

ENGLOBAL CORP  
Form 10-Q  
May 11, 2017

**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 April 1, 2017**

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

**Commission File No. 001-14217**

**ENGlobal Corporation**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**88-0322261**

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

(Zip code)

**(281) 878-1000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shortened period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: ENGLOBAL CORP - Form 10-Q

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the close of business on May 9, 2017.

**\$0.001 Par Value Common Stock 27,138,657 shares**

**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE PERIOD ENDED April 1, 2017**

**TABLE OF CONTENTS**

	<b>Page Number</b>
<b>Part I. <u>Financial Information</u></b>	3
<b>Item 1. <u>Financial Statements</u></b>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended April 1, 2017 and March 26, 2016</u>	3
<u>Unaudited Condensed Consolidated Balance Sheets at April 1, 2017 and December 31, 2016</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 1, 2017 and March 26, 2016</u>	5
<u>Notes to Unaudited Interim Condensed Consolidated Financial Statements</u>	6
<b>Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	10
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	15
<b>Item 4. <u>Controls and Procedures</u></b>	15
<b>Part II. <u>Other Information</u></b>	16
<b>Item 1. <u>Legal Proceedings</u></b>	16
<b>Item 1A. <u>Risk Factors</u></b>	16
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	17
<b>Item 3. <u>Defaults Upon Senior Securities</u></b>	17
<b>Item 4. <u>Mine Safety Disclosures</u></b>	17
<b>Item 5. <u>Other Information</u></b>	17

<b>Item 6.</b> <u>Exhibits</u>	18
<u>Signatures</u>	19

Table of Contents**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	
	<b>April 1, 2017</b>	<b>March 26, 2016</b>
Operating revenues	\$12,473	\$14,812
Operating costs	10,742	13,139
Gross profit	1,731	1,673
Selling, general and administrative expenses	3,406	3,390
Operating loss	(1,675 )	(1,717 )
Other income (expense):		
Other income (expense), net	3	6
Interest expense, net	(65 )	(36 )
Loss from operations before income taxes	(1,737 )	(1,747 )
Benefit for federal and state income taxes	(859 )	(998 )
Net loss	\$(878 )	\$(749 )
Basic and diluted loss per common share:	\$(0.03 )	\$(0.03 )
Basic and diluted weighted average shares used in computing earnings per share:	27,188	27,950

See accompanying notes to unaudited interim condensed consolidated financial statements.



Table of Contents**ENGlobal Corporation****Condensed Consolidated Balance Sheets****(Unaudited)****(amounts in thousands, except share amounts)**

	<b>April 1, 2017</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
Current Assets:		
Cash, cash equivalents and restricted cash	\$ 14,373	\$ 15,687
Trade receivables, net of allowances of \$302 and \$422	7,981	10,455
Prepaid expenses and other current assets	989	1,240
Costs and estimated earnings in excess of billings on uncompleted contracts	3,429	2,434
<b>Total Current Assets</b>	<b>26,772</b>	<b>29,816</b>
Property and equipment, net	1,363	1,194
Goodwill	2,806	2,806
Deferred tax asset	11,056	10,208
Other assets	345	412
<b>Total Assets</b>	<b>\$42,342</b>	<b>\$ 44,436</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 1,900	\$ 2,876
Accrued compensation and benefits	1,840	2,099
Billings in excess of costs and estimated earnings on uncompleted contracts	1,473	1,371
Other current liabilities	1,097	1,270
<b>Total Current Liabilities</b>	<b>6,310</b>	<b>7,616</b>
Long Term Leases	29	14
<b>Total Liabilities</b>	<b>6,339</b>	<b>7,630</b>
Commitments and Contingencies (Note 8)		
Stockholders' Equity:		
Common stock - \$0.001 par value; 75,000,000 shares authorized; 27,149,582 and 27,190,082 shares issued and outstanding at April 1, 2017 and December 31, 2016, respectively	27	27
Additional paid-in capital	36,397	36,322
Accumulated (deficit)/earnings	(421 )	457
<b>Total Stockholders' Equity</b>	<b>36,003</b>	<b>36,806</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$42,342</b>	<b>\$ 44,436</b>

See accompanying notes to unaudited interim condensed consolidated financial statements.





Table of Contents**ENGlobal Corporation****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(amounts in thousands)**

	For the Three Months Ended	
	<b>April 1, 2017</b>	<b>March 26, 2016</b>
Cash Flows from Operating Activities:		
Net loss	\$(878 )	\$(749 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	269	321
Share-based compensation expense	75	121
Loss on disposal of fixed assets	-	1
Deferred tax asset	(848 )	(1,044 )
Changes in current assets and liabilities:		
Trade accounts receivable	2,474	4,771
Costs and estimated earnings in excess of billings on uncompleted contracts	(995 )	542
Other current assets	176	326
Accounts payable	(976 )	(236 )
Accrued compensation and benefits	(259 )	335
Billings in excess of costs and estimated earnings on uncompleted contracts	102	36
Income taxes payable	96	25
Other current liabilities, net	(109 )	(77 )
Net cash provided by (used in) operating activities	\$(873 )	\$4,372
Cash Flows from Investing Activities:		
Proceeds from notes receivable	10	-
Property and equipment acquired	(408 )	(45 )
Net cash used in investing activities	\$(398 )	\$(45 )
Cash Flows from Financing Activities:		
Purchase of treasury stock	-	(253 )
Payments on capitalized leases	(43 )	(95 )
Net cash used in financing activities	\$(43 )	\$(348 )
Net change in cash, cash equivalents and restricted cash	(1,314 )	3,979
Cash, cash equivalents and restricted cash, at beginning of period	15,687	7,806
Cash, cash equivalents and restricted cash, at end of period	\$14,373	\$11,785
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$65	\$38

Cash paid during the period for income taxes (net of refunds) \$(107 ) \$20

See accompanying notes to unaudited interim condensed consolidated financial statements.

Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of ENGlobal Corporation (which may be referred to as “ENGlobal,” the “Company,” “we,” “us,” or “our”) were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, these condensed financial statements do not include all of the information or note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP. These condensed financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2016, included in the Company’s 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The condensed financial statements included herein are unaudited for the three month periods ended April 1, 2017 and March 26, 2016, and in the case of the condensed balance sheet as of December 31, 2016, 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.

The Company has assessed subsequent events through the date of filing of these condensed 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.

We had no items of other comprehensive income in any period presented; therefore, no other components of comprehensive income or comprehensive income are presented.

Each of our quarters is comprised of 13 weeks.

***Changes in Accounting***

In March 2016, the Financial Statements Accounting Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, to change several aspects of accounting for share-based payment transactions, including a requirement to recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This pronouncement is effective for interim and annual reporting periods beginning after December 31, 2016, with early adoption permitted. Varying transition methods (modified retrospective, retrospective or prospective) are applied to different provisions of the standard. We have adopted this pronouncement in the first quarter of 2017 by electing to account for forfeitures in compensation costs as they occur and reflecting this change in accounting policy on a modified retrospective basis through a non-material, cumulative-effect adjustment reducing accumulated earnings as of the beginning of 2017. We recognized a benefit in stock compensation related to forfeitures of \$.01 million in the three months ended April 1, 2017.

In November 2016, the FASB Issued Update 2016-18, *Statement of Cash flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. This update addresses the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. This pronouncement is effective for interim and annual reporting periods beginning after December 15, 2017, with early application permitted. We have adopted this pronouncement in the first quarter of 2017 and have reported restricted cash as a component of ending cash, cash equivalents and restricted cash on the Statements of Cash Flows.

#### ***New Accounting Pronouncements Not Yet Adopted***

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts with Customers (Topic 606)*, that will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which we expect to be entitled in exchange for transferring goods or services to a customer. This new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity’s nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In May 2016, the FASB issued ASU No. 2016-12 to clarify certain narrow aspects of Topic 606 such as assessing the collectability criterion, presentation of sales taxes and other similar taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition, and other technical corrections. This new accounting standard, as updated, is effective for interim and annual reporting periods beginning after December 15, 2017. We have begun the process of evaluating the principles in the new standard following the five step approach and we are assessing its potential impact on our financial position, results of operations, cash flows and related disclosures. Through our initial evaluation, we believe the impact to our financial statements will be immaterial and we do not believe the implementation will have a material impact on our business practices.

Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, that will amend the accounting standards for leases. This new standard retains a distinction between finance leases and operating leases but the primary change is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases on the lessee's balance sheet and certain aspects of lease accounting have been simplified. This new standard requires additional qualitative and quantitative disclosures along with specific quantitative disclosures required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This pronouncement is effective for interim and annual reporting periods beginning after December 15, 2018, with early application permitted. We are currently evaluating the provisions of this pronouncement and are assessing its potential impact on our financial position, results of operations, cash flows and related disclosures. However we are currently unable to reasonably estimate the impact this pronouncement will have on our financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This amendment addresses how certain specified cash receipts and cash payments are presented in the statement of cash flows. This guidance becomes effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the provisions of this pronouncement and are assessing its potential impact on our financial position, results of operations, cash flows and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment removes the second step of the two-step goodwill impairment test. When adopted, an entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. This pronouncement is effective for the Company's annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the provisions of this pronouncement and are assessing its potential impact on our financial position, results of operations, cash flows and related disclosures.

**NOTE 2 – CASH, CASH EQUIVALENTS AND RESTRICTED CASH**

The following table provides a reconciliation of Cash, cash equivalents and restricted cash reported within the consolidated financial statements:

	<b>April 1,</b>	<b>December</b>
	<b>2017</b>	<b>31, 2016</b>
	(dollars in thousands)	
Cash and cash equivalents	\$13,713	\$ 15,687
Restricted cash	660	—
Total cash, cash equivalents and restricted cash	\$14,373	\$ 15,687

Amounts included in restricted cash represent those required to be set aside to collateralize a letter of credit required by a customer.

### NOTE 3 - CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts consisted of the following at April 1, 2017 and December 31, 2016:

	<b>April 1,</b>	<b>December</b>
	<b>2017</b>	<b>31, 2016</b>
	(dollars in thousands)	
Costs incurred on uncompleted contracts	\$59,101	\$ 58,933
Estimated earnings on uncompleted contracts	24,534	24,694
Earned revenues	83,635	83,627
Less: billings to date	81,679	82,564
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$1,956	\$ 1,063
Costs and estimated earnings in excess of billings on uncompleted contracts	\$3,429	\$ 2,434
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,473 )	(1,371 )
Net costs and estimated earnings in excess of billings on uncompleted contracts	\$1,956	\$ 1,063

Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Revenue on fixed-price contracts is recorded primarily using the percentage-of-completion (cost-to-cost) method. Revenue and gross margin on fixed-price contracts are subject to revision throughout the lives of the contracts and any required adjustments are made in the period in which the revisions become known. To manage unknown risks, management may use contingency amounts to increase the estimated costs, therefore, lowering the earned revenues until the risks are better identified and quantified or have been mitigated. We currently have \$0.5 million in contingency amounts as of April 1, 2017 compared to \$0.9 million as of December 31, 2016. Losses on contracts are recorded in full as they are identified. Fixed price contracts generally include retainage provisions under which a percentage of the contract price is withheld until the project is complete and has been accepted by our customer. We currently have \$1.0 million in retainage as of April 1, 2017 compared to \$1.4 million as of December 31, 2016.

We recognize service revenue as soon as the services are performed. For clients that we consider higher risk, due to past payment history or history of not providing written work authorizations, we have deferred revenue recognition until we receive either a written authorization or a payment. We currently have \$0.4 million in deferred revenue recognition as of April 1, 2017 compared to \$0.1 million as of December 31, 2016. This deferred revenue represents work on not-to-exceed contracts that has been performed but has not been billed or booked as revenue due to our revenue recognition policies as the work was performed outside the contracted amount without obtaining proper work order changes. It is uncertain as to whether these revenues will eventually be recognized by us or the proceeds collected. The costs associated with these billings have been expensed as incurred.

**NOTE 4 – LINE OF CREDIT AND LETTER OF CREDIT FACILITIES**

*Line of Credit Facility*

On March 31, 2017, the Company terminated its credit facility with Regions Bank. There were no loans outstanding under that facility on that date. See “Note 6 - Credit Facilities” to our financial statements included in our 2016 Annual Report on Form 10-K for a description of the material terms of the Regions Bank credit facility. The facility was terminated because the Company believes that its cash on hand, internally generated funds and other working capital are sufficient to fund its current operations and near term growth. In addition, the elimination of the facility, which was scheduled to expire in September 2017, will significantly reduce costs to the Company.

**NOTE 5 – SEGMENT INFORMATION**



The Engineering, Procurement and Construction Management (“EPCM”) segment provides services relating to the development, management and execution of projects requiring professional engineering and related project services primarily to the energy industry throughout the United States. The EPCM segment includes the government services group, which provides engineering, design, installation and operation and maintenance of various government, public sector and international facilities. The Automation segment provides services related to the design, fabrication and implementation of process distributed control and analyzer systems, advanced automation, information technology and electrical projects primarily to the upstream and downstream sectors throughout the United States as well as a specific project in Central Asia.

Revenues, operating income, and identifiable assets for each segment are set forth in the following table. The amount identified as Corporate includes those activities that are not allocated to the operating segments and includes costs related to business development, executive functions, finance, accounting, safety, human resources and information technology that are not specifically identifiable with the segments.

Segment information for the three months ended April 1, 2017 and March 26, 2016 is as follows (dollars in thousands):

For the three months ended April 1, 2017:	EPCM	Automation	Corporate	Consolidated
Revenue	\$8,165	\$ 4,308	\$ -	\$ 12,473
Gross profit	942	789	-	1,731
SG&A	917	607	1,882	3,406
Operating income (loss)	25	182	(1,882 )	(1,675 )
Other income				3
Interest expense, net				(65 )
Tax benefit				859
Net loss				\$ (878 )

For the three months ended March 26, 2016:	EPCM	Automation	Corporate	Consolidated
Revenue	\$8,527	\$ 6,285	\$ -	\$ 14,812
Gross profit	634	1,039	-	1,673
SG&A	769	743	1,878	3,390
Operating income (loss)	(135 )	296	(1,878 )	(1,717 )
Other income				6
Interest expense, net				(36 )
Tax benefit				998
Net loss				\$ (749 )

Total Assets by Segment **As of** **As of**

	<b>April 1, 2017</b>	<b>December 31, 2016</b>
	(dollars in thousands)	
EPCM	\$7,084	\$ 6,530
Automation	8,578	10,296
Corporate	26,680	27,610
Consolidated	\$42,342	\$ 44,436

Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 – FEDERAL AND STATE INCOME TAXES**

The Company accounts for income taxes in accordance with FASB Accounting Standards Codification 740, “Income Taxes” (“ASC 740”). Under ASC 740, we estimate an annual effective tax rate based on year-to-date operating results and our projection of operating results for the remainder of the year. We apply this annual effective tax rate to the year-to-date operating results. If our actual results differ from the estimated annual projection, our estimated annual effective tax rate can change affecting the tax expense for successive interim results as well as the estimated annual tax expense results. Certain states are not included in the calculation of the estimated annual effective tax rate because the underlying basis for the tax is related to revenues and not taxable income. Amounts for Texas margin taxes are reported as income tax expense. The Company applies a more likely than not recognition threshold for all tax uncertainties. The FASB guidance for uncertain tax positions only allows the recognition of those tax benefits, based on their technical merits that have a greater than 50 percent likelihood of being sustained upon examination by the taxing authorities. Management has reviewed the Company’s tax positions and determined there are no uncertain tax positions requiring recognition in the financial statements. U.S. federal tax returns prior to 2013 and Texas margins tax returns prior to 2013 are closed. Generally, the applicable statutes of limitations are three to four years from their filings. During the three months ended April 1, 2017, the Company recognized an income tax benefit of \$0.9 million. The Company’s effective tax rate was 49.6% for the three months ended April 1, 2017 as compared with 55.7% for the three months ended March 26, 2016. The effective tax rate for the three months ended April 1, 2017 differed from the federal statutory rate of 35% primarily due to state income taxes, adjustments of federal tax credits, adjustments of state tax NOLs, federal tax credits expected for the current year, permanently non-deductible items, the impact of foreign income taxes and the effect of applying the estimated effective tax rate for the year to the current quarter ended April 1, 2017. The effective tax rate for the three months ended March 26, 2016 differed from the federal statutory rate of 35% primarily due state income taxes and a partial valuation allowance on foreign tax credits.

**NOTE 7 – STOCK REPURCHASE PROGRAM**

On April 21, 2015, the Company announced that its Board of Directors authorized the repurchase of up to \$2 million of the Company’s common stock from time to time through open market or privately negotiated transactions, based on prevailing market conditions. The Company is not obligated to repurchase any dollar amount or specific number of shares of common stock under the repurchase program, which may be suspended or discontinued at any time. As of April 1, 2017, the Company had purchased and retired 1,127,894 shares for \$1.4 million under this program. No shares were purchased in the three months ended April 1, 2017.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

From time to time, ENGlobal or one or more of its subsidiaries is involved in various legal proceedings or is subject to claims that arise in the ordinary course of business alleging, among other things, claims of breach of contract or negligence in connection with the performance or delivery of goods and/or services. The outcome of any such claims or proceedings cannot be predicted with certainty. Management is not aware of any pending or threatened lawsuits or proceedings that are expected to have a material effect on our financial position, results of operations or liquidity.

We carry a broad range of insurance coverage, including general and business automobile liability, commercial property, professional errors and omissions, workers' compensation insurance, directors' and officers' liability insurance and a general umbrella policy, all with standard self-insured retentions/deductibles. We also provide health insurance to our employees (including vision and dental), and are partially self-funded for these claims. Provisions for expected future payments are accrued based on our experience, and specific stop loss levels provide protection for the Company. We believe we have adequate reserves for the self-funded portion of our insurance policies. We are not aware of any material litigation or claims that are not covered by these policies or which are likely to materially exceed the Company's insurance limits.

Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Forward-Looking Statements**

Certain information contained in this Quarterly Report on Form 10-Q, 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 within the meaning of Section 21E of the Securities Exchange Act of 1934. This information includes, without limitation, statements concerning the Company's future financial position and results of operations, planned capital expenditures, business strategy and other plans for future operations, the future mix of revenues and business, customer retention, project reversals, commitments and contingent liabilities, 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 Quarterly Report on Form 10-Q, the specific risk factors identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

The following discussion is qualified in its entirety by, and should be read in conjunction with, the Company's condensed consolidated financial statements, including the notes thereto, included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**Overview**

ENGlobal Corporation (which may be referred to as "ENGlobal," the "Company," "we," "us" or "our"), incorporated in the State of Nevada in June 1994, is a leading provider of engineering and professional services principally to the energy industry through two segments: Engineering, Procurement and Construction Management ("EPCM") and Automation engineering and integrated products ("Automation"). The Company has recently expanded the service offerings of its

EPCM segment to include the fabrication of certain components that it engineers at a 31 acre fabrication facility located in Henderson, Texas. While this additional service will allow us to potentially capture more project scope in the near term, the primary purpose for adding this service, in addition to our current engineering, automation and integration services, is to provide a differentiated, lower cost alternative for highly engineered modularized systems and thereby providing higher value to our clients.

### **Results of Operations**

The majority of the Company's EPCM services have historically been provided through time-and-material contracts and a majority of the Company's engineered automation system revenues have been provided through fixed-price contracts. In the course of providing our services, we routinely provide materials and equipment and may provide construction or construction management services on a subcontractor basis. Generally, these materials, equipment and subcontractor costs are passed through to our clients and reimbursed, along with handling fees, which in general are at margins 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 can vary significantly from project to project; therefore, changes in revenue and gross profit, SG&A expense and operating income as a percentage of revenue may not be indicative of the Company's core business trends. Segment operating SG&A expense includes management, business development and staff compensation, office costs such as rents and utilities, depreciation, amortization, travel, bad debt and other expenses generally unrelated to specific client contracts, but directly related to the support of a segment's operations. Corporate SG&A expenses include finance, accounting, human resources, legal and information technology which are unrelated to specific projects but which are incurred to support corporate activities.

Table of Contents**ENGLOBAL CORPORATION AND SUBSIDIARIES****MANAGEMENT'S DISCUSSION AND ANALYSIS*****Comparison of the three months ended April 1, 2017 versus the three months ended March 26, 2016***

The following table, for the three months ended April 1, 2017 versus the three months ended March 26, 2016, provides relevant financial data that is derived from our consolidated statements of operations (amounts in thousands except per share data).

Operations Data	EPCM	Automation	Corporate	Consolidated	
<b>Three months ended</b>					
<b>April 1, 2017:</b>					
Revenue	\$8,165	\$ 4,308	\$ —	\$ 12,473	100.0%
Gross profit	942	789	—	1,731	13.9 %
SG&A	917	607	1,882	3,406	27.3 %
Operating income (loss)	25	182	(1,882 )	(1,675 )	(13.4 )%
Other income				3	
Interest expense, net				(65 )	
Tax benefit				859	
Net loss				\$ (878 )	(7.0 )%
Diluted loss per share				\$ (0.03 )	

**Three months ended****March 26, 2016:**

Revenue	\$8,527	\$6,285	\$—	\$14,812	100.0%
Gross profit	634	1,039	—	1,673	11.3 %
SG&A	769	743	1,878	3,390	22.9 %
Operating income (loss)	(135 )	296	(1,878)	(1,717 )	(11.6 )%
Other income				6	
Interest expense, net				(36 )	
Tax benefit				998	
Net loss				\$(749 )	(5.1 )%
Diluted loss per share				\$(0.03 )	

Increase (Decrease) in

## Operating Results:

Revenue	\$(362)	\$(1,977)	\$—	\$(2,339)	(15.8)%
Gross profit (loss)	308	(250 )	—	58	3.5 %
SG&A	148	(136 )	4	16	0.5 %
Operating income (loss)	160	(114 )	(4)	42	(2.4 )%
Other income (expense)				(3 )	
Interest expense, net				(29 )	
Tax benefit				(139 )	
Net loss				\$(129 )	17.2 %
Diluted loss per share				\$(0.00 )	



Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Revenue** – Revenue decreased \$2.3 million to \$12.5 million from \$14.8 million, or a decline of 15.8%, for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. Revenue from the EPCM segment decreased \$0.3 million to \$8.2 million from \$8.5 million, or a decline of 4.2%, for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. Revenue from the Automation segment decreased \$2.0 million to \$4.3 million from \$6.3 million, or a decline of 31.5%, for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. When energy commodity prices began falling at the end of 2014, our clients had a large amount of capital projects in some stage of either planning, execution or completion. Throughout 2015 and 2016, a large majority of these projects were either completed or cancelled, and new projects have been much slower to develop. Although the Company is performing a certain base load of maintenance related and smaller capital projects, revenue for both the EPCM and Automation segments continues to be negatively impacted by the sustained period of low crude oil and natural gas prices and the corresponding significant decline in our clients' activities.

During this period of reduced activity, we have taken the opportunity to expand our capabilities and refocus our business on providing engineered, repeatable and modularized solutions for our clients. These complete package solutions are typically larger in scope and include procured material and fabrication in addition to the consulting services we have traditionally performed. To that end, we have opened a fabrication facility to accommodate the expected additional project scope. With this addition, we are now vertically integrated from engineering and design to fabrication and integration. One result of this process is the development of a patent pending, modularized approach to well site oil and gas production systems that, in addition to other benefits, is intended to reduce well completion time and overall costs for certain clients. This methodology can be duplicated for other processes that our clients perform repeatedly. The addition of our fabrication facility is expected to allow us to capture additional scope on future projects and self-perform work that we historically have outsourced allowing us to be more competitive in the market place.

**Gross Profit** – Gross profit margin increased to 13.9% from 11.3% for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. The gross profit for the EPCM segment increased \$0.3 million to \$0.9 million from \$0.6 million and the gross profit margin increased to 11.5% from 7.4% for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. The gross profit for the Automation segment decreased \$0.2 million to \$0.8 million from \$1.0 million and the gross profit margin increased to 18.3% from 16.5% for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. The gross profit margin for both the EPCM segment and the Automation segment were impacted by lower variable labor costs as a result of cost saving measures initiated in 2016. We intend to continue monitoring labor utilization for both the EPCM and the Automation segments with the goal of improving gross profit margins while maintaining our ability to perform our anticipated work load.

***Selling, General and Administrative*** – Overall our SG&A expenses remained flat for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. We have funded the operations of our newly opened fabrication facility and recent strategic hires in the key areas of business development and project management by reducing cost in other support functions.

***Interest Expense, net*** - Interest expense was essentially unchanged and was less than \$0.1 million for both the three months ended April 1, 2017 and the three months ended March 26, 2016. Our interest expense consists of interest on our capital leases, amortization of the cost of entering into the Loan Agreement with Regions Bank, and commitment and other fees associated with the Loan Agreement, which we terminated on March 31, 2017.

***Tax Expense*** – The Company recorded a \$0.9 million income tax benefit versus a \$1.0 million income tax benefit for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. The tax benefits were principally due to pre-tax losses for the three months ended April 1, 2017 and March 26, 2016, respectively. The effective income tax rate for the three months ended April 1, 2017 was 50% as compared to 56% for the three months ended March 26, 2016. The effective tax rate for the three months ended April 1, 2017 differed from the federal statutory rate of 35% primarily due to state income taxes, adjustments of federal tax credits, adjustments of state tax NOLs, federal tax credits expected for the current year, permanently non-deductible items, the impact of foreign income taxes and the effect of applying the estimated effective tax rate for the year to the current quarter ended April 1, 2017. The effective tax rate for the three months ended March 26, 2016 differed from the federal statutory rate of 35% primarily due state income taxes and a partial valuation allowance on foreign tax credits.

***Net Loss*** – Net loss for the three months ended April 1, 2017 was \$0.9 million or a \$0.2 million increase from a net loss of \$0.7 million for the three months ended March 26, 2016, as a result of lower revenues and gross profit, partially offset by an income tax benefit.

Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Liquidity and Capital Resources***

***Overview***

The Company defines liquidity as its ability to pay liabilities as they become due, fund business operations and meet monetary contractual obligations. Our primary sources of liquidity are cash on hand and internally generated funds. We had cash of approximately \$13.7 million at April 1, 2017 and \$15.7 million as of December 31, 2016. Our working capital as of April 1, 2017 was \$20.4 million versus \$22.2 million as of December 31, 2016. We believe our cash on hand, internally generated funds and other working capital are sufficient to fund our ongoing operations and provide us with the funds to grow.

Cash and the availability of cash could be materially restricted if (1) outstanding invoices billed are not collected or are not collected in a timely manner, (2) circumstances prevent the timely internal processing of invoices, (3) we lose one or more of our major customers, or (4) we are unable to win new projects that we can perform on a profitable basis. Actions outside of our control may hinder or preclude the collection of these receivables.

***Cash Flows from Operating Activities***

Operating activities used \$0.9 million of cash versus providing \$4.4 million of cash for the three months ended April 1, 2017, as compared to the three months ended March 26, 2016. The primary drivers of our increase in cash used in operations for the three months ended April 1, 2017 were a reduction in collections of trade receivables and an increase in costs in excess of billings net of billings in excess of costs.

***Cash Flows from Investing Activities***

Investing activities used cash of \$0.4 million for the three months ended April 1, 2017 primarily due to expenditures for property and equipment related to our new fabrication facility. Investing activities used cash of \$0.1 million for the three months ended March 26, 2016 primarily due to expenditures for property and equipment.

### ***Cash Flows from Financing Activities***

The use of cash during the three months ended April 1, 2017 was the payment of obligations under capital leases while the primary uses of cash for the three months ended March 26, 2016 were for the repurchase of common stock pursuant to the Company's stock repurchase program in addition to the payment of obligations under capital leases.

### ***Line of Credit Facility***

On March 31, 2017, the Company terminated its credit facility with Regions Bank. There were no loans outstanding under that facility on that date. See "Note 6 - Credit Facilities" to our financial statements included in our 2016 Annual Report on Form 10-K for a description of the material terms of the Regions Bank credit facility. The facility was terminated because the Company believes that its cash on hand, internally generated funds and other working capital are sufficient to fund its current operations and near term growth. In addition, the elimination of the facility, which was scheduled to expire in September 2017, will significantly reduce costs to the Company.

### ***Stock Repurchase Program***

On April 21, 2015, the Company announced that its Board of Directors authorized the repurchase of up to \$2 million of the Company's common stock from time to time through open market or privately negotiated transactions, based on prevailing market conditions. The Company is not obligated to repurchase any dollar amount or specific number of shares of common stock under the repurchase program, which may be suspended or discontinued at any time. As of April 1, 2017, the Company had purchased and retired 1,127,894 shares for \$1.4 million under this program. No shares were purchased in the three months ended April 1, 2017.

### ***Critical Accounting Policies***

A summary of our critical accounting policies are described under the caption "Critical Accounting Policies" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2016 Annual Report on Form 10-K. Our critical accounting policies are further disclosed in Note 2 to the consolidated financial statements included in our 2016 Annual Report on Form 10-K.

Table of Contents

**ENGLOBAL CORPORATION AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Changes in Accounting*

In March 2016, the Financial Statements Accounting Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, to change several aspects of accounting for share-based payment transactions, including a requirement to recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This pronouncement is effective for interim and annual reporting periods beginning after December 31, 2016, with early adoption permitted. Varying transition methods (modified retrospective, retrospective or prospective) are applied to different provisions of the standard. We have adopted this pronouncement in the first quarter of 2017 by electing to account for forfeitures in compensation costs as they occur and reflecting this change in accounting policy on a modified retrospective basis through a non-material, cumulative-effect adjustment reducing accumulated earnings as of the beginning of 2017. We recognized a benefit of \$.01 million in the three months ended April 1, 2017.

In November 2016, the FASB Issued Update 2016-18, *Statement of Cash flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. This update addresses the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. This pronouncement is effective for interim and annual reporting periods beginning after December 15, 2017, with early application permitted. We have adopted this pronouncement in the first quarter of 2017 and have reported restricted cash as a component of ending cash, cash equivalents and restricted cash on the Statements of Cash Flows.

*New Accounting Pronouncements Not Yet Adopted*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts with Customers (Topic 606)*, that will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which we expect to be entitled in exchange for transferring goods or services to a customer. This new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In May 2016, the FASB issued ASU No. 2016-12 to clarify certain narrow aspects of Topic 606 such as assessing the collectability criterion, presentation of sales taxes and other similar taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition, and other technical corrections. This new accounting standard, as updated, is effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the provisions of this pronouncement and are assessing its potential impact on our financial position, results of operations, cash flows and

related disclosures. However we are currently unable to reasonably estimate the impact this pronouncement will have on our financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, that will amend the accounting standards for leases. This new standard retains a distinction between finance leases and operating leases but the primary change is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases on the lessee's balance sheet and certain aspects of lease accounting have been simplified. This new standard requires additional qualitative and quantitative disclosures along with specific quantitative disclosures required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This pronouncement is effective for interim and annual reporting periods beginning after December 15, 2018, with early application permitted. We are currently evaluating the provisions of this pronouncement and are assessing its potential impact on our financial position, results of operations, cash flows and related disclosures. However we are currently unable to reasonably estimate the impact this pronouncement will have on our financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This amendment addresses how certain specified cash receipts and cash payments are presented in the statement of cash flows. This guidance becomes effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the provisions of this pronouncement and are assessing its potential impact on our financial position, results of operations, cash flows and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment removes the second step of the two-step goodwill impairment test. When adopted, an entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. This pronouncement is effective for the Company's annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the provisions of this pronouncement and are assessing its potential impact on our financial position, results of operations, cash flows and related disclosures.

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

The Company's management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of April 1, 2017, as required by Rule 13a-15 of the Exchange Act. Based on the evaluation described above, our Chief Executive Officer and Chief Financial Officer have concluded that, as of April 1, 2017, our disclosure controls and procedures were effective insofar as they are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

No changes in our internal control over financial reporting occurred during the quarter ended April 1, 2017, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, ENGlobal or one or more of its subsidiaries is involved in various legal proceedings or is subject to claims that arise in the ordinary course of business alleging, among other things, claims of breach of contract or negligence in connection with the performance or delivery of goods and/or services. The outcome of any such claims or proceedings cannot be predicted with certainty. We believe, as of the date of this filing, all such active proceedings and claims of substance that have been asserted against ENGlobal or one or more of its subsidiaries have been adequately allowed for, or are covered by insurance, such that, if determined adversely to the Company, individually or in the aggregate, they would not have a material adverse effect on our results of operations or financial position.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, which outlines factors that could materially affect our business, financial condition or future results, and the additional risk factors below. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2016, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial conditions or operating results.

**Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future revenue or earnings.** As of April 1, 2017, our backlog was approximately \$35 million, including \$7 million for the CPC Project. We expect a majority of this backlog to be completed in 2017 and 2018. We cannot assure investors that the revenue projected in our backlog will be realized or, if realized, will result in profits. Projects currently in our backlog may be canceled or may remain in our backlog for an extended period of time prior to project execution and, once project execution begins, it may occur unevenly over the current and multiple future periods. In addition, project terminations, suspensions or reductions in scope occur from time to time with respect to contracts reflected in our backlog, reducing the revenue and profit we actually receive from contracts reflected in our backlog. Future project cancellations and scope adjustments could further reduce the dollar amount of our backlog in addition to the revenue and profits that we actually earn. The potential for cancellations and adjustments to our backlog are exacerbated by economic conditions, particularly in our chosen area of concentration, the energy industry. The energy industry has experienced a sustained period of low crude oil and natural gas prices which has reduced our clients’ activities in the energy industry.

**The CPC Project, which represents a significant portion of our current business, involves a pipeline expansion project in Russia and Kazakhstan along the Caspian Sea, and we may be adversely affected by operational and political risks in that geographic region that are greater than in the United States.** The CPC Project is engineering, procurement, and commissioning services agreement with the Caspian Pipeline Consortium that is expected to have a total value of approximately \$89 million over the life of the contract and represents approximately \$7 million of our backlog at April 1, 2017. This contract involves a pipeline expansion project in Russia and Kazakhstan along the Caspian Sea. This region, specifically Russia, has undergone significant political, economic and social change in recent years, and the risk of unforeseen changes in this region may be greater than in the United States. For example, Russia and the Ukraine are experiencing significant unrest, which has involved, among other things, Russia's annexation of the Crimean region of Ukraine in 2014. As a result, economic sanctions by the U.S., United Nations and other countries remain in place against Russia, and additional sanctions are possible as the situation continues into 2017. In addition, changes in laws or regulations, including with respect to payment of service providers, taxation, transportation, information technology, data transmission and the Internet, or in the interpretation of existing laws or regulations, whether caused by a change in government or otherwise, could materially adversely affect our ability to perform under the CPC Project and, thus, our business, operating results and financial condition. While we do not believe that the possibility of a continued armed conflict with respect to Russia and Ukraine will affect the region in which we perform services under the CPC Project, conducting and expanding our international operations through the CPC Project subjects us to other risks that we do not generally face in the United States. These include:

Difficulties in managing the staffing of our international operations, including hiring and retaining qualified employees and transportation of employees to and from the region;

Difficulties and increased expense introducing corporate policies and controls in our international operations;

Increased expense to comply with foreign laws and legal standards, including laws that regulate pricing and promotion activities and the import and export of information technology, which can be difficult to monitor and are often subject to change;

Increased expense to comply with U.S. laws that apply to foreign operations, including the Foreign Corrupt Practices Act and Office of Foreign Assets Control regulations;

Table of Contents

Longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

Political, social and economic instability; and

Expropriation of assets by foreign governments.

The occurrence of one or more of these events could negatively affect our operations under the CPC Project and, consequently, our operating results. Further, operating in international markets requires significant management attention and financial resources, and we cannot be certain that the resources required to perform our services under the CPC Project in these other countries will produce desired levels of revenue or profitability.

**If we are unable to collect our receivables, our results of operations and cash flows could be adversely affected.** Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed and materials supplied. In the ordinary course of business, we extend unsecured credit to our customers. We may also agree to allow our customers to defer payment on projects until certain milestones have been met or until the projects are substantially completed, and customers typically withhold some portion of amounts due to us as retainage. For example, as of April 1, 2017, our customer for the CPC project had \$1.0 million in retainage. We bear the risk that our clients will pay us late or not at all. Though we evaluate and attempt to monitor our clients' financial condition, there is no guarantee that we will accurately assess their creditworthiness. To the extent the credit quality of our clients deteriorates or our clients seek bankruptcy protection, our ability to collect receivables and our results of operations could be adversely affected. Even if our clients are credit-worthy, they may delay payments in an effort to manage their cash flow. Financial difficulties or business failure experienced by one or more of our major customers has had and could, in the future, continue to have a material adverse effect on both our ability to collect receivables and our results of operations.

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

The following table sets forth certain information with respect to repurchases of our common stock during the quarter ended April 1, 2017:

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total number of shares purchased as part of publicly announced plans or programs	Maximum Dollar Value of Shares That May Yet be
--------	---	---------------------------------------	--	--

(1) **Purchased  
Under the  
Plans or  
Programs**

			(1)
January 1, 2017 to January 28, 2017	— \$	—	— \$ 592,894
January 29, 2017 to March 4, 2017	— \$	—	— \$ 592,894
March 5, 2017 to April 1, 2017	— \$	—	— \$ 592,894

On April 21, 2015, the Company announced that its Board of Directors authorized the repurchase of up to \$2 million of the Company's common stock from time to time through open market or privately negotiated transactions, based on prevailing market conditions. The Company is not obligated to repurchase any dollar amount or specific number of shares of common stock under the repurchase program, which may be suspended or discontinued at any time. As of April 1, 2017, the Company had purchased and retired 1,127,894 shares for \$1.4 million under this program. No shares were purchased in the three months ended April 1, 2017

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

None

### ITEM 5. OTHER INFORMATION

None.

Table of Contents**ITEM 6. EXHIBITS**

Exhibit No.	Description	Incorporated by Reference to:			
		Form or Schedule	Exhibit No.	Filing Date with SEC	SEC File Number
3.1	Restated Articles of Incorporation of Registrant dated August 8, 2002	10-Q	3.1	11/14/2002	001-14217
3.2	Amendment to the Restated Articles of Incorporation of the Registrant, filed with the Nevada Secretary of State on June 2, 2006	8-A12B	3.1	12/17/2007	001-14217
3.3	Second Amended and Restated Bylaws of Registrant dated April 14, 2016	8-K	3.1	4/15/2016	001-14217
10.1	Third Amendment to Loan and Security Agreement dated as of February 9, 2017, by and among ENGlobal Corporation, ENGlobal U.S., Inc., ENGlobal Government Services, Inc., ENGlobal International, Inc., ENGlobal Emerging Markets and Regions Bank, an Alabama Bank	10-K	10.31	3/10/2017	001-14217
*31.1	Certifications Pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934 for the First Quarter 2017				
*31.2	Certifications Pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934 for the First Quarter 2017				
*32.0	Certification Pursuant to Rule 13a – 14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the First Quarter 2017				
*101.ins	XBRL instance document				
*101.sch	XBRL taxonomy extension schema document				
*101.cal	XBRL taxonomy extension calculation linkbase document				
*101.def	XBRL taxonomy extension definition linkbase document				

\*101.lab XBRL taxonomy extension label linkbase document

\*101.pre XBRL taxonomy extension presentation linkbase document

\* Filed herewith

Table of Contents

**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.

Dated: May 11, 2017

**ENGlobal Corporation**

By: */s/ Mark A. Hess*

Mark A. Hess

Chief Financial Officer

