ENGLOBAL CORP
Form 10-Q
August 09, 2013

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 29, 2013

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

Commission File No. 001-14217

ENGlobal Corporation
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

88-0322261
(I.R.S Employer Identification No.)

654 N. Sam Houston Parkway E., Suite 400, Houston, TX	77060-5914
(Address of principal executive offices)	(Zip code)

(281) 878-1000
(Registrant's telephone number, including area code)

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

Yes x No o

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 x No o

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

Large accelerated filer	o		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	x

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

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the close of business on August 9, 2013.

$0.001 Par Value Common Stock	27,082,861 shares

Table of Contents

QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED JUNE 29, 2013

TABLE OF CONTENTS

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		For the Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30,2012
Operating revenues	$50,648	$59,151	$100,411	$118,323
Operating costs	45,136	53,953	89,100	106,575
Gross profit	5,512	5,198	11,311	11,748
Selling, general and administrative expenses	6,367	7,880	12,579	15,007
Operating loss	(855)	(2,682)	(1,268)	(3,259)
Other expense:				
Other expense, net	(211)	(4)	(89)	(4)
Interest expense, net	(422)	(375)	(1,036)	(677)
Loss from continuing operations before income taxes	(1,488)	(3,061)	(2,393)	(3,940)
Provision for federal and state income taxes	99	5,195	192	5,195
Loss from continuing operations	(1,587)	(8,256)	(2,585)	(9,135)
Income (loss) from discontinued operations, net of taxes	—	(1,571)	2,935	(859)
Net income (loss)	(1,587)	(9,827)	$350	$(9,994)
Other comprehensive income				
Foreign currency translation adjustment	—	—	—	(1)
Comprehensive income (loss)	$(1,587)	$(9,827)	$350	$(9,995)
Income (loss) per common share - basic:				
Loss from continuing operations	$(0.06)	$(0.31)	$(0.10)	$(0.34)
Income (loss) from discontinued operations	—	(0.06)	0.11	(0.03)
Net income (loss)	$(0.06)	$(0.37)	$0.01	$(0.37)
Income (loss) per common share - diluted:				
Loss from continuing operations	$(0.06)	$(0.31)	$(0.10)	$(0.34)
Income (loss) from discontinued operations	—	(0.06)	0.11	(0.03)
Net income (loss)	$(0.06)	$(0.37)	$0.01	$(0.37)
Weighted average shares used in computing earnings per share:				
Basic	27,041	26,806	27,041	26,806
Diluted	27,200	26,806	27,200	26,806

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)

ASSETS		June 29, 2013		December 29, 2012
Current Assets:				
Cash and cash equivalents	$	784	$	738
Restricted cash		30		6,135
Trade receivables, net of allowances of $2,405 and $2,593		41,914		52,470
Prepaid expenses and other current assets		1,000		1,626
Notes receivable		1,419		1,243
Costs and estimated earnings in excess of billings on uncompleted contracts		1,876		3,840
Assets held for sale		—		57
Federal and state income taxes receivable, net		—		582
Total Current Assets	$	47,023	$	66,691
Property and equipment, net		2,333		2,997
Goodwill		2,806		2,806
Other intangible assets, net		1,360		1,852
Long-term trade and notes receivable, net of current portion and allowances		5,067		3,161
Other assets		785		1,180
Total Assets	$	59,374	$	78,687

LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$	5,785	$	11,048
Accrued compensation and benefits		8,176		8,308
Credit facility		14,688		26,829
Deferred rent		477		608
Billings in excess of costs and estimated earnings on uncompleted contracts		3,321		4,830
Liabilities held for sale		—		99
Other current liabilities		1,190		1,666
Total Current Liabilities	$	33,637	$	53,388
Commitments and Contingencies (Note 8)				
Stockholders' Equity:				
Common stock - $0.001 par value; 75,000,000 shares authorized; 27,082,861 and 27,114,339 shares outstanding and 28,063,960 and 28,095,438 shares issued at June 29, 2013 and December 29, 2012, respectively	$	28	$	28
Additional paid-in capital		38,570		38,482
Accumulated deficit		(10,429)		(10,779)
Treasury stock at cost - 981,099 shares at June 29, 2013 and December 29, 2012		(2,362)		(2,362)
Accumulated other comprehensive loss		(70)		(70)
Total Stockholders' Equity	$	25,737	$	25,299
Total Liabilities and Stockholders' Equity	$	59,374	$	78,687

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 Six Months Ended June 29, 2013	June 30, 2012
Cash Flows from Operating Activities:		
Net income (loss)	$ 350	$ (9,994)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	986	986
Share-based compensation expense	88	160
Deferred income tax expense	—	6,166
Gain on disposal of assets	(2,694)	—
Changes in current assets and liabilities:		
Trade accounts receivable	10,556	(156)
Notes receivable	(186)	—
Costs and estimated earnings in excess of billings on uncompleted contracts	1,964	(4,720)
Prepaid expenses and other assets	1,603	(1,028)
Accounts payable	(5,263)	3,578
Accrued compensation and benefits	(132)	1,424
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,509)	(3,998)
Other liabilities	(607)	(1,331)
Net cash provided by (used in) operating activities	$ 5,156	$ (8,913)
Cash Flows from Investing Activities:		
Property and equipment acquired	(74)	(154)
Restricted cash	6,105	(4,196)
Proceeds from sale of division	1,000	—
Net cash provided by (used in) investing activities	$ 7,031	$ (4,350)
Cash Flows from Financing Activities:		
Borrowings on line of credit	94,599	91,860
Payments on line of credit	(106,740)	(76,904)
Other long-term debt repayments	—	(165)
Net cash provided by (used in) financing activities	$ (12,141)	$ 14,791
Effect of Exchange Rate Changes on Cash	—	(1)
Net change in cash	46	1,527
Cash and cash equivalents, at beginning of period	738	26
Cash and cash equivalents, at end of period	$ 784	$ 1,553

See accompanying notes to unaudited interim condensed consolidated financial statements.

Table of Contents

NOTE 1 – BASIS OF PRESENTATION

The condensed consolidated financial statements of ENGlobal Corporation (which may be referred to as "ENGlobal," the "Company," "we," "us," or "our") are prepared in accordance with accounting principles generally accepted in the United States of America. The Company consolidates all of its subsidiaries' financial results, and significant inter-company accounts and transactions have been eliminated in the consolidation.

The condensed consolidated financial statements of the Company included herein are unaudited for the three and six month periods ended June 29, 2013 and June 30, 2012, have been prepared from the books and records of the Company pursuant to the rules and regulations of the Securities and Exchange Commission, and in the case of the condensed balance sheet as of December 29, 2012, have been derived from the audited financial statements of the Company. These financial statements reflect all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary to fairly present the results for the periods presented. Certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 29, 2012, included in the Company's Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission. The Company has assessed subsequent events through the date of filing of these condensed consolidated financial statements with the Securities and Exchange Commission and believes that the disclosures made herein are adequate to make the information presented herein not misleading. Certain reclassifications have been made to the 2012 condensed consolidated financial statements to conform the presentation to report discontinued operations. Refer to Note 3.

A summary of our critical accounting policies is disclosed in Note 2 to the consolidated financial statements included in our 2012 Annual Report on Form 10-K. Our critical accounting policies are further described under the caption “Critical Accounting Policies” in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Annual Report on Form 10-K.

On January 1, 2012, we changed from a traditional month-end calendar close cycle to a 4-4-5 calendar close methodology. Under this new methodology, each quarter (formerly comprised of 3 calendar months) is comprised of 13 weeks, which includes two 4-week months and one 5-week month.

NOTE 2 – GOING CONCERN

For most of 2012, the Company had operated under difficult circumstances. For the year ended December 29, 2012, the Company reported a net loss of approximately $33.6 million that included a non-cash charge of approximately $16.9 million related to a goodwill impairment and a non-cash charge of approximately $6.8 million related to a valuation allowance established in connection with the Company’s deferred tax assets. During 2012, its net borrowings under its revolving credit facilities increased approximately $10.5 million to fund its operations. Due to challenging market conditions, its revenues and profitability declined during 2012. Although the Company implemented a profit improvement plan in the fourth quarter of 2012, the results of that plan are not expected to be fully realized until later this year. These circumstances raised substantial doubt about the Company's ability to continue as a going concern.

During the first six months of 2013, the Company has reduced its net borrowings under its credit facilities by approximately $12.1 million, resulting in a $14.7 million balance as of June 29, 2013. In addition, on July 15, 2013, the Company entered into a definitive agreement to sell substantially all of its Gulf Coast engineering and in-plant operations, with an expected closing date of August 30, 2013. Net proceeds from the sale of these operations are anticipated to be approximately $18.0 million, subject to certain adjustments. The Company plans to use the net proceeds to repay advances under the PNC Credit Facility and for working capital. The Company is presently negotiating the terms for an amended revolving credit facility. Refer to Note 10 – Subsequent Event for additional information, including proforma financial information, related to the proposed sale of these Gulf Coast operations.

NOTE 3 – DISCONTINUED OPERATIONS

On September 10, 2012, the Company entered into a definitive agreement to sell its Field Solutions segment. The Field Solutions segment included the Land and Right-of-Way and Inspection divisions, primarily serving pipeline and electric power companies. On November 2, 2012, the Company completed the divestiture of its Land and Right-of-Way division of its Field Solutions segment effective October 26, 2012, and retained the Inspection division pursuant to the terms of the amended definitive agreement. The transaction was valued at approximately $7.5 million, consisting of approximately $4.5 million in retained working capital and a $3.0 million promissory note payable to the Company over four years. The Company subsequently completed the divestiture of the Inspection division of its Field Solutions segment effective January 3, 2013. The transaction was valued at approximately $7.9 million, consisting of $1.0 million cash at closing, $5.0 million in retained working capital and a $1.9 million promissory note payable to the Company over four years, resulting in a gain of $2.9 million.

Table of Contents

The operations of the Field Solutions segment (and the smaller Electrical Services division) have been classified as discontinued operations and accordingly, are presented as discontinued operations in the Company's consolidated financial statements. The remaining net assets and liabilities related to the discontinued operations are shown on the Consolidated Balance Sheet as "Assets held for sale" and "Liabilities held for sale," respectively. The results of the discontinued operations are shown on the Consolidated Statements of Operations as "Income from discontinued operations, net of taxes". Summarized financial information for the discontinued operations is shown below (dollars in thousands):

	For the Six Months Ended	
	June 29, 2013	June 30, 2012
Revenues	$ —	$ 37,884
Costs	—	35,159
Operating income	$ —	$ 2,725
SG&A	3	2,027
Other income	2,938	1
Total income before taxes	2,935	699
Tax expense	—	1,558
Net income (loss)	$ 2,935	$ (859)

	June 29, 2013	December 29, 2012
Assets		
Prepaid expenses and other current assets	$ —	$ 9
Property and equipment, net	—	48
Total assets held for sale	$ —	$ 57
Liabilities		
Accrued compensation and benefits	$ —	$ 99
Total liabilities held for sale	$ —	$ 99

NOTE 4 – CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts consisted of the following at June 29, 2013 and December 29, 2012:

	June 29, 2013	December 29, 2012
	(dollars in thousands)	
Costs incurred on uncompleted contracts	$ 38,935	$ 51,649
Estimated earnings (losses) on uncompleted contracts	7,607	3,216
Earned revenues	46,542	54,865
Less: billings to date	47,987	55,855
Net costs and estimated earnings in excess of billings on uncompleted contracts	$ (1,445)	$ (990)

Costs and estimated earnings in excess of billings on uncompleted contracts	$	1,876		$	3,840	
Billings in excess of costs and estimated earnings on uncompleted contracts		(3,321	)		(4,830	)
Net billings in excess of costs and estimated earnings on uncompleted contracts	$	(1,445	)	$	(990	)

Table of Contents

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

The Company recognizes 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 defer revenue recognition until we receive either a written authorization or a payment. The current amount of revenue deferred for these reasons is approximately $0.7 million as of June 29, 2013, compared to $1.2 million as of December 29, 2012. We expect a majority of the deferred revenue amount to be realized by year end 2013.

NOTE 5 – LINE OF CREDIT AND LETTER OF CREDIT FACILITIES

Line of Credit Facility

On May 29, 2012, the Company entered into a credit facility with PNC Bank, National Association, as administrative agent (“PNC Credit Facility”) for the lenders (the "Lenders") pursuant to which the Lenders agreed to extend credit to the Company in the form of loans (each a "Loan" and collectively, the "Loans") on a revolving basis of up to $35.0 million (the "Commitment"). As of September 29, 2012 and thereafter, the Company has not been in compliance with the certain financial covenants of the PNC Credit Facility.

On September 27, 2012, the Company entered into the First Amendment to Revolving Credit and Security Agreement and Forbearance Agreement (the "Forbearance Agreement"), with the Lenders regarding the PNC Credit Facility. Under the terms of the Forbearance Agreement, the Lenders agreed to forbear, during the Forbearance Period (as defined below), from exercising their rights and remedies, under the PNC Credit Facility, with respect to specified events of default. The "Forbearance Period" commenced on September 27, 2012 and ended on October 31, 2012. On October 30, 2012, the Forbearance Period was extended to November 15, 2012. On November 14, 2012, the Forbearance Period was extended to November 30, 2012.

On December 18, 2012, the Company entered into the Second Amendment to Revolving Credit and Security Agreement, Waiver and Forbearance Extension (the “Second Amendment”). Under the terms of the Second Amendment, the Lenders agreed to continue to forbear, during the Second Forbearance Period, from exercising their rights and remedies, under the PNC Credit Facility in respect of the specified events of default (as defined below); provided, however, that agent may, but is not obligated to, collect the accounts and proceeds of other collateral under the Credit Agreement and apply such collections and proceeds to the obligations under the Credit Agreement and impose the default rate of interest under the Credit Agreement. The “Second Forbearance Period” commenced on September 27, 2012 and ended on April 30, 2013.

As of the date of this report, the Company continues to operate while negotiating the terms of an amended revolving credit facility. We anticipate that the net proceeds from our previously announced transaction to sell substantially all of our Gulf Coast engineering and in-plant operations will be used to repay advances under the existing PNC Credit Facility and for working capital.

Letter of Credit Facility

In July 2011, with the support of Wells Fargo's Global Banking Group, ENGlobal and the Export-Import Bank of the United States (“Ex-Im Bank”) entered into a separate $9.5 million letter of credit facility (the “Ex-Im Bank Facility”) to support the Company's Caspian Pipeline Consortium (CPC) project. Under the terms of this agreement, the Company may issue letters of credit to CPC for its performance under the CPC project. The Company was required to collateralize letters of credit outstanding under the Ex-Im Bank Facility with cash or eligible Russian receivables resulting from the CPC project. On June 17, 2013, the letters of credit were allowed to expire. The Company has proposed an alternative option to modify terms of future retention amounts in lieu of the letters of credit. As a result of the expiration of the letters of credit, $6.1 million of cash collateral was released and applied to the PNC Credit Facility.

8

Table of Contents

NOTE 6 – SEGMENT INFORMATION

The Engineering and Construction ("E&C") segment provides services relating to the development, management and execution of projects requiring professional engineering and related project services primarily to the midstream and downstream sectors throughout the United States. Services provided by the E&C segment include feasibility studies, engineering, design, procurement and construction management. The E&C 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, electrical and heat tracing projects primarily to the upstream and downstream sectors throughout the United States as well as specific projects in the Middle East, Africa and Central Asia.

Sales, operating income, identifiable assets, capital expenditures and depreciation 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 include costs related to business development, executive functions, finance, accounting, health, safety, and environmental, human resources and information technology that are not specifically identifiable with the segments. The Corporate function supports all business segments and therefore cannot be specifically assigned to any specific segment. A significant portion of Corporate costs are allocated to each segment based on each segment's revenue. Segment information for the six months ended June 29, 2013 and June 30, 2012 is as follows (dollars in thousands):

For the six months ended	E&C	Automation	Corporate	Consolidated
June 29, 2013:				
Revenue	$ 80,398	$ 20,013	$ —	$ 100,411
Gross profit	7,760	3,551	—	11,311
SG&A	3,989	1,780	6,810	12,579
Operating income (loss)	3,771	1,771	(6,810)	(1,268)
Other income				(89)
Interest expense, net				(1,036)
Tax expense				(192)
Discontinued operations - net of taxes				2,935
Net income				$ 350
June 30, 2012:				
Revenue	$ 90,383	$ 27,940	$ —	$ 118,323
Gross profit	8,647	3,101	—	11,748
SG&A	4,629	2,090	8,288	15,007
Operating income (loss)	4,018	1,011	(8,288)	(3,259)
Other expense				(4)
Interest expense, net				(677)
Tax expense				(5,195)
Discontinued operations - net of taxes				(859)
Net loss				$ (9,994)

Total Assets by Segment	As of June 29, 2013	As of December 29, 2012
	(dollars in thousands)	
Engineering and Construction	$ 33,664	$ 35,251

Automation		17,904		25,445
Corporate*		7,806		17,991
Consolidated	$	59,374	$	78,687

*Includes less than $0.1 million of assets held for sale from discontinued operations at December 29, 2012.

Table of Contents

NOTE 7 – FEDERAL AND STATE INCOME TAXES

The components of income tax expense (benefit) for the six months ended June 29, 2013 and June 30, 2012 were as follows:

		June 29, 2013		June 30, 2012
		(dollars in thousands)		
Current	$	192	$	—
Deferred		—		5,195
Total tax expense (benefit)	$	192	$	5,195
Discontinued operations		—		1,558
Total tax expense (benefit)	$	192	$	6,753

The Company makes its interim tax allocation by applying estimated fiscal year effective tax rates to estimated fiscal year ordinary income together with unusual or infrequently occurring activity for the year-to-date period. The effective income tax rates for the three and six month periods ended June 29, 2013 were 70.8% and 36.3%, respectively. As a result of the valuation allowance recorded against our deferred tax assets that existed as of June 30, 2012, the effective income tax rates for the three and six month periods ended June 30, 2012 were not meaningful.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

In June 2008, ENGlobal filed an action in the United States District Court for the Eastern District of Louisiana; Case Number 08-3601, against South Louisiana Ethanol LLC (“SLE”) entitled ENGlobal Engineering, Inc. and ENGlobal Construction Resources, Inc. vs. South Louisiana Ethanol, LLC. The lawsuit seeks to enforce collection of $15.8 million owed to ENGlobal and its affiliates for services performed on an ethanol plant in Louisiana. In August 2009, SLE filed for Chapter 11 protection in the United States Bankruptcy Court for the Eastern District of Louisiana, Case Number 09-12676. Pursuant to the bankruptcy, the plant assets were sold for $6,802,000. On December 6, 2011, the court issued an order allocating proceeds from the sale and authorizing their distribution. Of the total amount, $1,054,418 was allocated to ENGlobal. Of that amount, $845,529 is still being held by the court pending the outcome of continuing litigation regarding the claims of one subcontractor. As of the date of this Report, the amount is still being held by the court.

In June 2010, SemCrude, LP, SemCrude Pipeline, LLC and White Cliffs Pipeline, LLC (collectively “SemCrude”) filed an action in the United States District Court for Tulsa County, Oklahoma against ENGlobal Construction Resources, Inc. d.b.a. ENGlobal Inspection Services, ENGlobal Engineering, Inc., and Western X-Ray Service, Inc. SemCrude alleges that ENGlobal Inspection failed to properly inspect and verify that the nondestructive testing of girth welds on portions of the pipeline system was completed in accordance with state and federal regulations and contract specifications. SemCrude further alleges that ENGlobal Engineering failed to properly manage the work of ENGlobal Inspection to ensure that the work was properly performed, causing SemCrude to incur in excess of $2,500,000 in damages. ENGlobal maintains several defenses associated with its scope of work and the fact that it was not contractually responsible for the work of third parties working on the project, such as Western X-Ray and SemCrude. The case is still in discovery. We are still gathering facts on our exposure, discussing coverage with our carriers and have accrued a $600,000 liability associated with the settlement of this claim.

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 raised against any subsidiary business entity 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.

Table of Contents

NOTE 9 – STATEMENT OF CASH FLOWS SUPPLEMENTAL INFORMATION

The following table presents a listing of the Company's significant non-cash transactions and amounts of cash paid for interest and income taxes.

Transactions	As of June 29, 2013	As of June 30, 2012
	(dollars in thousands)	
Acceptance of notes for asset sales	$ 1,896	$ —
Cash paid:		
Interest	$ 1,253	$ 774

NOTE 10 – SUBSEQUENT EVENT

On July 15, 2013 the Company entered into a definitive agreement under which substantially all of its Gulf Coast engineering and in-plant operations will be sold to Furmanite America, Inc. ("FAI"), a subsidiary of Furmanite Corporation (NYSE:FRM). The total value of the transaction to ENGlobal is expected to be approximately $21.5 million, subject to certain adjustments, consisting primarily of cash at closing and a $3.5 million promissory note issued with a Furmanite Corporation guarantee.

ENGlobal intends to use the net proceeds from this transaction to repay advances under the PNC Credit Facility and for working capital. The transaction has been approved by the boards of directors for both companies, and is expected to close on August 30th, subject to lender approval and the completion of customary conditions. In addition, the companies have agreed to facilitate a smooth transition of corporate service functions and to support each company's business development efforts. Under terms of the agreement, approximately 900 employees will transfer from ENGlobal to Furmanite.

The Company expects that this transaction will substantially complete its review of strategic alternatives, which included selling a portion of the Company's assets, restructuring its operations and resolving its defaults under its credit facilities. Since that time, the Company has discontinued its Electrical Services division and divested its Land/Right of Way and Midstream Inspection divisions.

The effect of the proposed disposition of substantially all of the Gulf Coast engineering and in-plant operations has been recast below on a pro forma basis, presented in a Consolidated Balance Sheet and Consolidated Statements of Operations. Summarized pro forma financial information for these divested operations for the comparable periods if the sale had been consummated as of June 29, 2013 are as follows:

Pro forma Condensed Consolidated Statement of Operations

	For the Six Months Ended June 29, 2013
Operating revenues	$ 40,851
Operating costs	34,886
Gross profit	5,965
Selling, general and administrative expenses	10,475
Operating loss	(4,510)
Other income (expense):	
Gain on sale of assets	1,561

Other income (expense), net		211
Interest expense, net		(1,036)
Loss from continuing operations before income taxes		(3,774)
Provision (benefit) for federal and state income taxes		192
Loss from continuing operations		(3,966)
Income (loss) from discontinued operations, net of taxes		5,878
Net income (loss)	$	1,912

Table of Contents

Pro forma Condensed Consolidated Balance Sheet

ASSETS		June 29, 2013
Current Assets:		
Cash, restricted cash and cash equivalents	$	2,300
Trade receivables, net		20,311
Notes receivable		1,420
Prepaid expenses and other current assets		955
Costs and estimated earnings in excess of billings on uncompleted contracts		1,873
Total Current Assets	$	26,859
Property and equipment, net		1,394
Goodwill and other intangible assets		4,165
Long-term trade, notes receivable and other, net		7,567
Other assets, net		668
Total Assets	$	40,653