG&A expense increased approximately \$800,000, or 34.8%, to \$3.1 million for the three months ended June 30, 2006 from \$2.3 million for the comparable prior year period. The major areas impacting the quarter over quarter increase in Corporate SG&A expense were the general investment in support of both our current and long-term growth plans, plus the addition of stock-based compensation expense offset by lower executive and key manager incentive plan expense with each contributing \$672,000, \$277,000 and (\$149,000), respectively. During the three months ended June 30, 2006, we invested approximately \$360,000 towards business development related activities; \$70,000 to our continuing upgrade in the area of information technology; \$55,000 toward ongoing efforts to standardize and improve our project controls systems and procedures plus approximately \$187,000 divided between the areas of accounting, executive, investor relations and governance, human resources and safety.

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

As a percentage of revenue, total SG&A expense increased 1.0% to 9.4% for the six months ended June 30, 2006 from 8.4% for the comparable period in 2005. Total expense for SG&A increased \$4.5 million, or 51.7%, to \$13.2 million for the six months ended June 30, 2006 from \$8.7 million for the comparable prior year period.

As a percentage of revenue, Corporate SG&A expense decreased 0.1% to 4.0% for the six months ended June 30, 2006 from 4.1% for the comparable prior year period. Corporate SG&A expense increased approximately \$1.5 million, or 35.7%, to \$5.7 million for the six months ended June 30, 2006 from \$4.2 million for the comparable prior year period. The major areas impacting the year over year increase in Corporate SG&A expense were the general investment in support of both our current and long-term growth plans, plus the addition of stock-based compensation expense offset by lower executive and key manager incentive plan expense with each contributing \$1,272,000, \$347,000 and (\$219,000), respectively. During the six months ended June 30, 2006, we invested approximately \$680,000 towards business development related activities; \$225,000 to our continuing upgrade in the area of information technology; \$152,000 toward ongoing efforts to standardize and improve our project controls systems and procedures plus approximately \$215,000 in the areas of accounting, executive, investor relations and governance, human resources and safety.

In the course of providing our services, we routinely provide engineering, materials, and equipment and may provide construction services on a 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 much lower than those of our normal core business. In accordance with industry practice and generally accepted accounting principles, all such costs and fees are included in revenue. The use of subcontractor services and purchase of materials can change significantly from project to project; therefore, changes in revenue may not be indicative of business trends. For analytical purposes, if we adjusted total revenue by excluding these subcontractor services and all other non-labor revenue, Corporate SG&A as a percentage of this adjusted revenue would have actually shown a decrease of .2% for the three months ended June 30, 2006 and decrease of .1% for the six months ended June 30, 2006 when compared to similar periods in 2005.

### Operating Income:

Operating income increased approximately \$1.0 million, or 38.5%, to \$3.6 million for the three months ended June 30, 2006 from \$2.6 million compared to the same period in 2005. As a percentage of revenue, operating income increased 0.3% to 4.7% for the three months ended June 30, 2006 from 4.4% for the comparable prior year period.

Operating income increased approximately \$1.5 million, or 35.7%, to \$5.7 million for the six months ended June 30, 2006 from \$4.2 million compared to the same period in 2005. As a percentage of revenue, operating income decreased 0.1% to 4.0% for the six months ended June 30, 2006 from 4.1% for the comparable prior year period.

### Other Income (Expense):

Other income of approximately \$387,000 was offset by approximately \$253,000 in interest expense, resulting in a net other income of approximately \$134,000 for the three month period ended June 30, 2006 compared to an expense of approximately \$202,000 for the comparable prior year period. During the three month period ended June 30, 2006, the Company received a partnership distribution of \$350,000 from PEI through ENGlobal Engineering,

Inc. attributable to insurance proceeds received for damages related to the building destroyed by Hurricane Rita last September 2005. On May 25, 2006, the Company, through its wholly-owned subsidiary, ENGlobal Corporate Services, Inc., purchased a one-third partnership interest in PEI Investments, A Texas Joint Venture ("PEI") from Michael L. Burrow, the Company's CEO, and another one-third interest from a stockholder who owns less than 1% of the Company's common stock. The partnership interests were purchased for a total of \$69,000. The remaining one-third interest was already held by the Company through its wholly-owned subsidiary ENGlobal Engineering, Inc. PEI owns the land whereupon our Beaumont office building destroyed by Hurricane Rita in September 2005 once stood. PEI is included in the condensed consolidated financial statements as a wholly-owned subsidiary. The Company expects to rebuild a facility at the site in the future. The Company realized approximately \$60,000 in additional income from the partnership resulting in additional insurance proceeds related to loss income. The Company expects to record approximately \$45,000 in additional insurance proceeds during the three month period to end September 30, 2006. No other income is expected beyond that date.

Other expense decreased \$364,000, to \$6,000 for the six month period ended June 30, 2006 from \$370,000 for the comparable prior year period, primarily due to the Company's receipt of a partnership distribution of \$350,000 from PEI, plus additional proceeds related to insurance claims for building damages from Hurricane Rita in September 2005 as discussed above.

#### Tax Provision:

Income tax expense increased \$500,000, or 55.6%, to \$1.4 million for the three months ended June 30, 2006 from \$900,000 for the comparable prior year period.

Income tax expense increased \$700,000, or 50.0%, to \$2.1 million for the six months ended June 30, 2006 from \$1.4 million for the comparable prior year period.

The estimated effective tax rate was 36.9% and 37.2% for the three and six-month periods ended June 30, 2006 compared to 37.0% for the comparable prior year periods. The change in the effective tax rate is affected by the deferred tax benefit arising from recognition of stock-based compensation on non-qualified options vesting each quarter.

The estimated effective tax rates are based on estimates using historical rates adjusted by recurring and non-recurring book to tax differences. Estimates at June 30, 2006 included the effect of non-recurring differences in tax estimates from the 2005 year-end. Estimates at June 30, 2006 are based on results of the 2005 year-end and adjusted for estimates of non-recurring differences from the prior year.

#### Net Income:

Net income for the three months ended June 30, 2006 increased \$800,000, or 53.3%, to \$2.3 million from \$1.5 million for the comparable prior year period. As a percentage of revenue, net income increased to 3.1% for the three month period ended June 30, 2006 from 2.6% for the period ended June 30, 2005.

Net income for the six months ended June 30, 2006 increased \$1.1 million, or 45.8%, to \$3.5 million from \$2.4 million for the comparable prior year period. As a percentage of revenue, net income increased to 2.5% for the



## Edgar Filing: ENGLOBAL CORP - Form 10-Q

six month period ended June 30, 2006 from 2.3% for the period ended June 30, 2005.

22

### Segment Results

#### Engineering

The following table illustrates the composition of the Company's revenue and operating expense mix quarter over quarter for the three and six month periods ended June 30, 2006 and 2005, and provides a comparison of the changes in revenue and operating expense and trends period over period:

	Three Months Ended June 30,				Six Mon Jun	
	2006		2005		2006	
(dollars in thousands)						
<b>Revenue:</b>						
Engineering	\$ 67,087	96.2 %	51,145	93.1 %	\$ 129,674	98.0 %
Acquisition	2,665	3.8 %	3,817	6.9 %	2,665	2.0 %
Total revenue	\$ 69,752	100.0%	54,962	100.0 %	\$ 132,339	100.0%
<b>Gross profit:</b>						
Engineering	\$ 9,782	14.6 %	6,573	12.9 %	\$ 17,579	13.5 %
Acquisition	407	15.3 %	352	9.2 %	407	15.3 %
Total gross profit	10,189	14.6 %	6,925	12.6 %	17,986	13.6 %
<b>Operating SG&amp;A expense:</b>						
Engineering	3,327	5.0 %	1,590	3.1 %	6,234	4.8 %
Acquisition	266	10.0 %	277	7.3 %	266	10.0 %
Total SG&A expense	3,593	5.2 %	1,867	3.4 %	6,500	4.9 %
<b>Operating income:</b>						
Engineering	6,455	9.6 %	4,983	9.1 %	11,345	8.7 %
Acquisition	141	5.3 %	75	2.0 %	141	5.3 %
Total operating income	\$ 6,596	9.5 %	5,058	9.2 %	\$ 11,486	8.7 %

### Overview:

Highlights of financial results during the three and six month periods ended June 30, 2006 compared to the three and six month periods ended June 30, 2005:

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

Revenue up 27% quarter-over-quarter and 38% year-over-year  
 Gross profit up 48% quarter-over-quarter and 48% year-over-year  
 Operating SG&A as a percent of revenue up 1.8% quarter-over-quarter  
 and 1.2% year-over-year  
 Operating income up 30% for both quarter-over-quarter and  
 year-over-year

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 retrofit projects as product margins in this marketplace improve.

Beginning January 1, 2006, the Company re-assigned all advanced automation and integrated controls projects previously reported under the systems segment to the newly created ENGlobal Automation Group within the engineering segment. Results presented for the first quarter of 2005 have been reclassified to reflect this re-assignment.

23

In the results presented for the three and six months ended June 30, 2006, "Acquisition" totals include the results of operations of WRC. Acquisition totals for the three and six months ended June 30, 2005 include results of operations related to assets acquired from Cleveland and Amtech.

### Revenue:

Revenue increased \$14.8 million, or 26.9%, to \$69.8 million for the three months ended June 30, 2006 from \$55.0 million for the comparable prior year period.

Revenue increased \$36.1 million, or 37.6%, to \$132.3 million for the six months ended June 30, 2006 from \$96.2 million for the comparable prior year period.

The following table illustrates the composition of the Company's revenue mix quarter over quarter for the three and six month periods ended June 30, 2006 and 2005, and provides a comparison of the changes in revenue and revenue trends period over period:

	Three Months Ended June 30,					
	2006	% rev	2005	% rev	\$ change	%
	(dollars in millions)					
Detail-design	\$ 28.4	41%	\$ 25.3	46%	\$ 3.1	
Field services & inspection	25.0	36%	13.2	24%	11.8	
Procurement & construction	6.3	9%	14.5	27%	(8.2)	
Design-build fixed price	10.1	14%	1.9	3%	8.2	
	\$ 69.8	100%	\$ 54.9	100%	\$ 14.9	
	Six Months Ended June 30,					
	2006	% rev	2005	% rev	\$ change	%

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

(dollars in millions)					
Detail-design	\$ 56.0	43%	\$ 45.7	48%	\$ 10.3
Field services & inspection	44.6	34%	25.5	27%	19.1
Procurement & construction	16.9	13%	22.0	23%	(5.1)
Design-build fixed price	14.8	10%	3.0	2%	11.8
	-----		-----		-----
	\$ 132.3	100%	\$ 96.2	100%	\$ 36.1
	=====		=====		=====

The largest increase in revenue came from our core detail-design and field service activity which increased \$14.9 million, or 39%, to \$53.4 million for the second quarter of 2006 from \$38.5 million for the comparable period in 2005 and on a combined basis accounted for approximately 77% of engineering's total revenue mix for the three and six month periods ended June 30, 2006. Design-build revenue increased \$8.2 million, or 432%, from \$1.9 million for the three month period ended June 30, 2005 to \$10.1 million for the same period in 2006 and accounted for approximately 14% of engineering's total revenue during the three month period. Design-build revenue increased \$11.8 million, or 393%, from \$3.0 million to \$14.8 million for the six month period ended June 30, 2006 compared to the comparable prior year period and during the current six month period accounted for approximately 10% of engineering's total revenue. Revenue from non-labor procurement and construction activity decreased \$8.2 million from \$14.5 million during the three months ended June 30, 2005 to \$6.3 million for the second quarter of 2006 and was down \$5.1 million from \$22.0 million during the six months ended June 30, 2005 to \$16.9 million for the comparable period in 2006. Procurement and construction revenue decreased as a percentage of total engineering revenue from 27% to 9% and 23% to 13% for the comparable three and six month periods ending June 30th in 2005 and 2006.

Individually, our field services, inspection and land services revenue was the most significant contributor to our overall \$14.9 million revenue increase for the three months ended June 30, 2006 adding \$11.8 million and increasing its share of our overall revenue from 24% for the three months ended June 30, 2005 to 36% for the second quarter of 2006. Field services, inspection and land services revenue was also a major growth area during the six month period ended June 30, 2006 increasing \$19.1 million to \$44.6 million, or 75%, from \$25.5 million for the comparable period in 2005 and grew as a percentage of engineering's total revenue from 27% during the six month period ended June 30, 2005 to 34% for the same period during 2006. Although management anticipates positive trends for all labor-based revenue, they expect the growth trend in both detail-design and design-build projects to continue to bring opportunities from both current and new clients.

24

### Gross Profit:

Gross profit increased \$3.3 million, or 47.8%, to \$10.2 million for the three months ended June 30, 2006 from \$6.9 million for the comparable period in 2005, and, as a percentage of revenue, increased by 2.0% from 12.6% to 14.6% for the three-month periods ended June 30, 2005 and 2006, respectively. Of the overall \$3.3 million increase in gross profit, approximately \$1.8 million was attributable to the \$14.5 million increase in total revenue and approximately \$1.5 million was attributable to improved margins. Reversals related to cost overruns and rework on fixed price detail-design and design-build projects reduced margins by approximately \$125,000 during the quarter.

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

Gross profit increased \$5.6 million, or 45.2%, to \$18.0 million for the six months ended June 30, 2006 from \$12.4 million for the comparable period in 2005, and, as a percentage of revenue, increased by 0.7% from 12.9% to 13.6% for the six-month periods ended June 30, 2005 and 2006, respectively. Of the overall \$5.6 million increase in gross profit, approximately \$4.5 million was attributable to the \$35.6 million increase in total revenue while approximately \$1.1 million was due to improved margins. Reversals related to cost overruns and rework on four fixed price detail-design and design-build projects reduced margins by approximately \$414,000 during the period.

### Selling, General, and Administrative:

As a percentage of revenue, SG&A expense increased to 5.2% for the three-month period ended June 30, 2006 from 3.4% for the three-month period ended June 30, 2005. SG&A expense increased approximately \$1.7 million, or 89.5%, to \$3.6 million for the three months ended June 30, 2006 from \$1.9 million for the comparable prior year period. The increase in SG&A expense includes costs of \$470,000 attributable to the support of expanded facilities to meet both current and projected growth requirements; \$400,000 related to new costs related to the start-up of ENGlobal Automation; \$325,000 in salaries and benefits; \$265,000 related to new costs associated to the acquisition of WRC; \$127,000 in stock-compensation expense and \$113,000 in other additional costs.

As a percentage of revenue, SG&A expense increased to 4.9% for the six-month period ended June 30, 2006 from 3.7% for the six-month period ended June 30, 2005. SG&A expense increased approximately \$3.0 million, or 85.7%, to \$6.5 million for the six months ended June 30, 2006 from \$3.5 million for the comparable prior year period. The increase in SG&A expenses included \$968,000 attributable to the support of expanded facilities to meet both current and projected growth requirements; \$779,000 in salaries and benefits; \$694,000 in new costs related to the start-up of ENGlobal Automation and ENGlobal Canada; \$265,000 related to new costs related to the acquisition of WRC; \$142,000 in stock-compensation expense and \$152,000 in other additional costs.

### Operating Income:

Operating income increased \$1.5 million, or 29.4%, to \$6.6 million for the three months ended June 30, 2006 from \$5.1 million for the comparable prior year period. As a percentage of revenue, operating income increased to 9.5% for the three months ended June 30, 2006 from 9.2% for the comparable prior year period.

Operating income increased \$2.7 million, or 30.7%, to \$11.5 million for the six months ended June 30, 2006 from \$8.8 million for the comparable prior year period. As a percentage of revenue, operating income decreased to 8.7% for the six months ended June 30, 2006 from 9.2% for the comparable prior year period.

25

Systems

-----

The following table illustrates the composition of the Company's revenue and operating expense mix quarter over quarter for the three and six month periods ended June 30, 2006 and 2005, and provides a comparison of the

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

changes in revenue and operating expense and trends period over period:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006		2005		2006		2005	
	(dollars in thousands)							
Revenue:	\$ 5,314	100.0%	\$ 4,457	100.0%	\$ 9,354	100.0%	\$ 7,8	8
Gross profit:	\$ 539	10.1%	\$ 354	7.9%	\$ 964	10.3%	\$	6
Operating SG&A expense:	484	9.1%	513	11.5%	1,091	11.7%	9	9
Operating income:	55	1.0%	(159)	(3.6)%	(127)	(1.4)%	(3	(3

### Overview:

Highlights of financial results during the three and six month periods ended June 30, 2006 compared to the three and six month periods ended June 30, 2005:

- Revenue up 19% for both quarter-over-quarter and year-over-year
- Gross profit up 52% quarter-over-quarter and 58% year-over-year
- Operating SG&A as a percent of revenue down 2.4% quarter-over-quarter and 0.5% year-over-year
- Operating income up 135% quarter-over-quarter and 68% year-over-year

The primary reason for these improved financial results has been the shift and increase in revenues on process analyzer projects and, as a percent of revenue, a lower investment in operating SG&A expense.

### Revenue:

Revenue increased approximately \$800,000, or 17.8%, to \$5.3 million for the three month period ended June 30, 2006 from \$4.5 million for the comparable prior year period and increased approximately \$1.5 million, or 19.0%, to \$9.4 million for the six month period ended June 30, 2006 from \$7.9 million for the comparable prior year period.

The increases in revenue for both the three and six month periods ended June 30, 2006 were primarily the result of growth in our process analyzer systems fabrication as a result of our acquisition of certain assets of ATI during the first quarter of this year. The Analytical Division's revenues totaled \$3.2 million and \$4.7 million respectively for the three and six month periods ended June 30, 2006. These figures represent increases of \$2.2 million and \$3.3 million in revenues over the comparable periods for the prior year. Approximately \$17.7 million in project awards directly related to the ATI acquisition have been received during the current year, and are scheduled to be completed by the first quarter of 2007. The majority of the analyzer awards are for international projects.

Revenues from our Engineered Systems Division declined approximately 15% quarter-over-quarter during the current year. Compared to the three and six month periods ended June 30, 2005, revenues from the Engineered Systems Division increased 16% and decreased 26% respectively. The decline in

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

engineered systems revenues during the six months ended June 30, 2006, is a result of declining awards as the market has been slow to make awards although there are a significant amount of proposals pending and we expect projects will begin to get released by the clients during the third and fourth quarters of the year.

### Gross profit:

Gross profit increased approximately \$190,000, or 54.3%, to \$540,000 for the three months ended June 30, 2006 from \$350,000 for the comparable prior year period and, as a percentage of revenue, gross profit increased to 10.1% from 7.9% for the respective periods. For the six month period ended June 30, 2006, gross profit increased approximately \$360,000, or 60.0%, to \$960,000 for the six months ended June 30, 2006 from \$600,000 for the comparable prior year period and, as a percentage of revenue, gross profit increased to 10.3% from 7.7% for the respective periods.

26

The increases in gross profit for both the three and six month periods ended June 30, 2006 were primarily the result of higher volume and margins on process analyzer systems fabrication.

### Selling, General, and Administrative:

SG&A expense decreased approximately \$30,000, or 5.9%, to \$480,000 for the three months ended June 30, 2006 from \$510,000 for the same period in 2005 and, as a percentage of revenue, SG&A expense decreased to 9.1% from 11.5% for the respective periods. The decrease in costs during the most recent quarter is attributable to lower salaries and employee expenses of \$76,000 offset by increases in facilities and other expenses of \$45,000 and \$2,000, respectively.

SG&A expense increased approximately \$140,000, or 14.6%, to \$1.1 million for the six months ended June 30, 2006 from \$960,000 for the same period in 2005 and, as a percentage of revenue, SG&A expense decreased to 11.7% from 12.2% for the respective periods. The increase in costs during the most recent six month period is attributable to increases in facilities expenses of \$110,000 and marketing costs of \$30,000.

### Operating Income:

The systems segment recorded operating income of \$55,000 for the three months ended June 30, 2006 compared to an operating loss of \$160,000 for the three months period ended June 30, 2005. An operating loss of \$127,000 was recorded for the six months ended June 30, 2006 compared to an operating loss of \$353,000 for the six month period ended June 30, 2005.

The improvements in operating income for both the three and six month periods ended June 30, 2006 compared to the comparable periods of the prior year are primarily the results of improved margins in the shift to process analyzed systems fabrication from. engineered systems work, plus the lower investment in SG&A costs as a percentage of revenue.

### Liquidity and Capital Resources

-----

Historically, cash requirements have been satisfied through operations and borrowings under a revolving line of credit, which is currently in effect with Comerica Bank (the "Comerica Credit Facility"). As of June 30, 2006, we had working capital of \$31.0 million. Long-term debt, net of current

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

portion, was \$16.9 million as of June 30, 2006, including \$13.5 million outstanding under the Comerica Credit Facility.

The Comerica Credit Facility is senior to all other debt, and the line of credit is limited to \$22.0 million, subject to borrowing base restrictions. The Comerica Credit Facility is collateralized by substantially all of the assets of the Company. The Comerica Credit Facility contains covenants requiring the Company, as of the end of each calendar month, to maintain certain ratios, including total funded debt to EBITDA; to total liabilities, plus net worth; and total funded debt to accounts/unbilled receivables. The Company is also required, as of the end of each quarter, to maintain minimum levels of net worth, plus the Company must comply with an annual limitation on capital expenditures. The Company is currently in compliance with all loan covenants, although no assurances can be given regarding such compliance in the future. Except for \$340,000 in standby letters of credit issued to a refining client covering contractual obligations funded by the client for progress payments made to equipment manufacturers for major project items, we are not currently subject to any other guarantees, repurchase obligations or other commitments. We expect our current obligations under standby letters of credit to be fully released in August, 2006. We have no off-balance sheet arrangements.

As of June 30, 2006, management believes the Company's cash position is sufficient to meet its working capital requirements. Any future decrease in demand for the Company's services or products would reduce the availability of funds through operations.

### Cash Flow

-----

The Company believes that it has available the necessary cash required for operations for the next 12 months. However, cash and the availability of cash could be materially restricted if circumstances prevent the timely

27

internal processing of invoices, if amounts billed are not collected, if project mix shifts from cost reimbursable to fixed costs contracts during significant periods of growth, if the Company was to lose one or more of its major customers, or if the Company is not able to meet the covenants of the Comerica Credit Facility. If any such event occurs, the Company would be forced to consider alternative financing options.

Cash flow continues to be impacted by timing differences related to the growth in payroll and slower collections of our accounts receivable from clients as evidenced by the fact that our average accounts receivable days outstanding has increased to 63 days for the six month period ended June 30, 2006 from 55 days for the comparable period in 2005. Payments made during the quarter related to investments in both capital equipment and acquisitions also contributed to the additional requirements for cash.

#### Operating activities:

Net cash used in operating activities was \$2.0 million for the six-month period ended June 30, 2006, compared with net cash provided of \$3.9 million in the same period in 2005. Changes in working capital due to the timing of collections of trade receivables and payments for trade payables and accruals, contributed to the negative cash flows from operations for the six-month period ended June 30, 2006.

#### Investing activities:

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

Net cash used in investing activities was \$7.1 million for the six-month period ended June 30, 2006, compared to net cash used of \$400,000 in the same period in 2005. In the second quarter of 2006, the Company acquired WRC Corporation for \$2.3 million cash, a promissory note and 175,000 shares of ENGlobal common stock. Also, as a part of the WRC transaction, \$1.3 million in cash was acquired and \$6.1 million of WRC's debt was retired. The Company also used cash for capital expenditures in the first six months of 2006 and 2005.

28

### Financing activities:

Net cash provided by financing activities was \$9.8 million for the six-month period ended June 30, 2006, compared with net cash used of \$3.5 million in the same period in 2005. In the first half of 2006, the Company increased the outstanding line of credit by \$9.7 million for working capital needs, as well as financing the WRC acquisition. This is compared to a decrease in the outstanding line of credit of \$2.6 million in the same period in 2005.

### Asset Management

-----

The Company's cash flow from operations has been affected primarily by the timing of its collection of trade accounts receivable. The Company typically sells its products and services on short-term credit terms and seeks to minimize its credit risk by performing credit checks and conducting its own collection efforts. The Company had net trade accounts receivable of \$53.3 million and \$46.2 million at June 30, 2006 and December 31, 2005, respectively. The number of days sales outstanding in trade accounts receivables was 63 days and 59 days at June 30, 2006 and December 31, 2005, respectively.

### 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



## Edgar Filing: ENGLOBAL CORP - Form 10-Q

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 June 30, 2006, \$13.5 million had been borrowed under the Credit Facility, accruing interest at 8.25% per year, excluding amortization of prepaid financing costs. A 10% increase in the short-term borrowing rates on the Credit Facility outstanding as of June 30, 2006 would be 82.5 basis points. Such an increase in interest rates would increase our annual interest expense by approximately \$111,000, 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

#### Disclosure Controls and Procedures

-----

As of June 30, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our "disclosure controls and procedures," as such term is defined under Exchange Act Rules 13a-15(e) and 15d-15(e).

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2006, such disclosure controls and procedures were 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 rules and forms of the Securities and Exchange Commission, and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

29

#### Changes in Internal Control over Financial Reporting

-----

Item 308 of Regulation S-K promulgated under Section 404 of the Sarbanes-Oxley Act of 2002 requires that public companies annually evaluate the effectiveness of their internal control over financial reporting at the end of each fiscal year, and include a management report assessing the effectiveness of such internal control over financial reporting in all annual reports. Item 308 of Regulation S-K also requires that the independent accountants of public companies attest to, and report on, management's assessment of its internal control over financial reporting. The initial compliance date with respect to these requirements depends on whether a company is an "accelerated filer" as determined by Rule 12b-2 of the Exchange Act.

As disclosed in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, ENGlobal was not an "accelerated filer" as of December

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

31, 2005. Based on the SEC's criteria for the aggregate market value of ENGlobal's common stock, ENGlobal will become an "accelerated filer" January 1, 2007. Therefore, the Company will be required to include a report by management on the Company's internal control over financial reporting in its Annual Report on Form 10-K for the fiscal year ending December 31, 2006.

ENGlobal is currently making concerted efforts to prepare itself to be able to comply with such requirements. These efforts include documenting, evaluating the design and testing the effectiveness of ENGlobal's internal control over financial reporting. During this process, ENGlobal expects to improve our internal processes as well as be in compliance with the law.

We are exposed to increased costs associated with complying with these requirements, and will be spending management time and resources to document and test our internal controls in anticipation of Section 404 reporting requirements. Furthermore, our independent registered public accounting firm, Hein & Associates, will be required to attest to whether its assessment of the effectiveness of our internal control over financial reporting is fairly stated in all material respects and separately report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006.

In addition, the Company acquired WRC Corporation ("WRC") on May 25, 2006. WRC utilizes separate information and accounting systems and processes. Management anticipates excluding WRC from the 2006 Assessment in accordance with the guidance from the Division of Corporation Finance and Office of the Chief Accountant of the Securities and Exchange Commission. Management intends to complete its assessment of the effectiveness of internal control over financial reporting for the acquired WRC business within 12 months of the date of the acquisition. In the meantime, WRC's accounting and information systems are currently being converted to the same platform as the rest of the Company.

Other than the acquisition of WRC on May 25, 2006, there were no changes in our internal controls over financial reporting during the most recent quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

30

### 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, are 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

## Edgar Filing: ENGLOBAL CORP - Form 10-Q

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, 2005, 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 condition or operating results.

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

On May 25, 2006, we acquired all of the outstanding capital stock of WRC Corporation for an aggregate purchase price of \$10,060,329.19 consisting of 175,000 shares of Company common stock valued at \$8.00 per share, cash and promissory notes paid or payable to Michael H. Lee, and the payment of certain debt obligations of WRC. The private placement of the 175,000 shares of our common stock was made in reliance on Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as the transaction did not involve a public offering and was sold to a limited group of investors.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On June 1, 2006, the Company held its Annual Meeting of Stockholders. The Company's stockholders elected the following five persons as directors, each to serve until the next Annual Meeting of Stockholders or until his successor is elected or appointed: William A. Coskey, P.E., Michael L. Burrow, P.E., David W. Gent, P.E., Randall B. Hale, and David C. Roussel. The Company's stockholders also voted to approve an amendment to the Restated Articles of Incorporation of ENGlobal Corporation to eliminate the Series A Preferred Stock and all references as to its rights and privileges and to authorize 2,000,000 shares of Preferred Stock, \$0.001 par value, with the Board of Directors having authority to specify restrictions and other rights pertaining to such shares and to approve the issuance of such shares without further approval by stockholders.

The number of shares voted and withheld with respect to each director were as follows:

Election of Directors -----	For ---	Withheld -----
William A. Coskey, P.E.	23,832,313	1,094,628
Michael L. Burrow, P.E.	23,951,260	975,681
David W. Gent, P.E.	23,933,224	993,717
Randall B. Hale	23,815,403	1,111,538
David C. Roussel	23,935,560	993,381

The number of shares voted for and against the amendment to the Restated Articles of Incorporation were as follows:

For ---	Against -----	Abstain -----
15,246,484	3,369,225	24,636

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1 Certifications Pursuant to Rule 13a - 14(a) of the Exchange Act for 2002 for the Second Quarter 2006
- 31.2 Certifications Pursuant to Rule 13a - 14(a) of the Exchange Act for 2002 for the Second Quarter 2006
- 32 Certification Pursuant to Rule 13a - 14(b) of the Exchange Act and 18U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Second Quarter 2006

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: August 14, 2006

By: /s/ Robert W. Raiford

-----  
Robert W. Raiford  
Chief Financial Officer and Treasurer